STONEMOR PARTNERS LP

FORM 10-Q
(Quarterly Report)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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 May 1, 2014 was 23,712,550.

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Part I—Financial Information

Item 1. Financial Statements

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

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 8,240	$ 12,175
Accounts receivable, net of allowance	55,809	55,415
Prepaid expenses	2,480	3,622
Other current assets	19,199	22,667
Total current assets	85,728	93,879
Long-term accounts receivable, net of allowance	80,484	78,367
Cemetery property	314,909	316,469
Property and equipment, net of accumulated depreciation	84,555	85,007
Merchandise trusts, restricted, at fair value	449,853	431,556
Perpetual care trusts, restricted, at fair value	318,154	311,771
Deferred financing costs, net of accumulated amortization	7,836	8,308
Deferred selling and obtaining costs	90,801	87,998
Deferred tax assets	42	42
Goodwill	48,737	48,737
Other assets	11,868	12,209
Total assets	$1,492,967	$ 1,474,343
Liabilities and partners' capital		
Current liabilities:		
Accounts payable and accrued liabilities	$ 24,273	$ 37,269
Accrued interest	5,013	1,512
Current portion, long-term debt	1,555	2,916
Total current liabilities	30,841	41,697
Other long-term liabilities	1,457	1,527
Long-term debt	252,054	289,016
Deferred cemetery revenues, net	598,159	579,993
Deferred tax liabilities	12,498	12,407
Merchandise liability	131,817	130,412
Perpetual care trust corpus	318,154	311,771
Total liabilities	1,344,980	1,366,823
Commitments and contingencies		
Partners' capital		
General partner	(2,693)	(2,137)
Common partners	150,680	109,657
Total partners' capital	147,987	107,520
Total liabilities and partners' capital	$1,492,967	$ 1,474,343

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Revenues:		
Cemetery		
Merchandise	$26,068	$26,652
Services	10,297	11,299
Investment and other	16,275	10,243
Funeral home		
Merchandise	5,052	4,953
Services	6,695	6,465
Total revenues	64,387	59,612
Costs and expenses:		
Cost of goods sold (exclusive of depreciation shown separately below):		
Perpetual care	1,391	1,281
Merchandise	6,113	5,009
Cemetery expense	13,329	12,785
Selling expense	11,189	11,224
General and administrative expense	7,645	7,582
Corporate overhead (including $271 and $330 in unit-based compensation for the three months ended March 31, 2014 and 2013, respectively)	7,456	7,988
Depreciation and amortization	2,368	2,330
Funeral home expense		
Merchandise	1,646	1,522
Services	4,787	4,557
Other	2,853	2,657
Acquisition related costs, net of recoveries	349	1,283
Total cost and expenses	59,126	58,218
Operating profit	5,261	1,394
Gain on acquisition	412	—
Gain on settlement agreement	—	912
Interest expense	5,574	5,463
Net income (loss) before income taxes	99	(3,157)
Income tax expense (benefit)	(310)	(957)
Net income (loss)	$ 409	$ (2,200)
General partner's interest in net income (loss) for the period	$ 4	$ (40)
Limited partners' interest in net income (loss) for the period	$ 405	$ (2,160)
Net income (loss) per limited partner unit (basic and diluted)	$ .02	$ (.11)
Weighted average number of limited partners' units outstanding—basic	22,493	19,729
Weighted average number of limited partners' units outstanding—diluted	22,787	19,729
Distributions declared per unit	$ .600	$ .590

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Partners' Capital		
	Common Unit Holders	General Partner	Total
Balance, December 31, 2013	$ 109,657	$(2,137)	$107,520
Proceeds from public offering	53,178	—	53,178
Compensation related to units awards	271	—	271
Net income	405	4	409
Cash distributions	(12,831)	(560)	(13,391)
Balance, March 31, 2014	$ 150,680	$(2,693)	$147,987

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	For the three months ended March 31, 2014	2013
Operating activities:		
Net income (loss)	$ 409	$ (2,200)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Cost of lots sold	3,057	1,735
Depreciation and amortization	2,368	2,330
Unit-based compensation	271	330
Accretion of debt discounts	624	490
Gain on settlement agreement	—	(912)
Gain on acquisition	(412)	—
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(3,168)	(1,385)
Allowance for doubtful accounts	705	(1,317)
Merchandise trust fund	(16,420)	(12,161)
Prepaid expenses	1,142	566
Other current assets	3,394	696
Other assets	(44)	(770)
Accounts payable and accrued and other liabilities	(9,564)	5,278
Deferred selling and obtaining costs	(2,803)	(2,745)
Deferred cemetery revenue	18,881	18,987
Deferred taxes (net)	(551)	(1,051)
Merchandise liability	(829)	(1,004)
Net cash provided by (used in) operating activities	(2,940)	6,867
Investing activities:		
Cash paid for cemetery property	(748)	(1,076)
Purchase of subsidiaries	(200)	(9,100)
Cash paid for property and equipment	(1,330)	(1,771)
Net cash used in investing activities	(2,278)	(11,947)
Financing activities:		
Cash distributions	(13,391)	(12,025)
Additional borrowings on long-term debt	17,000	20,948
Repayments of long-term debt	(55,504)	(41,522)
Proceeds from public offering	53,178	38,377
Cost of financing activities	—	(108)
Net cash provided by financing activities	1,283	5,670
Net increase (decrease) in cash and cash equivalents	(3,935)	590
Cash and cash equivalents—Beginning of period	12,175	7,946
Cash and cash equivalents—End of period	$ 8,240	$ 8,536
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 1,423	$ 1,245
Cash paid during the period for income taxes	$ —	$ 451
Non-cash investing and financing activities:		
Acquisition of assets by financing	$ 30	$ 62
Issuance of limited partner units for cemetery acquisition	$ —	$ 3,592
Acquisition of asset by assumption of directly related liability	$ —	$ 3,924

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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 March 31, 2014, the Partnership operated 278 cemeteries in 27 states and Puerto Rico, of which 260 are owned and 18 are operated under management or operating agreements. The Partnership also owned and operated 90 funeral homes in 18 states and Puerto Rico.

Basis of Presentation

The unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All interim financial data is unaudited. However, in the opinion of management, the interim financial data as of March 31, 2014 and for the three months ended March 31, 2014 and 2013 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, 2013 condensed consolidated balance sheet data was derived from audited financial statements included in the Company’s 2013 Annual Report on Form 10-K (“2013 Form 10-K”) and has been adjusted to include the effects of retrospective adjustments resulting from the Company’s 2013 first quarter acquisition, but does not include all disclosures required by GAAP, which are presented in the Company’s 2013 Form 10-K.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of each of the Company’s subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the Company has a variable interest and is the primary beneficiary. The Company operates 18 cemeteries under long-term operating or management contracts. The operations of 16 of these managed cemeteries have been consolidated in accordance with the provisions of Accounting Standards Codification (ASC) 810.

The Company operates 2 cemeteries under long-term operating agreements that do not qualify as acquisitions for accounting purposes. As a result, the Company did not consolidate all of the existing assets and liabilities related to these cemeteries. The Company has consolidated the existing assets and liabilities of each of these cemeteries’ merchandise and perpetual care trusts as variable interest entities since the Company controls and receives the benefits and absorbs any losses from operating these trusts. Under these long-term operating agreements, which are subject to certain termination provisions, the Company is the exclusive operator of these cemeteries. The Company earns revenues related to sales of merchandise, services, and interment rights and incurs expenses related to such sales and the maintenance and upkeep of these cemeteries. Upon termination of these contracts, the Company will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. The Company has also recognized the existing merchandise liabilities that it assumed as part of these agreements.

Use of Estimates

Preparation of these unaudited condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expense during the reporting periods. As a result, actual results could differ from those estimates. The most significant estimates in the unaudited condensed consolidated financial statements are the valuation of assets in the merchandise 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 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, consisted of the following:

	As of March 31, 2014	As of December 31, 2013
	(in thousands)	
Customer receivables	$177,349	$ 174,062
Unearned finance income	(19,807)	(20,005)
Allowance for contract cancellations	(21,249)	(20,275)
	136,293	133,782
Less: current portion, net of allowance	55,809	55,415
Long-term portion, net of allowance	$ 80,484	$ 78,367

Activity in the allowance for contract cancellations is as follows:

	For the three months ended March 31, 2014	2013
	(in thousands)	
Balance—Beginning of period	$ 20,275	$ 17,933
Provision for cancellations	5,031	4,986
Charge-offs—net	(4,057)	(3,803)
Balance—End of period	$ 21,249	$ 19,116

3. CEMETERY PROPERTY

Cemetery property consists of the following:

	As of March 31, 2014	As of December 31, 2013
	(in thousands)	
Developed land	$ 71,159	$ 72,458
Undeveloped land	164,335	163,997
Mausoleum crypts and lawn crypts	69,617	70,216
Other land	9,798	9,798
Total	$314,909	$ 316,469

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4. PROPERTY AND EQUIPMENT

Major classes of property and equipment follow:

	As of March 31, 2014	As of December 31, 2013
	(in thousands)	
Building and improvements	$ 92,301	$ 91,575
Furniture and equipment	45,172	44,828
	137,473	136,403
Less: accumulated depreciation	(52,918)	(51,396)
Property and equipment—net	$ 84,555	$ 85,007

Depreciation expense was $2.0 million and $1.7 million during the three months ended March 31, 2014 and 2013, respectively.

