
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from _____ to _____.

Commission File Number: 001-32270

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

311 Veterans Highway, Suite B
Levittown, Pennsylvania
(Address of principal executive offices)

19056
(Zip Code)

(215) 826-2800
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

Table of Contents

Index – Form 10-Q

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

Table of Contents

Part I – Financial Information

Item 1. Financial Statements

StoneMor Partners L.P.
Condensed Consolidated Balance Sheet
(in thousands)
(unaudited)

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,403	\$ 10,401
Accounts receivable, net of allowance	67,761	62,503
Prepaid expenses	6,247	4,708
Other current assets	<u>31,696</u>	<u>24,266</u>
Total current assets	119,107	101,878
Long-term accounts receivable, net of allowance	93,747	89,536
Cemetery property	339,596	339,848
Property and equipment, net of accumulated depreciation	99,245	100,391
Merchandise trusts, restricted, at fair value	478,927	484,820
Perpetual care trusts, restricted, at fair value	332,110	345,105
Deferred financing costs, net of accumulated amortization	8,291	9,089
Deferred selling and obtaining costs	105,278	97,795
Deferred tax assets	42	40
Goodwill	58,836	58,836
Intangible assets	67,891	68,990
Other assets	<u>3,300</u>	<u>3,136</u>
Total assets	<u>\$1,706,370</u>	<u>\$ 1,699,464</u>
Liabilities and partners' capital		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 40,711	\$ 35,382
Accrued interest	1,356	1,219
Current portion, long-term debt	<u>4,552</u>	<u>2,251</u>
Total current liabilities	46,619	38,852
Other long-term liabilities	1,185	1,292
Obligation for lease and management agreements, net	9,123	8,767
Long-term debt	326,206	285,378
Deferred cemetery revenues, net	661,282	643,408
Deferred tax liabilities	17,665	17,708
Merchandise liability	152,899	150,192
Perpetual care trust corpus	<u>332,110</u>	<u>345,105</u>
Total liabilities	<u>1,547,089</u>	<u>1,490,702</u>
Commitments and contingencies		
Partners' capital (deficit)		
General partner deficit	(7,336)	(5,113)
Common partners, 29,313 and 29,204 units outstanding as of June 30, 2015 and December 31, 2014, respectively	<u>166,617</u>	<u>213,875</u>
Total partners' capital	159,281	208,762
Total liabilities and partners' capital	<u>\$1,706,370</u>	<u>\$ 1,699,464</u>

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenues:				
Cemetery				
Merchandise	\$36,042	\$34,572	\$ 62,979	\$ 60,640
Services	14,591	12,492	28,501	22,789
Investment and other	16,698	12,991	28,008	29,266
Funeral home				
Merchandise	6,250	4,966	13,325	10,018
Services	<u>7,244</u>	<u>6,512</u>	<u>15,429</u>	<u>13,207</u>
Total revenues	<u>80,825</u>	<u>71,533</u>	<u>148,242</u>	<u>135,920</u>
Costs and expenses:				
Cost of goods sold (exclusive of depreciation shown separately below):				
Perpetual care	2,067	1,821	3,734	3,212
Merchandise	7,740	6,829	13,156	12,942
Cemetery expense	19,279	16,141	35,544	29,470
Selling expense	15,769	14,861	29,679	26,050
General and administrative expense	9,192	8,880	18,521	16,525
Corporate overhead (including \$275 and \$266 in unit-based compensation for the three months ended June 30, 2015 and 2014, and \$547 and \$537 for the six months ended June 30, 2015 and 2014, respectively)	10,093	6,546	18,827	14,002
Depreciation and amortization	2,944	2,513	5,896	4,881
Funeral home expense				
Merchandise	2,066	1,604	4,442	3,250
Services	5,703	4,714	11,296	9,501
Other	4,380	3,118	8,561	5,971
Acquisition related costs, net of recoveries	<u>336</u>	<u>1,240</u>	<u>685</u>	<u>1,589</u>
Total cost and expenses	<u>79,569</u>	<u>68,267</u>	<u>150,341</u>	<u>127,393</u>
Operating profit (loss)	1,256	3,266	(2,099)	8,527
Gain on acquisition	—	—	—	412
Gain on settlement agreement, net	—	888	—	888
Interest expense	<u>5,770</u>	<u>5,148</u>	<u>11,233</u>	<u>10,722</u>
Net income (loss) before income taxes	(4,514)	(994)	(13,332)	(895)
Income tax expense (benefit)	<u>334</u>	<u>(876)</u>	<u>399</u>	<u>(1,186)</u>
Net income (loss)	<u>\$ (4,848)</u>	<u>\$ (118)</u>	<u>\$ (13,731)</u>	<u>\$ 291</u>
General partner's interest in net income (loss) for the period	\$ (65)	\$ (9)	\$ (185)	\$ (5)
Limited partners' interest in net income (loss) for the period	\$ (4,783)	\$ (109)	\$ (13,546)	\$ 296
Net income (loss) per limited partner unit (basic and diluted)	\$ (.16)	\$ —	\$ (.46)	\$.01
Weighted average number of limited partners' units outstanding - basic	29,286	25,552	29,258	24,031
Weighted average number of limited partners' units outstanding - diluted	29,286	25,552	29,258	24,312
Distributions declared per unit	\$.640	\$.600	\$ 1.270	\$ 1.200

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

[Table of Contents](#)

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

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

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

	For the six months ended June 30,	
	2015	2014
Operating activities:		
Net income (loss)	\$ (13,731)	\$ 291
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Cost of lots sold	4,917	5,656
Depreciation and amortization	5,896	4,881
Unit-based compensation	547	537
Accretion of debt discounts	1,467	1,297
Gain on acquisition	—	(412)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(11,786)	(10,023)
Allowance for doubtful accounts	2,317	2,891
Merchandise trust fund	(23,478)	(16,292)
Prepaid expenses	(1,539)	(2,576)
Other current assets	(7,430)	(2,301)
Other assets	(193)	(1,129)
Accounts payable and accrued and other liabilities	5,356	525
Deferred selling and obtaining costs	(7,483)	(5,374)
Deferred cemetery revenue	45,307	32,204
Deferred taxes (net)	(44)	(1,672)
Merchandise liability	3,852	(1,752)
Net cash provided by operating activities	<u>3,975</u>	<u>6,751</u>
Investing activities:		
Cash paid for cemetery property	(3,871)	(2,914)
Purchase of subsidiaries	—	(54,000)
Consideration for lease and management agreements	—	(53,000)
Cash paid for property and equipment	(3,379)	(4,104)
Net cash used in investing activities	<u>(7,250)</u>	<u>(114,018)</u>
Financing activities:		
Cash distributions	(36,297)	(28,225)
Additional borrowings on long-term debt	56,823	39,872
Repayments of long-term debt	(14,215)	(75,149)
Proceeds from public offerings	—	120,451
Proceeds from issuance of common units	—	53,430
Cost of financing activities	(34)	—
Net cash provided by financing activities	<u>6,277</u>	<u>110,379</u>
Net increase in cash and cash equivalents	3,002	3,112
Cash and cash equivalents - Beginning of period	10,401	12,175
Cash and cash equivalents - End of period	\$ 13,403	\$ 15,287
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 9,551	\$ 9,395
Cash paid during the period for income taxes	\$ 3,516	\$ 3,152
Non-cash investing and financing activities:		
Acquisition of assets by financing	\$ 242	\$ 50
Acquisition of asset by assumption of directly related liability	\$ —	\$ 8,368

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

Nature of Operations

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

Basis of Presentation

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

Principles of Consolidation

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

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

New Accounting Pronouncements

In the second quarter of 2014, the Financial Accounting Standards Board issued Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”), which supersedes the revenue recognition requirements in “Topic 605 - Revenue Recognition” and most industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. On April 29, 2015, the Financial Accounting Standards Board issued for public comment a proposed update that would defer the effective date of ASU 2014-09 by one year. The Company is currently in the process of evaluating the potential impact of this update on its financial statements.

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

Table of Contents

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

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

Use of Estimates

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

2. LONG-TERM ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

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

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

Table of Contents

Activity in the allowance for contract cancellations is as follows:

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

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

3. CEMETERY PROPERTY

Cemetery property consists of the following:

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

4. PROPERTY AND EQUIPMENT

Major classes of property and equipment follow:

	June 30, 2015	As of December 31, 2014
	(in thousands)	
Building and improvements	\$110,283	\$ 108,178
Furniture and equipment	<u>50,330</u>	<u>49,290</u>
	160,613	157,468
Less: accumulated depreciation	<u>(61,368)</u>	<u>(57,077)</u>
Property and equipment - net	<u>\$ 99,245</u>	<u>\$ 100,391</u>

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

5. MERCHANDISE TRUSTS

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

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

Table of Contents

- Publicly traded mutual funds that invest in underlying debt securities;
- Publicly traded mutual funds that invest in underlying equity securities;
- Equity investments primarily in securities that are currently paying dividends or distributions. These investments include Master Limited Partnerships and global equity securities;
- Fixed maturity debt securities issued by various corporate entities; and
- Fixed maturity debt securities issued by U.S. states and local government agencies.

