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 June 30, 2012

or

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

For the transition period from to .

Commission File Number: 001-32270

STONEMOR PARTNERS L.P.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**80-0103159** **(I.R.S. Employer Identification No.)**
311 Veterans Highway, Suite B **Levittown, Pennsylvania** **(Address of principal executive offices)**	**19056** **(Zip Code)**

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

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

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

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

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

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 August 1, 2012 was 19,538,051.

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Part I – Financial Information

Item 1. Financial Statements

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

	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 7,787	$ 12,058
Accounts receivable, net of allowance	51,908	48,837
Prepaid expenses	5,899	4,266
Other current assets	15,990	16,670
Total current assets	81,584	81,831
Long-term accounts receivable, net of allowance	71,098	68,394
Cemetery property	302,986	298,938
Property and equipment, net of accumulated depreciation	72,948	73,777
Merchandise trusts, restricted, at fair value	345,884	344,515
Perpetual care trusts, restricted, at fair value	269,223	254,679
Deferred financing costs, net of accumulated amortization	9,667	8,817
Deferred selling and obtaining costs	71,921	68,542
Deferred tax assets	420	415
Goodwill	34,091	32,299
Other assets	13,608	16,918
Total assets	$1,273,430	$1,249,125
Liabilities and partners' capital		
Current liabilities:		
Accounts payable and accrued liabilities	$ 25,663	$ 26,428
Accrued interest	1,654	1,632
Current portion, long-term debt	2,035	1,487
Total current liabilities	29,352	29,547
Other long-term liabilities	1,977	2,830
Long-term debt	211,991	193,835
Deferred cemetery revenues, net	462,088	441,878
Deferred tax liabilities	16,347	16,968
Merchandise liability	125,024	129,109
Perpetual care trust corpus	269,223	254,679
Total liabilities	1,116,002	1,068,846
Commitments and contingencies		
Partners' capital		
General partner	1,288	2,192
Common partners	156,140	178,087
Total partners' capital	157,428	180,279
Total liabilities and partners' capital	$1,273,430	$1,249,125

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Revenues:				
Cemetery				
Merchandise	$30,337	$31,104	$ 57,481	$ 52,539
Services	11,265	11,604	23,347	22,402
Investment and other	12,051	10,036	23,475	19,702
Funeral home				
Merchandise	3,569	2,957	7,587	6,096
Services	4,286	4,406	9,205	8,599
Total revenues	61,508	60,107	121,095	109,338
Costs and Expenses:				
Cost of goods sold (exclusive of depreciation shown separately below):				
Perpetual care	1,415	1,399	2,782	2,724
Merchandise	5,821	5,817	10,874	9,485
Cemetery expense	14,775	15,462	27,567	27,548
Selling expense	13,123	12,187	24,910	21,731
General and administrative expense	7,195	7,031	14,388	13,458
Corporate overhead (including $210 and $191 in unit-based compensation for the three months ended June 30, 2012 and 2011, and $409 and $381 for the six months ended June 30, 2012 and 2011, respectively)	7,756	5,986	14,359	11,944
Depreciation and amortization	2,230	2,042	4,560	4,488
Funeral home expense				
Merchandise	1,107	1,009	2,530	2,215
Services	3,302	2,803	6,707	5,349
Other	2,206	1,886	4,134	3,443
Acquisition related costs	782	1,025	1,113	1,958
Total cost and expenses	59,712	56,647	113,924	104,343
Operating profit	1,796	3,460	7,171	4,995
Expenses related to refinancing	—	—	—	453
Gain (loss) on termination of operating agreement	(83)	—	1,737	—
Gain on acquisition	122	—	122	—
Early extinguishment of debt	—	—	—	4,010
Interest expense	4,870	4,352	9,836	9,442
Net loss before income taxes	(3,035)	(892)	(806)	(8,910)
Income tax expense (benefit)				
State	97	(902)	242	(898)
Federal	(963)	(805)	(909)	(1,613)
Total income tax expense (benefit)	(866)	(1,707)	(667)	(2,511)
Net income (loss)	$ (2,169)	$ 815	$ (139)	$ (6,399)
General partner's interest in net income (loss) for the period	$ (43)	$ 16	$ (3)	$ (128)
Limited partners' interest in net income (loss) for the period	$ (2,126)	$ 799	$ (136)	$ (6,271)
Net income (loss) per limited partner unit (basic and diluted)	$ (.11)	$ .04	$ (.01)	$ (.34)
Weighted average number of limited partners' units outstanding (basic and diluted)	19,375	19,341	19,372	18,529
Distributions declared per unit	$ .585	$ .585	$ 1.170	$ 1.170

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Partners' Capital		
	Common Unit Holders	General Partner	Total
Balance, December 31, 2011	$ 178,087	$2,192	$180,279
Issuance of common units	603	—	603
Compensation related to UARs	248	—	248
Net loss	(136)	(3)	(139)
Cash distribution	(22,662)	(901)	(23,563)
Balance, June 30, 2012	$ 156,140	$1,288	$157,428

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	For the six months ended June 30, 2012	2011
Operating activities:		
Net income (loss)	$ (139)	$ (6,399)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Cost of lots sold	3,979	3,281
Depreciation and amortization	4,560	4,488
Unit-based compensation	409	381
Accretion of debt discounts	723	625
Gain on acquisition	(122)	—
Gain on termination of operating agreement	(1,737)	—
Write-off of deferred financing fees	—	453
Fees paid related to early extinguishment of debt	—	4,010
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(8,180)	(9,430)
Allowance for doubtful accounts	3,293	2,473
Merchandise trust fund	(1,917)	(11,217)
Prepaid expenses	(1,169)	(331)
Other current assets	(860)	(1,505)
Other assets	139	198
Accounts payable and accrued and other liabilities	348	(7,549)
Deferred selling and obtaining costs	(3,380)	(5,263)
Deferred cemetery revenue	23,699	25,358
Deferred taxes (net)	(1,000)	(1,745)
Merchandise liability	(4,451)	(954)
Net cash provided by (used in) operating activities	14,195	(3,126)
Investing activities:		
Cash paid for cemetery property	(3,600)	(2,270)
Purchase of subsidiaries	(3,426)	(3,850)
Cash paid for property and equipment	(1,835)	(3,204)
Net cash used in investing activities	(8,861)	(9,324)
Financing activities:		
Cash distribution	(23,563)	(21,056)
Additional borrowings on long-term debt	29,200	12,300
Repayments of long-term debt	(13,422)	(73,924)
Proceeds from public offering	—	103,207
Proceeds from general partner contribution	—	2,246
Fees paid related to early extinguishment of debt	—	(4,010)
Cost of financing activities	(1,820)	(1,114)
Net cash provided by (used in) financing activities	(9,605)	17,649
Net increase in cash and cash equivalents	(4,271)	5,199
Cash and cash equivalents - Beginning of period	12,058	7,535
Cash and cash equivalents - End of period	$ 7,787	$ 12,734
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$ 9,048	$ 9,552
Cash paid during the period for income taxes	$ 3,655	$ 1,710
Non-cash investing and financing activities		
Acquisition of assets by financing	$ 53	$ 143
Issuance of limited partner units for cemetery acquisition	$ 603	$ 264
Acquisition of asset by assumption of directly related liability	$ 544	$ —

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 June 30, 2012, the Partnership operated 272 cemeteries, 254 of which are owned, in 26 states and Puerto Rico and owned and operated 71 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 June 30, 2012 and for the three and six months ended June 30, 2012 and 2011 includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The results of operations for interim periods are not necessarily indicative of the results of operations to be expected for a full year. The December 31, 2011 condensed consolidated balance sheet data was derived from audited financial statements included in the Company’s 2011 Annual Report on Form 10-K (“2011 Form 10-K”) and has been adjusted to include the effects of retrospective adjustments resulting from the Company’s 2011 acquisitions, but does not include all disclosures required by GAAP, which are presented in the Company’s 2011 Form 10-K.

Principles of Consolidation

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

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

Use of Estimates

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

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2. LONG-TERM ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

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

	As of June 30, 2012	As of December 31, 2011
	(in thousands)	
Customer receivables	$161,447	$ 151,540
Unearned finance income	(18,424)	(16,727)
Allowance for contract cancellations	(20,017)	(17,582)
	123,006	117,231
Less: current portion, net of allowance	51,908	48,837
Long-term portion, net of allowance	$ 71,098	$ 68,394

Activity in the allowance for contract cancellations is as follows:

	For the six months ended June 30, 2012	For the six months ended June 30, 2011
	(in thousands)	
Balance - Beginning of period	$ 17,582	$ 15,832
Provision for cancellations	9,791	9,211
Charge-offs - net	(7,356)	(6,853)
Balance - End of period	$ 20,017	$ 18,190

3. CEMETERY PROPERTY

Cemetery property consists of the following:

	As of June 30, 2012	As of December 31, 2011
	(in thousands)	
Developed land	$ 68,770	$ 64,266
Undeveloped land	166,227	164,723
Mausoleum crypts and lawn crypts	67,989	69,949
Total	$302,986	$ 298,938

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4. PROPERTY AND EQUIPMENT

Major classes of property and equipment follow:

	As of June 30, 2012	As of December 31, 2011
	(in thousands)	
Building and improvements	$ 75,540	$ 75,076
Furniture and equipment	38,935	36,863
	114,475	111,939
Less: accumulated depreciation	(41,527)	(38,162)
Property and equipment - net	$ 72,948	$ 73,777

Depreciation expense was $1.7 million and $3.5 million for the three and six months ended June 30, 2012, respectively, as compared to $1.5 million and $2.9 million during the same periods last year.

5. MERCHANDISE TRUSTS

At June 30, 2012, the Company's merchandise trusts consisted of the following types of assets:

- Money Market Funds that invest in low risk short term securities;
- Publicly traded mutual funds that invest in underlying debt securities;
- Publicly traded mutual funds that invest in underlying equity securities;
- Equity investments that are currently paying dividends or distributions. These investments include Real Estate Investment Trusts ("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 $7.3 million and $6.9 million of investments held in trust by the West Virginia Funeral Directors Association at June 30, 2012 and December 31, 2011, respectively, in its merchandise trust assets. As required by law, the Company deposits a portion of certain funeral merchandise sales in West Virginia into a trust that is held by the West Virginia Funeral Directors Association. These trusts are recorded at their account value, which approximates fair value.

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

As of June 30, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 30,910	$ —	$ —	$ 30,910
Fixed maturities:				
U.S. Government and federal agency	—	—	—	—
U.S. State and local government agency	23	—	—	23
Corporate debt securities	8,107	66	(250)	7,923
Other debt securities	—	—	—	—
Total fixed maturities	8,130	66	(250)	7,946
Mutual funds - debt securities	90,331	2,066	(1,993)	90,404
Mutual funds - equity securities	139,826	3,818	(6,724)	136,920
Equity securities	67,369	1,370	(4,833)	63,906
Other invested assets	8,413	86	—	8,499
Total managed investments	$344,979	$ 7,406	$(13,800)	$338,585
West Virginia Trust Receivable	7,299	—	—	7,299
Total	$352,278	$ 7,406	$(13,800)	$345,884

As of December 31, 2011	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 38,312	$ —	$ —	$ 38,312
Fixed maturities:				
U.S. Government and federal agency	—	—	—	—
U.S. State and local government agency	23	—	—	23
Corporate debt securities	10,537	19	(791)	9,765
Other debt securities	1,100	—	—	1,100
Total fixed maturities	11,660	19	(791)	10,888
Mutual funds - debt securities	68,291	1,711	(2,581)	67,421
Mutual funds - equity securities	148,209	1,939	(8,860)	141,288
Equity securities	71,760	3,723	(3,131)	72,352
Other invested assets	7,326	34	—	7,360
Total managed investments	$345,558	$ 7,426	$(15,363)	$337,621
West Virginia Trust Receivable	6,894	—	—	6,894
Total	$352,452	$ 7,426	$(15,363)	$344,515

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

As of June 30, 2012	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$ —	$ —	$ —	$ —
U.S. State and local government agency	23	—	—	—
Corporate debt securities	—	6,010	1,785	128
Other debt securities	—	—	—	—
Total fixed maturities	$ 23	$ 6,010	$ 1,785	$ 128

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

As of June 30, 2012	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	2,253	61	2,747	189	5,000	250
Other debt securities	—	—	—	—	—	—
Total fixed maturities	2,253	61	2,747	189	5,000	250
Mutual funds - debt securities	40,167	370	27,859	1,623	68,026	1,993
Mutual funds - equity securities	6,961	569	58,311	6,155	65,272	6,724
Equity securities	26,007	2,017	13,532	2,816	39,539	4,833
Other invested assets	—	—	—	—	—	—
Total	$75,388	$ 3,017	$102,449	$ 10,783	$177,837	$ 13,800

As of December 31, 2011	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	4,007	351	4,459	440	8,466	791
Other debt securities	—	—	—	—	—	—
Total fixed maturities	4,007	351	4,459	440	8,466	791
Mutual funds - debt securities	19,691	1,109	31,916	1,472	51,607	2,581
Mutual funds - equity securities	32,631	970	59,010	7,890	91,641	8,860
Equity securities	20,349	1,941	5,775	1,190	26,124	3,131
Other invested assets	—	—	—	—	—	—
Total	$76,678	$ 4,371	$101,160	$ 10,992	$177,838	$ 15,363

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

Fair Value @ 12/31/2011	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 6/30/2012
				(in thousands)					
$344,515	26,702	(36,545)	8,426	105	5,622	(3,309)	(1,175)	1,543	$345,884

The Company made net distributions from the trusts of approximately $9.8 million during the six months ended June 30, 2012. During the six months ended June 30, 2012, purchases and sales of securities available for sale included in trust investments were approximately $207.3 million and $218.3 million, respectively. Distributions include $5.8 million of assets that were divested as a result of the termination of an operating agreement during the six months ended June 30, 2012.