5. MERCHANDISE TRUSTS

At March 31, 2014, the Company's merchandise trusts consisted of the following types of assets:

- Money Market Funds that invest in low risk short term securities;
- Publicly traded mutual funds that invest in underlying debt securities;
- Publicly traded mutual funds that invest in underlying equity securities;
- Equity investments that are currently paying dividends or distributions. These investments include Real Estate Investment Trusts ("REIT's"), Master Limited Partnerships and global equity securities;
- Fixed maturity debt securities issued by various corporate entities;
- Fixed maturity debt securities issued by the U.S. Government and U.S. Government agencies; and
- Fixed maturity debt securities issued by U.S. states and local 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 $8.0 million and $8.3 million of investments held in trust by the West Virginia Funeral Directors Association at March 31, 2014 and December 31, 2013, 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.

The cost and market value associated with the assets held in merchandise trusts at March 31, 2014 and December 31, 2013 were as follows:

As of March 31, 2014	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 59,227	$ —	$ —	$ 59,227
Fixed maturities:				
U.S. Government and federal agency	—	—	—	—
U.S. State and local government agency	—	—	—	—
Corporate debt securities	9,394	87	(53)	9,428
Other debt securities	5,849	—	(7)	5,842
Total fixed maturities	15,243	87	(60)	15,270
Mutual funds—debt securities	118,629	844	(5,881)	113,592
Mutual funds—equity securities	151,527	9,586	(1,899)	159,214
Equity securities	82,168	8,132	(1,021)	89,279
Other invested assets	5,414	—	(176)	5,238
Total managed investments	$432,208	$ 18,649	$ (9,037)	$441,820
West Virginia Trust Receivable	8,033	—	—	8,033
Total	$440,241	$ 18,649	$ (9,037)	$449,853

As of December 31, 2013	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 46,518	$ —	$ —	$ 46,518
Fixed maturities:				
U.S. Government and federal agency	—	—	—	—
U.S. State and local government agency	—	—	—	—
Corporate debt securities	9,105	162	(96)	9,171
Other debt securities	7,336	—	(12)	7,324
Total fixed maturities	16,441	162	(108)	16,495
Mutual funds—debt securities	117,761	729	(7,157)	111,333
Mutual funds—equity securities	144,249	16,610	(3,329)	157,530
Equity securities	81,520	5,267	(1,092)	85,695
Other invested assets	5,809	—	(86)	5,723
Total managed investments	$412,298	$ 22,768	$ (11,772)	$423,294
West Virginia Trust Receivable	8,262	—	—	8,262
Total	$420,560	$ 22,768	$ (11,772)	$431,556

The contractual maturities of debt securities as of March 31, 2014 were as follows:

As of March 31, 2014	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$ —	$ —	$ —	$ —
U.S. State and local government agency	—	—	—	—
Corporate debt securities	—	3,989	5,439	—
Other debt securities	650	5,192	—	—
Total fixed maturities	$ 650	$ 9,181	$ 5,439	$ —

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An aging of unrealized losses on the Company’s investments in fixed maturities and equity securities at March 31, 2014 and December 31, 2013 is presented below:

As of March 31, 2014	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
	(in thousands)					
Fixed maturities:						
U.S. Government and federal agency	$ —	$ —	$ —	$ —	$ —	$ —
U.S. State and local government agency	—	—	—	—	—	—
Corporate debt securities	1,967	10	1,605	43	3,572	53
Other debt securities	4,469	7	—	—	4,469	7
Total fixed maturities	6,436	17	1,605	43	8,041	60
Mutual funds—debt securities	1,984	25	91,694	5,856	93,678	5,881
Mutual funds—equity securities	53,436	1,114	4,317	785	57,753	1,899
Equity securities	11,552	786	1,427	235	12,979	1,021
Other invested assets	2,125	176	—	—	2,125	176
Total	$ 75,533	$ 2,118	$99,043	$ 6,919	$174,576	$ 9,037

As of December 31, 2013	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
	(in thousands)					
Fixed maturities:						
U.S. Government and federal agency	$ —	$ —	$ —	$ —	$ —	$ —
U.S. State and local government agency	—	—	—	—	—	—
Corporate debt securities	2,812	43	1,249	53	4,061	96
Other debt securities	5,329	8	995	4	6,324	12
Total fixed maturities	8,141	51	2,244	57	10,385	108
Mutual funds—debt securities	87,113	6,724	6,485	433	93,598	7,157
Mutual funds—equity securities	29,993	2,444	4,217	885	34,210	3,329
Equity securities	25,379	1,031	1,492	61	26,871	1,092
Other invested assets	2,266	86	—	—	2,266	86
Total	$152,892	$ 10,336	$14,438	$ 1,436	$167,330	$ 11,772

A reconciliation of the Company’s merchandise trust activities for the three months ended March 31, 2014 is presented below:

Fair Value at 12/31/2013	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value at 3/31/2014
				(in thousands)					
$431,556	16,699	(8,891)	4,428	36	8,049	(69)	(571)	(1,384)	$449,853

The Company made net contributions into the trusts of approximately $7.8 million during the three months ended March 31, 2014. During the three months ended March 31, 2014, purchases and sales of securities available for sale included in trust investments were approximately $155.3 million and $154.0 million, respectively. Contributions include $2.6 million of assets that were acquired through an acquisition during the three months ended March 31, 2014.

Other-Than-Temporary Impairments of Trust Assets

During the three months ended March 31, 2014, the Company determined that there were no other than temporary impairments to the investment portfolio for merchandise trusts. During the three months ended March 31, 2013, the Company determined that there were 4 securities with an aggregate cost basis of approximately $1.4 million and an aggregate fair value of approximately $0.7 million, resulting in an impairment of $0.7 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.

6. PERPETUAL CARE TRUSTS

At March 31, 2014, 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 REIT's, Master Limited Partnerships and global equity securities;
- Fixed maturity debt securities issued by various corporate entities;
- Fixed maturity debt securities issued by the U.S. Government and U.S. Government agencies; and
- Fixed maturity debt securities issued by U.S. states and local 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 cost and market value associated with the assets held in perpetual care trusts at March 31, 2014 and December 31, 2013 were as follows:

As of March 31, 2014	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 20,381	$ —	$ —	$ 20,381
Fixed maturities:				
U.S. Government and federal agency	100	19	—	119
U.S. State and local government agency	—	—	—	—
Corporate debt securities	24,533	507	(103)	24,937
Other debt securities	371	—	—	371
Total fixed maturities	25,004	526	(103)	25,427
Mutual funds—debt securities	121,250	550	(4,867)	116,933
Mutual funds—equity securities	93,132	21,270	(143)	114,259
Equity securities	26,241	14,745	(11)	40,975
Other invested assets	179	—	—	179
Total	$286,187	$ 37,091	$ (5,124)	$318,154

As of December 31, 2013	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 16,686	$ —	$ —	$ 16,686
Fixed maturities:				
U.S. Government and federal agency	302	70	—	372
U.S. State and local government agency	—	—	—	—
Corporate debt securities	24,378	340	(208)	24,510
Other debt securities	371	—	—	371
Total fixed maturities	25,051	410	(208)	25,253
Mutual funds—debt securities	121,493	466	(5,946)	116,013
Mutual funds—equity securities	93,243	22,521	(171)	115,593
Equity securities	25,580	12,283	(19)	37,844
Other invested assets	172	210	—	382
Total	$282,225	$ 35,890	$ (6,344)	$311,771

The contractual maturities of debt securities as of March 31, 2014 were as follows:

As of March 31, 2014	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$ —	$ 119	$ —	$ —
U.S. State and local government agency	—	—	—	—
Corporate debt securities	140	12,463	12,333	1
Other debt securities	371	—	—	—
Total fixed maturities	$ 511	$ 12,582	$ 12,333	$ 1

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An aging of unrealized losses on the Company's investments in fixed maturities and equity securities at March 31, 2014 and December 31, 2013 held in perpetual care trusts is presented below:

As of March 31, 2014	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$ —	$ —	$ —	$ —	$ —	$ —
U.S. State and local government agency	—	—	—	—	—	—
Corporate debt securities	1,319	6	4,612	97	5,931	103
Other debt securities	—	—	—	—	—	—
Total fixed maturities	1,319	6	4,612	97	5,931	103
Mutual funds—debt securities	1,705	41	108,678	4,826	110,383	4,867
Mutual funds—equity securities	1,213	143	—	—	1,213	143
Equity securities	175	11	—	—	175	11
Other invested assets	—	—	—	—	—	—
Total	$ 4,412	$ 201	$113,290	$ 4,923	$117,702	$ 5,124

As of December 31, 2013	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$ —	$ —	$ —	$ —	$ —	$ —
U.S. State and local government agency	—	—	—	—	—	—
Corporate debt securities	5,664	93	3,122	115	8,786	208
Other debt securities	—	—	—	—	—	—
Total fixed maturities	5,664	93	3,122	115	8,786	208
Mutual funds—debt securities	93,473	4,781	16,367	1,165	109,840	5,946
Mutual funds—equity securities	1,185	171	—	—	1,185	171
Equity securities	513	19	—	—	513	19
Other invested assets	—	—	—	—	—	—
Total	$100,835	$ 5,064	$ 19,489	$ 1,280	$120,324	$ 6,344

A reconciliation of the Company's perpetual care trust activities for the three months ended March 31, 2014 is presented below:

Fair Value at 12/31/2013	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value at 3/31/2014
				(in thousands)					
$311,771	4,352	(4,096)	4,082	—	106	(64)	(418)	2,421	$318,154

The Company made net contributions into the trusts of approximately $0.3 million during the three months ended March 31, 2014. During the three months ended March 31, 2014, purchases and sales of securities available for sale included in trust investments were approximately $15.9 million and $14.5 million, respectively. Contributions include $0.7 million of assets that were acquired through an acquisition during the three months ended March 31, 2014.

Other-Than-Temporary Impairments of Trust Assets

During the three months ended March 31, 2014 and 2013, the Company determined that there were no other than temporary impairments to the investment portfolio in the perpetual care trusts.

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.