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

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

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

Table of Contents

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

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

<u>As of December 31, 2014</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
		(in thousands)		
Short-term investments	\$ 52,521	\$ —	\$ —	\$ 52,521
Fixed maturities:				
U.S. State and local government agency	270	—	(1)	269
Corporate debt securities	9,400	23	(447)	8,976
Other debt securities	7,157	—	(18)	7,139
Total fixed maturities	<u>16,827</u>	<u>23</u>	<u>(466)</u>	<u>16,384</u>
Mutual funds - debt securities	150,477	869	(8,666)	142,680
Mutual funds - equity securities	167,353	12,568	(463)	179,458
Equity securities	81,639	4,167	(5,507)	80,299
Other invested assets	5,400	—	(241)	5,159
Total managed investments	<u>\$474,217</u>	<u>\$ 17,627</u>	<u>\$ (15,343)</u>	<u>\$476,501</u>
West Virginia Trust Receivable	8,319	—	—	8,319
Total	<u>\$482,536</u>	<u>\$ 17,627</u>	<u>\$ (15,343)</u>	<u>\$484,820</u>

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

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

Table of Contents

Temporary Declines in Fair Value

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

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

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

As of December 31, 2014	Less than 12 months		12 Months or more		Total		Number of Securities in Loss Position
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
(in thousands, except number of securities data)							
Fixed maturities:							
U.S. State and local government agency	\$ 143	\$ 1	\$ —	\$ —	\$ 143	\$ 1	3
Corporate debt securities	5,905	342	1,506	105	7,411	447	58
Other debt securities	2,370	8	4,769	10	7,139	18	13
Total fixed maturities	8,418	351	6,275	115	14,693	466	74
Mutual funds - debt securities	32,072	1,039	95,629	7,627	127,701	8,666	34
Mutual funds - equity securities	4,147	463	—	—	4,147	463	2
Equity securities	44,563	4,641	3,909	866	48,472	5,507	60
Other invested assets	—	—	4,881	241	4,881	241	1
Total	\$ 89,200	\$ 6,494	\$110,694	\$ 8,849	\$199,894	\$ 15,343	171

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

Other-Than-Temporary Impairment of Trust Assets

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

Table of Contents

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

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

- (1) Includes \$4.2 million representing the net effect of other-than-temporary impairment charges and the release of previously realized impairment charges, as a result of sales and maturities of impaired securities.

The Company made net contributions into the trusts of approximately \$10.4 million during the six months ended June 30, 2015. During the six months ended June 30, 2015, purchases and sales of securities available for sale included in trust investments were approximately \$468.8 million and \$456.2 million, respectively.

6. PERPETUAL CARE TRUSTS

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

- Money market funds that invest in low risk short term securities;
- Publicly traded mutual funds that invest in underlying debt securities;
- Publicly traded mutual funds that invest in underlying equity securities;
- Equity investments that are currently paying dividends or distributions. These investments include Master Limited Partnerships and global equity securities;
- Fixed maturity debt securities issued by various corporate entities;
- Fixed maturity debt securities issued by the U.S. Government and U.S. Government agencies; and
- Fixed maturity debt securities issued by U.S. states and local government agencies.

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

Table of Contents

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

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

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

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

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

Table of Contents

Temporary Declines in Fair Value

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

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

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

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

There were 108 and 148 securities in an unrealized loss position in perpetual care trusts as of June 30, 2015 and December 31, 2014, respectively, of which 42 and 20, respectively, were in an unrealized loss position for more than twelve months. For all securities in an unrealized loss position, the Company evaluated the severity of the impairment, the length of time that a security has been in a loss position, the security's performance relative to the overall performance for the sector in which the security resides, and has concluded the decline in fair value below the asset's cost was temporary in nature. In addition, the Company is not aware of any circumstances that would prevent the future market value recovery for these securities.

Other-Than-Temporary Impairment of Trust Assets

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

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

Table of Contents

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

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

- (1) Includes \$12.0 million representing the net effect of other-than-temporary impairment charges and the release of previously realized impairment charges, as a result of sales and maturities of impaired securities.

The Company made net withdrawals from the trusts of approximately \$0.5 million during the six months ended June 30, 2015. During the six months ended June 30, 2015, purchases and sales of securities available for sale included in trust investments were approximately \$281.3 million and \$276.7 million, respectively.

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

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

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

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

Other Acquired Intangible Assets

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

	As of June 30, 2015			As of December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Asset	Gross Carrying Amount	Accumulated Amortization	Net Intangible Asset
Amortized intangible assets:						
Lease and management agreements	\$ 59,758	\$ (1,079)	\$ 58,679	\$ 59,758	\$ (581)	\$ 59,177
Underlying contract value	6,239	(936)	5,303	6,239	(858)	5,381
Non-compete agreements	5,250	(2,625)	2,625	5,250	(2,126)	3,124
Other intangible assets	1,439	(155)	1,284	1,439	(131)	1,308
Total intangible assets	<u>\$ 72,686</u>	<u>\$ (4,795)</u>	<u>\$ 67,891</u>	<u>\$ 72,686</u>	<u>\$ (3,696)</u>	<u>\$ 68,990</u>

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

Table of Contents

8. LONG-TERM DEBT

The Company had the following outstanding debt:

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

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

7.875% Senior Notes due 2021

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

Credit Facility

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

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

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

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

Table of Contents

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

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

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

- Consolidated EBITDA for any Measurement Period to be less than the sum of (i) \$80.0 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after June 30, 2014;
- the Consolidated Debt Service Coverage Ratio to be less than 2.50 to 1.0 for any Measurement Period; and
- the Consolidated Leverage Ratio to be greater than 4.00 to 1.0 for any period.

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

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

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

Effective July 10, 2015, the Company entered into the First Amendment (the "First Amendment") to the Credit Agreement to allow the Company to apply Net Cash Proceeds received from certain: (i) Dispositions of property by any Credit Party or any of its Subsidiaries, (ii) sales or issuances of Equity Interests by the Company or any of its Subsidiaries and (iii) Extraordinary Receipts received by or paid to or for the account of any Credit Party or any of its Subsidiaries and not otherwise included in clause (i) and (ii) above that are required to be prepaid to the Lenders, to Acquisition Draws or Working Capital Draws, at the Company's discretion. Prior to the execution of the First Amendment, the Credit Agreement required that the Net Cash Proceeds from the transactions described above be applied to Acquisition Draws before they could be applied to Working Capital Draws.

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

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

Table of Contents

9. INCOME TAXES

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

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

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

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

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

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

10. DEFERRED CEMETERY REVENUES, NET

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

	June 30, 2015	As of December 31, 2014
	(in thousands)	
Deferred cemetery revenue	\$497,991	\$ 456,632
Deferred merchandise trust revenue	124,374	104,717
Deferred merchandise trust unrealized gains (losses)	(31,490)	2,284
Deferred pre-acquisition margin	138,457	140,378
Deferred cost of goods sold	(68,050)	(60,603)
Deferred cemetery revenues, net	<u>\$661,282</u>	<u>\$ 643,408</u>
Deferred selling and obtaining costs	\$105,278	\$ 97,795

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

Table of Contents

11. COMMITMENTS AND CONTINGENCIES

Legal

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

Leases

At June 30, 2015, the Company was committed to operating lease payments for premises, automobiles and office equipment under various operating leases with initial terms ranging from one to twenty-five years and options to renew at varying terms. Expenses under these operating leases were \$0.8 million and \$1.5 million for the three and six months ended June 30, 2015, respectively, and \$0.6 million and \$1.2 million for the three and six months ended June 30, 2014, respectively.

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

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

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

Other

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

12. PARTNERS' CAPITAL

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

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

Unit-Based Compensation

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

Table of Contents

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

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

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

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

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

Other Unit Issuances

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

13. ACQUISITIONS

First Quarter 2014 Acquisition

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

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

Table of Contents

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

Second Quarter 2014 Acquisition

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

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

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

Table of Contents

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

Agreements with the Archdiocese of Philadelphia

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

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

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

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

Table of Contents

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

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

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

The table below reflects the assets and liabilities recognized:

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

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

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

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

Table of Contents

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

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

Other 2014 Acquisitions

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

14. SEGMENT INFORMATION

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

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

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

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

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

Table of Contents

Segment information is as follows:

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

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

Table of Contents

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

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

Table of Contents

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

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

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

	Cemeteries			Funeral Homes	Corporate	Adjustment	Total
	Southeast	Northeast	West	(in thousands)			
Revenues							
Sales	\$ 46,666	\$ 18,355	\$ 23,699	\$ —	\$ —	\$ (21,886)	\$ 66,834
Service and other	20,988	18,489	18,135	—	—	(11,751)	45,861
Funeral home	—	—	—	26,320	—	(3,095)	23,225
Total revenues	<u>67,654</u>	<u>36,844</u>	<u>41,834</u>	<u>26,320</u>	<u>—</u>	<u>(36,732)</u>	<u>135,920</u>
Costs and expenses							
Cost of sales	10,217	4,021	5,519	—	—	(3,603)	16,154
Cemetery	13,524	7,923	8,023	—	—	—	29,470
Selling	15,846	6,871	7,461	—	849	(4,977)	26,050
General and administrative	8,710	3,401	4,414	—	—	—	16,525
Corporate overhead	—	—	—	—	14,002	—	14,002
Depreciation and amortization	1,294	574	1,054	1,479	480	—	4,881
Funeral home	—	—	—	19,139	—	(417)	18,722
Acquisition related costs, net of recoveries	—	—	—	—	1,589	—	1,589
Total costs and expenses	<u>49,591</u>	<u>22,790</u>	<u>26,471</u>	<u>20,618</u>	<u>16,920</u>	<u>(8,997)</u>	<u>127,393</u>
Operating profit (loss)	<u>\$ 18,063</u>	<u>\$ 14,054</u>	<u>\$ 15,363</u>	<u>\$ 5,702</u>	<u>\$ (16,920)</u>	<u>\$ (27,735)</u>	<u>\$ 8,527</u>
Total assets	\$647,511	\$423,077	\$454,896	\$165,027	\$ 29,869	\$ —	\$1,720,380
Amortization of cemetery property	\$ 2,464	\$ 1,421	\$ 1,802	\$ —	\$ —	\$ (582)	\$ 5,105
Long lived asset additions	\$ 26,520	\$ 71,310	\$ 2,444	\$ 8,821	\$ 260	\$ —	\$ 109,355
Goodwill	\$ 8,950	\$ 3,288	\$ 11,948	\$ 33,024	\$ —	\$ —	\$ 57,210