Other-than-temporary Impairments of Trust Assets

During the three and six months ended June 30, 2012, the Company determined that there were six securities with an aggregate cost basis of approximately $1.6 million and an aggregate fair value of approximately $0.8 million, resulting in an impairment of $0.8 million, wherein such impairment was considered to be other-than-temporary. During the three and six months ended June 30, 2011, the Company determined that there was a single security with an aggregate cost basis of approximately $0.2 million and an aggregate fair value of approximately $0.1 million, resulting in an impairment of $0.1 million, wherein such impairment was considered to be other-than-temporary. 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 June 30, 2012, the Company's perpetual care trusts consisted of the following types of assets:

- Money Market Funds that invest in low risk short term securities;
- Publicly traded mutual funds that invest in underlying debt securities;
- Publicly traded mutual funds that invest in underlying equity securities;
- Equity investments that are currently paying dividends or distributions. These investments include 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;
- Fixed maturity debt securities issued by U.S. states and local agencies; and
- Assets acquired related to the second quarter 2012 acquisition of one cemetery in Illinois (see Note 13). According to the terms of the agreement, the seller was required to liquidate the holdings of the related trusts upon closing and forward the proceeds to the Company as soon as practicable. As of June 30, 2012, the Company had not received these amounts. Accordingly, these assets are shown in a single line item in the disclosures below as "Assets acquired via acquisition" and the cost basis and fair value of such assets are based upon preliminary estimates that the Company is required to make in accordance with Accounting Topic 805.

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 June 30, 2012 and December 31, 2011 were as follows:

As of June 30, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Short-term investment	$ 15,831	$ —	$ —	$ 15,831
Fixed maturities:				
U.S. Government and federal agency	408	104	—	512
U.S. State and local government agency	66	81	—	147
Corporate debt securities	23,378	443	(640)	23,181
Other debt securities	371	—	—	371
Total fixed maturities	24,223	628	(640)	24,211
Mutual funds - debt securities	104,118	1,451	(360)	105,209
Mutual funds - equity securities	92,254	3,485	(2,675)	93,064
Equity Securities	23,141	5,300	(313)	28,128
Other invested assets	—	—	—	—
Total managed investments	$259,567	$ 10,864	$ (3,988)	$266,443
Assets acquired via acquisition	2,780	—	—	2,780
Total	$262,347	$ 10,864	$ (3,988)	$269,223

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

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

As of June 30, 2012	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
	(in thousands)			
U.S. Government and federal agency	$ —	$ 512	$ —	$ —
U.S. State and local government agency	147	—	—	—
Corporate debt securities	51	17,789	4,928	413
Other debt securities	371	—	—	—
Total fixed maturities	$ 569	$ 18,301	$ 4,928	$ 413

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

As of June 30, 2012	Less than 12 months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$ —	$ —	$ —	$ —	$ —	$ —
U.S. State and local government agency	—	—	—	—	—	—
Corporate debt securities	4,437	155	7,803	485	12,240	640
Other debt securities	—	—	—	—	—	—
Total fixed maturities	4,437	155	7,803	485	12,240	640
Mutual funds - debt securities	328	18	1,074	342	1,402	360
Mutual funds - equity securities	4,178	200	7,704	2,475	11,882	2,675
Equity securities	4,298	313	—	—	4,298	313
Other invested assets	—	—	—	—	—	—
Total	$13,241	$ 686	$16,581	$ 3,302	$29,822	$ 3,988

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

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

Fair Value @ 12/31/2011	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 6/30/2012
				(in thousands)					
$254,679	8,749	(7,414)	8,292	13	1,150	(413)	(891)	5,058	$269,223

The Company made net contributions to the trusts of approximately $1.3 million during the six months ended June 30, 2012. During the six months ended June 30, 2012, purchases and sales of securities available for sale included in trust investments were approximately $220.4 million and $221.7 million, respectively. Contributions include $2.8 million of assets that were acquired through an acquisition during the six months ended June 30, 2012.

Other-than-temporary Impairments of Trust Assets

During the three and six months ended June 30, 2012, the Company determined that there were no other than temporary impairments to the investment portfolio in the perpetual care trusts.

During the three and six months ended June 30, 2011, the Company determined that there was a single security with an aggregate cost basis of less than $0.1 million which was substantially impaired, and such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of this asset to its current value and offset this change against the liability for perpetual care trust corpus.

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, 2011	$ 6,054	$ —	$11,948	$14,297	$32,299
Goodwill resulting from acquisitions during the six months ended June 30, 2012	200	—	—	1,592	1,792
Balance as of June 30, 2012	$ 6,254	$ —	$11,948	$15,889	$34,091

During the second quarter of 2012, the Company became aware that it will receive a payment of $3.8 million in a legal settlement related to its fourth quarter 2011 acquisition of cemeteries and funeral homes in Tennessee. In addition, there were other adjustments of $0.3 million related to an increase in merchandise trust assets and a small increase in accounts receivable. These amounts have been recorded retrospectively as a purchase price adjustment for this acquisition resulting in a decrease to goodwill of $4.1 million. This adjustment has been reflected in the table above.

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 condensed consolidated balance sheet. All of the intangible assets are subject to amortization. The major classes of intangible assets are as follows:

	As of June 30, 2012			As of December 31, 2011		
	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	$ (463)	$ 5,776	$ 8,484	$ (546)	$ 7,938
Non-compete agreements	3,872	(1,898)	1,974	3,820	(1,413)	2,407
Other intangible assets	269	(73)	196	205	(67)	138
Total Intangible Assets	$ 10,380	$ (2,434)	$ 7,946	$ 12,509	$ (2,026)	$10,483

The decrease in the underlying contract value is mostly the result of the Company entering into an amended operating agreement with Kingwood Memorial Park Association. See Note 13 for further details.

8. LONG-TERM DEBT

The Company had the following outstanding debt:

	As of June 30, 2012	As of December 31, 2011
	(in thousands)	
Insurance premium financing	$ 818	$ 211
Vehicle Financing	934	1,147
Acquisition Credit Facility, due January 2017	—	10,750
Revolving Credit Facility, due January 2017	61,950	33,000
Note Payable - Greenlawn acquisition	1,250	1,321
Note Payable - Nelms acquisition (net of discount)	427	623
Note Payable - acquisition non-competes (net of discounts)	1,662	1,490
10.25% senior notes, due 2017	150,000	150,000
Total	217,041	198,542
Less current portion	2,035	1,487
Less unamortized bond discount	3,015	3,220
Long-term portion	$211,991	$ 193,835

This note includes a summary of material terms of the Company's senior notes, senior secured notes, credit facilities and other debt obligations. For a more detailed description of the Company's long-term debt agreements, see the Company's 2011 Form 10-K.

10.25% Senior Notes due 2017

The Company has outstanding a $150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 (the "Senior Notes"), with an original issue discount of approximately $4.0 million. The Company pays 10.25% 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. The Senior Notes mature on December 1, 2017.

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 prior agreement. 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 provides for a total Revolving Credit Facility of $130.0 million (the "Credit Facility"). Previously, the agreement had an Acquisition Credit Facility and a Revolving Credit Facility with different borrowing limits. The proceeds of the Credit Facility may be used to finance working capital requirements, Permitted Acquisitions and the purchase and construction of mausoleums. The maturity date of the Credit Facility is January 19, 2017.

At June 30, 2012, amounts outstanding under the Credit Facility bear interest at a rate of 3.7%. 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 2.75% and 2.25% to 3.75%, 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.

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 outstanding amounts under the Credit Facility. The Commitment Fee Rate under the Credit Agreement ranges from 0.375% to 0.75% 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 which would have a material adverse effect on the Company's business, financial condition or results of operations. The Company's covenants include a Consolidated Leverage Ratio and a Consolidated Debt Service Coverage Ratio. As of June 30, 2012, the Company was in compliance with all applicable financial covenants.

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9. INCOME TAXES

As of June 30, 2012, the Company's taxable corporate subsidiaries had federal net operating loss carryforwards of approximately $152.8 million, which will begin to expire in 2019 and $184.1 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 basis 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 and six months ended June 30, 2012 and 2011 is based upon the estimated annual effective tax rates expected to be applicable to the Company for 2012 and 2011, respectively. The Company's effective tax rate differs from its statutory tax rate primarily because the Company's legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

The Company is not currently under examination by any federal or state jurisdictions. The federal statute of limitations and certain state statutes of limitations are open from 2008 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 June 30, 2012 and December 31, 2011, deferred cemetery revenues, net, consisted of the following:

	As of	
	June 30, 2012	December 31, 2011
	(in thousands)	
Deferred cemetery revenue	$323,688	$ 306,488
Deferred merchandise trust revenue	59,099	50,419
Deferred merchandise trust unrealized gains (losses)	(6,394)	(7,937)
Deferred pre-acquisition margin	130,289	135,243
Deferred cost of goods sold	(44,594)	(42,335)
Deferred cemetery revenues, net	$462,088	$ 441,878
Deferred selling and obtaining costs	$ 71,921	$ 68,542

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.

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11. COMMITMENTS AND CONTINGENCIES

Legal

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

Leases

At June 30, 2012, 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 ten years and options to renew at varying terms. Expenses under operating leases were $0.7 million and $1.3 million for the three and six months ended June 30, 2012, respectively, and $0.5 million and $1.1 million for the three and six months ended June 30, 2011, respectively.

At June 30, 2012, operating leases will result in future payments in the following approximate amounts:

	(in thousands)
2013	$ 2,039
2014	1,359
2015	866
2016	799
2017	753
Thereafter	1,892
Total	$ 7,708

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 and six months ended June 30, 2012 and 2011 are summarized in the table below:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Unit appreciation rights	$ 129	$ 119	$ 248	$ 239
Restricted phantom units	81	72	161	142
Total unit-based compensation expense	$ 210	$ 191	$ 409	$ 381

As of June 30, 2012, there was approximately $0.9 million in non-vested unit appreciation rights outstanding. These unit appreciation rights will be expensed through the first quarter of 2014.

Other Unit Issuances

On June 6, 2012, the Company issued 13,720 units in connection with an acquisition. See Note 13. On June 21, 2012 and 2011, the Company issued 9,853 units in connection with an acquisition consummated in the second quarter of 2010.

13. ACQUISITIONS

First Quarter 2012 Acquisition

In second quarter of 2009, the Company entered into a long-term operating agreement (the “Operating Agreement”) with Kingwood Memorial Park Association (“Kingwood”) wherein the Company became the exclusive operator of the cemetery. At that time, the Operating Agreement did not qualify as an acquisition for accounting purposes. However, the existing merchandise and perpetual care trusts were consolidated as variable interest entities. In addition, merchandise and other liabilities assumed by the Company were also recorded as of the initial contract date. The consideration paid for this transaction, including cash and an assumed liability, exceeded the net assets recorded as of the initial contract date and an intangible asset was recorded for this amount.

In January of 2012, the Company entered into an amended and restated operating agreement (the “Amended Operating Agreement”), that supersedes the Operating Agreement. The Amended Operating Agreement has a term of 40 years and the Company remains the exclusive operator of the cemetery. As consideration for entering into the Amended Operating Agreement, the Company paid $1.7 million in cash and was relieved of a note payable to Kingwood. In addition, the prior trustees of Kingwood have resigned in favor of new trustees appointed by the Company. As a result of the changes in the Amended Operating Agreement, for accounting purposes, the Company has gained control of Kingwood, and acquisition accounting is now applicable.

The table below reflects the Company’s preliminary assessment of the fair value of net assets acquired, the elimination of debt and other assets and the purchase price, which results in the recognition of goodwill recorded in our Cemetery Operations – Southeast segment. These amounts may be retrospectively adjusted as additional information is received.