A rollforward of goodwill by reportable segment is as follows:

	Cemeteries			Funeral	
	Southeast	Northeast	West	Homes	Total
	(in thousands)				
Balance as of December 31, 2013	$ 6,174	$ —	$11,948	$30,615	$48,737
Goodwill acquired from acquisitions during the three months ended March 31, 2014	—	—	—	—	—
Balance as of March 31, 2014	$ 6,174	$ —	$11,948	$30,615	$48,737

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 operating agreements. These amounts are included within other assets on the unaudited condensed consolidated balance sheet. All of the intangible assets are subject to amortization. The major classes of intangible assets are as follows:

	As of March 31, 2014			As of December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Asset	Gross Carrying Amount	Accumulated Amortization	Net Intangible Asset
	(in thousands)					
Amortized intangible assets:						
Underlying contract value	$ 6,239	$ (741)	$ 5,498	$ 6,239	$ (702)	$ 5,537
Non-compete agreements	7,950	(4,339)	3,611	7,950	(4,003)	3,947
Other intangible assets	269	(102)	167	269	(98)	171
Total intangible assets	$ 14,458	$ (5,182)	$ 9,276	$ 14,458	$ (4,803)	$ 9,655

8. LONG-TERM DEBT

The Company had the following outstanding debt:

	As of	
	March 31, 2014	December 31, 2013
	(in thousands)	
7.875% Senior Notes, due 2021	$175,000	$ 175,000
Revolving Credit Facility, due January 2017	77,402	114,002
Notes payable—acquisition debt	985	1,571
Notes payable—acquisition non-competes	3,443	3,945
Insurance and vehicle financing	743	1,529
Total	257,573	296,047
Less current portion	1,555	2,916
Less unamortized bond and note payable discounts	3,964	4,115
Long-term portion	$252,054	$ 289,016

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 2013 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, commencing on 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 (the "Prior Senior Notes") 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 will be amortized over the life of these notes. Based on trades made on March 31, 2014, the Company has estimated the fair value of its Senior Notes to be in excess of par and trading at a premium of 4.06%, which would imply a fair value of $182.1 million at March 31, 2014. 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 March 31, 2014, the Company was in compliance with all applicable covenants of the Senior Notes.

Credit Facility

On January 19, 2012, the Company entered into the Third Amended and Restated Credit Agreement (the "Credit Agreement"). The terms of the Credit Agreement are substantially the same as the terms of the Second Amended and Restated Credit Agreement, as amended. Capitalized terms which are not defined in the following description shall have the meaning assigned to such terms in the Credit Agreement.

The Credit Agreement was amended three times in 2013. As amended, the Company has a revolving credit facility (the "Credit Facility") with a borrowing limit of $140.0 million, of which $77.4 million was outstanding at March 31, 2014, and a maturity date of January 19, 2017. The Credit Facility may be used to finance working capital requirements, Permitted Acquisitions and Capital Expenditures. The Maximum Consolidated Leverage Ratio was 4.00 through December 31, 2013, 3.875 at March 31, 2014, and will be 3.750 for the measurement period ending on June 30, 2014 and thereafter. The Minimum Consolidated Debt Service Coverage Ratio is 2.50 for all measurement periods. The ranges of the Applicable Rates are 3.00%, 4.00%, and .800% for Base Rate Loans, Eurodollar Rate Loans and Letter of Credit Fees, and Commitment Fees, respectively, when the Consolidated Leverage Ratio is greater than or equal to 3.75 to 1.0. The Company is not allowed to permit Consolidated EBITDA for any most recently completed four fiscal quarters to be less than the sum of (i) $57.8 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after March 31, 2013.

The amount of aggregate consideration the Company may pay for a Permitted Acquisition after March 31, 2014, without Required Lender approval, is $10.0 million on an individual basis and $50.0 million when aggregated with the total Aggregate Consideration paid by or on behalf of the Company for all other Permitted Acquisitions which closed within the immediately preceding 365 days. In case of a Significant Permitted Acquisition Transaction, a Permitted Acquisition in which the Aggregate Consideration exceeds $35.0 million when aggregated with the total Aggregate Consideration for all other Permitted Acquisitions which closed within the immediately preceding 180 days, the Borrowers are permitted, subject to certain limitations, to temporarily increase the Consolidated Leverage Ratio to 4.00 to 1.0 for one or more of the four immediately succeeding covenant measurement periods.

The interest rates on amounts outstanding under the Credit Facility were approximately 4.2% at March 31, 2014. Amounts borrowed may be either Base Rate Loans or Eurodollar Rate Loans and amounts repaid or prepaid during the term may be reborrowed. Depending on the type of loan, borrowings bear interest at the Base Rate or Eurodollar Rate, plus applicable margins ranging from 1.25% to 3.00% and 2.25% to 4.00%, respectively, depending on the Company's Consolidated Leverage Ratio. The Base Rate is the highest of the Prime Rate, the Federal Funds Rate plus 0.50%, or the Eurodollar Rate plus 1.0%. The Eurodollar Rate is the British Bankers Association LIBOR Rate. Amounts outstanding under the Credit Facility approximate their fair value.

The Credit Agreement requires the Company to pay an 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 Commitment Fee Rate ranges from 0.375% to 0.800% depending on the Company's Consolidated Leverage Ratio.

The Credit Agreement contains restrictive covenants that, among other things, prohibit distributions upon defined events of default, restrict investments and sales of assets and require the Company to maintain certain financial covenants, including specified financial ratios. A material decrease in revenues could cause the Company to breach certain of its financial covenants. Any such breach could allow the Lenders to accelerate the Company's debt (and cause cross-default) which would have a material adverse effect on the Company's business, financial condition or results of operations. The Company's covenants include a certain measure of Consolidated EBITDA, a Consolidated Leverage Ratio and a Consolidated Debt Service Coverage Ratio. As of March 31, 2014, the Company was in compliance 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.

9. INCOME TAXES

As of March 31, 2014, the Company's taxable corporate subsidiaries had federal net operating loss carryforwards of approximately $194.3 million, which will begin to expire in 2019 and $238.2 million in state net operating losses, 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 three months ended March 31, 2014 and 2013 is based upon the estimated annual effective tax rates expected to be applicable to the Company for 2014 and 2013, 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 Internal Revenue Service ("IRS") audited the Company's federal income tax return for the year ended December 31, 2010. The scope of this audit included an audit of the Company's qualifying income. In order to be treated as a partnership for federal income tax purposes, at least 90% of the Company's gross income must be qualifying income. The IRS concluded its audit and notified the Company on April 11, 2013 that it was not proposing any adjustments to the return as filed.

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 opened from 2010 forward. Management believes that the accrual for tax liabilities is adequate for all open years. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. On the basis of present information, it is the opinion of the Company's management that there are no pending assessments that will result in a material effect on the Company's consolidated financial statements over the next twelve months.

10. DEFERRED CEMETERY REVENUES, NET

At March 31, 2014 and December 31, 2013, deferred cemetery revenues, net, consisted of the following:

	As of March 31, 2014	As of December 31, 2013
	(in thousands)	
Deferred cemetery revenue	$417,298	$ 403,250
Deferred merchandise trust revenue	97,536	88,730
Deferred merchandise trust unrealized gains (losses)	9,612	10,996
Deferred pre-acquisition margin	130,037	131,274
Deferred cost of goods sold	(56,324)	(54,257)
Deferred cemetery revenues, net	$598,159	$ 579,993
Deferred selling and obtaining costs	$ 90,801	$ 87,998

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.

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 March 31, 2014, 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 operating leases were $0.6 million and $0.7 million during the three months ended March 31, 2014 and 2013, respectively.

At March 31, 2014, operating leases will result in future payments in the following approximate amounts from January 1, 2015 and beyond:

	(in thousands)
2015	$ 1,203
2016	1,054
2017	965
2018	899
2019	883
Thereafter	1,215
Total	$ 6,219

12. PARTNERS' CAPITAL

Unit-Based Compensation

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

Compensation expense recognized related to unit appreciation rights and restricted phantom unit awards for the three months ended March 31, 2014 and 2013 are summarized in the table below:

	Three months ended March 31,	
	2014	2013
	(in thousands)	
Unit appreciation rights	$ 19	$ 139
Restricted phantom units	252	191
Total unit-based compensation expense	$ 271	$ 330

As of March 31, 2014, there was approximately $0.2 million in non-vested unit appreciation rights expense outstanding. These unit appreciation rights will be expensed through 2017.

The diluted weighted average number of limited partners' units outstanding presented on the unaudited condensed consolidated statement of operations does not include 315,873 units for the three months ended March 31, 2013, as their effects would be anti-dilutive.

Other Unit Issuances

On February 27, 2014, the Company completed a follow-on public offering of 2,300,000 common units at a price of $24.45 per unit. Net proceeds of the offering, after deducting underwriting discounts and offering expenses, were approximately $53.2 million. The proceeds from the offering were used to pay down borrowings outstanding under the Credit Facility.

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 preliminary assessment of the fair value of net assets acquired and the resulting gain on bargain purchase. These amounts may be retrospectively adjusted as additional information is received.

	Preliminary 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

First Quarter 2013 Acquisition

On February 19, 2013, StoneMor Florida Subsidiary LLC, a subsidiary of the Company, (the "Buyer) entered into an Asset Purchase and Sale Agreement (the "Seawinds Agreement") with several Florida limited liability companies and one individual (collectively the "Seller"). Pursuant to the Agreement, the Buyer acquired six funeral homes in Florida, including certain related assets, and assumed certain related liabilities.

In consideration for the net assets acquired, the Buyer paid the Seller $9.1 million in cash and issued 159,635 common units, which equates to approximately $3.6 million worth of common units under the terms of the Seawinds Agreement. The Buyer also issued an unsecured promissory note in the amount of $3.0 million that was payable on February 19, 2014 and bore interest at 5.0%. In addition, the Buyer will also pay an aggregate amount of $1.2 million in six equal annual installments commencing on February 19, 2014 in exchange for a non-compete agreement with the Seller. The non-compete agreement will be amortized over the 6 year term of the agreement.