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

Table of Contents

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

15. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

Table of Contents

As of June 30, 2015

Merchandise Trust

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

Perpetual Care Trust

	<u>Level 1</u>	<u>Level 2</u> (in thousands)	<u>Total</u>
Assets			
Short-term investments	\$ 13,122	\$ —	\$ 13,122
Fixed maturities:			
U.S. government and federal agency	115	—	115
U.S. state and local government agency	—	27	27
Corporate debt securities	—	23,645	23,645
Other debt securities	—	371	371
Total fixed maturity investments	115	24,043	24,158
Mutual funds - debt securities	210,441	—	210,441
Mutual funds - equity securities - real estate sector	15,969	—	15,969
Mutual funds - equity securities - energy sector	17,976	—	17,976
Mutual funds - equity securities - MLP's	34,990	—	34,990
Mutual funds - equity securities - other	13,051	—	13,051
Equity securities:			
Master limited partnerships	1,312	—	1,312
Global equity securities	1,091	—	1,091
Total	<u>\$308,067</u>	<u>\$ 24,043</u>	<u>\$332,110</u>

Table of Contents

As of December 31, 2014

Merchandise Trust

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

Perpetual Care Trust

	<u>Level 1</u>	<u>Level 2</u> (in thousands)	<u>Total</u>
Assets			
Short-term investments	\$ 26,644	\$ —	\$ 26,644
Fixed maturities:			
U.S. government and federal agency	116	—	116
U.S. state and local government agency	—	79	79
Corporate debt securities	—	23,466	23,466
Other debt securities	—	371	371
Total fixed maturity investments	116	23,916	24,032
Mutual funds - debt securities	123,894	—	123,894
Mutual funds - equity securities - real estate sector	41,753	—	41,753
Mutual funds - equity securities - energy sector	14,829	—	14,829
Mutual funds - equity securities - MLP's	43,596	—	43,596
Mutual funds - equity securities - other	25,258	—	25,258
Equity securities:			
Master limited partnerships	43,207	—	43,207
Global equity securities	1,867	—	1,867
Other invested assets	—	25	25
Total	<u>\$321,164</u>	<u>\$ 23,941</u>	<u>\$345,105</u>

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

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

Table of Contents

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

There were no level 3 assets.

16. SUBSEQUENT EVENTS

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

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

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

Table of Contents

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

The words “we,” “us,” “our,” “StoneMor,” the “Partnership,” the “Company” and similar words refer to StoneMor Partners L.P. and its subsidiaries.

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

Forward-Looking Statements

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

Generally, the words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend (including, but not limited to our intent to maintain or increase our distributions),” “project,” “expect,” “predict” and similar expressions identify these forward-looking statements.

These forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated or implied. Our major risk is related to uncertainties associated with the cash flow from our pre-need and at-need sales, our trusts, and financings, which may impact our ability to meet our financial projections, our ability to service our debt and pay distributions, and our ability to increase our distributions.

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

Table of Contents

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

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

Overview

Cemetery Operations

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

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

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

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

- at-need sales of cemetery interment rights, merchandise and services, which we recognize as revenue when we have delivered the related merchandise or performed the service;
- pre-need sales of cemetery interment rights, which we generally recognize as revenues when we have collected 10% of the sales price from the customer;
- pre-need sales of cemetery merchandise, which we recognize as revenues when we satisfy the criteria specified below for delivery of the merchandise to the customer;
- pre-need sales of cemetery services which we recognize as revenues when we perform the services for the customer;
- investment income from assets held in our merchandise trust, which we recognize as revenues when we deliver the underlying merchandise or perform the underlying services and recognize the associated sales revenue as discussed above;
- investment income from perpetual care trusts, excluding realized gains and losses on the sale of trust assets, which we recognize as revenues as the income is earned in the trust; and
- other items, such as interest income on pre-need installment contracts and sales of land.

Table of Contents

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

- the merchandise is complete and ready for installation; or
- the merchandise is either installed or stored at an off-site location, at no additional cost to us, and specifically identified with a particular customer; and
- the risks and rewards of ownership have passed to the customer.

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

Pre-need Sales

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

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

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

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

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

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

At-need Sales

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

Table of Contents

Expenses

We analyze and categorize our operating expenses as follows:

1. Cost of goods sold and selling expenses

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

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

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

2. Cemetery Expenses

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

3. General and administrative expenses

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

4. Depreciation and amortization

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

5. Acquisition related costs

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

Funeral Home Operations

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

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

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

Table of Contents

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

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

Corporate

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

2015 Developments

Significant business developments for 2015 include the following:

- On June 5, 2015, we entered into a lease agreement for a new corporate office location in Trevose, Pennsylvania. The lease term will commence on February 1, 2016 and will expire on July 31, 2028, with certain contractual renewal options.
- On July 10, 2015, we completed a follow-on public offering of 2,415,000 common units at a public offering price of \$29.63 per unit. Net proceeds of the offering, after deducting underwriting discounts and offering expenses, were approximately \$67.8 million. The proceeds were used to pay down outstanding indebtedness under our Credit Facility.

Current Market Conditions and Economic Developments

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

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

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

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

Impact on Our Ability to Meet Our Debt Covenants

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

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

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

Table of Contents

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

Segment Reporting and Related Information

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

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

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

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

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

Critical Accounting Policies and Estimates

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

Results of Operations – Segments

We account for and analyze the results of operations for our segments on a basis of accounting that is different from GAAP. We reconcile these non-GAAP accounting results of operations to GAAP based amounts at the consolidated level. This reconciliation is included in Note 14 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

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

Table of Contents

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

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014

Cemetery Segments

Cemetery Operations – Southeast

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

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

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

Revenues

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

Total costs and expenses

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

- A \$1.1 million increase in the cost of goods sold primarily attributable to the increase in the value of contracts written and changes in product mix.
- A \$1.0 million increase in cemetery expenses primarily due to increases of \$0.3 million in labor costs and \$0.5 million in repairs and maintenance costs.
- A \$0.3 million increase in selling expenses due to increases of \$0.6 million in commissions and personnel costs and \$0.1 million in travel expenses, partially offset by a \$0.4 million decrease in advertising and marketing expenses.
- A \$0.1 million increase in depreciation expense.

Cemetery Operations – Northeast

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

Table of Contents

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

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

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

Revenues

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

Total costs and expenses

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

- A \$1.2 million increase in the cost of goods sold primarily attributable to the increase in the value of contracts written and changes in product mix.
- A \$2.2 million increase in cemetery expenses primarily due to increases of \$1.2 million in labor costs, \$0.7 million in repairs and maintenance expense, \$0.1 million in utility and fuel costs and \$0.1 million in real estate tax expense.
- A \$1.4 million increase in selling expenses primarily attributable to a \$1.1 million increase in commissions and personnel costs and a \$0.2 million increase in advertising and marketing costs.
- A \$0.7 million increase in general and administrative expenses primarily due to increases of \$0.1 million in insurance costs, \$0.3 million in personnel costs and \$0.1 million in professional fees.
- A \$0.3 million increase in depreciation and amortization expense, most of which was attributable to the amortization of the intangible assets relating to the lease and management agreements with the Archdiocese of Philadelphia.

Table of Contents

Cemetery Operations – West

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

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

Revenues

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

Total costs and expenses

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

- A \$0.1 million decrease in the cost of goods sold primarily attributable to the change in the value of contracts written and changes in product mix.
- A \$0.1 million decrease in cemetery expenses primarily related to a decrease of \$0.2 million in repair and maintenance costs, partially offset by a \$0.1 million increase in real estate tax expense.
- A \$0.3 million decrease in general and administrative expenses primarily related to a decrease of \$0.2 million in professional fees.
- A \$0.1 million decrease in depreciation expense.

Funeral Homes Segment

In the second quarter of 2014, we acquired nine funeral homes and in the fourth quarter of 2014, we acquired two funeral homes. Therefore, the results of operations for these properties have either less or no impact on the results for the three months ended June 30, 2014, but are included in the results for the three months ended June 30, 2015. The additions have contributed approximately \$2.7 million of the revenues and \$2.2 million of the costs and expenses of the segment for the three months ended June 30, 2015 as compared to \$0.6 million and \$0.3 million, respectively, for the same period last year.

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

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

Revenues

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

Table of Contents

Total costs and expenses

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

Corporate Segment

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

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

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

Reconciliation of Segment Results of Operations to Consolidated Results of Operations

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

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

- Changes in the value of contracts written and other revenues generated during a period that are delivered in their period of origination and are recognized as revenue and not deferred as of the end of their period of origination.
- Changes in merchandise and services that are delivered during a period that had been originated during a prior period.

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

Table of Contents

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

Revenues

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

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

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

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

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

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

Costs and Expenses

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

in product mix.

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

Non-segment Allocated Results

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

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

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

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

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

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

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

Cemetery Operations – Southeast

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

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

	Six months ended June 30,			
	2015	2014	Change (\$)	Change (%)
	(in thousands)			
	(non-GAAP)			
Total revenues	\$76,396	\$67,654	\$ 8,742	12.9%
Total costs and expenses	55,609	49,591	6,018	12.1%
Operating profit	<u>\$20,787</u>	<u>\$18,063</u>	<u>\$ 2,724</u>	<u>15.1%</u>

Revenues

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

Table of Contents

Total costs and expenses

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

- A \$1.4 million increase in cost of goods sold primarily attributable to the increase in the value of contracts written and changes in product mix.
- A \$1.5 million increase in cemetery expenses primarily due to increases of \$0.7 million in labor costs, and \$0.5 million in repairs and maintenance costs.
- A \$2.2 million increase in selling expenses primarily attributable to an increase of \$2.1 million in commissions and personnel expenses.
- A \$0.6 million increase in general and administrative expense primarily due to an increase of \$0.5 million in personnel expenses.
- A \$0.3 million increase in depreciation expense.