	Preliminary Assessment (in thousands)
Net Assets Acquired:	
Accounts receivable	$ 66
Cemetery property	3,001
Property and equipment	102
Total net assets acquired	3,169
Assets and Liabilities divested:	
Note payable to Kingwood	519
Intangible asset representing underlying contract value	(2,236)
Fair value of net assets acquired and divested	1,452
Consideration paid	1,652
Goodwill from purchase	$ 200

Second Quarter 2012 Acquisitions

On April 10, 2012, certain subsidiaries of the Company (collectively the “Buyer”) entered into a Stock Purchase Agreement with several individuals (collectively the “Seller”) to purchase all of the stock of Bronswood Cemetery, Inc., an Illinois Corporation. Through the purchase, the Buyer acquired one cemetery in Illinois, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid the Seller $0.9 million in cash.

The table below reflects the Company’s preliminary assessment of the fair value of net assets acquired, the purchase price and the gain on bargain purchase. These amounts may be retrospectively adjusted as additional information is received.

	Preliminary Assessment (in thousands)
Assets:	
Accounts receivable	$ 72
Cemetery property	842
Property and equipment	518
Perpetual care trusts, restricted, at fair value	2,780
Non-compete agreements	12
Total assets	4,224
Liabilities:	
Perpetual care trust corpus	2,780
Other liabilities	24
Deferred tax liability	374
Total liabilities	3,178
Fair value of net assets acquired	1,046
Consideration paid	924
Gain on bargain purchase	$ 122

In addition, on June 6, 2012, certain subsidiaries of the Company (collectively the "Buyer") entered into a Purchase Agreement with several individuals and Lodi Funeral Home, Inc. (collectively the "Seller") to purchase certain assets and assume certain liabilities of Lodi Funeral Home, Inc., a California corporation and all of the stock of Lodi All Faiths Cremation, a California corporation. Through the purchase, the Buyer acquired two funeral homes in California including certain related assets, and assumed certain related liabilities. As part of the agreement, the building and underlying real estate of Lodi Funeral Home, Inc. is being leased from the Seller. The lease agreement is a ten year agreement that contains one five year renewal term at the Buyer's election. In addition, at the end of the original lease or renewal term, the Buyer can elect to purchase the property for fair value less 10% of any rental amounts previously paid under the lease agreement. The Buyer also has a right of first refusal related to any potential sale of the property occurring during the lease term.

In consideration for the net assets acquired, the Buyer paid the Seller $0.85 million in cash and issued 13,720 units, which equates to $0.35 million worth of units. The Buyer will also pay an aggregate amount of $0.6 million in equal quarterly installments commencing on January 2, 2013 in exchange for non-compete agreements with the Seller.

The table below reflects the Company's preliminary assessment of the fair value of net assets acquired, the purchase price and the resulting goodwill recorded in our Funeral Homes operating segment. These amounts may be retrospectively adjusted as additional information is received.

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	Preliminary Assessment (in thousands)
Assets:	
Property and equipment	$ 48
Merchandise trusts, restricted, at fair value	105
Underlying lease value	64
Non-compete agreements	40
Total assets	257
Liabilities:	
Merchandise liabilities	105
Total liabilities	105
Fair value of net assets acquired	152
Consideration paid - cash	850
Consideration paid - units	350
Fair value of debt assumed for non-compete agreements	544
Total consideration paid	1,744
Goodwill from purchase	$ 1,592

First and Second Quarter 2011 Acquisitions

On January 5, 2011, the Operating Company, StoneMor North Carolina LLC, a North Carolina limited liability company and StoneMor North Carolina Subsidiary LLC, a North Carolina limited liability company, each a wholly-owned subsidiary of the Company (collectively the “Buyer”), entered into an Asset Purchase and Sale Agreement (the “1st Quarter Purchase Agreement”) with Heritage Family Services, Inc., a North Carolina corporation and an individual (collectively the “Seller”). Pursuant to the 1st Quarter Purchase Agreement, the Buyer acquired three cemeteries in North Carolina, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid the Seller $1.7 million in cash.

On June 22, 2011, the Operating Company, StoneMor Missouri LLC, a Missouri limited liability company and StoneMor Missouri Subsidiary LLC, a Missouri limited liability company, each a wholly-owned subsidiary of the Company (collectively the “Buyer”), entered into an Asset Purchase and Sale Agreement (the “2nd Quarter Purchase Agreement”) with SCI International, LLC, a Delaware limited liability company and Keystone America, Inc., a Delaware corporation (collectively the “Seller” or “SCI Missouri”). Pursuant to the 2nd Quarter Purchase Agreement, the Buyer acquired three cemeteries and four funeral homes in Missouri, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid the Seller $2.15 million in cash.

The table below reflects the Company’s final assessment of the fair value of net assets acquired, the purchase price and the resulting goodwill from these acquisitions. For a detailed breakout of the purchase price for these acquisitions on an individual basis, see our 2011 Form 10-K.

	Final Assessment
Assets:	
Accounts receivable	$ 191
Cemetery property	2,590
Merchandise trusts, restricted, at fair value	3,507
Perpetual care trusts, restricted, at fair value	1,534
Property and equipment	2,144
Other assets	100
Total assets	10,066
Liabilities:	
Deferred margin	2,097
Merchandise liabilities	2,382
Perpetual care trust corpus	1,534
Deferred tax liability	525
Total liabilities	6,538
Fair value of net assets acquired	3,528
Consideration paid	3,850
Goodwill from purchase	$ 322

The results of operations and pro forma results related to the acquisitions made in 2012 and 2011 are not material to the unaudited condensed consolidated financial statements taken as a whole.

The Company has made retrospective adjustments to its fourth quarter 2011 acquisition in Tennessee. See Note 7 for further details.

First Quarter 2012 Contract Termination

During the third quarter of 2010, certain subsidiaries of the Company entered into a long-term operating agreement (the "Operating Agreement") with the Archdiocese of Detroit (the "Archdiocese") wherein the Company became the exclusive operator of certain cemeteries in Michigan owned by the Archdiocese. The Operating Agreement did not qualify as an acquisition for accounting purposes. However, the existing merchandise trust had been consolidated as a variable interest entity as the Company controlled and directly benefited from the operations of the merchandise trust. In addition, liabilities assumed were also recorded as of the contract date. As no consideration was paid in this transaction, the Company had recorded a deferred gain of approximately $3.1 million within deferred cemetery revenues, net, which represented the excess of the value of the merchandise trust over the liabilities assumed.

Effective March 31, 2012, the Company and the Archdiocese agreed to terminate the Operating Agreement. As of the termination date, the Company no longer operated these properties. All activity occurring after March 31, 2012 is the responsibility of the Archdiocese and the Company has no remaining obligation to fulfill any merchandise liabilities or responsibility to perform any obligations of the properties.

In the first and second quarters of 2012, the Company received payments of approximately $2.0 million from the Archdiocese as a result of the termination. Consequently, the Company recognized a gain of $1.7 million during the six months ended June 30, 2012, which is the amount by which the payments from the Archdiocese exceeded the value of the net assets transferred to the Archdiocese.

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 our regionally based cemetery operating segments. Cremation rates in the West region are substantially higher than they are in the Southeast region. Rates in the Northeast region tend to be somewhere between the two. Statistics indicate that customers who select cremation services have certain attributes that differ from customers who select other methods of interment. The disaggregation of cemetery operations into the three distinct regional segments is primarily due to these differences in customer attributes along with the previously mentioned management structure and senior management analysis methodologies.

The Company’s 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 as of and for the three and six months ended June 30, 2012 and 2011 is as follows:

As of and for the three months ended June 30, 2012:

	Cemeteries			Funeral Homes			
	Southeast	Northeast	West	(in thousands)	Corporate	Adjustment	Total
Revenues							
Sales	$ 23,812	$ 9,545	$ 10,292	$ —	$ —	$ (9,535)	$ 34,114
Service and other	9,255	7,138	7,373	—	—	(4,227)	19,539
Funeral home	—	—	—	8,189	—	(334)	7,855
Total revenues	33,067	16,683	17,665	8,189	—	(14,096)	61,508
Costs and expenses							
Cost of sales	4,972	2,028	1,739	—	49	(1,552)	7,236
Cemetery	6,746	3,814	4,215	—	—	—	14,775
Selling	7,691	3,322	3,395	—	370	(1,655)	13,123
General and administrative	3,813	1,487	1,883	—	12	—	7,195
Corporate overhead	—	—	—	—	7,756	—	7,756
Depreciation and amortization	510	215	547	518	440	—	2,230
Funeral home	—	—	—	6,688	—	(73)	6,615
Acquisition related costs	—	—	—	—	782	—	782
Total costs and expenses	23,732	10,866	11,779	7,206	9,409	(3,280)	59,712
Operating profit	$ 9,335	$ 5,817	$ 5,886	$ 983	$ (9,409)	$ (10,816)	$ 1,796
Total assets	$491,103	$291,245	$384,949	$79,938	$26,195	$ —	$1,273,430
Amortization of cemetery property	$ 1,022	$ 853	$ 275	$ —	$ —	$ (21)	$ 2,129
Long lived asset additions	$ 802	$ 825	$ 2,630	$ 401	$ 194	$ —	$ 4,852
Goodwill	$ 6,254	$ —	$ 11,948	$15,889	$ —	$ —	$ 34,091

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As of and for the six months ended June 30, 2012:

	Cemeteries Southeast	Cemeteries Northeast	Cemeteries West	Funeral Homes	Corporate	Adjustment	Total
				(in thousands)			
Revenues							
Sales	$ 44,692	$ 18,003	$ 20,324	$ —	$ —	$ (17,882)	$ 65,137
Service and other	18,783	13,713	14,894	—	—	(8,224)	39,166
Funeral home	—	—	—	17,462	—	(670)	16,792
Total revenues	63,475	31,716	35,218	17,462	—	(26,776)	121,095
Costs and expenses							
Cost of sales	9,263	3,701	3,403	—	52	(2,763)	13,656
Cemetery	12,451	6,879	8,237	—	—	—	27,567
Selling	14,716	6,458	6,607	—	831	(3,702)	24,910
General and administrative	7,436	3,013	3,923	—	16	—	14,388
Corporate overhead	—	—	—	—	14,359	—	14,359
Depreciation and amortization	1,046	440	1,114	1,138	822	—	4,560
Funeral home	—	—	—	13,487	—	(116)	13,371
Acquisition related costs	—	—	—	—	1,113	—	1,113
Total costs and expenses	44,912	20,491	23,284	14,625	17,193	(6,581)	113,924
Operating profit	$ 18,563	$ 11,225	$ 11,934	$ 2,837	$(17,193)	$ (20,195)	$ 7,171
Total assets	$491,103	$291,245	$384,949	$79,938	$ 26,195	$ —	$1,273,430
Amortization of cemetery property	$ 2,001	$ 1,413	$ 569	$ —	$ —	$ (3)	$ 3,980
Long lived asset additions	$ 4,765	$ 1,374	$ 3,100	$ 460	$ 606	$ —	$ 10,305
Goodwill	$ 6,254	$ —	$ 11,948	$15,889	$ —	$ —	$ 34,091

As of and for the three months ended June 30, 2011:

	Cemeteries Southeast	Cemeteries Northeast	Cemeteries West	Funeral Homes	Corporate	Adjustment	Total
				(in thousands)			
Revenues							
Sales	$ 21,223	$ 8,565	$ 12,931	$ —	$ 1	$ (7,926)	$ 34,794
Service and other	7,820	5,618	6,256	—	—	(1,744)	17,950
Funeral home	—	—	—	7,563	—	(200)	7,363
Total revenues	29,043	14,183	19,187	7,563	1	(9,870)	60,107
Costs and expenses							
Cost of sales	4,354	1,715	2,062	—	—	(915)	7,216
Cemetery	6,076	3,899	5,487	—	—	—	15,462
Selling	7,189	2,952	3,784	—	97	(1,835)	12,187
General and administrative	3,292	1,493	2,246	—	—	—	7,031
Corporate overhead	—	—	—	—	5,986	—	5,986
Depreciation and amortization	427	230	733	169	483	—	2,042
Funeral home	—	—	—	5,698	—	—	5,698
Acquisition related costs	—	—	—	—	1,025	—	1,025
Total costs and expenses	21,338	10,289	14,312	5,867	7,591	(2,750)	56,647
Operating profit	$ 7,705	$ 3,894	$ 4,875	$ 1,696	$ (7,590)	$ (7,120)	$ 3,460
Total assets	$435,391	$287,396	$382,551	$51,521	$32,089	$ —	$1,188,948
Amortization of cemetery property	$ 1,000	$ 591	$ 215	$ —	$ —	$ (231)	$ 1,575
Long lived asset additions	$ 932	$ 488	$ 1,946	$ 2,092	$ 192	$ —	$ 5,650
Goodwill	$ 629	$ —	$ 11,949	$ 5,897	$ —	$ —	$ 18,475