The table below reflects the Company's final assessment of the fair value of net assets acquired and displays the adjustments made to the revised values reported at December 31, 2013. The Company obtained additional information in the first quarter of 2014 and has retrospectively adjusted these values as noted below. The resulting goodwill is recorded in the Company's Funeral Homes operating segment.

	Revised Assessment	Adjustments (in thousands)	Final Assessment
Assets:			
Accounts receivable	$ 695	$ 311	$ 1,006
Property and equipment	8,315	—	8,315
Merchandise trusts, restricted, at fair value	4,853	—	4,853
Non-compete agreements	1,927	—	1,927
Total assets	15,790	311	16,101
Liabilities:			
Deferred margin	2,419	(1,592)	827
Merchandise liabilities	2,233	2,606	4,839
Other liabilities	164	—	164
Total liabilities	4,816	1,014	5,830
Fair value of net assets acquired	10,974	(703)	10,271
Consideration paid—cash	9,100	—	9,100
Consideration paid—units	3,592	—	3,592
Fair value of note payable	3,000	—	3,000
Fair value of debt assumed for non-compete agreement	924	—	924
Total consideration paid	16,616	—	16,616
Goodwill from purchase	$ 5,642	$ 703	$ 6,345

If the acquisitions from 2014 and 2013 had been consummated at the beginning of the comparable prior annual reporting period, on a pro forma basis, for the three months ended March 31, 2014 and 2013, consolidated revenues, consolidated net income (loss) and net income (loss) per limited partner unit (basic and diluted) would have been as follows:

	As of March 31, 2014	As of March 31, 2013
	(in thousands)	
Revenue	$64,398	$60,111
Net income (loss)	(2)	(1,655)
Net income (loss) per limited partner unit (basic and diluted)	$ —	$ (.08)

These pro forma results are unaudited and have been prepared for comparative purposes only and include certain adjustments such as increased interest on the acquisition of debt and the recognition of a gain on acquisition occurring during 2014 in 2013 rather than in the current period. They do not purport to be indicative of the results of operations which actually would have resulted had the combination been in effect on January 1, 2013 or of future results of operations of the locations.

The property acquired in 2014 has contributed less than $0.1 million of revenue and operating profit for the three months ended March 31, 2014. The properties acquired in the first quarter of 2013 have contributed $1.0 million of revenue and incurred less than $0.1 million of operating loss for the three months ended March 31, 2014.

First Quarter 2013 Settlement

During the three months ended March 31, 2013, recovery was effectuated of $1.3 million related to the partial settlement of claims from locations that the Company acquired in 2010. A gain of $0.9 million had been recorded as gain on settlement agreement on the unaudited condensed consolidated statement of operations, which was net of legal fees of $0.4 million. The balance of the funds was returned to the Company as a repayment for funds advanced to trusts at the time of acquisition.

Agreements with the Archdiocese of Philadelphia

On September 26, 2013, StoneMor Operating, LLC ("Operating Company"), StoneMor Pennsylvania LLC ("StoneMor Pennsylvania") and StoneMor Pennsylvania Subsidiary LLC ("Subsidiary" and together with the Operating Company and StoneMor Pennsylvania, "Tenant"), each of which is a direct or indirect subsidiary of StoneMor Partners L.P. ("StoneMor"), and the Archdiocese of Philadelphia, an archdiocese governed by Canon Law of the Roman Catholic Church ("Landlord") entered into a Lease Agreement (the "Lease") and a Management Agreement (the "Management Agreement"), pursuant to which Tenant will operate 13 cemeteries in Pennsylvania. StoneMor joined the Lease and the Management Agreement as a guarantor of all Tenant's obligations under this operating arrangement.

On March 20, 2014, Tenant entered into Amendment No. 1 (the "Amendment") to the Lease, which extended the period for satisfying certain conditions precedent under the Lease to May 30, 2014 (the "Pre-Commencement Expiration Date"), after which each of Tenant and Landlord has the right to terminate the Lease if the conditions precedent are not satisfied. These conditions include, but are not limited to, the Tenant's obtaining of financing for the Up-Front Rent, as defined below, and commencement of the Lease is a condition precedent to commencement of the Management Agreement. The parties to the Amendment also acknowledged that certain conditions precedent set forth in the Lease had expired or been satisfied, including obtaining the approval of the Orphans' Division of the Court of Common Pleas of Philadelphia County.

Subject to certain closing conditions set forth in the Lease, 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 term of the Lease and the Management Agreement shall commence (the "Commencement Date") after the satisfaction or waiver of the Tenant's and Landlord's Pre-Commencement Conditions, and shall expire on the last day of the month on which the 60th anniversary of the Commencement Date occurs, subject to earlier termination as provided in the Lease (such date, the "Termination Date"). 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. The term of the License shall commence on the Commencement Date and shall expire upon the Termination Date, at which time Tenant's rights under the License shall revert to Landlord.

Tenant shall pay to Landlord an up-front rental payment of $53.0 million (the "Up-Front Rent") on the Commencement Date. 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

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.

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.

Segment information is as follows:

As of and for the three months ended March 31, 2014:

	Cemeteries			Funeral Homes			
	Southeast	Northeast	West		Corporate	Adjustment	Total
				(in thousands)			
Revenues							
Sales	$ 22,101	$ 7,410	$ 9,821	$ —	$ —	$ (10,458)	$ 28,874
Service and other	11,626	10,604	10,923	—	—	(9,387)	23,766
Funeral home	—	—	—	13,254	—	(1,507)	11,747
Total revenues	33,727	18,014	20,744	13,254	—	(21,352)	64,387
Costs and expenses							
Cost of sales	4,792	1,678	2,777	—	—	(1,743)	7,504
Cemetery	6,395	3,235	3,699	—	—	—	13,329
Selling	7,248	2,802	3,234	—	545	(2,640)	11,189
General and administrative	4,096	1,492	2,057	—	—	—	7,645
Corporate overhead	—	—	—	—	7,456	—	7,456
Depreciation and amortization	633	236	521	736	242	—	2,368
Funeral home	—	—	—	9,504	—	(218)	9,286
Acquisition related costs, net of recoveries	—	—	—	—	349	—	349
Total costs and expenses	23,164	9,443	12,288	10,240	8,592	(4,601)	59,126
Operating profit	$ 10,563	$ 8,571	$ 8,456	$ 3,014	$ (8,592)	$ (16,751)	$ 5,261
Total assets	$580,359	$318,937	$434,562	$135,819	$ 23,290	$ —	$1,492,967
Amortization of cemetery property	$ 1,251	$ 583	$ 1,223	$ —	$ —	$ (334)	$ 2,723
Long lived asset additions	$ 1,564	$ 442	$ 1,041	$ 57	$ 52	$ —	$ 3,156
Goodwill	$ 6,174	$ —	$ 11,948	$ 30,615	$ —	$ —	$ 48,737

As of and for the three months ended March 31, 2013:

	Cemeteries Southeast	Cemeteries Northeast	Cemeteries West	Funeral Homes	Corporate	Adjustment	Total
				(in thousands)			
Revenues							
Sales	$ 21,870	$ 8,977	$ 9,760	$ —	$ —	$ (10,621)	$ 29,986
Service and other	11,105	6,551	9,129	—	—	(8,577)	18,208
Funeral home	—	—	—	12,827	—	(1,409)	11,418
Total revenues	32,975	15,528	18,889	12,827	—	(20,607)	59,612
Costs and expenses							
Cost of sales	4,375	1,867	1,511	—	—	(1,463)	6,290
Cemetery	5,972	3,233	3,580	—	—	—	12,785
Selling	7,213	3,159	3,091	—	372	(2,611)	11,224
General and administrative	3,986	1,583	2,013	—	—	—	7,582
Corporate overhead	—	—	—	—	7,988	—	7,988
Depreciation and amortization	529	222	540	659	380	—	2,330
Funeral home	—	—	—	8,923	—	(187)	8,736
Acquisition related costs, net of recoveries	—	—	—	—	1,283	—	1,283
Total costs and expenses	22,075	10,064	10,735	9,582	10,023	(4,261)	58,218
Operating profit	$ 10,900	$ 5,464	$ 8,154	$ 3,245	$(10,023)	$ (16,346)	$ 1,394
Total assets	$538,893	$312,930	$414,580	$130,375	$ 23,931	$ —	$1,420,709
Amortization of cemetery property	$ 851	$ 622	$ 247	$ —	$ —	$ (34)	$ 1,686
Long lived asset additions	$ 910	$ 877	$ 512	$ 8,654	$ 31	$ —	$ 10,984
Goodwill	$ 6,174	$ —	$ 11,948	$ 30,615	$ —	$ —	$ 48,737

Results of individual business units are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of individual business units are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the business units. Methodologies are refined from time to time as management accounting practices are enhanced and businesses change. Revenues and associated expenses are not deferred in accordance with SAB No. 104; therefore, the deferral of these revenues and expenses is provided in the adjustment column to reconcile the Company's managerial financial statements to those prepared in accordance with 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, 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.

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The following table displays the Company's assets measured at fair value as of March 31, 2014 and December 31, 2013.