Cemetery Operations – Northeast

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

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

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

Revenues

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

Total costs and expenses

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

- A \$1.9 million increase in cost of goods sold primarily attributable to the increase in the value of contracts written and changes in product mix.
- A \$4.8 million increase in cemetery expenses primarily attributable to increases of \$3.3 million in labor costs, \$1.0 million in repairs and maintenance expense, \$0.2 million in utility and fuel costs, \$0.2 million in real estate tax expense and \$0.1 million in automobile and equipment related costs.
- A \$3.6 million increase in selling expenses primarily attributable to increases of \$2.9 million in commissions and personnel costs and \$0.5 million in advertising and marketing expenses.
- A \$1.7 million increase in general and administrative expenses primarily due to increases of \$0.4 million in insurance costs, \$0.2 million in professional fees and \$0.8 million in personnel costs.

Table of Contents

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

Cemetery Operations – West

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

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

Revenues

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

Total costs and expenses

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

- A \$0.8 million decrease in cost of goods sold primarily attributable to changes in product mix.
- A \$0.2 million decrease in cemetery expenses primarily due to a decrease of \$0.3 million in repairs and maintenance expenses, partially offset by a net increase of \$0.1 million in other cemetery expenses.
- A \$1.0 million increase in selling expenses primarily due to a \$0.8 million increase in commission and personnel costs and a \$0.1 million increase in advertising and marketing expenses.
- A \$0.3 million decrease in general and administrative expenses primarily due to a decrease of \$0.3 million in legal and professional fees.
- A \$0.1 million decrease in depreciation expense.

Funeral Homes Segment

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

Table of Contents

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

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

Revenues

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

Total costs and expenses

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

Corporate Segment

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

	Six months ended June 30,			
	2015	2014	Change (\$)	Change (%)
			(in thousands)	
			(non-GAAP)	
Selling, cemetery and general and administrative expenses	\$ 1,282	\$ 849	\$ 433	51.0%
Depreciation and amortization	485	480	5	1.0%
Acquisition related costs, net of recoveries	685	1,589	(904)	-56.9%
Corporate expenses				
Corporate personnel expenses	7,389	6,359	1,030	16.2%
Other corporate expenses	11,438	7,643	3,795	49.7%
Total corporate overhead	18,827	14,002	4,825	34.5%
Total corporate expenses	\$21,279	\$16,920	\$ 4,359	25.8%

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

Reconciliation of Segment Results of Operations to Consolidated Results of Operations

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

Table of Contents

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

	Six months ended June 30, 2015 (in thousands)			Six months ended June 30, 2014 (in thousands)			Change in GAAP results (\$)	Change in GAAP results (%)
	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results		
Revenues								
Pre-need cemetery revenues	\$ 79,905	\$ (31,418)	\$ 48,487	\$ 68,385	\$ (21,927)	\$ 46,458	\$ 2,029	4.4%
At-need cemetery revenues	53,411	(3,858)	49,553	42,958	370	43,328	6,225	14.4%
Investment income from trusts	27,626	(14,011)	13,615	25,240	(12,789)	12,451	1,164	9.3%
Interest income	4,384	—	4,384	4,041	—	4,041	343	8.5%
Funeral home revenues	33,149	(4,395)	28,754	26,320	(3,095)	23,225	5,529	23.8%
Other cemetery revenues	3,044	405	3,449	5,708	709	6,417	(2,968)	-46.3%
Total revenues	<u>201,519</u>	<u>(53,277)</u>	<u>148,242</u>	<u>172,652</u>	<u>(36,732)</u>	<u>135,920</u>	<u>12,322</u>	<u>9.1%</u>
Costs and expenses								
Cost of goods sold	22,266	(5,376)	16,890	19,757	(3,603)	16,154	736	4.6%
Cemetery expense	35,544	—	35,544	29,470	—	29,470	6,074	20.6%
Selling expense	38,242	(8,563)	29,679	31,027	(4,977)	26,050	3,629	13.9%
General and administrative expense	18,521	—	18,521	16,525	—	16,525	1,996	12.1%
Corporate overhead	18,827	—	18,827	14,002	—	14,002	4,825	34.5%
Depreciation and amortization	5,896	—	5,896	4,881	—	4,881	1,015	20.8%
Funeral home expense	25,286	(987)	24,299	19,139	(417)	18,722	5,577	29.8%
Acquisition related costs, net of recoveries	685	—	685	1,589	—	1,589	(904)	-56.9%
Total costs and expenses	<u>165,267</u>	<u>(14,926)</u>	<u>150,341</u>	<u>136,390</u>	<u>(8,997)</u>	<u>127,393</u>	<u>22,948</u>	<u>18.0%</u>
Operating profit (loss)	<u>\$ 36,252</u>	<u>\$ (38,351)</u>	<u>\$ (2,099)</u>	<u>\$ 36,262</u>	<u>\$ (27,735)</u>	<u>\$ 8,527</u>	<u>\$ (10,626)</u>	<u>-124.6%</u>

Revenues

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

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

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

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

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

Other cemetery revenues were \$3.4 million for the six months ended June 30, 2015, as compared to \$6.4 million during the same period

last year. The comparison was affected by the one-time land sale in the first quarter of 2014.

Table of Contents

Costs and Expenses

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

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

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

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

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

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

Table of Contents

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

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

Non-segment Allocated Results

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

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

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

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

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

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

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

Table of Contents

Supplemental Data

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

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

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

Liquidity and Capital Resources

Overview

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

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

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

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

Long-term Debt

7.875% Senior Notes due 2021

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

Table of Contents

Credit Facility

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

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

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

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

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

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

- Consolidated EBITDA for any Measurement Period to be less than the sum of (i) \$80.0 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after June 30, 2014;
- the Consolidated Debt Service Coverage Ratio to be less than 2.50 to 1.0 for any Measurement Period; and
- the Consolidated Leverage Ratio to be greater than 4.00 to 1.0 for any period.

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

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

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

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

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

Table of Contents

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

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

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

Corporate Office Lease

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

Cash Flow from Operating Activities

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

Cash Flow from Investing Activities

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

Cash Flow from Financing Activities

Net cash flows provided by financing activities were \$6.3 million during the six months ended June 30, 2015 as compared to \$110.4 million during the same period last year. Cash flows provided by financing activities for the six months ended June 30, 2015 consisted of \$42.6 million of net increases in long-term debt partially offset by cash distributions to unit holders of \$36.3 million. Cash flows provided by financing activities for the six months ended June 30, 2014 consisted of \$120.5 million of proceeds from our follow-on public offerings and \$53.4 million of proceeds from our issuance of common units to ACII, partially offset by net repayments of long-term debt of \$35.3 million, and cash distributions to unit holders of \$28.2 million.

Capital Expenditures

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

Table of Contents

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

Seasonality

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

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

Interest-Bearing Investments

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

Our money market and other short-term investments subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of June 30, 2015, the fair value of money market and short-term investments in our merchandise trusts represented 3.9% of the fair value of total trust assets while the fair value of money market and short-term investments in our perpetual care trusts represented 4.0% of the fair value of total trust assets. The aggregate quoted fair value of these money market and short-term investments was \$18.8 million and \$13.1 million in the merchandise trusts and perpetual care trusts, respectively, as of June 30, 2015. Each 1% change in interest rates on these money market and short-term investments would result in changes of approximately \$188,000 and \$131,000 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows.

Marketable Equity Securities

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

Table of Contents

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

Investment Strategies and Objectives

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

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

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

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

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

Debt Instruments

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

Table of Contents

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

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

Part II – Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

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

Table of Contents

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
10.1	First Amendment to Fourth Amended and Restated Credit Agreement, dated July 10, 2015, by and among StoneMor Operating LLC, its Subsidiaries, StoneMor GP LLC, StoneMor Partners L.P., the Lenders party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer.
10.2	General Release of Claims between Timothy K. Yost and StoneMor GP LLC, the general partner of StoneMor Partners L.P., dated May 18, 2015.
31.1	Certification pursuant to Exchange Act Rule 13a-14(a) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors.
31.2	Certification pursuant to Exchange Act Rule 13a-14(a) of James M. Pippis, Interim Chief Financial Officer.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors (furnished herewith).
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of James M. Pippis, Interim Chief Financial Officer (furnished herewith).
101	Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets as of June 30, 2015, and December 31, 2014; (ii) Unaudited Condensed Consolidated Statements of Operations for the three months and six months ended June 30, 2015 and 2014; (iii) Unaudited Condensed Consolidated Statement of Partners' Capital (Deficit); (iv) Unaudited Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2015 and 2014; and (v) Notes to the Unaudited Condensed Consolidated Financial Statements. Users of this data are advised that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of StoneMor Partners L.P.

SIGNATURES

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

STONEMOR PARTNERS L.P.