As of and for the six months ended June 30, 2011:

	Cemeteries Southeast	Cemeteries Northeast	Cemeteries West	Funeral Homes	Corporate	Adjustment	Total
			(in thousands)				
Revenues							
Sales	$ 39,967	$ 16,533	$ 23,022	$ —	$ 5	$ (20,203)	$ 59,324
Service and other	16,179	11,579	15,071	—	—	(7,510)	35,319
Funeral home	—	—	—	15,044	—	(349)	14,695
Total revenues	56,146	28,112	38,093	15,044	5	(28,062)	109,338
Costs and expenses							
Cost of sales	8,071	3,316	3,616	—	—	(2,794)	12,209
Cemetery	11,027	6,969	9,552	—	—	—	27,548
Selling	13,605	5,770	6,716	—	678	(5,038)	21,731
General and administrative	6,269	3,020	4,172	—	(3)	—	13,458
Corporate overhead	—	—	—	—	11,944	—	11,944
Depreciation and amortization	758	444	1,241	567	1,478	—	4,488
Funeral home	—	—	—	11,007	—	—	11,007
Acquisition related costs	—	—	—	—	1,958	—	1,958
Total costs and expenses	39,730	19,519	25,297	11,574	16,055	(7,832)	104,343
Operating profit	$ 16,416	$ 8,593	$ 12,796	$ 3,470	$(16,050)	$ (20,230)	$ 4,995
Total assets	$435,391	$287,396	$382,551	$51,521	$ 32,089	$ —	$1,188,948
Amortization of cemetery property	$ 1,753	$ 1,140	$ 394	$ —	$ —	$ (329)	$ 2,958
Long lived asset additions	$ 3,871	$ 752	$ 3,277	$ 2,040	$ 304	$ —	$ 10,244
Goodwill	$ 629	$ —	$ 11,949	$ 5,897	$ —	$ —	$ 18,475

Results of individual business units are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to accounting principles generally accepted in the United States of America; therefore, the financial results of individual business units are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the business units. Methodologies are refined from time to time as management accounting practices are enhanced and businesses change. Revenues and associated expenses are not deferred in accordance with SAB No. 104 therefore, the deferral of these revenues and expenses is provided in the adjustment column to reconcile the Company's managerial financial statements to those prepared in accordance with 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 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 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 consolidated financial statements reflect Deferred Cemetery Revenue, Net and Deferred Selling and Obtaining Costs on the balance sheet, whereas the Company's management accounting practices exclude these items.

15. FAIR VALUE MEASUREMENTS

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

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

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

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

The following table allocates the Company’s assets measured at fair value as of June 30, 2012 and December 31, 2011.

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As of June 30, 2012
Merchandise Trust

Description	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 30,910	$ —	$ 30,910
Fixed maturities:			
U.S. government and federal agency	—	—	—
U.S. state and local government agency	—	23	23
Corporate debt securities	—	7,923	7,923
Other debt securities	—	—	—
Total fixed maturity investments	—	7,946	7,946
Mutual funds - debt securities	90,404	—	90,404
Mutual funds - equity securities - real estate sector	35,451	—	35,451
Mutual funds - equity securities - energy sector	5,361	—	5,361
Mutual funds - equity securities - MLP’s	26,866	—	26,866
Mutual funds - equity securities - other	69,242	—	69,242
Equity securities			
Preferred REIT’s	1,763	—	1,763
Master limited partnerships	39,719	—	39,719
Global equity securities	22,424	—	22,424
Other invested assets	—	8,499	8,499
Total	$322,140	$16,445	$338,585

Perpetual Care Trust

Description	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 15,831	$ —	$ 15,831
Fixed maturities:			
U.S. government and federal agency	512	—	512
U.S. state and local government agency	—	147	147
Corporate debt securities	—	23,181	23,181
Other debt securities	—	371	371
Total fixed maturity investments	512	23,699	24,211
Mutual funds - debt securities	105,209	—	105,209
Mutual funds - equity securities - real estate sector	38,085	—	38,085
Mutual funds - equity securities - energy sector	11,956	—	11,956
Mutual funds - equity securities - MLP’s	29,964	—	29,964
Mutual funds - equity securities - other	13,059	—	13,059
Equity securities			
Preferred REIT’s	778	—	778
Master limited partnerships	26,649	—	26,649
Global equity securities	701	—	701
Other invested assets	—	—	—
Total	$242,744	$23,699	$266,443

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As of December 31, 2011

Merchandise Trust

Description	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 38,312	$ —	$ 38,312
Fixed maturities:			
U.S. government and federal agency	—	—	—
U.S. state and local government agency	—	23	23
Corporate debt securities	—	9,765	9,765
Other debt securities	—	1,100	1,100
Total fixed maturity investments	—	10,888	10,888
Mutual funds - debt securities	67,421	—	67,421
Mutual funds - equity securities - real estate sector	22,847	—	22,847
Mutual funds - equity securities - energy sector	28,057	—	28,057
Mutual funds - equity securities - MLP's	20,308	—	20,308
Mutual funds - equity securities - other	70,076	—	70,076
Equity securities			
Preferred REIT's	9,001	—	9,001
Master limited partnerships	41,469	—	41,469
Global equity securities	21,882	—	21,882
Other invested assets	—	7,360	7,360
Total	$319,373	$18,248	$337,621

Perpetual Care Trust

Description	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 22,607	$ —	$ 22,607
Fixed maturities:			
U.S. government and federal agency	513	—	513
U.S. state and local government agency	—	147	147
Corporate debt securities	—	22,154	22,154
Other debt securities	—	371	371
Total fixed maturity investments	513	22,672	23,185
Mutual funds - debt securities	60,806	—	60,806
Mutual funds - equity securities - real estate sector	24,580	—	24,580
Mutual funds - equity securities - energy sector	20,069	—	20,069
Mutual funds - equity securities - MLP's	13,515	—	13,515
Mutual funds - equity securities - other	41,334	—	41,334
Equity securities			
Preferred REIT's	19,720	—	19,720
Master limited partnerships	27,998	—	27,998
Global equity securities	695	—	695
Other invested assets	—	170	170
Total	$231,837	$22,842	$254,679

All level 2 assets are priced utilizing independent pricing services. There were no level 3 assets.

16. SUBSEQUENT EVENTS

On July 31, 2012, the Company acquired 9 funeral homes and 4 cemeteries in Florida for $25.0 million in cash and equity. At this time, the Company does not have the information necessary to assess the fair value of net assets acquired and make a preliminary purchase price allocation.

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 discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q (including the notes thereto).

Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, including, but not limited to, information regarding the status and progress of our operating activities, the plans and objectives of our management, assumptions regarding our future performance and plans, and any financial guidance provided, as well as certain information in other filings with the SEC and elsewhere are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "project," "expect," "predict" and similar expressions identify these forward-looking statements. These forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated, including, but not limited to, the following: uncertainties associated with future revenue and revenue growth; the effect of the current economic downturn; the impact of 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 producing 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; our ability to maintain effective disclosure controls and procedures and internal control over financial reporting; 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, 2011, this Quarterly Report on Form 10-Q and our other reports filed with the SEC. We assume no obligation to update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

Organization

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. 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 272 cemeteries and 71 funeral homes.

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. Our most recent follow on public offering was on February 9, 2011.

Overview

Cemetery Operations

We are currently the second largest owner and operator of cemeteries in the United States. As of June 30, 2012, we operated 272 cemeteries in 26 states and Puerto Rico. We own 254 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, as of June 30, 2012, 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 87.2% and 86.1% of our revenues during the three and six months ended June 30, 2012 as compared to 87.8% and 86.6%during the same periods last year.

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

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

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 balance sheet in deferred cemetery revenues, net.

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

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

Contracts related to pre-need installment sales are usually for a period not to exceed 60 months, with payments of principal and interest required. Pre-need sales contracts normally contain provisions for both principal and interest. For those contracts that do not bear a market rate of interest, we impute such interest based upon the prime rate plus 150 basis points, which resulted in a rate of 4.75% for the three and six months ended June 30, 2012 and 2011.

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 into merchandise trusts for products or services that have already been delivered.

Expenses

We analyze and categorize our operating expenses as follows:

1. Cost of goods sold and selling expenses

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

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

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

2. Cemetery Expenses

Cemetery expenses represent the cost to maintain and repair our cemetery properties and 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 includes personnel costs, insurance and other costs necessary to maintain our cemetery offices.

4. Depreciation and amortization

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

5. Acquisition related costs

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

Funeral Home Operations

As of June 30, 2012, we owned and operated 71 funeral homes. These properties are located in 18 states and Puerto Rico. Thirty-nine 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 almost exclusively at the time of need utilizing salaried licensed funeral directors. Funeral home revenues accounted for approximately 12.8% and 13.9% of our revenues during the three and six months ended June 30, 2012 as compared to 12.2% and 13.4% 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 above.

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 relating to reporting requirements under U.S. federal securities laws and certain other additional expenses of being a public company.

2012 Developments

Significant business developments for the six months ended June 30, 2012 include the following:

- On January 19, 2012, we amended our Credit Agreement. See Liquidity and Capital Resources for further discussion.
- Effective March 31, 2012, we and the Archdiocese of Detroit terminated an operating agreement where we had been the exclusive operator of three cemeteries in Michigan. All activity occurring after March 31, 2012 is the responsibility of the Archdiocese and we have no remaining obligations under this agreement. Upon termination, we received payments of approximately $2.0 million from the Archdiocese, resulting in a gain of $1.7 million, which is the amount by which the payments from the Archdiocese exceeded the value of the net assets transferred to the Archdiocese.
- On April 10, 2012, we entered into a Stock Purchase Agreement with several individuals to purchase all of the stock of Bronswood Cemetery, Inc., an Illinois Corporation. Pursuant to this agreement, we acquired one cemetery in Illinois. In consideration for the net assets acquired, we paid $0.9 million in cash.
- On June 6, 2012, we entered into a Purchase Agreement with several individuals and Lodi Funeral Home, Inc. to purchase certain assets and assume certain liabilities of Lodi Funeral Home, Inc., a California corporation and all of the stock of Lodi All Faiths Cremation, a California corporation. Pursuant to this agreement, we acquired two funeral homes in California. In consideration for the net assets acquired, we paid $0.85 million in cash and issued $0.35 million in units.

Current Market Conditions and Economic Developments

In the third quarter of 2011, the markets took a downturn over fears of a European debt crisis. During the fourth quarter of 2011, there was some improvement in the markets and this improvement continued into the first quarter of 2012. However, the markets trended down in the second quarter of 2012. As of June 30, 2012, the ratio of market value to the amortized cost of assets in our merchandise trusts was 98.2%. This is an improvement from December 31, 2011 when the ratio was 97.7%, but is down from March 31, 2012 when the fair value of these assets exceeded their amortized cost by 0.3%. As of June 30, 2012, the market value of the assets in our perpetual care trust exceeded their amortized cost by 2.6%, which is an improvement from December 31, 2011 when the same ratio was 0.7%.

As of June 30, 2012, the majority of our long-term debt consists of $150.0 million in Senior Notes due in 2017 and $62.0 million of borrowings on our Credit Facility which expires in 2017. As of June 30, 2012, we had an unused line of $68.0 million under our Credit Agreement.

The value of pre-need and at-need contracts written has continued to grow and the aggregate values of contracts written were $66.1 million and $127.1 million for the three and six months ended June 30, 2012 as compared to $64.2 million and $121.1 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 profitability (the “Profitability Measure”) and certain coverage and leverage ratios as defined in the Credit Agreement described below.

The Profitability Measure 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 that we must follow for GAAP purposes is not considered.

We have two primary debt covenants that are dependent upon our financial results, the leverage ratio and the consolidated debt service coverage ratio. The leverage ratio relates to the ratio of consolidated debt to the Profitability Measure. Our leverage ratio was 3.25 at June 30, 2012 as opposed to a maximum allowed ratio of 3.65. The consolidated debt service coverage ratio relates to the ratio of Consolidated EBITDA to Consolidated Debt Service. Our consolidated debt service coverage ratio was 3.26 at June 30, 2012 as opposed to a minimum allowed ratio of 2.50.

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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. 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 accounting principles generally accepted in the United States of America. The preparation of these financial statements required us to make estimates, judgments and assumptions that affected the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods (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 2011 Form 10-K. There have been no significant changes to our critical accounting policies since the filing of our 2011 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 generally accepted accounting principles. 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2011 for a more detailed discussion of our accounting policies under GAAP.

Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011

Cemetery Segments

Cemetery Operations – Southeast

In 2011 we made several acquisitions in our Cemetery Operations – Southeast segment. Of these acquisitions, 6 occurred during the third quarter of 2011 and 5 occurred during the fourth quarter of 2011. Therefore, the results of operations for these properties have no impact on the three months ended June 30, 2011, but are included in the three months ended June 30, 2012. These additions are contributing the majority of the increase in revenues and costs and expenses for this segment.

The table below compares the results of operations for our Cemetery Operations – Southeast for the three months ended June 30, 2012 to the same period last year:

	Three months ended June 30,			
	2012	2011	Change ($)	Change (%)
		(in thousands) (non-GAAP)		
Total revenues	$33,067	$29,043	$ 4,024	13.9%
Total costs and expenses	23,732	21,338	2,394	11.2%
Operating profit	$ 9,335	$ 7,705	$ 1,630	21.2%

Revenues

The increase in revenues was related to an overall increase in the value of contracts written, with an increase of $2.5 million in the value of pre-need contracts and $0.4 million in the value of at-need contracts. In addition, we had an increase of $0.7 million in income from our trusts.

Total costs and expenses

The increase in costs and expenses was primarily related to:

- A $0.6 million increase in cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.
- A $0.5 million increase in selling expenses. This was primarily attributable to an increase of $0.3 million in commission related expenses and $0.2 million in advertising costs.
- A $0.7 million increase in cemetery expenses. The increase was primarily due to increases of $0.2 million in labor costs, $0.4 million in repair and maintenance costs and $0.1 million in utility and fuel costs.
- A $0.5 million increase in general and administrative expense primarily due to increases of $0.2 million in labor costs, $0.1 million in insurance costs and $0.2 million in general office costs.
- A $0.1 million increase in depreciation.

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Cemetery Operations – Northeast

The table below compares the results of operations for our Cemetery Operations – Northeast for the three months ended June 30, 2012 to the same period last year:

	Three months ended June 30,			
	2012	2011	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$16,683	$14,183	$ 2,500	17.6%
Total costs and expenses	10,866	10,289	577	5.6%
Operating profit	$ 5,817	$ 3,894	$ 1,923	49.4%

Revenues

The increase in revenues was related to an overall increase in the value of contracts written, with an increase of $0.3 million in the value of pre-need contracts and $0.9 million in the value of at-need contracts. In addition, we had an increase of $1.3 million in income from our trusts.

Total costs and expenses

The increase in costs and expenses was primarily related to:

- A $0.3 million increase in cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.
- A $0.4 million increase in selling expenses. This was primarily attributable to increases of $0.2 million in labor costs, $0.1 million in commission related expenses and $0.1 million in advertising and telemarketing costs.
- A $0.1 million decrease in cemetery expenses primarily due to a decrease in labor costs.

Cemetery Operations – West

Effective March 31, 2012, we terminated our operating agreement with the Archdiocese of Detroit. Therefore, the results of operations for these properties have no impact on the three months ended June 30, 2012, but are included in the three months ended June 30, 2011. The removal of these properties from our results of operations resulted in a $2.3 million decrease in revenues and $1.6 million decrease in costs and expenses, which is more than the entire decrease in revenues, and the majority of the decrease in costs and expenses.

Further, in the second quarter of 2011 we made 3 acquisitions and in the second quarter of 2012 we made one acquisition in our Cemetery Operations – West segment. The results of operations for these properties have less impact, and in some cases no impact, on the three months ended June 30, 2011, but are included in the three months ended June 30, 2012.

The table below compares the results of operations for our Cemetery Operations – West for the three months ended June 30, 2012 to the same period last year:

	Three months ended June 30,			
	2012	2011	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$17,665	$19,187	$ (1,522)	-7.9%
Total costs and expenses	11,779	14,312	(2,533)	-17.7%
Operating profit	$ 5,886	$ 4,875	$ 1,011	20.7%

Revenues

The decrease in revenues was driven by a decrease in the value of contracts written as a result of the aforementioned contract termination. There was a decrease of $1.8 million in the value of pre-need contracts written and a decrease of $1.4 million in the value of at-need contracts written. This was partially offset by an increase of $1.5 million in income from our trusts.

Total costs and expenses

The decrease in costs and expenses was driven by reduced expenses as a result of the aforementioned contract termination and primarily related to:

- A $0.3 million decrease in cost of goods sold. This was attributable to the corresponding decrease in the value of contracts written.
- A $0.4 million decrease in selling expense. This was primarily attributable to decreases in labor costs and commission related expenses.
- A $1.3 million decrease in cemetery expenses. The decrease was primarily due to decreases of $0.7 million in labor costs, $0.4 million in real estate taxes and $0.2 million in utility and fuel costs.
- A $0.4 million decrease in general and administrative expenses. The decrease was primarily due to decreases of $0.2 million in labor costs, $0.1 million in professional fees, and $0.1 million in general office costs.
- A $0.2 million decrease in depreciation.

Funeral Home Segment

In 2011 and 2012 we acquired 14 funeral homes. Of these acquisitions, 4 occurred during the second quarter of 2011, 4 occurred during the third quarter of 2011, 4 occurred during the fourth quarter of 2011 and 2 occurred during the second quarter of 2012. Therefore, the results of operations for these properties have no impact on the three months ended June 30, 2011, but are included in the three months ended June 30, 2012. These additions are primarily responsible for the increase to revenues and costs and expenses for this segment.

The table below compares the results of operations for our Funeral Home segment for the three months ended June 30, 2012 to the same period last year:

	Three months ended June 30,			
	2012	2011	Change ($)	Change (%)
		(in thousands) (non-GAAP)		
Total revenues	$8,189	$7,563	$ 626	8.3%
Total costs and expenses	7,206	5,867	1,339	22.8%
Operating profit	$ 983	$1,696	$ (713)	-42.0%

Revenues

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

Total costs and expenses

The increase in costs and expenses was primarily attributable to an increase of $0.5 million in personnel expenses, $0.1 in merchandise costs, $0.1 million in advertising costs and $0.4 million in depreciation expense, with the remainder attributable to various increases in general and administrative and other expense categories.

Corporate Segment

The table below compares expenses incurred by the Corporate segment for the three months ended June 30, 2012 to the same period last year:

	Three months ended June 30,			
	2012	2011	Change ($)	Change (%)
			(in thousands) (non-GAAP)	
Selling, cemetery and general and administrative expenses	$ 431	$ 97	$ 334	344.3%
Depreciation and amortization	440	483	(43)	-8.9%
Acquisition related costs	782	1,025	(243)	-23.7%
Corporate expenses				
Corporate personnel expenses	3,049	2,894	155	5.4%
Other corporate expenses	4,707	3,092	1,615	52.2%
Total corporate overhead	7,756	5,986	1,770	29.6%
Total corporate expenses	$9,409	$7,591	$ 1,818	23.9%

The increase in selling, cemetery and general and administrative expenses allocated to the Corporate segment was primarily attributable to commissions and training. The increase in total corporate overhead was primarily attributable to an increase of $0.2 million in labor costs, $1.1 million in professional fees and $0.5 million in other 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 meet the delivery component 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.

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The table below analyzes results of operations and the changes therein for the three months ended June 30, 2012 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 June 30, 2012 (in thousands)			Three months ended June 30, 2011 (in thousands)				
Revenues	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Change in GAAP results ($)	Change in GAAP results (%)
Pre-need cemetery revenues	$ 33,773	$ (8,631)	$25,142	$ 32,836	$ (6,804)	$26,032	$ (890)	-3.4%
At-need cemetery revenues	20,428	(850)	19,578	20,562	(1,132)	19,430	148	0.8%
Investment income from trusts	10,542	(4,526)	6,016	6,977	(1,921)	5,056	960	19.0%
Interest income	1,799	—	1,799	1,596	—	1,596	203	12.7%
Funeral home revenues	8,189	(334)	7,855	7,563	(200)	7,363	492	6.7%
Other cemetery revenues	873	245	1,118	443	187	630	488	77.5%
Total revenues	75,604	(14,096)	61,508	69,977	(9,870)	60,107	1,401	2.3%
Costs and expenses								
Cost of goods sold	8,788	(1,552)	7,236	8,131	(915)	7,216	20	0.3%
Cemetery expense	14,775	—	14,775	15,462	—	15,462	(687)	-4.4%
Selling expense	14,778	(1,655)	13,123	14,022	(1,835)	12,187	936	7.7%
General and administrative expense	7,195	—	7,195	7,031	—	7,031	164	2.3%
Corporate overhead	7,756	—	7,756	5,986	—	5,986	1,770	29.6%
Depreciation and amortization	2,230	—	2,230	2,042	—	2,042	188	9.2%
Funeral home expense	6,688	(73)	6,615	5,698	—	5,698	917	16.1%
Acquisition related costs	782	—	782	1,025	—	1,025	(243)	-23.7%
Total costs and expenses	62,992	(3,280)	59,712	59,397	(2,750)	56,647	3,065	5.4%
Operating profit	$ 12,612	$ (10,816)	$ 1,796	$ 10,580	$ (7,120)	$ 3,460	$ (1,664)	-48.1%

Revenues

Pre-need cemetery revenues were $25.1 million for the three months ended June 30, 2012, a decrease of $0.9 million, or 3.4%, as compared to $26.0 million during the same period last year. The decrease was primarily caused by an increase of $0.9 million in the value of cemetery contracts written which was offset by an increase of $1.8 million in deferred revenue.

At-need cemetery revenues were $19.6 million for the three months ended June 30, 2012, an increase of $0.2 million, or 0.8%, as compared to $19.4 million during the same period last year. The increase was primarily caused by a decrease of $0.1 million in the value of cemetery contracts written which was offset by a decrease of $0.3 million in deferred revenue.

The value of pre-need and at-need contracts was negatively impacted by the termination of our operating agreement with the Archdiocese of Detroit that occurred March 31, 2012. Further, the value of pre-need and at-need contracts was positively impacted by the acquisitions consummated during 2011 and 2012 as the results of operations for these cemeteries are included in the three months ended June 30, 2012, but have little to no impact on the three months ended June 30, 2011.

Investment income from trusts was $6.0 million for the three months ended June 30, 2012, an increase of $1.0 million, or 19.0%, as compared to $5.0 million during the same period last year. On a segment basis, we had an increase of $3.6 million, which was offset by an adjustment of $2.6 million related to funds for which we have not met the requirements that allow us to recognize them as revenue.

Interest income on accounts receivable was $1.8 million for the three months ended June 30, 2012, an increase of $0.2 million, or 12.7%, as compared to $1.6 million during the same period last year.

Revenues for the Funeral Home segment were $7.9 million for the three months ended June 30, 2012, an increase of $0.5 million, or 6.7%, compared to $7.4 million during the same period last year. The majority of the increase was driven by the 10 funeral homes we acquired subsequent to the second quarter of 2011, and was primarily attributable to a $0.1 million increase in pre-need revenues and a $0.4 million increase in other revenues.

Other cemetery revenues were $1.1 million for the three months ended June 30, 2012, an increase of $0.5 million, or 77.5%, as compared to $0.6 million during the same period last year.

Costs and Expenses

Cost of goods sold were $7.2 million during the three months ended June 30, 2012 and 2011. The ratio of cost of goods sold to cemetery revenues increased to 16.2% during the three months ended June 30, 2012 as compared to 15.9% during the same period last year. The change in the ratio primarily relates to changes in product mix.

Cemetery expenses were $14.8 million during the three months ended June 30, 2012, a decrease of $0.7 million, or 4.4%, compared to $15.5 million during the same period last year. The major components of the overall expense decrease were $0.6 million in labor costs, $0.4 million in real estate taxes and $0.1 million in utilities offset by an increase in repairs and maintenance of $0.4 million. 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 27.3% during the three months ended June 30, 2012 as compared to 29.0% during the same period last year.

Selling expenses were $13.1 million during the three months ended June 30, 2012, an increase of $0.9 million, or 7.7%, as compared to $12.2 million during the same period last year. The major components of the overall expense increase were $0.4 million in commissions, $0.3 million in telephone and telemarketing costs and a reduction in deferred selling expenses of $0.2 million. The ratio of selling expenses to cemetery revenues was 29.3% during the three months ended June 30, 2012 as compared to 26.8% during the same period last year. This ratio gives some indication of how effectively the money we invest in selling efforts is translating into sales. However, the majority of our selling expenses are sales commissions and bonuses which are based on a percentage of the value of actual contracts written. As a result, we would expect this ratio to remain fairly consistent.

General and administrative expenses were $7.2 million during the three months ended June 30, 2012, an increase of $0.2 million, or 2.3%, compared to $7.0 million during the same period last year. The majority of the increase was primarily due to increases in professional fees and insurance costs. General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our general and administrative costs relative to our overall cemetery operations. An increase in the ratio indicates that general and administrative percentage expense increases related to our cemetery properties exceeded percent increases in the value of contracts written, while a decrease in the ratio indicates that expense growth on a percentage basis did not exceed percentage increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to 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 remained fairly consistent at 13.3% and 13.2% during the three months ended June 30, 2012 and 2011, respectively.