As of March 31, 2014

Merchandise Trust

	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 59,227	$ —	$ 59,227
Fixed maturities:			
U.S. government and federal agency	—	—	—
U.S. state and local government agency	—	—	—
Corporate debt securities	—	9,428	9,428
Other debt securities	—	5,842	5,842
Total fixed maturity investments	—	15,270	15,270
Mutual funds—debt securities	113,592	—	113,592
Mutual funds—equity securities—real estate sector	51,210	—	51,210
Mutual funds—equity securities—energy sector	7,823	—	7,823
Mutual funds—equity securities—MLP's	26,404	—	26,404
Mutual funds—equity securities—other	73,777	—	73,777
Equity securities:			
Preferred REIT's	—	—	—
Master limited partnerships	61,254	—	61,254
Global equity securities	28,025	—	28,025
Other invested assets	—	5,238	5,238
Total	$421,312	$20,508	$441,820

Perpetual Care Trust

	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 20,381	$ —	$ 20,381
Fixed maturities:			
U.S. government and federal agency	119	—	119
U.S. state and local government agency	—	—	—
Corporate debt securities	—	24,937	24,937
Other debt securities	—	371	371
Total fixed maturity investments	119	25,308	25,427
Mutual funds—debt securities	116,933	—	116,933
Mutual funds—equity securities—real estate sector	42,673	—	42,673
Mutual funds—equity securities—energy sector	14,987	—	14,987
Mutual funds—equity securities—MLP's	43,246	—	43,246
Mutual funds—equity securities—other	13,353	—	13,353
Equity securities:			
Preferred REIT's	—	—	—
Master limited partnerships	40,051	—	40,051
Global equity securities	924	—	924
Other invested assets	—	179	179
Total	$292,667	$25,487	$318,154

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As of December 31, 2013

Merchandise Trust

	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 46,518	$ —	$ 46,518
Fixed maturities:			
U.S. government and federal agency	—	—	—
U.S. state and local government agency	—	—	—
Corporate debt securities	—	9,171	9,171
Other debt securities	—	7,324	7,324
Total fixed maturity investments	—	16,495	16,495
Mutual funds—debt securities	111,333	—	111,333
Mutual funds—equity securities—real estate sector	49,103	—	49,103
Mutual funds—equity securities—energy sector	—	—	—
Mutual funds—equity securities—MLP’s	36,193	—	36,193
Mutual funds—equity securities—other	72,234	—	72,234
Equity securities:			
Preferred REIT’s	—	—	—
Master limited partnerships	57,258	—	57,258
Global equity securities	28,437	—	28,437
Other invested assets	—	5,723	5,723
Total	$401,076	$22,218	$423,294

Perpetual Care Trust

	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 16,686	$ —	$ 16,686
Fixed maturities:			
U.S. government and federal agency	372	—	372
U.S. state and local government agency	—	—	—
Corporate debt securities	—	24,510	24,510
Other debt securities	—	371	371
Total fixed maturity investments	372	24,881	25,253
Mutual funds—debt securities	116,013	—	116,013
Mutual funds—equity securities—real estate sector	40,763	—	40,763
Mutual funds—equity securities—energy sector	14,761	—	14,761
Mutual funds—equity securities—MLP’s	46,817	—	46,817
Mutual funds—equity securities—other	13,252	—	13,252
Equity securities:			
Preferred REIT’s	—	—	—
Master limited partnerships	36,925	—	36,925
Global equity securities	919	—	919
Other invested assets	—	382	382
Total	$286,508	$25,263	$311,771

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 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 April 2, 2014, StoneMor Operating LLC and certain other subsidiaries of StoneMor Partners L.P. (the "Company") entered into two Asset Sale Agreements (collectively, the "Agreements") with certain subsidiaries of Service Corporation International ("SCI") to acquire 9 funeral homes, 12 cemeteries, 2 crematories and certain related assets in Central Florida, North Carolina, Southeastern Pennsylvania and Virginia.

In consideration for the transfer of the assets and in addition to the assumption of certain liabilities pursuant to the Agreements, the Company will pay an aggregate purchase price of $53.8 million, subject to certain adjustments. The closing of the transactions is subject to the satisfaction of certain closing conditions, including obtaining all necessary regulatory approvals, including the approval of the Federal Trade Commission ("FTC"), and financing for the purchase price.

SCI can terminate the Agreements if, among other conditions, (i) all regulatory approvals are not obtained by June 30, 2014, subject to certain extensions; or (ii) the Company does not obtain the necessary financing within 20 business days after all regulatory approvals are obtained. If the Agreements are terminated due to the Company's inability to obtain the financing for the purchase price within 20 business days after all regulatory approvals are obtained, and the Company did not use its best efforts to obtain such financing, the Company will be obligated to pay a break-up fee of $1.0 million.

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

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

This 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, as well as certain information in our other filings with the SEC and elsewhere are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "project," "expect," "predict" and similar expressions identify these forward-looking statements. These forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated or implied, including, but not limited to, the following: uncertainties associated with future revenue and revenue growth; the effect of economic downturns; the impact of our significant leverage on our operating plans; our ability to service our debt and pay distributions; 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 and funeral home industry; uncertainties associated with the integration or anticipated benefits of our recent acquisitions or any future acquisitions; our ability to complete and fund additional acquisitions; 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, 2013 ("2013 Form 10-K") 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.

Organization

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

Cornerstone had been founded in 1999 by members of our management team and a private equity investment firm in order to acquire a group of 123 cemetery properties and 4 funeral homes. Since that time, Cornerstone, succeeded by us, has acquired additional cemeteries and funeral homes, entered into long term cemetery operating agreements, built funeral homes, and sold cemeteries and funeral homes, resulting in the operation of 278 cemeteries and 90 funeral homes as of March 31, 2014.

Capitalization

On September 20, 2004, we completed our initial public offering. Since that time, we have completed additional follow-on public offerings and debt offerings. On February 27, 2014, we completed our most recent follow-on public offering of 2,300,000 common units at a price of $24.45 per unit. Net proceeds of the offering, after deducting underwriting discounts and offering expenses, were approximately $53.2 million. The proceeds were used to pay down borrowings outstanding under our revolving credit facility.

Overview

Cemetery Operations

We are currently the second largest owner and operator of cemeteries in the United States. As of March 31, 2014, we operated 278 cemeteries in 27 states and Puerto Rico. We own 260 of these cemeteries, and we operate the remaining 18 under management or operating agreements with the nonprofit cemetery corporations that own the cemeteries. 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 2 cemeteries under long-term operating 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 each 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 operating 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 81.8% and 80.8% of our total revenues during the three months ended March 31, 2014 and 2013, respectively.

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 trust, 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.

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 months ended March 31, 2014 and 2013.

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.

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 March 31, 2014, we owned and operated 90 funeral homes. These properties are located in 18 states and Puerto Rico. Forty-one 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. Funeral home revenues accounted for approximately 18.2% of our total revenues during the three months ended March 31, 2014 as compared to 19.2% 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.

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.

2014 Developments

Significant business developments for the three months ended March 31, 2014 include the following:

- On February 27, 2014, we completed a follow-on public offering of 2,300,000 common units at a price of $24.45 per unit. Net proceeds of the offering, after deducting underwriting discounts and offering expenses, were approximately $53.2 million. The proceeds were used to pay down borrowings outstanding on our revolving credit facility.
- On March 20, 2014, we entered into Amendment No. 1 to the Lease Agreement with the Archdiocese of Philadelphia, which extended the period for satisfying certain conditions precedent under the Lease to May 30, 2014, after which either party to the Amendment has the right to terminate the Lease if the conditions precedent are not satisfied. For more details, see Note 13 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

We entered into asset sale agreements on April 2, 2014 with Service Corporation International (“SCI”) to acquire 9 funeral homes, 12 cemeteries, 2 crematories and certain related assets in Central Florida, North Carolina, Southeastern Pennsylvania and Virginia. In consideration for the transfer of the assets and in addition to the assumption of certain liabilities, we will pay an aggregate purchase price of $53.8 million, subject to certain adjustments. The closing of the transactions is subject to the satisfaction of certain closing conditions, including obtaining all necessary regulatory approvals, including the approval of the Federal Trade Commission (“FTC”), and financing for the purchase price. SCI can terminate the agreements if, among other conditions, (i) all regulatory approvals are not obtained by June 30, 2014, subject to certain extensions; or (ii) we do not obtain the necessary financing within 20 business days after all regulatory approvals are obtained. If the agreements are terminated due to our inability to obtain the financing for the purchase price within 20 business days after all regulatory approvals are obtained, and we did not use our best efforts to obtain such financing, we will be obligated to pay a break-up fee of $1.0 million.

Current Market Conditions and Economic Developments

In general, the financial markets have trended upward over the past few years. As of March 31, 2014, the market value of the assets in our merchandise trusts exceeded their amortized cost by 2.2%, which is a slight decline from December 31, 2013 when the market value of the assets exceeded their amortized cost by 2.6 %. As of March 31, 2014, the market value of the assets in our perpetual care trusts exceeded their amortized cost by 11.2%, which is an improvement from December 31, 2013 when the market value of the assets exceeded their amortized cost by 10.5%.

As of March 31, 2014, the majority of our long-term debt consisted of $175.0 million in Senior Notes due 2021 and $77.4 million of borrowings under our revolving credit facility which expires in 2017. As of March 31, 2014, we had $62.6 million of availability under our revolving credit facility. Further, on February 27, 2014, we raised capital via a follow-on public offering of our common units, representing a limited partnership interest in us.

The value of pre-need and at-need contracts written was $63.7 million for the three months ended March 31, 2014 as compared to $63.8 million during the same periods last year.

Impact on Our Ability to Meet Our Debt Covenants

Current market conditions have not negatively impacted our ability to meet our significant debt covenants. These covenants specifically relate to a certain measure of Consolidated EBITDA and certain coverage and leverage ratios as defined in the Credit Agreement described below.

Consolidated EBITDA is primarily related to the current period value of contracts written, investment income from the merchandise and perpetual care trusts, and current expenses incurred. The revenue recognition rules we must follow in accordance with GAAP are not considered.