By: StoneMor GP LLC
its general partner

August 10, 2015

/s/ Lawrence Miller

Lawrence Miller

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

August 10, 2015

/s/ James M. Pippis

James M. Pippis

Interim Chief Financial Officer (Principal Financial Officer)

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
10.1	First Amendment to Fourth Amended and Restated Credit Agreement, dated July 10, 2015, by and among StoneMor Operating LLC, its Subsidiaries, StoneMor GP LLC, StoneMor Partners L.P., the Lenders party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer.
10.2	General Release of Claims between Timothy K. Yost and StoneMor GP LLC, the general partner of StoneMor Partners L.P., dated May 18, 2015.
31.1	Certification pursuant to Exchange Act Rule 13a-14(a) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors.
31.2	Certification pursuant to Exchange Act Rule 13a-14(a) of James M. Pippis, Interim Chief Financial Officer.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors (furnished herewith).
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of James M. Pippis, Interim Chief Financial Officer (furnished herewith).
101	Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets as of June 30, 2015, and December 31, 2014; (ii) Unaudited Condensed Consolidated Statements of Operations for the three months and six months ended June 30, 2015 and 2014; (iii) Unaudited Condensed Consolidated Statement of Partners' Capital (Deficit); (iv) Unaudited Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2015 and 2014; and (v) Notes to the Unaudited Condensed Consolidated Financial Statements. Users of this data are advised that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of StoneMor Partners L.P.

FIRST AMENDMENT TO FOURTH AMENDED AND RESTATED CREDIT AGREEMENT

This FIRST AMENDMENT TO FOURTH AMENDED AND RESTATED CREDIT AGREEMENT (this “First Amendment”) dated July 10, 2015, is by and among StoneMor GP LLC, a Delaware limited liability company (the “General Partner”), StoneMor Partners L.P., a Delaware limited partnership (the “Partnership”), StoneMor Operating LLC, a Delaware limited liability company (the “Operating Company”), the Subsidiaries of the Operating Company set forth on the signature pages hereto (together with the Operating Company, each individually a “Borrower” and collectively, the “Borrowers” and together with the General Partner and the Partnership, each individually a “Credit Party” and collectively, the “Credit Parties”), the Lenders party hereto, and Bank of America, N.A., a national banking association, as Administrative Agent for the benefit of the Lenders (in such capacity, the “Administrative Agent”), and as Swing Line Lender and L/C Issuer.

BACKGROUND

A. Pursuant to that certain Fourth Amended and Restated Credit Agreement, entered into on December 19, 2014, by and among the Credit Parties, the lenders party thereto (the “Lenders”) and the Administrative Agent, the Lenders agreed, *inter alia*, to extend to the Borrowers a revolving credit facility in the maximum aggregate principal amount of One Hundred Eighty Million Dollars (\$180,000,000). Capitalized terms used, but not otherwise defined, herein shall have the meanings given to them in the Credit Agreement.

B. The Borrowers have requested that the Lenders amend the Credit Agreement to permit the Borrower discretion as to the tranches of Loans to which mandatory prepayments are to be applied under the Credit Agreement.

C. The Lenders party hereto are willing to agree to such amendment on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, at the request of the Credit Parties, and based on the representations set forth below, the Lenders hereto agree as follows:

1. Amendment to Section 2.05(b)(iv). Subparagraph (b)(iv) of Section 2.05 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

(iv) Promptly, but in any event, no later than on the day of the Borrower’s receipt of any amounts required to be prepaid to Lenders under Section 2.05(b)(i), (ii), or (iii), the Borrower shall provide notice to the Administrative Agent, specifying (A) the date that such prepayment is required to be made and the amount required to be paid, (B) whether the Loans to be prepaid will be Working Capital Draws or Acquisition Draws, as the Borrower may elect, (C) the Type(s) of Loans the Borrower is requesting be prepaid, and (D) if Eurodollar Rate Loans are to be prepaid, the Interest Period(s) of such Loans. If the Borrower fails either to (1) deliver such a notice or (2) specify which tranches of Loan(s) are to be prepaid (i.e., Working Capital Draws or Acquisition Draws),

the required prepayments received shall be applied in accordance with Section 2.05(b)(vi); provided that, absent such notice or specification, amounts applied to Revolving Credit Loans will be applied first to any Working Capital Draws and second to any Acquisition Draws. Any prepayment of a Eurodollar Rate Loan shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.05. Each prepayment of outstanding Acquisition Draws shall be applied to reduce the then remaining Scheduled Repayments of Acquisition Draws in inverse order of maturity (and in inverse order of the date of each draw to the extent any two or more Acquisition Draws have any identical maturity dates).

2. Representations and Warranties.

(a) Each Credit Party hereby represents and warrants to the Administrative Agent and the Lenders that, as to such Credit Party:

(i) Representations. Each of the representations and warranties of or as to such Credit Party contained in the Credit Agreement and the other Credit Documents are true and correct in all material respects on and as of the date hereof as if made on and as of the date hereof, except to the extent such representation or warranty was made as of a specific date;

(ii) Power and Authority. (A) Such Credit Party has the power and authority under the laws of its jurisdiction of organization and under its organizational documents to enter into and perform this First Amendment and any other documents which the Administrative Agent requires such Credit Party to deliver hereunder; and (B) all actions, corporate or otherwise, necessary or appropriate for the due execution and full performance by such Credit Party of the First Amendment have been adopted and taken and, upon their execution, the Credit Agreement, as amended by this First Amendment will constitute the valid and binding obligations of such Credit Party enforceable in accordance with their respective terms, except as such enforcement may be limited by any Debtor Relief Law from time to time in effect which affect the enforcement of creditors rights in general and the availability of equitable remedies;

(iii) No Violation. The making and performance of this First Amendment will not (A) contravene, conflict with or result in a breach or default under any applicable law, statute, rule or regulation, or any order, writ, injunction, judgment, ruling or decree of any court, arbitrator or governmental instrumentality, (B) contravene, constitute a default under, conflict or be inconsistent with or result in any breach of, any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any Lien upon any of the property or assets of any Credit Party pursuant to the terms of any indenture, mortgage, deed of trust, loan agreement, credit agreement or any other agreement or instrument to which any Credit Party is a party or by which it or any of its property or assets are bound or to which it may be subject or (C) contravene or violate any provision of the certificate of incorporation, by-laws, certificate of partnership, partnership agreement, certificate of limited liability company, limited liability company agreement or equivalent organizational document, as the case may be, any Credit Party;

(iv) No Default. Immediately after giving effect to this First Amendment, no Default or Event of Default has occurred and is continuing;

(v) No Material Adverse Effect. No Material Adverse Effect has occurred since December 31, 2014; and

(vi) Organizational Documents. There have been no changes in the organizational documents of the Credit Parties since December 19, 2014 (or such later date as any such organizational documents were initially adopted), except as previously disclosed to the Administrative Agent in writing, certified copies of which have been previously provided to the Lenders.

3. No Waiver of Existing Defaults. To induce the Lenders to enter into this First Amendment, the Credit Parties acknowledge, agree, warrant, and represent that nothing in this First Amendment nor any communication between any Secured Party, any Credit Party or any of their respective officers, agents, employees or representatives shall be deemed to constitute a waiver of (i) any Default or Event of Default arising as a result of the representations and warranties set forth in Section 2 proving to be false or incorrect in any material respect, or (ii) any rights or remedies which any Secured Party has against any Credit Party under the Credit Agreement or any other Credit Document and/or applicable law, with respect to any such Default or Event of Default arising as a result of the representations and warranties set forth in Section 2 proving to be false or incorrect in any material respect.

4. Waiver of Claims. The Credit Parties hereby waive any and all defenses, set offs and counterclaims which they, whether jointly or severally, may have or claim to have against each of the Secured Parties as of the date hereof.

5. Conditions to Effectiveness of Amendment.

(a) This First Amendment shall be effective upon the Administrative Agent's receipt of the following, each in form and substance reasonably satisfactory to the Administrative Agent (the "First Amendment Effective Date"):

(i) First Amendment. This First Amendment, duly executed by the Credit Parties and Lenders constituting Required Lenders;

(ii) Other Fees and Expenses. Payment to the Administrative Agent, in immediately available funds, of all amounts necessary to reimburse the Administrative Agent for the reasonable fees and costs incurred by the Administrative Agent in connection with the preparation and execution of this First Amendment and any other document provided for herein, including, without limitation, all fees and costs incurred by the Administrative Agent's attorneys;

(iii) Consent and Waivers. Copies of any consents or waivers necessary in order for the Credit Parties to comply with or perform any of its covenants, agreements or obligations contained in any agreement which are required as a result of any Credit Party's execution of this First Amendment, if any; and

(iv) Other Documents and Actions. Such additional agreements, instruments, documents, writings and actions as the Administrative Agent may reasonably request.

6. No Waiver; Ratification. The execution, delivery and performance of this First Amendment shall not (a) operate as a waiver of any right, power or remedy of the Lenders under the Credit Agreement or any other Credit Document and the agreements and documents executed in connection therewith or (b) constitute a waiver of any provision thereof. Except as expressly modified hereby, all terms, conditions and provisions of the Credit Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and confirmed by each of the Credit Parties. Nothing contained herein constitutes an agreement or obligation by the Administrative Agent or the Lenders to grant any further consent under the Credit Agreement or any of the other Credit Documents.

7. Binding Effect. This First Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

8. Governing Law. This First Amendment shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without reference to the choice of law doctrine of the Commonwealth of Pennsylvania.

9. Headings. The headings of the sections of this First Amendment are inserted for convenience only and shall not be deemed to constitute a part of this First Amendment.

10. Counterparts. This First Amendment may be executed in any number of counterparts with the same effect as if all of the signatures on such counterparts appeared on one document and each counterpart shall be deemed an original. Delivery of an executed counterpart of a signature page of this First Amendment by telecopy or by electronic means shall be effective as delivery of a manually executed counterpart of this First Amendment.