Total corporate overhead was $7.8 million for the three months ended June 30, 2012, an increase of $1.8 million, or 29.6% compared to $6.0 million during the same period last year. The increase was primarily attributable to an increase of $0.2 million in labor costs, $1.1 million in professional fees and $0.5 million in other corporate expenses.

Depreciation and amortization was $2.2 million during the three months ended June 30, 2012, an increase of $0.2 million, or 9.2%, as compared to $2.0 million during the period last year. The increase was primarily due to additional depreciation and amortization from recent acquisitions.

Funeral home expenses were $6.6 million for the three months ended June 30, 2012, an increase of $0.9 million, or 16.1%, compared to $5.7 million during the same period last year. The increase was primarily attributable to an increase of $0.5 million in personnel expenses, $0.1 in merchandise costs, and $0.1 million in advertising costs, with the remainder attributable to various increases in general and administrative and other expense categories.

Acquisition related costs were $0.8 million for the three months ended June 30, 2012, a decrease of $0.2 million, or 23.7%, as compared to $1.0 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

As previously mentioned, certain income statement amounts are not allocated to segment operations. These amounts are those line items that can be found on our income statement below operating profit and above income before income taxes.

The table below summarizes these items and the changes between the three months ended June 30, 2012 and 2011:

	Three months ended June 30,			
	2012	2011	Change ($)	Change (%)
		(in thousands)		
Gain (loss) on termination of operating agreement	$ (83)	$ —	$ (83)	n/a
Gain on acquisition	122	—	122	n/a
Interest expense	4,870	4,352	518	11.9%
Income tax benefit	$ (866)	$(1,707)	$ 841	-49.3%

Interest expense has increased during the three months ended June 30, 2012 as compared to the same period last year. This increase is caused by increased borrowings on our credit facility, which are offset in part by reduced interest rates. Average amounts outstanding under our credit facility were $61.5 million and $3.0 million during the three months ended June 30, 2012 and 2011, respectively. However, amendments that we made to our credit facility have reduced our interest rate and the rate was approximately 2.8% lower during the three months ended June 30, 2012 as opposed to the same period last year.

The gain on acquisition relates to one of our second quarter 2012 acquisitions. Refer to Note 13 of our unaudited condensed consolidated financial statements in Item 1 of the Form 10-Q for a more detailed discussion. The amount recognized under gain on termination of operating agreement relates to an adjustment that reduces a previously recognized gain on an operating agreement terminated in the first quarter of 2012.

We had an income tax benefit of $0.9 million for the three months ended June 30, 2012, as compared to a benefit of $1.7 million during the same period last year. Our effective tax rate differs from our statutory tax rate primarily because our legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

Cemetery Operations – Southeast

In 2011 we made several acquisitions in our Cemetery Operations – Southeast segment. Of these acquisitions, 6 occurred during the third quarter of 2011 and 5 occurred during the fourth quarter of 2011. Therefore, the results of operations for these properties have no impact on the six months ended June 30, 2011, but are included in the six months ended June 30, 2012. These additions are contributing the majority of the increase in revenues and costs and expenses for this segment.

The table below compares the results of operations for our Cemetery Operations – Southeast for the six months ended June 30, 2012 to the same period last year:

	Six months ended June 30,			
	2012	2011	Change ($)	Change (%)
		(in thousands) (non-GAAP)		
Total revenues	$63,475	$56,146	$ 7,329	13.1%
Total costs and expenses	44,912	39,730	5,182	13.0%
Operating profit	$18,563	$16,416	$ 2,147	13.1%

Revenues

The increase in revenues was related to an overall increase in the value of contracts written, with an increase of $1.3 million in the value of at-need contracts and $4.0 million in the value of pre-need contracts. We also had an increase of $1.1 million in income from our trusts and $0.5 million in interest on accounts receivable.

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Total costs and expenses

The increase in costs and expenses was primarily related to:

- A $1.2 million increase in cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.
- A $1.1 million increase in selling expenses. This was primarily attributable to an increase of $0.4 million in salary and benefit expenses, $0.6 million in commission related expenses, and $0.1 million in telephone and telemarketing costs.
- A $1.4 million increase in cemetery expenses. The increase was primarily due to increases of $0.8 million in labor costs, $0.5 million in repair and maintenance costs, and $0.1 million in utility and fuel costs.
- A $1.2 million increase in general and administrative expense primarily due to an increase of $0.7 million in labor costs, $0.2 million in insurance costs, $0.1 million in professional fees and $0.2 million in general office costs.
- A $0.3 million increase in depreciation.

Cemetery Operations – Northeast

The table below compares the results of operations for our Cemetery Operations – Northeast for the six months ended June 30, 2012 to the same period last year:

	Six months ended June 30,			
	2012	2011	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$31,716	$28,112	$ 3,604	12.8%
Total costs and expenses	20,491	19,519	972	5.0%
Operating profit	$11,225	$ 8,593	$ 2,632	30.6%

Revenues

The increase in revenues was related to an overall increase in the value of contracts written, with an increase of $0.6 million in the value of at-need contracts and $1.0 million in the value of pre-need contracts. In addition, we had an increase of $2.0 million in income from our trusts.

Total costs and expenses

The increase in costs and expenses was primarily related to:

- A $0.4 million increase in cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.
- A $0.7 million increase in selling expense. This was primarily attributable to an increase of $0.3 million in labor costs, $0.2 million in commissions and $0.1 million in telephone and telemarketing costs.
- A $0.1 million decrease in cemetery expenses primarily attributable to a decrease in labor costs.

Cemetery Operations – West

Effective March 31, 2012, we terminated our operating agreement with the Archdiocese of Detroit. Therefore, the results of operations for these properties are only included in the six months ended June 30, 2012 up to that point, but are included in the entire period for the six months ended June 30, 2011. The removal of these properties from our results of operations is responsible for a $2.2 million decrease in revenues and $1.4 million decrease in costs and expenses period over period, and therefore is responsible for the majority of the decrease in revenues and costs and expenses.

Further, in the second quarter of 2011 we made 3 acquisitions and in the second quarter of 2012 we made 1 acquisition in our Cemetery Operations – West segment. The results of operations for these properties have less impact, and in some cases no impact, on the six months ended June 30, 2011, but are included in the six months ended June 30, 2012. These acquisitions are increasing revenues and expenses period over period.

The table below compares the results of operations for our Cemetery Operations – West for the six months ended June 30, 2012 to the same period last year:

	Six months ended June 30,			
	2012	2011	Change ($)	Change (%)
		(in thousands) (non-GAAP)		
Total revenues	$35,218	$38,093	$ (2,875)	-7.5%
Total costs and expenses	23,284	25,297	(2,013)	-8.0%
Operating profit	$11,934	$12,796	$ (862)	-6.7%

Revenues

The decrease in revenues was driven by a decrease in the value of contracts written as a result of the aforementioned contract termination. There was a decrease of $2.1 million in the value of pre-need contracts written and a decrease of $1.1 million in the value of at-need contracts written, offset by an increase of $0.1 million in income from our trusts.

Total costs and expenses

The decrease in costs and expenses was driven by reduced expenses as a result of the aforementioned contract termination and primarily related to:

- A $0.2 million decrease in cost of goods sold. This was attributable to the corresponding decrease in the value of contracts written.
- A $0.1 million decrease in selling expense. The decrease was primarily due to decreases of $0.2 million in commissions and $0.1 million in labor costs, offset by an increase of $0.2 million in telephone and telemarketing costs.
- A $1.3 million decrease in cemetery expenses. The decrease was primarily due to decreases of $0.6 million in labor costs, $0.2 million in utility costs, $0.1 million in repair and maintenance costs and $0.3 million in real estate taxes.
- A $0.2 million decrease in general and administrative expenses. The decrease was primarily due to a decrease of $0.1 million in labor costs and several other small decreases.
- A $0.1 million decrease in depreciation.

Funeral Home Segment

In 2011 and 2012, we acquired 14 funeral homes. Of these acquisitions, 4 occurred during the second quarter of 2011, 4 occurred during the third quarter of 2011, 4 occurred during the fourth quarter of 2011 and 2 occurred during the second quarter of 2012. Therefore, the results of operations for these properties have no impact on the six months ended June 30, 2011, but are included in the six months ended June 30, 2012. These additions are primarily responsible for the entire increase to revenues and the majority of the increase to costs and expenses for this segment.

The table below compares the results of operations for our Funeral Home segment for the six months ended June 30, 2012 to the same period last year:

	Six months ended June 30,			
	2012	2011	Change ($)	Change (%)
		(in thousands) (non-GAAP)		
Total revenues	$17,462	$15,044	$ 2,418	16.1%
Total costs and expenses	14,625	11,574	3,051	26.4%
Operating profit	$ 2,837	$ 3,470	$ (633)	-18.2%

Revenues

The increase in revenues was primarily attributable to a $1.0 million increase in at-need revenues, a $0.9 million increase in pre-need revenues and a $0.5 million increase in other revenues.

Total costs and expenses

The increase in costs and expenses was primarily attributable to an increase of $1.4 million in personnel expenses, $0.2 million in facility costs, $0.4 million in merchandise costs and $0.6 million in depreciation, with the remainder attributable to increases in other general expense categories.

Corporate Segment

The table below compares expenses incurred by the Corporate segment for the six months ended June 30, 2012 to the same period last year:

	Six months ended June 30,			
	2012	2011	Change ($)	Change (%)
		(in thousands) (non-GAAP)		
Selling, cemetery and general and administrative expenses	$ 899	$ 675	$ 224	33.2%
Depreciation and amortization	822	1,478	(656)	-44.4%
Acquisition related costs	1,113	1,958	(845)	-43.2%
Corporate expenses				
Corporate personnel expenses	6,197	5,658	539	9.5%
Other corporate expenses	8,162	6,286	1,876	29.8%
Total corporate overhead	14,359	11,944	2,415	20.2%
Total corporate expenses	$17,193	$16,055	$ 1,138	7.1%

The increase in selling, cemetery and general and administrative expenses allocated to the Corporate segment was primarily attributable to commissions and training. The increase in total corporate overhead was primarily attributable to an increase of $0.5 million in labor costs, $1.1 million in professional fees, and $0.1 million in advertising costs, with the remainder attributable to various 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 meet the delivery component for revenue recognition.

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The table below analyzes results of operations and the changes therein for the six months ended June 30, 2012 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:

	Six months ended June 30, 2012 (in thousands)			Six months ended June 30, 2011 (in thousands)				
Revenues	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Change in GAAP results ($)	Change in GAAP results (%)
Pre-need cemetery revenues	$ 63,615	$ (15,726)	$ 47,889	$ 60,657	$ (17,212)	$ 43,445	$ 4,444	10.2%
At-need cemetery revenues	40,860	(1,978)	38,882	40,207	(3,460)	36,747	2,135	5.8%
Investment income from trusts	20,405	(8,909)	11,496	17,267	(7,442)	9,825	1,671	17.0%
Interest income	3,737	—	3,737	3,138	—	3,138	599	19.1%
Funeral home revenues	17,462	(670)	16,792	15,044	(349)	14,695	2,097	14.3%
Other cemetery revenues	1,792	507	2,299	1,087	401	1,488	811	54.5%
Total revenues	147,871	(26,776)	121,095	137,400	(28,062)	109,338	11,757	10.8%
Costs and expenses								
Cost of goods sold	16,419	(2,763)	13,656	15,003	(2,794)	12,209	1,447	11.9%
Cemetery expense	27,567	—	27,567	27,548	—	27,548	19	0.1%
Selling expense	28,612	(3,702)	24,910	26,769	(5,038)	21,731	3,179	14.6%
General and administrative expense	14,388	—	14,388	13,458	—	13,458	930	6.9%
Corporate overhead	14,359	—	14,359	11,944	—	11,944	2,415	20.2%
Depreciation and amortization	4,560	—	4,560	4,488	—	4,488	72	1.6%
Funeral home expense	13,487	(116)	13,371	11,007	—	11,007	2,364	21.5%
Acquisition related costs	1,113	—	1,113	1,958	—	1,958	(845)	-43.2%
Total costs and expenses	120,505	(6,581)	113,924	112,175	(7,832)	104,343	9,581	9.2%
Operating profit	$ 27,366	$ (20,195)	$ 7,171	$ 25,225	$ (20,230)	$ 4,995	$ 2,176	43.6%

Revenues

Pre-need cemetery revenues were $47.9 million for the six months ended June 30, 2012, an increase of $4.4 million, or 10.2%, as compared to $43.5 million during the same period last year. The increase was primarily caused by an increase of $3.0 million in the value of cemetery contracts written and a decrease of $1.5 million in deferred revenue.