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 Funded Indebtedness to Consolidated EBITDA. Our Consolidated Leverage Ratio was 3.42 at March 31, 2014 compared to a maximum allowed ratio of 3.875. The Consolidated Debt Service Coverage Ratio relates to the ratio of Consolidated EBITDA to Consolidated Debt Service. Our Consolidated Debt Service Coverage Ratio was 3.24 at March 31, 2014 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 financial statements required us to make estimates, judgments and assumptions that affected the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods (see Note 1 to the unaudited condensed consolidated financial statements). 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 2013 Form 10-K. There have been no significant changes to our critical accounting policies since the filing of our 2013 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 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 generally accepted accounting principles. See Note 1 to the consolidated financial statements included in the 2013 Form 10-K for a more detailed discussion of our accounting policies under GAAP.

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Cemetery Segments

Cemetery Operations—Southeast

Since March 31, 2013, we have acquired two properties in our Cemetery Operations – Southeast segment. The first acquisition occurred during the third quarter of 2013, and the second occurred during the first quarter of 2014. The results of operations for these acquired properties have no impact on the results for the three months ended March 31, 2013, but are included in the results for the three months ended March 31, 2014. The acquisitions contributed approximately $0.8 million of revenues and $0.4 million of costs and expenses of the segment in 2014.

The table below compares the results of operations for our Cemetery Operations – Southeast for the three months ended March 31, 2014 to the same period last year:

	Three months ended March 31,			
	2014	2013	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$33,727	$32,975	$ 752	2.3%
Total costs and expenses	23,164	22,075	1,089	4.9%
Operating profit	$10,563	$10,900	$ (337)	-3.1%

Revenues

The increase in revenues was primarily related to an increase of $0.7 million in income from our trusts and $0.1 million in the value of pre-need contracts written. Absent our two recent acquisitions, the value of contracts written would have decreased $0.5 million. This decrease was caused in part by lost sales days due to difficult weather conditions. 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 $0.4 million increase in cost of goods sold primarily attributable to the corresponding increase in the value of contracts written and product mix.

- A $0.4 million increase in cemetery expenses due to a $0.3 million increase in repair and maintenance expenses and a $0.1 million increase in utility expenses.
- A $0.1 million increase in general and administrative expenses due to marginal increases in rent, personnel costs and professional fees.
- A $0.1 million increase in depreciation expense.

Cemetery Operations—Northeast

The table below compares the results of operations for our Cemetery Operations – Northeast for the three months ended March 31, 2014 to the same period last year:

	Three months ended March 31,			
	2014	2013	Change ($)	Change (%)
		(in thousands) (non-GAAP)		
Total revenues	$18,014	$15,528	$ 2,486	16.0%
Total costs and expenses	9,443	10,064	(621)	-6.2%
Operating profit	$ 8,571	$ 5,464	$ 3,107	56.9%

Revenues

The increase in revenues was primarily caused by an increase in other income of $4.4 million primarily related to one land sale during the first quarter of 2014. This increase was partially offset by decreases of $1.3 million and $0.6 million in the value of pre-need contracts written and at-need contracts written, respectively. The decrease in the value of contracts written was caused in part by lost sales days due to difficult weather conditions.

Total costs and expenses

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

- A $0.2 million decrease in cost of goods sold primarily attributable to the corresponding decrease in the value of contracts written and product mix.
- A $0.4 million decrease in selling expenses attributable to a decrease in commissions and personnel expenses.

Cemetery Operations—West

The table below compares the results of operations for our Cemetery Operations – West for the three months ended March 31, 2014 to the same period last year:

	Three months ended March 31,			
	2014	2013	Change ($)	Change (%)
		(in thousands) (non-GAAP)		
Total revenues	$20,744	$18,889	$ 1,855	9.8%
Total costs and expenses	12,288	10,735	1,553	14.5%
Operating profit	$ 8,456	$ 8,154	$ 302	3.7%

Revenues

The increase in revenues was primarily related to increases of $1.8 million in income from our trusts and $0.2 million in the value of pre-need contracts written, partially offset by a $0.2 million decrease in the value of at-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 increase in costs and expenses was primarily related to:

- A $1.3 million increase in cost of goods sold primarily related to product mix.
- A $0.1 million increase in cemetery expenses due to an increase in repair and maintenance costs.
- A $0.1 million increase in selling expenses primarily due to increases in commissions and personnel expenses.

Funeral Home Segment

In the first quarter of 2013 we acquired six funeral homes. Therefore, the results of operations for these properties have a lesser impact on the results for the three months ended March 31, 2013, but are included in the results for the three months ended March 31, 2014. These additions are responsible for the increases to revenues and costs and expenses for the Funeral Homes segment.

The table below compares the results of operations for our Funeral Home segment for the three months ended March 31, 2014 to the same period last year:

	Three months ended March 31,			
	2014	2013	Change ($)	Change (%)
		(in thousands) (non-GAAP)		
Total revenues	$13,254	$12,827	$ 427	3.3%
Total costs and expenses	10,240	9,582	658	6.9%
Operating profit	$ 3,014	$ 3,245	$ (231)	-7.1%

Revenues

The increase in revenues was primarily attributable to a $0.6 million increase in pre-need revenues, partially offset by a $0.2 million decrease in at-need revenues.

Total costs and expenses

The increase in costs and expenses was primarily attributable to increases of $0.2 million in personnel expenses, $0.2 million in merchandise costs, $0.3 million in facility related costs and $0.1 million in depreciation and amortization expense, partially offset by a decrease of $0.1 million in advertising expense.

Corporate Segment

The table below compares expenses incurred by the Corporate segment for the three months ended March 31, 2014 to the same period last year:

	Three months ended March 31,			
	2014	2013	Change ($)	Change (%)
		(in thousands) (non-GAAP)		
Selling, cemetery and general and administrative expenses	$ 545	$ 372	$ 173	46.5%
Depreciation and amortization	242	380	(138)	-36.3%
Acquisition related costs, net of recoveries	349	1,283	(934)	-72.8%
Corporate expenses				
Corporate personnel expenses	3,243	4,304	(1,061)	-24.7%
Other corporate expenses	4,213	3,684	529	14.4%
Total corporate overhead	7,456	7,988	(532)	-6.7%
Total corporate expenses	$8,592	$10,023	$ (1,431)	-14.3%

The decrease in corporate expenses was primarily driven by decreases in corporate overhead and acquisition related costs. The decrease in corporate overhead was due to a decrease of $1.0 million in personnel expenses, partially offset by an increase of $0.4 million in professional fees and a net increase of $0.1 million in other miscellaneous corporate expenses. Acquisition related costs will 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.

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

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

The table below analyzes results of operations and the changes therein for the three months ended March 31, 2014 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:

	Three months ended March 31, 2014 (in thousands)			Three months ended March 31, 2013 (in thousands)				
	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Change in GAAP results ($)	Change in GAAP results (%)
Revenues								
Pre-need cemetery revenues	$ 29,976	$ (9,268)	$20,708	$ 30,941	$ (9,429)	$21,512	$ (804)	-3.7%
At-need cemetery revenues	19,848	(1,225)	18,623	20,743	(1,364)	19,379	(756)	-3.9%
Investment income from trusts	15,628	(9,651)	5,977	13,102	(8,472)	4,630	1,347	29.1%
Interest income	2,007	—	2,007	1,865	—	1,865	142	7.6%
Funeral home revenues	13,254	(1,507)	11,747	12,827	(1,409)	11,418	329	2.9%
Other cemetery revenues	5,026	299	5,325	741	67	808	4,517	559.0%
Total revenues	85,739	(21,352)	64,387	80,219	(20,607)	59,612	4,775	8.0%
Costs and expenses								
Cost of goods sold	9,247	(1,743)	7,504	7,753	(1,463)	6,290	1,214	19.3%
Cemetery expense	13,329	—	13,329	12,785	—	12,785	544	4.3%
Selling expense	13,829	(2,640)	11,189	13,835	(2,611)	11,224	(35)	-0.3%
General and administrative expense	7,645	—	7,645	7,582	—	7,582	63	0.8%
Corporate overhead	7,456	—	7,456	7,988	—	7,988	(532)	-6.7%
Depreciation and amortization	2,368	—	2,368	2,330	—	2,330	38	1.6%
Funeral home expense	9,504	(218)	9,286	8,923	(187)	8,736	550	6.3%
Acquisition related costs, net of recoveries	349	—	349	1,283	—	1,283	(934)	-72.8%
Total costs and expenses	63,727	(4,601)	59,126	62,479	(4,261)	58,218	908	1.6%
Operating profit	$ 22,012	$ (16,751)	$ 5,261	$ 17,740	$ (16,346)	$ 1,394	$ 3,867	277.4%

Revenues

Pre-need cemetery revenues were $20.7 million for the three months ended March 31, 2014, a decrease of $0.8 million, or 3.7%, as compared to $21.5 million during the same period last year. The decrease was the result of a decrease of $1.0 million in the value of cemetery contracts written, partially offset by a decrease of $0.2 million in deferred revenue.

At-need cemetery revenues were $18.6 million for the three months ended March 31, 2014, a decrease of $0.8 million, or 3.9%, as compared to $19.4 million during the same period last year. The decrease was primarily caused by a decrease of $0.9 million in the value of cemetery contracts written, partially offset by a decrease of $0.1 million in deferred revenue.

Investment income from trusts was $6.0 million for the three months ended March 31, 2014, an increase of $1.4 million, or 29.1%, as compared to $4.6 million during the same period last year. On a segment basis, we had an increase of $2.5 million primarily related to an increase in realized gains on our investments, which was offset by an adjustment of $1.1 million related to funds for which we have not met the requirements that would allow us to recognize them as revenue.

Interest income on accounts receivable was $2.0 million for the three months ended March 31, 2014, an increase of $0.1 million, or 7.6%, as compared to $1.9 million during the same period last year.