11. FATCA. For purposes of determining withholding Taxes imposed under FATCA, from and after December 19, 2014 (the effective date of the Credit Agreement), the Borrowers and the Administrative Agent shall treat (and the Lenders hereby authorize the Administrative Agent to treat) the Credit Agreement as not qualifying as a “grandfathered obligation” within the meaning of Treasury Regulation Section 1.1471-2(b)(2)(i).

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK, SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto, by their respective duly authorized officers, have executed this First Amendment to Fourth Amended and Restated Credit Agreement as of the date first above written.

General Partner:

STONEMOR GP LLC

By: /s/ James M. Pippis
Name: James M. Pippis
Title: Interim Chief Financial Officer and Secretary

Partnership:

STONEMOR PARTNERS L.P.
By: STONEMOR GP LLC
its General Partner

By: /s/ James M. Pippis
Name: James M. Pippis
Title: Interim Chief Financial Officer and Secretary

Operating Company:

STONEMOR OPERATING LLC

By: /s/ James M. Pippis
Name: James M. Pippis
Title: Interim Chief Financial Officer and Secretary

Commonwealth of Pennsylvania)
) ss:
County of Bucks)

On this, the 7 day of July, 2015, before me, a Notary Public, the undersigned officer, personally appeared James M. Pippis who acknowledged himself to be interim Chief Financial Officer and Secretary of StoneMor GP LLC and StoneMor Operating LLC, and that he as such officer, being authorized to do so, executed the foregoing instrument for the purposes therein contained by signing the name of each entity by himself as such officer.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

/s/ Shirley E. Herman

Notary Public

My commission expires:

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
SHIRLEY E. HERMAN, Notary Public
Middle Twp. Bucks County
My Commission Expires September 29, 2015

S-2

*First Amendment to
Fourth Amended and Restated Credit Agreement*

Additional Credit Parties

Alleghany Memorial Park Subsidiary, Inc.
Altavista Memorial Park Subsidiary, Inc.
Arlington Development Company
Augusta Memorial Park Perpetual Care Company
Birchlawn Burial Park Subsidiary, Inc.
Bronswood Cemetery, Inc.
Cedar Hill Funeral Home, Inc.
Cemetery Investments Subsidiary, Inc.
Chapel Hill Associates, Inc.
Chapel Hill Funeral Home, Inc.
Columbia Memorial Park Subsidiary, Inc.
Cornerstone Family Insurance Services, Inc.
Cornerstone Family Services of New Jersey, Inc.
Cornerstone Family Services of West Virginia Subsidiary, Inc.
Covenant Acquisition Subsidiary, Inc.
Covington Memorial Funeral Home, Inc.
Covington Memorial Gardens, Inc.
Crown Hill Cemetery Association
Eloise B. Kyper Funeral Home, Inc.
Forest Lawn Gardens, Inc.
Forest Lawn Memorial Chapel, Inc.
Forest Lawn Memory Gardens, Inc.
Glen Haven Memorial Park Subsidiary, Inc.
Henry Memorial Park Subsidiary, Inc.
Highland Memorial Park, Inc.
Hillside Memorial Park Association, Inc.
Kingwood Memorial Park Association
KIRIS Subsidiary, Inc.
Kirk & Nice, Inc.
Kirk & Nice Suburban Chapel, Inc.
Lakewood/Hamilton Cemetery Subsidiary, Inc.
Lakewood Memory Gardens South Subsidiary, Inc.
Laurel Hill Memorial Park Subsidiary, Inc.
Laurelwood Holding Company
Legacy Estates, Inc.
Loewen [Virginia] Subsidiary, Inc.
Lorraine Park Cemetery Subsidiary, Inc.

By: /s/ Frank Milles

Frank Milles, as Vice President of each of the
above-named Credit Parties

Modern Park Development Subsidiary, Inc.
Northlawn Memorial Gardens
Oak Hill Cemetery Subsidiary, Inc.
Ohio Cemetery Holdings, Inc.
Osiris Holding Finance Company
Osiris Holding of Maryland Subsidiary, Inc.
Osiris Holding of Rhode Island Subsidiary, Inc.
Osiris Management, Inc.
Osiris Telemarketing Corp.
Perpetual Gardens.Com, Inc.
Prince George Cemetery Corporation
PVD Acquisitions Subsidiary, Inc.
Rockbridge Memorial Gardens Subsidiary Company
Rose Lawn Cemeteries Subsidiary, Incorporated
Roselawn Development Subsidiary Corporation
Russell Memorial Cemetery Subsidiary, Inc.
Shenandoah Memorial Park Subsidiary, Inc.
Sierra View Memorial Park
Southern Memorial Sales Subsidiary, Inc.
Springhill Memory Gardens Subsidiary, Inc.
Star City Memorial Sales Subsidiary, Inc.
Stephen R. Haky Funeral Home, Inc.
Stitham Subsidiary, Incorporated
StoneMor Alabama Subsidiary, Inc.
StoneMor California, Inc.
StoneMor California Subsidiary, Inc.
StoneMor Georgia Subsidiary, Inc.
StoneMor Hawaii Subsidiary, Inc.
StoneMor North Carolina Funeral Services, Inc.
StoneMor Ohio Subsidiary, Inc.
StoneMor Puerto Rico Cemetery And Funeral, Inc.
StoneMor Tennessee Subsidiary, Inc.
StoneMor Washington, Inc.
Sunset Memorial Gardens Subsidiary, Inc.
Sunset Memorial Park Subsidiary, Inc.
Temple Hill Subsidiary Corporation
The Valhalla Cemetery Subsidiary Corporation
Virginia Memorial Service Subsidiary Corporation
W N C Subsidiary, Inc.
Wicomico Memorial Parks Subsidiary, Inc.
Willowbrook Management Corp.

By: /s/ Frank Milles

Frank Milles, as Vice President of each of the
above-named Credit Parties

Alleghany Memorial Park LLC
Altavista Memorial Park LLC
Birchlawn Burial Park LLC
Cemetery Investments LLC
Cemetery Management Services, L.L.C.
Cemetery Management Services of Ohio, L.L.C.
CMS West LLC
CMS West Subsidiary LLC
Columbia Memorial Park LLC
Cornerstone Family Services of West Virginia LLC
Cornerstone Funeral and Cremation Services LLC
Cornerstone Trust Management Services LLC
Covenant Acquisition LLC
Glen Haven Memorial Park LLC
Henlopen Memorial Park LLC
Henlopen Memorial Park Subsidiary LLC
Henry Memorial Park LLC
Juniata Memorial Park LLC
KIRIS LLC
Lakewood/Hamilton Cemetery LLC
Lakewood Memory Gardens South LLC
Laurel Hill Memorial Park LLC
Loewen [Virginia] LLC
Lorraine Park Cemetery LLC
Modern Park Development LLC
Oak Hill Cemetery LLC
Osiris Holding of Maryland LLC
Osiris Holding of Pennsylvania LLC
Osiris Holding of Rhode Island LLC
Plymouth Warehouse Facilities LLC
PVD Acquisitions LLC
Rockbridge Memorial Gardens LLC
Rolling Green Memorial Park LLC
Rose Lawn Cemeteries LLC
Roselawn Development LLC
Russell Memorial Cemetery LLC
Shenandoah Memorial Park LLC
Southern Memorial Sales LLC
Springhill Memory Gardens LLC
Star City Memorial Sales LLC
Stitham LLC

By: /s/ Frank Milles

Frank Milles, as Vice President of each of the
above-named Credit Parties

StoneMor Alabama LLC
StoneMor Arkansas Subsidiary LLC
StoneMor Cemetery Products LLC
StoneMor Colorado LLC
StoneMor Colorado Subsidiary LLC
StoneMor Florida LLC
StoneMor Florida Subsidiary LLC
StoneMor Georgia LLC
StoneMor Hawaii LLC
StoneMor Hawaiian Joint Venture Group LLC
StoneMor Holding of Pennsylvania LLC
StoneMor Illinois LLC
StoneMor Illinois Subsidiary LLC
StoneMor Indiana LLC
StoneMor Indiana Subsidiary LLC
StoneMor Iowa LLC
StoneMor Iowa Subsidiary LLC
StoneMor Kansas LLC
StoneMor Kansas Subsidiary LLC
StoneMor Kentucky LLC
StoneMor Kentucky Subsidiary LLC
StoneMor Michigan LLC
StoneMor Michigan Subsidiary LLC
StoneMor Mississippi LLC
StoneMor Mississippi Subsidiary LLC
StoneMor Missouri LLC
StoneMor Missouri Subsidiary LLC
StoneMor North Carolina LLC
StoneMor North Carolina Subsidiary LLC
StoneMor Ohio LLC
StoneMor Oklahoma LLC
StoneMor Oklahoma Subsidiary LLC
StoneMor Oregon LLC
StoneMor Oregon Subsidiary LLC
StoneMor Pennsylvania LLC
StoneMor Pennsylvania Subsidiary LLC
StoneMor Puerto Rico LLC
StoneMor Puerto Rico Subsidiary LLC
StoneMor South Carolina LLC
StoneMor South Carolina Subsidiary LLC
StoneMor Washington Subsidiary LLC

By: /s/ Frank Milles

Frank Milles, as Vice President of each of the
above-named Credit Parties

Sunset Memorial Gardens LLC
Sunset Memorial Park LLC
Temple Hill LLC
The Valhalla Cemetery Company LLC
Tioga County Memorial Gardens LLC
Virginia Memorial Service LLC
WNCI LLC
Wicomico Memorial Parks LLC
Woodlawn Memorial Park Subsidiary LLC

By: /s/ Frank Milles
Frank Milles, as Vice President of each of the
above-named Credit Parties

Beth Israel Cemetery Association of Woodbridge, New Jersey
Bethel Cemetery Association
Clover Leaf Park Cemetery Association
Locustwood Cemetery Association

By: /s/ Frank Milles
Frank Milles, as President of each of the above-
named Credit Parties

Commonwealth of Pennsylvania)
) ss:
County of Bucks)

On this, the 7 day of July, 2015, before me, a Notary Public, the undersigned officer, personally appeared Frank Milles who acknowledged himself to be Vice President or President of the above-named Additional Credit Parties, and that he as such officer, being authorized to do so, executed the foregoing instrument for the purposes therein contained by signing the name of each entity by himself as such officer.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

/s/ Shirley E. Herman
Notary Public

My commission expires:

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
SHIRLEY E. HERMAN, Notary Public
Middle Twp. Bucks County
My Commission Expires September 29, 2015

BANK OF AMERICA, N.A., as
Administrative Agent

By: /s/ Christine Trotter
Name: Christine Trotter
Title: Assistant Vice President

Administrative Agent's Signature Page to First Amendment to Fourth Amended and Restated Credit Agreement

BANK OF AMERICA, N.A., as a Lender,
L/C Issuer and Swing Line Lender

By: /s/ Kenneth G. Wood
Name: Kenneth G. Wood
Title: Senior Vice President

*Lender's Signature Page to First Amendment to Fourth Amended and Restated Credit
Agreement*

TD BANK, N.A.