At-need cemetery revenues were $38.9 million for the six months ended June 30, 2012, an increase of $2.1 million, or 5.8%, as compared to $36.8 million during the same period last year. The increase was primarily caused by an increase of $0.7 million in the value of cemetery contracts written and a decrease in deferred revenue of $1.4 million.

The majority of the increase in the value of pre-need and at-need contracts was primarily driven by our Cemetery Operations - Southeast segment where we acquired 6 cemeteries during the third quarter of 2011 and 5 cemeteries during the fourth quarter of 2011. Therefore, the results of operations for these cemeteries are included in the six months ended June 30, 2012, but have no impact on the six months ended June 30, 2011. In addition, the value of pre-need and at-need contracts was negatively impacted by the termination of our operating agreement with the Archdiocese of Detroit that occurred March 31, 2012.

Investment income from trusts was $11.5 million for the six months ended June 30, 2012, an increase of $1.7 million, or 17.0%, as compared to $9.8 million during the same period last year. On a segment basis, we had an increase of $3.1 million, which was offset by an adjustment of $1.4 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 $3.7 million for the six months ended June 30, 2012, an increase of $0.6 million, or 19.1%, as compared to $3.1 million during the same period last year.

Revenues for the Funeral Home segment were $16.8 million for the six months ended June 30, 2012, an increase of $2.1 million, or 14.3%, compared to $14.7 million during the same period last year. The increase was driven by the 10 funeral homes we acquired in 2011 and 2012, and was primarily attributable to a $0.6 million increase in at-need revenues, a $0.6 million increase in pre-need revenues and a $0.9 million increase in other revenues.

Other cemetery revenues were $2.3 million for the six months ended June 30, 2012, as compared to $1.5 million during the same period last year.

Costs and Expenses

Cost of goods sold were $13.7 million during the six months ended June 30, 2012, an increase of $1.5 million, or 11.9%, as compared to $12.2 million during the same period last year. The ratio of cost of goods sold to cemetery revenues increased slightly to 15.7% during the six months ended June 30, 2012 as compared to 15.2% during the same period last year.

Cemetery expenses were $27.6 million during the six months ended June 30, 2012 and 2011. Overall expense increases of $0.1 million in labor costs and $0.4 million in repairs and maintenance were offset by decreases of $0.4 million in real estate taxes and $0.1 million in utilities. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 26.4% during the six months ended June 30, 2012 as compared to 27.3% during the same period last year.

Selling expenses were $24.9 million during the six months ended June 30, 2012, an increase of $3.2 million, or 14.6%, as compared to $21.7 million during the same period last year. The majority of our selling expenses are directly related to sales commissions and bonuses, which would be directly related to changes in the value of pre-need and at-need contracts written. The ratio of selling expenses to cemetery revenues increased to 28.7% during the six months ended June 30, 2012 as compared to 27.1% during the same period last year. The major components of the overall expense increase include $0.8 million in commissions, $0.6 million in salaries and benefits and $0.4 million in telephone and telemarketing expense, as well as a reduction in deferred selling expenses of $1.3 million.

General and administrative expenses were $14.4 million during the six months ended June 30, 2012, an increase of $0.9 million, or 6.9%, compared to $13.5 million during the same period last year. The majority of the increase was due to increases of $0.6 million in labor costs, $0.3 million in insurance costs and $0.2 million in professional fees offset by decreases to other general expenses. General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues increased slightly to 13.8% during the six months ended June 30, 2012 compared to 13.3% during the same period last year.

Total corporate overhead was $14.4 million during the six months ended June 30, 2012, an increase of $2.4 million, or 20.2%, compared to $12.0 million during the same period last year. The increase was primarily attributable to an increase of $0.5 million in labor costs, $1.1 million in professional fees, and $0.1 million in advertising costs, with the remainder attributable to general office costs.

Depreciation and amortization was $4.6 million during the six months ended June 30, 2012, an increase of $0.1 million, or 1.6%, as compared to $4.5 million during the period last year. The increase was primarily due to additional depreciation and amortization from recent acquisitions.

Funeral home expenses were $13.4 million for the six months ended June 30, 2012, an increase of $2.4 million, or 21.5%, as compared to $11.0 million during the same period last year. The increase was primarily attributable to an increase of $1.4 million in labor costs, $0.4 million in merchandise costs, $0.2 million in facility costs and $0.1 million in advertising costs, with the remainder attributable to various increases in general and administrative and other expense.

Acquisition related costs were $1.1 million for the six months ended June 30, 2012, a decrease of $0.8 million, or 43.2%, as compared to $1.9 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

As previously mentioned, certain income statement amounts are not allocated to segment operations. These amounts are those line items that can be found on our income statement below operating profit and above income before income taxes.

The table below summarizes these items and the changes between the six months ended June 30, 2012 and 2011:

	Six months ended June 30,			
	2012	2011	Change ($)	Change (%)
	(in thousands)			
Expenses related to refinancing	$ —	$ 453	$ (453)	-100.0%
Early extinguishment of debt	—	4,010	(4,010)	-100.0%
Gain (loss) on termination of operating agreement	1,737	—	1,737	n/a
Gain on acquisition	122	—	122	n/a
Interest expense	9,836	9,442	394	4.2%
Income tax benefit	$ (667)	$(2,511)	$ 1,844	-73.4%

During the six months ended June 30, 2011, we incurred $0.5 million of expenses when we amended our credit facilities in January of 2011 and incurred an early extinguishment of debt charge of $4.0 million related to a one-time make-whole premium we paid in connection with the early repayment of our $35.0 million in Class B and Class C Senior Secured Notes.

During the six months ended June 30, 2012, we recognized a gain of $1.7 million related to the termination of an operating agreement.

The gain on acquisition relates to one of our second quarter 2012 acquisitions. Refer to Note 13 of our unaudited condensed consolidated financial statements in Item 1 of the Form 10-Q for a more detailed discussion.

Interest expense has increased during the six months ended June 30, 2012 as compared to the same period last year. This increase is caused by increased borrowings on our credit facility, which are offset in part by a change in our debt mix and reduced interest rates. Average amounts outstanding under our credit facility were $54.7 million and $8.9 million during the six months ended June 30, 2012 and 2011, respectively. However, amendments that we made to our credit facility have reduced our interest rate and the rate was approximately 2.8% lower at June 30, 2012 as opposed to the same period last year. In addition, we had $35.0 million of Senior Secured Notes which bore interest at 12.5% outstanding at the beginning of 2011. The Senior Secured Notes were repaid in February of 2011.

We had an income tax benefit of $0.7 million for the six months ended June 30, 2012, as compared to a benefit of $2.5 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.

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Supplemental data

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

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Operating Data:				
Interments performed	11,127	11,096	22,928	22,780
Interment rights sold:				
Lots	7,627	8,373	13,857	14,278
Mausoleum crypts (including pre-construction)	624	940	1,201	1,548
Niches	245	320	519	582
Total interment rights sold	8,496	9,633	15,577	16,408
Number of contracts written	25,834	27,152	50,240	51,139
Aggregate contract amount, in thousands (excluding interest)	$ 66,070	$ 64,232	$ 127,094	$ 121,135
Average amount per contract (excluding interest)	$ 2,557	$ 2,366	$ 2,530	$ 2,369
Number of pre-need contracts written	12,930	13,653	24,516	25,215
Aggregate pre-need contract amount, in thousands (excluding interest)	$ 43,292	$ 41,790	$ 81,978	$ 77,200
Average amount per pre-need contract (excluding interest)	$ 3,348	$ 3,061	$ 3,344	$ 3,062
Number of at-need contracts written	12,904	13,499	25,724	25,924
Aggregate at-need contract amount, in thousands	$ 22,778	$ 22,442	$ 45,116	$ 43,935
Average amount per at-need contract	$ 1,765	$ 1,663	$ 1,754	$ 1,696

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 credit facilities as described below. In the past, we have been able to increase our liquidity through long-term bank borrowings and the issuance of additional common units and other partnership securities, including debt, subject to the restrictions in our credit facility and under our senior secured notes.

We believe that cash generated from operations and our borrowing capacity under our 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

10.25% Senior Notes due 2017

We have outstanding $150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 (the “Senior Notes”), with an original issue discount of approximately $4.0 million. We pay 10.25% 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. The Senior Notes mature on December 1, 2017. As of June 30, 2012, we were in compliance with all applicable covenants included in the Indenture governing 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 prior agreement which was amended numerous times prior to entering into the Credit Agreement. 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 provides for a total Revolving Credit Facility of $130.0 million (the “Credit Facility”). Previously, the agreement had an Acquisition Credit Facility and a Revolving Credit Facility with different borrowing limits. The proceeds of the Credit Facility may be used to finance working capital requirements, Permitted Acquisitions and the purchase and construction of mausoleums. The maturity date of the Credit Facility is January 19, 2017.

At June 30, 2012, amounts outstanding under the Credit Facility bear interest at a rate of 3.7%. 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 2.75% and 2.25% to 3.75%, 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.

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 outstanding amounts under the Credit Facility. The Commitment Fee Rate under the Credit Agreement ranges from 0.375% to 0.75% 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 financial covenants. Any such breach could allow the Lenders to accelerate our debt which would have a material adverse effect on our business, financial condition or results of operations. As of June 30, 2012 we were in compliance with all applicable covenants under the Credit Agreement.

Amounts outstanding under our credit facility fluctuated during the six months ended June 30, 2012 and 2011. At the beginning of 2012, we had $43.8 million outstanding on our credit facilities. These amounts were combined into one facility in January of 2012. We borrowed an additional $7.3 million and $10.9 million during the first and second quarters of 2012, respectively, and have outstanding borrowings of $62.0 million on our Credit Facility at June 30, 2012. At the beginning of 2011, we had $33.5 million outstanding on our credit facilities which we repaid in February of 2011. We did not have any additional borrowings on our credit facilities from this point through the end of May 2011, when we borrowed $8.0 million. The average amounts borrowed under our credit facilities were $54.7 million and $8.9 million for the six months ended June 30, 2012 and 2011, respectively.

For a more detailed description of our long-term debt agreements, see our 2011 Form 10-K.

Cash Flow from Operating Activities

Cash flows provided by operating activities were $14.2 million during the six months ended June 30, 2012, an increase of $17.3 million compared to cash flows used in operating activities of $3.1 million during the same period last year. The increase is primarily due to a decrease in cash used for payables of $7.9 million, a decrease of cash inflows into the merchandise trusts of $9.3 million, a decrease in interest paid of $0.5 million and a decrease in acquisition related costs of $0.8 million, combined with increased cash flows of $2.1 million from our accounts receivable and the use of $3.5 million more in cash to satisfy merchandise liabilities.

Cash Flow from Investing Activities

Net cash used in investing activities was $8.9 million during the six months ended June 30, 2012 as compared to $9.3 million during the same period last year. Cash flows used for investing activities during the six months ended June 30, 2012 were $3.4 million paid for the acquisition of 1 cemetery and 2 funeral homes and the execution of a revised operating agreement and $5.4 million for other capital expenditures. Cash flows used for investing activities during the six months ended June 30, 2011 were $3.8 million for the acquisition of six cemetery properties and four funeral homes and $5.5 million for other capital expenditures.

Cash Flow from Financing Activities

Cash flows used in financing activities were $9.6 million during the six months ended June 30, 2012 as compared to cash provided by financing activities of $17.6 million during the same period last year. Cash flows used in financing activities for the six months ended June 30, 2012 were cash distributions to unit holders of $23.6 million and financing costs related to our amended credit facility of $1.8 million, offset by net borrowings of $15.8 million. Cash flows provided by financing activities for the six months ended June 30, 2011 were $103.2 million of proceeds from our public offering and contribution from our general partner of $2.2 million offset by net repayments of long-term debt of $61.6 million, cash distributions to unit holders of $21.1 million, the payment of a $4.0 million make-whole premium related to the pay-off of $35.0 million in Senior Secured Notes and cost of financing activities of $1.1 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 June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Maintenance capital expenditures	$ 937	$ 1,445	$1,835	$3,204
Expansion capital expenditures	4,157	3,714	7,026	6,120
Total capital expenditures	$ 5,094	$ 5,159	$8,861	$9,324

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 June 30, 2012, the fair value of fixed-income securities in our merchandise trusts represented 2.3% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 9.0% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was $7.9 million and $24.2 million in merchandise trusts and perpetual care trusts, respectively, as of June 30, 2012. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately $79,000 and $242,000 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows. If these securities are held to maturity, no change in fair market value will be realized.