Funeral home revenues were $11.7 million for the three months ended March 31, 2014, an increase of $0.3 million, or 2.9%, as compared to $11.4 million during the same period last year. The increase was primarily caused by an increase of $0.4 million in the value of contracts written and other revenue, which was partially offset by an increase of $0.1 million in deferred revenue. The increase in the value of contracts written was attributable to funeral home acquisitions that occurred during the first quarter of 2013.

Other cemetery revenues were $5.3 million for the three months ended March 31, 2014, an increase of $4.5 million, as compared to $0.8 million during the same period last year. The increase was primarily caused by one land sale during the first quarter of 2014.

Costs and Expenses

Cost of goods sold was $7.5 million for the three months ended March 31, 2014, an increase of $1.2 million, or 19.3%, as compared to $6.3 million during the same period last year. The ratio of cost of goods sold to pre-need and at-need cemetery revenues was 19.1% during the three months ended March 31, 2014 as compared to 15.4% during the same period last year. The increase in the ratio is due to the inclusion of the cost of property sold as part of a land sale that is presented within “Other cemetery revenues.”

Cemetery expenses were $13.3 million during the three months ended March 31, 2014, an increase of $0.5 million, or 4.3%, compared to $12.8 million during the same period last year. Within this category, there were increases of $0.3 million in utility expenses and $0.3 million in general repair and maintenance expenses, partially offset by a decrease of $0.1 million in other miscellaneous 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 26.8% during the three months ended March 31, 2014 as compared to 24.7% during the same period last year.

Selling expenses were $11.2 million during the three months ended March 31, 2014 and the same period last year. The ratio of selling expenses to cemetery revenues was 28.4% during the three months ended March 31, 2014 as compared to 27.4% during the same period last year, largely due to an increase in advertising costs and the reduction pre-need and at-need cemetery revenues. This ratio gives some indication of how effectively the money we invest in selling efforts is translating into sales. However, most 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 remain fairly consistent.

General and administrative expenses were $7.6 million during the three months ended March 31, 2014 and the same period last year. 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 slightly decrease 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 15.3% during the three months ended March 31, 2014 as compared to 14.7% during the same period last year.

Total corporate overhead was $7.5 million for the three months ended March 31, 2014, a decrease of $0.5 million, or 6.7% compared to $8.0 million during the same period last year. The decrease in corporate overhead was driven by a decrease of $1.0 million in personnel expenses, partially offset by an increase of $0.4 million in professional fees and a net increase of $0.1 million in other miscellaneous corporate expenses.

Depreciation and amortization was $2.4 million during the three months ended March 31, 2014, an increase of $0.1 million, or 1.6%, as compared to $2.3 million during the same period last year. The increase was primarily due to additional depreciation and amortization from our acquisitions.

Funeral home expenses were $9.3 million for the three months ended March 31, 2014, an increase of $0.6 million, or 6.3%, compared to $8.7 million during the same period last year. The increase was primarily driven by our most recent acquisitions and was attributable to segment level increases of $0.2 million in personnel expenses, $0.2 million in merchandise costs and $0.3 million in facility related costs, partially offset by a decrease of $0.1 million in advertising expense.

Acquisition related costs were $0.3 million for the three months ended March 31, 2014, a decrease of $1.0 million, or 72.8%, as compared to $1.3 million during the same period last year. These costs will vary from period to period depending on the amount of acquisition activity that takes place.

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 and above net income (loss).

The table below summarizes these items and the changes between the three months ended March 31, 2014 and 2013:

	Three months ended March 31,			
	2014	2013	Change ($)	Change (%)
	(in thousands)			
Gain on acquisition	$ 412	$ —	$ 412	100.0%
Gain on settlement agreement	—	912	(912)	-100.0%
Interest expense	5,574	5,463	111	2.0%
Income tax expense (benefit)	$ (310)	$ (957)	$ 647	-67.6%

The gain on acquisition recorded during the three months ended March 31, 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 three months ended March 31, 2013, we had funds placed into trust of approximately $1.3 million related to the partial settlement of claims from locations we acquired in 2010. A gain of $0.9 million had been recorded as gain on settlement agreement, which was net of legal fees of $0.4 million.

Interest expense has increased during the three months ended March 31, 2014 as compared to the same period last year. This increase is primarily caused by an increase in the rates on our revolving credit facility and a higher overall effective interest rate due to the amortization of financing costs and debt discounts related to our senior notes. These increases are partially offset by a net reduction in interest expense due to retirement of our 10.25% senior notes and related issuance of our 7.875% senior notes in the second quarter of 2013, as well as a reduction in the average amounts outstanding under our revolving credit facility. Average amounts outstanding under the credit facility were $100.6 million and $109.7 million during the three months ended March 31, 2014 and 2013, respectively.

We had an income tax benefit of $0.3 million for the three months ended March 31, 2014, as compared to a benefit of $1.0 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.

Supplemental Data

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

	Three months ended March 31,	
	2014	2013
Operating Data:		
Interments performed	11,313	12,119
Interment rights sold (1):		
Lots	5,277	5,759
Mausoleum crypts (including pre-construction)	564	456
Niches	261	287
Net interment rights sold (1)	6,102	6,502
Number of contracts written	23,831	24,494
Aggregate contract amount, in thousands (excluding interest)	$63,672	$63,824
Average amount per contract (excluding interest)	$ 2,672	$ 2,606
Number of pre-need contracts written	11,928	11,942
Aggregate pre-need contract amount, in thousands (excluding interest)	$41,762	$41,299
Average amount per pre-need contract (excluding interest)	$ 3,501	$ 3,458
Number of at-need contracts written	11,903	12,552
Aggregate at-need contract amount, in thousands (excluding interest)	$21,910	$22,525
Average amount per at-need contract (excluding interest)	$ 1,841	$ 1,795

(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 flow 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, commencing on 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 (the “Prior Senior Notes”) 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 will be amortized over the life of these notes. As of March 31, 2014, we were in compliance with all applicable covenants of the Senior Notes.

Credit Facility

On January 19, 2012, we entered into the Third Amended and Restated Credit Agreement (the “Credit Agreement”). The terms of the Credit Agreement are substantially the same as the terms of the Second Amended and Restated Credit Agreement, as amended. Capitalized terms which are not defined in the following description shall have the meaning assigned to such terms in the Credit Agreement.

The Credit Agreement was amended three times in 2013. As amended, we have a revolving credit facility (the “Credit Facility”) with a borrowing limit of $140.0 million and a maturity date of January 19, 2017. The Credit Facility may be used to finance working capital requirements, Permitted Acquisitions and Capital Expenditures. The Maximum Consolidated Leverage Ratio was 4.00 through December 31, 2013, 3.875 at March 31, 2014, and will be 3.750 for the measurement period ending on June 30, 2014 and thereafter. The Minimum Consolidated Debt Service Coverage Ratio is 2.50 for all measurement periods. The ranges of the Applicable Rates are 3.00%, 4.00%, and .800% for Base Rate Loans, Eurodollar Rate Loans and Letter of Credit Fees, and Commitment Fees, respectively, when the Consolidated Leverage Ratio is greater than or equal to 3.75 to 1.0. We are not allowed to permit Consolidated EBITDA for any most recently completed four fiscal quarters to be less than the sum of (i) $57.8 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after March 31, 2013.

The amount of aggregate consideration we may pay for a Permitted Acquisition after March 31, 2014, without Required Lender approval, is $10.0 million on an individual basis and $50.0 million when aggregated with the total Aggregate Consideration paid by or on behalf of us for all other Permitted Acquisitions which closed within the immediately preceding 365 days. In case of a Significant Permitted Acquisition Transaction, a Permitted Acquisition in which the Aggregate Consideration exceeds $35.0 million when aggregated with the total Aggregate Consideration for all other Permitted

Acquisitions which closed within the immediately preceding 180 days, the Borrowers are permitted, subject to certain limitations, to temporarily increase the Consolidated Leverage Ratio to 4.00 to 1.0 for one or more of the four immediately succeeding covenant measurement periods.

The interest rates on amounts outstanding under the Credit Facility were approximately 4.2% at March 31, 2014. Amounts borrowed may be either Base Rate Loans or Eurodollar Rate Loans and amounts repaid or prepaid during the term may be reborrowed. Depending on the type of loan, borrowings bear interest at the Base Rate or Eurodollar Rate, plus applicable margins ranging from 1.25% to 3.00% and 2.25% to 4.00%, respectively, depending on our Consolidated Leverage Ratio. The Base Rate is the highest of the Prime Rate, the Federal Funds Rate plus 0.50%, or the Eurodollar Rate plus 1.0%. The Eurodollar Rate is the British Bankers Association LIBOR Rate. Amounts outstanding under the Credit Facility approximate their fair value.

The Credit Agreement requires us to pay an 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 Commitment Fee Rate ranges from 0.375% to 0.800% depending on our Consolidated Leverage Ratio.

The Credit Agreement contains restrictive covenants that, among other things, prohibit distributions upon defined events of default, restrict investments and sales of assets and require us to maintain certain financial covenants, including specified financial ratios. A material decrease in revenues could cause us to breach certain of our financial covenants. Any such breach could allow the Lenders to accelerate our debt (and cause cross-default) which would have a material adverse effect on our business, financial condition or results of operations. Our covenants include a certain measure of Consolidated EBITDA, a Consolidated Leverage Ratio and a Consolidated Debt Service Coverage Ratio. As of March 31, 2014, we were in compliance with all applicable financial covenants.

Amounts outstanding under our Credit Facility fluctuated during the three months ended March 31, 2014 and 2013. 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, resulting in outstanding borrowings of $77.4 million at March 31, 2014. At the beginning of 2013, we had $101.7 million outstanding on our Credit Facility. During the first quarter of 2013, we reduced our borrowings on the Credit Facility by $19.8 million as we had borrowed $18.6 million prior to March 26, 2013 and then we used the net proceeds of approximately $38.4 million from our March 26, 2013 follow-on public offering to repay amounts outstanding on our Credit Facility, resulting in outstanding borrowings of $81.9 million at March 31, 2013. The average amounts borrowed under our Credit Facility were $100.6 million and $109.7 million for the three months ended March 31, 2014 and 2013, respectively.