By: /s/ Robert J. Mindick

Name: Robert J. Mindick

Title: Senior Vice President

Lender's Signature Page to First Amendment to Fourth Amended and Restated Credit Agreement

CAPITAL ONE, NATIONAL ASSOCIATION

By: /s/ Allison Sardo

Name: Allison Sardo

Title: Senior Vice President

Lender's Signature Page to First Amendment to Fourth Amended and Restated Credit Agreement

TRISTATE CAPITAL BANK

By: /s/ Ellen Frank

Name: Ellen Frank

Title: Senior Vice President

Lender's Signature Page to First Amendment to Fourth Amended and Restated Credit Agreement

FOX CHASE BANK

By: /s/ Paul A. Pyfer

Name: Paul A. Pyfer

Title: Senior Vice President

Lender's Signature Page to First Amendment to Fourth Amended and Restated Credit Agreement

RAYMOND JAMES BANK, N.A.

By: /s/ Kathy Bennett

Name: Kathy Bennett

Title: Senior Vice President

Lender's Signature Page to First Amendment to Fourth Amended and Restated Credit Agreement

GENERAL RELEASE OF CLAIMS

THIS GENERAL RELEASE OF CLAIMS is being entered into between and among **TIMOTHY K. YOST**, on behalf of and for the benefit of himself, and his heirs, assigns and representatives (“Employee”) and **STONEMOR GP LLC, the General Partner of STONEMOR PARTNERS L.P.**, its parents, affiliates, subsidiaries (“StoneMor Entities”), together with StoneMor Entities’ security holders, successors and assigns and the employees, officers, directors, and agents (“StoneMor”) (collectively with Employee, “the Parties”) to resolve any and all differences or issues, whether known or presently unknown, relating in any way to Employee’s employment with StoneMor and the termination of that employment.

WHEREAS, Employee was named Chief Financial Officer, Treasurer, Secretary, and/or other offices for various StoneMor entities;

WHEREAS, Employee voluntarily resigned from employment and from all offices in StoneMor Entities effective May 13, 2015 for personal reasons (“Termination Date”);

WHEREAS, the Parties are entering into this General Release of Claims (“Agreement”) to resolve all outstanding issues arising out of and relating to Employee’s employment and service in any office within StoneMor Entities and all issues that could be asserted in any related proceedings or litigation, up through the date of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises, agreements, and representations contained herein, and intending to be legally bound hereby, the Parties agree as follows:

1. Transition and Conclusion of Employment. Employee submitted his voluntary resignation on May 12, 2015 and StoneMor has accepted such resignation, subject to the terms of this Agreement. Accordingly, Employee’s employment and service in any office within StoneMor Entities will be terminated by mutual consent effective May 13, 2015. Employee will continue employment as described herein to provide transition services.

2. Offerings and Benefits. In consideration for this Agreement and Employee’s general release hereunder, StoneMor agrees:

- a. Employee will continue with StoneMor Entities not to exceed the period from May 14, 2015 through June 12, 2015 (“Transition Period”), during which Employee will be paid at his current rate of compensation subject to normal payroll. During the Transition Period, Employee will provide services and perform duties as requested by the executive team and Board of Directors to effectuate a successful transition of his former duties as Chief Financial Officer.
- b. StoneMor Entities will not contest Employee’s application for unemployment benefits related to any period after the conclusion of the Transition Period.
- c. StoneMor Entities will continue to provide Employee his health and welfare benefits now provided through the conclusion of the Transition Period.
- d. StoneMor Entities will provide Employee with a positive letter of reference to be signed by Lawrence Miller, Chief Executive Officer, as mutually agreed by the Parties.

3. Adequate Consideration. Employee acknowledges that the consideration set forth above is satisfactory and adequate in exchange for his promises and release contained herein. Employee further acknowledges that the consideration described above is more than StoneMor is required to provide under its normal policies, practices, or employee benefit plans and represents benefits to which he is not otherwise entitled.

4. Benefit Continuation (COBRA). Employee may elect to continue medical and dental coverage, in accordance with StoneMor's group medical and dental plans, under COBRA for up to a balance of eighteen (18) months. In order to receive this COBRA benefit, Employee must complete and return the COBRA election paperwork, which will be sent to his home following the end of the Transition Period. Continuation of COBRA coverage will require that Employee pay the full COBRA premium. All other benefits will end on the Termination Date.

5. General Release of Claims. Employee hereby generally releases and discharges StoneMor from any and all suits, causes of action, complaints, charges, obligations, demands, or claims of any kind, whether in law or in equity, direct or indirect, known or unknown (hereinafter "claims"), which Employee ever had or now has against StoneMor arising out of or relating to any matter, thing or event occurring up to and including the date of this Agreement. Employee also releases StoneMor from any and all claims for wrongful discharge, defamation, unfair treatment, violation of public policy, breach of express or implied contract, intentional or negligent infliction of emotional distress, any and all tort claims or any other claim related to Employee's employment or service in any office within StoneMor Entities or the termination of that employment and those offices for any and all reasons, up to and including the date of execution of this Agreement. Employee specifically releases StoneMor from any claim relating to or arising out of Employee's employment or service in any office within or termination of employment from StoneMor; any claims for unpaid or withheld wages, severance, benefits, vacation pay, bonuses and/or any other compensation of any kind; any rights or claims Employee may have based upon Title VII of the Civil Rights Act of 1964, as amended, which prohibits discrimination in employment based on race, color, creed, national origin or sex; the Age Discrimination in Employment Act including the Older Workers Benefits Protection Act ("ADEA"), which prohibits discrimination on the basis of age; the Equal Pay Act, which prohibits paying men and women unequal pay for equal work; the Lilly Ledbetter Fair Pay Act, which prohibits discrimination in pay on the basis of protected characteristics; the Americans with Disabilities Act of 1990, as amended, which prohibits discrimination against disabled persons; the Family Medical Leave Act, as amended, which permits extended time away from work to handle certain family or medical needs; the Employee Retirement Income Security Act, which regulates employment benefits; the Pennsylvania Human Relations Act and any and all other federal, state or local laws or regulations prohibiting employment discrimination or which otherwise regulate employment terms and conditions, except as such release is limited by applicable law.

This is a general release and covers claims that Employee knows about presently and those that Employee may not know about up through the date of this Agreement. This Agreement specifically includes any and all claims for attorney's fees and costs which are incurred by Employee for any reason. StoneMor is not waiving its right to any restitution, recoupment or setoff against Employee which is permitted by law based on claims released herein. The parties also agree that nothing in this release shall affect Employee's right to enforce the terms of this Agreement.

6. Excluded Claims. Notwithstanding the broad scope of the General Release, the General Release is not intended to bar any claims that, as a matter of law, whether by statute or otherwise, may not be waived, such as claims for workers' compensation benefits, unemployment insurance benefits, and any challenge to the validity of Employee's release of claims under the ADEA or the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") as set forth in this Agreement. Nothing in this Agreement is intended to interfere with administrative proceedings, *provided however*, that Employee expressly releases and waives any and all rights to recovery of any type, including back pay, front pay, compensatory damages, liquidated or punitive damages, attorney's fees, reinstatement, or any other benefit, in any administrative or court action, whether state or federal, and whether brought by Employee or on Employee's behalf, related in any way to the matters released herein. This Agreement does not waive or release any rights or claims that Employee may have under the ADEA or Dodd-Frank that arise after the execution of this Agreement.

7. Promise Not to Sue. Employee promises never to file any claim, complaint, administrative action, demand for arbitration, or lawsuit against StoneMor or allow any other party acting on his behalf to do so based on or asserting any claims relating to his employment or service in any office within StoneMor Entities, his separation from employment with StoneMor Entities, or any of the claims released herein, except as otherwise provided in this Agreement.