For a more detailed description of our long-term debt agreements, see our 2013 Form 10-K.

Pending transactions

Agreements with the Archdiocese of Philadelphia

On September 26, 2013, we entered into a Lease Agreement and a Management Agreement with the Archdiocese of Philadelphia under which we will operate 13 cemeteries in Pennsylvania for a term of 60 years. The closing of the transaction is contingent, among other matters, upon us obtaining financing for an upfront rental payment of $53.0 million. On March 20, 2014, we entered into the Amendment to the Lease, which extended the period for satisfying certain conditions precedent under the Lease to May 30, 2014. For more details, see Note 13 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Agreements with the Service Corporation International

We entered into asset sale agreements on April 2, 2014 with Service Corporation International (“SCI”) to acquire 9 funeral homes, 12 cemeteries, 2 crematories and certain related assets in Central Florida, North Carolina, Southeastern Pennsylvania and Virginia. In consideration for the transfer of the assets and in addition to the assumption of certain liabilities, we will pay an aggregate purchase price of $53.8 million, subject to certain adjustments. The closing of the transactions is subject to the satisfaction of certain closing conditions, including obtaining all necessary regulatory approvals, including the approval of the Federal Trade Commission (“FTC”), and financing for the purchase price. SCI can terminate the agreements if, among other conditions, (i) all regulatory approvals are not obtained by June 30, 2014, subject to certain extensions; or (ii) we do not obtain the necessary financing within 20 business days after all regulatory approvals are obtained. If the agreements are terminated due to our inability to obtain the financing for the purchase price within 20 business days after all regulatory approvals are obtained, and we did not use our best efforts to obtain such financing, we will be obligated to pay a break-up fee of $1.0 million.

Cash Flow from Operating Activities

Cash flows used in operating activities were $2.9 million during the three months ended March 31, 2014, compared to $6.9 million of cash flows provided by operating activities during the same period last year. The key factors contributing to the net decrease in cash flows were the increased amount of cash we used to settle accounts payable and accrued liabilities and increased inflows into our trusts. These reductions in cash flow were partially offset by more cash generated from normal revenue producing activities during the first quarter of 2014 compared to the same period in 2013.

Cash Flow from Investing Activities

Net cash used in investing activities was $2.3 million during the three months ended March 31, 2014 as compared to $11.9 million during the same period last year. Cash flows used for investing activities during the three months ended March 31, 2014 were $0.2 million for the acquisition of one cemetery and $2.1 million for other capital expenditures. Cash flows used for investing activities during the three months ended March 31, 2013 were $9.1 million for the acquisition of 6 funeral homes and $2.8 million for other capital expenditures.

Cash Flow from Financing Activities

Cash flows provided by financing activities were $1.3 million during the three months ended March 31, 2014 as compared to $5.7 million during the same period last year. Cash flows provided by financing activities for the three months ended March 31, 2014 consisted of $53.2 million of proceeds from our follow-on public offering, partially offset by net repayments of long-term debt of $38.5 million, and cash distributions to unit holders of $13.4 million. Cash flows provided by financing activities for the three months ended March 31, 2013 consisted of $38.4 million of proceeds from our follow-on public offering offset by net repayments of long-term debt of $20.6 million and cash distributions to unit holders of $12.0 million.

Capital Expenditures

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

	Three months ended March 31,	
	2014	**2013**
	(in thousands)	
Maintenance capital expenditures	$1,330	$ 1,771
Expansion capital expenditures	948	10,176
Total capital expenditures	$2,278	$11,947

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

Seasonality

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

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

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 March 31, 2014, the fair value of fixed-income securities in our merchandise trusts represented 3.4% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 8.0% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was $15.3 million and $25.4 million in merchandise trusts and perpetual care trusts, respectively, as of March 31, 2014. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately $153,000 and $254,000 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 March 31, 2014, the fair value of money market and short-term investments in our merchandise trusts represented 13.2% 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 6.4% of the fair value of total trust assets. The aggregate quoted fair value of these money market and short-term investments was $59.2 million and $20.4 million in the merchandise trusts and perpetual care trusts, respectively, as of March 31, 2014. Each 1% change in interest rates on these money market and short-term investments would result in changes of approximately $592,000 and $204,000 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 March 31, 2014, the fair value of marketable equity securities in our merchandise trusts represented 19.8% of the fair value of total trust assets while the fair value of marketable equity securities in our perpetual care trusts represented 12.9% of total trust assets. The aggregate quoted fair market value of these marketable equity securities was $89.3 million and $41.0 million in our merchandise trusts and perpetual care trusts, respectively, as of March 31, 2014, based on final quoted sales prices. Each 10% change in the average market prices of the equity securities would result in a change of approximately $8.9 million and $4.1 million in the fair market value of securities held in the merchandise trusts and perpetual care trusts, respectively. As of March 31, 2014, the fair value of marketable closed and open ended mutual funds in our merchandise trusts represented 60.6% of the fair value of total trust assets while the fair value of closed and open ended mutual funds in our perpetual care trusts represented 72.7% of total trust assets. The aggregate quoted fair market value of these closed and open ended mutual funds was $272.8 million and $231.2 million in the merchandise trusts and perpetual care trusts, respectively, as of March 31, 2014, based on final quoted sales prices. Each 10% change in the average market prices of the closed and open ended mutual funds would result in a change of approximately $27.3 million and $23.1 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 merchandise trusts and perpetual care trusts are specified in an Investment Policy Statement which requires us to do the following:

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

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

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

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 March 31, 2014, we had $77.4 million of borrowings outstanding under our Credit Facility. After these borrowings, our unused line of credit under the Credit Facility is $62.6 million. The interest rates on amounts outstanding under the Credit Facility were approximately 4.2% at March 31, 2014.

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 Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Disclosure Committee and management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon, and as of the date of this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in our reports under the 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 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 fiscal quarter ended March 31, 2014 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 2013 Form 10-K, which could materially affect our business, financial condition or future results.

The risks described in the 2013 Form 10-K 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 2013 Form 10-K.

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.

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Item 6. Exhibits

Exhibit Number	Description
10.1	Amendment No. 1 to Lease Agreement, dated as of March 20, 2014, by and among StoneMor Operating, LLC, StoneMor Pennsylvania LLC and StoneMor Pennsylvania Subsidiary LLC, the Archdiocese of Philadelphia, and StoneMor Partners L.P., solely in its capacity as guarantor (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 26, 2014).
10.2	Asset Sale Agreement dated April 2, 2014, by and among StoneMor Operating LLC, StoneMor Florida LLC, StoneMor Florida Subsidiary LLC, StoneMor North Carolina LLC, StoneMor North Carolina Subsidiary LLC, StoneMor North Carolina Funeral Services, Inc., Loewen [Virginia] LLC, Loewen [Virginia] Subsidiary, Inc., Rose Lawn Cemeteries LLC, Rose Lawn Cemeteries Subsidiary, Incorporated, StoneMor Pennsylvania LLC, StoneMor Pennsylvania Subsidiary LLC, CMS West Subsidiary LLC, S.E. Funeral Homes of Florida, LLC, S.E. Cemeteries of Florida, LLC, S.E. Combined Services of Florida, LLC, S.E. Cemeteries of North Carolina, Inc., S.E. Funeral Homes of North Carolina, Inc., Montlawn Memorial Park, Inc., S.E. Cemeteries of Virginia, LLC, SCI Virginia Funeral Services, Inc., George Washington Memorial Park, Inc., Sunset Memorial Park Company and S.E. Mid- Atlantic Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on April 8, 2014).
10.3	Asset Sale Agreement dated April 2, 2014, by and among StoneMor Operating LLC, StoneMor North Carolina LLC, StoneMor North Carolina Subsidiary LLC, Laurel Hill Memorial Park LLC, Laurel Hill Memorial Park Subsidiary, Inc., StoneMor Pennsylvania LLC, StoneMor Pennsylvania Subsidiary LLC, S.E. Cemeteries of North Carolina, Inc., Clinch Valley Memorial Cemetery, Inc., and S.E. Acquisition of Pennsylvania, Inc. (incorporated by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K filed on April 8, 2014).
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 Timothy K. Yost, 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 Timothy K. Yost, 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) Condensed Consolidated Balance Sheets as of March 31, 2014, and December 31, 2013; (ii) Condensed Consolidated Statements of Operations for the three months ended March 31, 2014 and 2013; (iii) Condensed Consolidated Statement of Partners' Capital; (iv) Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2014 and 2013; and (v) Notes to the 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
May 8, 2014	/s/ Lawrence Miller Lawrence Miller Chief Executive Officer, President and Chairman of the Board of Directors (Principal Executive Officer)
May 8, 2014	/s/ Timothy K. Yost Timothy K. Yost Chief Financial Officer (Principal Financial Officer)

Exhibit Index

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101	Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of March 31, 2014, and December 31, 2013; (ii) Condensed Consolidated Statements of Operations for the three months ended March 31, 2014 and 2013; (iii) Condensed Consolidated Statement of Partners' Capital; (iv) Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2014 and 2013; and (v) Notes to the 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.

Exhibit 31.1

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: May 8, 2014

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

Exhibit 31.2

CERTIFICATION

I, Timothy K. Yost, 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: May 8, 2014

By: /s/ Timothy K. Yost
Timothy K. Yost
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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 March 31, 2014 (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 Date: May 8, 2014

(Principal Executive Officer)

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.

Exhibit 32.2

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 March 31, 2014 (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/ Timothy K. Yost
Chief Financial Officer Date: May 8, 2014

(Principal Financial Officer)

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.