8. Acknowledgement of No Past Action Taken; Further Actions. Employee certifies that he has never (indirectly, directly, anonymously or otherwise) asserted any claim, charge, notice, action, complaint, demand for arbitration, or lawsuit against StoneMor in or with any governmental body, court of law, or other entity or person, nor allowed any other party acting on his behalf to do so, with the exception of any claims or complaints made to the SEC. Employee also certifies that he will not voluntarily participate in any actions against StoneMor or unless pursuant to a validly issued subpoena, court order, or otherwise required by law or regulation, and that upon receipt of such instrument, he will notify StoneMor within 48 hours by providing notice to Lawrence Miller, Chief Executive Officer, 311 Veterans Highway, Suite B, Levittown, PA 19056, (215) 826-2801. Further, Employee certifies that he has not made any statement to any press or media related entity; municipal, state or federal regulatory or licensing commission; or state or federal enforcement agency based on or asserting any claims relating to his employment or service in any office within StoneMor Entities, his separation from employment with StoneMor Entities, or any of the claims released herein. To the extent that Employee cannot make such a certification, Employee agrees to notify StoneMor immediately of the pending matters and to take any further action that may be required to ensure the binding dismissal of any charge, complaint, or case that Employee, or anyone on Employee's behalf, may have filed with any administrative agency, court of law, or other entity, with prejudice and without costs to either party, or to withdraw any statement made to any press entity, regulatory or licensing commission, governing industry body, or state or federal enforcement agency. Employee will disclose to StoneMor, by providing notice to Lawrence Miller, any such charge, complaint, or case filed or statement made, the date of such filing or statement, and to whom or what entity the filing or statement was made prior to executing this Agreement with the understanding that the Agreement's validity is based upon proper proof of dismissal of such actions. Nothing in this Agreement is intended to deter the Employee from voluntarily communicating with or disclosing information to any governmental entity or agency regarding a possible securities law violation, nor does this provision require the Employee to notify any StoneMor representative about such a communication.

9. Confidentiality and Non-Disclosure: Employee hereby agrees and promises that during his employment and thereafter, he has not and will not (except with StoneMor's prior written consent, except in the proper course of representation of various StoneMor entities or except as provided by law (including but not limited to SEC rules)) directly or indirectly, disclose, communicate, or divulge to any Person, or use for his/her own benefit or the benefit of any other Person, any confidential or proprietary knowledge or information concerning the conduct or details of StoneMor's business (whether learned before or during the Transition Period), including without limitation names of members, associates, related customers and prospects, details of contracts, technical know-how, operational data and methods of operation, marketing methods, other trade secrets, pricing, or other policies, prospects, and financial information. Upon termination of Employee's engagement with StoneMor Entities, Employee shall immediately return to the StoneMor all correspondence, files, customer and prospect lists, notes, technical data, and other materials which contain any such confidential or proprietary knowledge or information, and Employee shall not retain any copies of such materials. For purposes of this Agreement, "Person" means a natural person, corporation, partnership, limited liability company, trust, estate, joint venture, sole proprietorship, government (and any branch or subdivision thereof), governmental agency, association, cooperative, or other entity.

Employee acknowledges that because of the nature of the business of StoneMor and the subject matter of this Agreement, a breach of this provision will cause substantial injury to StoneMor for which money damages will not provide an adequate remedy, and Employee agrees that StoneMor shall have the right to obtain injunctive relief, including the right to have the provisions of this Agreement specifically enforced by any court having appropriate jurisdiction, in addition to, and not in limitation of, any remedies at law that the Organization may have.

10. Non-Solicitation. Employee hereby agrees that through the conclusion of his Transition Period with StoneMor Entities and for a period of two (2) years thereafter, he will not, directly or indirectly, (i) solicit, entice, persuade or induce any employee, director, officer, associate, consultant, agent or independent contractor of StoneMor to terminate his or her employment or engagement by StoneMor to become employed or engaged in competition with StoneMor by any person, firm, corporation or other business enterprise, except in furtherance of his responsibilities during his engagement with StoneMor Entities; or (ii) authorize or assist in the taking of such action by any third party. For purposes of this Paragraph, the terms "employee," "director," "officer," "associate," "consultant," "agent," and "independent contractor" shall include any person with such status at any time during Employee's engagement with StoneMor Entities and for one year following the conclusion of the Transition Period.

11. Indemnification. Employee agrees that he shall indemnify and hold StoneMor, its officers, employees and agents, harmless from and against any and all losses, costs, claims, suits, actions, damages, liability and expenses which may result from Employee's act or omission which does not satisfy the standard of conduct contained in Article IX of the Second Amended and Restated Limited Liability Company Agreement of StoneMor GP LLC, A Delaware Limited Liability Company Dated as of May 21, 2014.

12. Remedies; Severability. All remedies at law or in equity shall be available for the enforcement of this Agreement. This Agreement may be pleaded as a full bar to the enforcement of any claim which Employee may have against StoneMor or any member thereof, or to the enforcement of any claim which StoneMor or any member thereof may have against Employee. If any term or provision of this Agreement shall be held to be invalid or unenforceable for any reason, the validity or enforceability of the remaining terms or provisions shall not be affected, and such term or provision shall be deemed modified to the extent necessary to make it enforceable.

13. Entire Agreement. This Agreement is the final, complete and exclusive agreement of the parties with respect to the subject matter hereof, supersedes any prior written agreement or understanding between StoneMor and Employee, contains the entire agreement of the parties with respect to the subject matter hereof, and shall be binding upon their respective heirs, executors, administrators, successors and assigns.

14. No Admission. This Agreement represents a full, complete and binding compromise of claims and shall not be construed as an admission by any party of any liability or of any contention or allegation made by any other party.

15. Cooperation with StoneMor and StoneMor's Counsel. Employee will, upon reasonable notice, cooperate fully with StoneMor and with any legal counsel, expert or consultant it may retain to assist it in connection with any judicial proceeding, arbitration, administrative proceeding, governmental investigation or inquiry or internal audit in which StoneMor may be or become involved.

16. Governing Law; Submission to Jurisdiction; Waivers. This Agreement shall be governed by, and construed in accordance with, the laws of Commonwealth of Pennsylvania, without regard to conflict or choice of law principles thereof. Without limiting the generality of the foregoing, each of the parties irrevocably and unconditionally (a) submits to the jurisdiction of the Pennsylvania courts with respect to any action brought related to enforcement of the Agreement; (b) consents that any such action may and shall be brought in such Pennsylvania courts and waives any objection that it may now or thereafter have to the venue or jurisdiction of any such action in any such court or that such action was brought in an inconvenient court and agrees not to plead or claim the same; and (c) irrevocably waives a trial by jury as to any action to enforce the Agreement or any transactions contemplated hereby or associated herewith (whether based in contract, tort or otherwise).

17. Interpretation of Agreement. Any rule of law or legal decision that would require interpretation of any ambiguities in this Agreement against the party that has drafted it is not applicable and is waived. The provisions of this Agreement shall be interpreted in a reasonable manner to affect the intent of the parties as set forth herein.

18. Parties Bound; Assignment. This Agreement shall apply to, be binding upon, and inure to the benefit of the parties' successors, assigns, heirs and other representatives. This Agreement may be assigned by StoneMor without Employee's consent. This Agreement is not assignable by Employee.

19. Advice of Counsel; Consideration Period. Employee is hereby advised by StoneMor, and acknowledges that Employee has been so advised in writing, to consult independent legal counsel of Employee's choice before signing this Agreement. Employee further acknowledges that Employee has had the opportunity to consult independent legal counsel of their choosing and to consider the terms of this Agreement for a period of twenty-one (21) days. Employee further acknowledges that Employee has carefully read this Agreement in its entirety, that Employee has had an adequate opportunity to consider it, and Employee has had answered, to his satisfaction, all questions regarding this Agreement. Employee further acknowledges that Employee understands all of the terms of this Agreement and their significance, that Employee knowingly and voluntarily assents to all the terms and conditions contained herein, and that Employee is signing this Agreement voluntarily and of Employee's own free will.

20. Revocation. This Agreement shall not become effective until the eighth (8th) day following Employee's signing of this Agreement (the "Effective Date"), and Employee may at any time prior to the Effective Date revoke this Agreement by delivering to Lawrence Miller, 311 Veterans Highway, Suite B, Levittown, PA 19056, written notice of revocation before 5:00 p.m. on the seventh (7th) day following Employee's signing of this Agreement. In the event that Employee revokes this Agreement prior to the eighth (8th) day after its execution, this Agreement, and the promises contained in it, shall automatically be null and void. If the last day of the revocation period falls on a Saturday, Sunday, or holiday, the last day of the revocation period will be deemed to be the next business day.

21. Signatures. The parties to this Agreement acknowledge that the terms of this Agreement are contractual, that they are acting of their own free will, that they have had sufficient opportunity to read and review the terms of this Agreement, that they are voluntarily entering into this Agreement with full knowledge of its respective provisions and effects, and that they have voluntarily caused the execution of this Agreement as of the day and year set forth below:

[*Signatures on following page*]

EMPLOYEE:

/s/ Timothy K. Yost

Timothy K. Yost

5/18/15

Date

EMPLOYER:

By: /s/ Lawrence Miller

Lawrence Miller, CEO

StoneMor GP LLC, the General Partner of StoneMor
Partners L.P.

5/18/15

Date

CERTIFICATION

I, Lawrence Miller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of StoneMor Partners L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2015

By: /s/ Lawrence Miller
Lawrence Miller
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, James M. Pippis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of StoneMor Partners L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2015

By: /s/ James M. Pippis

James M. Pippis
Interim Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of StoneMor GP LLC, the general partner of StoneMor Partners L.P. (the "Partnership"), does hereby certify with respect to the Quarterly Report of the Partnership on Form 10-Q for the quarter ended June 30, 2015 (the "Report") that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ Lawrence Miller

President and Chief Executive Officer
(Principal Executive Officer)

Date: August 10, 2015

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of StoneMor GP LLC, the general partner of StoneMor Partners L.P. (the "Partnership"), does hereby certify with respect to the Quarterly Report of the Partnership on Form 10-Q for the quarter ended June 30, 2015 (the "Report") that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ James M. Pippis

Interim Chief Financial Officer
(Principal Financial Officer)

Date: August 10, 2015

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.