Our money market and other short-term investments subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of June 30, 2012, the fair value of money market and short-term investments in our merchandise trusts represented 8.9% of the fair value of total trust assets while the fair value of money market and short-term investments in our perpetual care trusts represented 5.9% of the fair value of total trust assets. The aggregate quoted fair value of these money market and short-term investments was $30.9 million and $15.8 million in merchandise trusts and perpetual care trusts, respectively, as of June 30, 2012. Each 1% change in interest rates on these money market and short-term investments would result in changes of approximately $309,000 and $158,000 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 both individual equity securities as well as closed and open ended mutual funds. As of June 30, 2012, the fair value of marketable individual equity securities in our merchandise trusts represented 18.5% of the fair value of total trust assets while the fair value of marketable individual equity securities in our perpetual care trusts represented 10.4% of total trust assets. The aggregate quoted fair market value of these marketable individual equity securities was $63.9 million and $28.1 million in merchandise trusts and perpetual care trusts, respectively, as of June 30, 2012, based on final quoted sales prices. Each 10% change in the average market prices of the individual equity securities would result in a change of approximately $6.4 million and $2.8 million in the fair market value of securities held in merchandise trusts and perpetual care trusts, respectively. As of June 30, 2012, the fair value of marketable closed and open ended mutual funds in our merchandise trusts represented 65.7% 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 73.6% of total trust assets. The aggregate quoted fair market value of these closed and open ended mutual funds was $227.3 million and $198.2 million in merchandise trusts and perpetual care trusts, respectively, as of June 30, 2012, 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 $22.7 million and $19.8 million in the fair market value of securities held in merchandise trusts and perpetual care trusts, respectively.

Investment Strategies and Objectives

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

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

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

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

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

Debt Instruments

Our Credit Facility bears interest at a floating rate, based on LIBOR, which is adjusted quarterly. This subjects us to increases in interest expense resulting from movements in interest rates. As of June 30, 2012, we had $62.0 million of borrowings outstanding under our Credit Facility. After borrowings, our unused line of credit under the Credit Facility is $68.0 million. The interest rate on amounts outstanding under the Credit Facility was approximately 3.7% at June 30, 2012.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Disclosure Committee and management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon, and as of the date of this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in our reports under the Securities Exchange Act of 1934 as amended is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, 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 June 30, 2012 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and in other reports filed with the SEC which could materially affect our business, financial condition or future results.

The risks described in the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and in other reports filed with the SEC are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by us described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and in other reports filed with the SEC.

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

On June 6, 2012, certain subsidiaries of the Company acquired the stock of Lodi All Faiths Cremation, a California corporation, and certain assets and liabilities of Lodi Funeral Home, Inc., a California corporation. In consideration for obtaining an option to purchase real property owned by Samuel D. Salas Properties, a California general partnership, on which Lodi Funeral Home, Inc. operates a funeral home and related business, the Company issued 13,720 units to the partnership. See Note 13 to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a description of this acquisition.

The Company offered and issued the units in reliance upon the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended, and Regulation D promulgated thereunder. The Company relied on this exemption from registration based in part on representations made by the investor in the Purchase Agreement.

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	Employment Agreement, effective April 1, 2012, by and between StoneMor GP LLC and William Shane (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on April 2, 2012).
10.2	Form of the Unit Appreciation Rights Agreement under the StoneMor Partners L.P. Long-Term Incentive Plan, dated as of April 2, 2012.
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 and Secretary.
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 and Secretary (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 June 30, 2012, and December 31, 2011; (ii) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011; (iii) Condensed Consolidated Statement of Partners’ Capital; (iv) Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2012 and 2011; and (v) Notes to the Condensed Consolidated Financial Statements. Users of this data are advised pursuant to Rule 401 of Regulation S-T 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.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

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

STONEMOR PARTNERS L.P.
By: StoneMor GP LLC
its general partner

August 7, 2012	/s/ Lawrence Miller Lawrence Miller Chief Executive Officer, President and Chairman of the Board of Directors (Principal Executive Officer)
August 7, 2012	/s/ Timothy K. Yost Timothy K. Yost Chief Financial Officer and Secretary (Principal Financial Officer)

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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 June 30, 2012, and December 31, 2011; (ii) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011; (iii) Condensed Consolidated Statement of Partners' Capital; (iv) Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2012 and 2011; and (v) Notes to the Condensed Consolidated Financial Statements. Users of this data are advised pursuant to Rule 401 of Regulation S-T 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.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

<u>Exhibit 10.2</u>

UNIT APPRECIATION RIGHTS AGREEMENT
UNDER THE
STONEMOR PARTNERS L.P. LONG-TERM INCENTIVE PLAN

This Key Employee Unit Appreciation Rights Agreement (the "Agreement") entered into as of April 2, 2012, (the "Agreement Date"), by and between StoneMor GP LLC (the "Company"), the general partner of and acting on behalf of StoneMor Partners L.P., a Delaware limited partnership (the "Partnership"), and , a key employee of the Company or its Affiliates (the "Participant").

BACKGROUND:

In order to make certain awards to key employees, directors and consultants of the Company and its Affiliates, the Company maintains on behalf of the Partnership the StoneMor Partners L.P. Long-Term Incentive Plan (the "Plan"). The Plan is administered by the Compensation Committee (the "Committee") of the Board of Directors ("Board") of the Company. The Committee has determined to grant to the Participant, pursuant to the terms and conditions of the Plan, an award (the "Award") of Unit Appreciation Rights Agreement (also called "UARS"), which entitles the holder to receive, in whole Common Units of the Partnership ("Common Units") the excess of the Fair Market Value of a Common Unit on the exercise date over the exercise base price established for the UARS, subject to the terms and conditions contained herein. The exercise base price for the UAR is intended to equal to Fair Market Value of a Common Unit on the Date of Grant (as defined herein). The Participant has determined to accept such Award. Any initially capitalized terms and phrases used in this Agreement, but not otherwise defined herein, shall have the respective meanings ascribed to them in the Plan.

NOW, THEREFORE, the Company, acting on behalf of the Partnership, and the Participant, each intending to be legally bound hereby, agree as follows:

ARTICLE I
AWARD OF UARS

1.1 <u>Grant of UARS and Vesting</u> . The Participant is hereby granted the following UARS under the Plan and the following terms shall have the following respective meanings as used hereafter in this Agreement:

<u>Date of Grant</u>	April 2, 2012
Exercise Base Price for Each of the UARS *	$ 24.36
Total Number of UARS	________

UARS vest at a percentage rate which is equal to a fraction the numerator of which is the number of calendar months which have elapsed since April 2, 2012 and the denominator of which is 48, subject to the forfeiture provisions contained in Section 1.4 hereof.

All of the UARS shall automatically vest upon a Change of Control (as defined in the Plan), notwithstanding that the UARS have not otherwise vested, provided that, at the time of

* Intended to Equal Fair Market Value on Date of Grant

the Change of Control, the Participant is then employed by the Company or any of its Affiliates. All of the UARS shall automatically vest upon retirement at or after age 60 of a Participant who has at least 25 years of service with the Company or any of its predecessor's companies (as determined by the Committee).

The term "permanent disability", as used in Section 1.4, shall refer to a "disability" as defined in Regulation 1.409A-3(i)(4)(i) and any successor guidance under the Code. All decisions as to whether UARS have fully vested or as to whether a Participant has suffered a "permanent disability" shall be made by the Committee and its decision shall be final, binding and conclusive in the absence of clear and convincing evidence that such decision was not made in good faith.

1.2 Exercise of UARS .

(a) UARS may not be exercised prior to vesting, and only to the extent vested, and exercise is subject to all the terms and conditions of the Plan, including, but not limited to, the conditions set forth in Section 1.2(c) hereof. UARS which have vested may be exercised by giving written exercise notice to the Company on the form supplied by the Company. UARS are not deemed exercised until the Participant has paid or made suitable arrangements to pay all required tax withholding under Section 2.3 hereof, which will include (i) all foreign, federal, state and local income tax withholding required to be withheld by the Company in connection with the exercise of the UARS and (ii) the employee's portion of other foreign, federal, state and local payroll and other taxes due in connection with the exercise of the UARS.

(b) Upon proper exercise of UARS, the Participant will be entitled to receive, with respect to the UARS which are exercised, that number of whole Common Units that is closest in Fair Market Value (but does not exceed) the excess (if any) of (i) the Fair Market Value of the Common Units on the last trading date preceding the receipt by the Company of the written exercise notice (or if there is no trading in the Common Units on such date, on the next preceding date on which there was trading) as reported in The Wall Street Journal (or other reporting service approved by the Committee) over (ii) the Exercise Base Price For Each of the UARS contained in Section 1.1. No fractional Common Units shall be issued; instead, cash shall be distributed equal in Fair Market Value to the value of a whole Common Unit multiplied by the fraction. In the event Common Units are not publicly traded at the time a determination of Fair Market Value is required to be made herein, the determination of Fair Market Value shall be made in good faith by the Committee. The Committee's determination of Fair Market Value shall be final, binding and conclusive in absence of clear and convincing evidence that such decision was not made in good faith.

(c) The Plan provides as follows: "The Committee may refuse to issue or transfer any Units or other consideration under an Award if, in its sole discretion, it determines that the issuance or transfer of such Units or such other consideration might violate any applicable law or regulation, the rules of the principal securities exchange on which the Units are then traded, or entitle the Partnership or an Affiliate to recover the same under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award shall be promptly refunded to the relevant Participant, holder or beneficiary." The exercise of UARS may be subject to approval by the limited partners of the Partnership as required by the listing rules of the New Stock Exchange. In no event may a UAR be exercised in violation of the Second Amended and Restated Agreement of Limited Partnership of the Partnership.

1.3 Exercise Term . Subject to Section 1.4 hereof, UARS' may not be exercised more than five (5) years after the Date of Grant contained in Section 1.1.

1.4 Forfeiture of UARS Upon Termination of Employment . In the event of the termination of the employment of the Participant (whether voluntary or involuntary and regardless of the reason for the termination) with the Company or its Affiliates, all UARS (whether or not vested) shall be deemed to be automatically forfeited, unless the Participant's employment is on that date transferred to the Company or another Affiliate. If a Participant's employment is with an Affiliate and that entity ceases to be an Affiliate, the Participant's employment will be deemed to have terminated when the entity ceases to be an Affiliate unless the Participant transfers employment to the Company or its remaining Affiliates. Notwithstanding the foregoing, in the event of the termination of the Participant's employment with the Company or any of its Affiliates by reason of (a) a Change of Control (as defined in the Plan); (b) the death of the Participant; (c) the permanent disability of the Participant (as determined by the Committee); or (d) the retirement of the Participant at such age as the Committee shall approve, no forfeiture shall apply.

1.5 No Rights as Holder of Common Units . The Participant is not entitled to the rights of a holder of Common Units (including, but not limited to, the right to receive distributions on Common Units) until certificates representing the Common Units have been delivered to the Participant after proper exercise of the UARS.

ARTICLE II
GENERAL PROVISIONS

2.1 No Right Of Continued Employment . The receipt of this Award does not give the Participant, and nothing in the Plan or in this Agreement shall confer upon the Participant, any right to continue in the employment of the Company or any of its Affiliates. Nothing in the Plan or in this Agreement shall affect any right which the Company or any of its Affiliates may have to terminate the employment of the Participant.

2.2 No Rights As A Limited Partner . Neither the Participant nor any other person shall be entitled to the privileges of ownership of Common Units of the Partnership, limited partnership interests in the Partnership, or otherwise have any rights as a limited partner, by reason of the award of the UARS covered by this Agreement.

2.3 Tax Withholding . The Participant is responsible to pay to the Company all required tax withholding, whether foreign, federal, state or local in connection with the exercise of the UARS.

2.4 Administration . Pursuant to the Plan, the Committee is vested with conclusive authority to interpret and construe the Plan, to adopt rules and regulations for carrying out the Plan, and to make determinations with respect to all matters relating to this Agreement, the Plan and awards made pursuant thereto. The authority to manage and control the operation and administration of this Agreement shall be likewise vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of this Agreement by the Committee, and any decision made by the Committee with respect to this Agreement, shall be final and binding.

2.5 Effect of Plan; Construction . The entire text of the Plan is expressly incorporated herein by this reference and so forms a part of this Agreement. In the event of any inconsistency or discrepancy between the provisions of this Agreement and the terms and conditions of the Plan under which the UARS are granted, the provisions of the Plan shall govern and prevail. The UARS and this Agreement are each subject in all respects to, and the Company and the Participant each hereby agree to be bound by, all of the terms and conditions of the Plan, as the same may have been amended from time to time in accordance with its terms; provided, however, that no such amendment shall deprive the Participant, without the Participant's consent, of any rights earned or otherwise due to the Participant hereunder.

2.6 Amendment, Supplement or Waiver . This Agreement shall not be amended, supplemented, or waived in whole or in part, except by an instrument in writing executed by the parties to this Agreement.

2.7 Captions . The captions at the beginning of each of the numbered Sections and Articles herein are for reference purposes only and will have no legal force or effect. Such captions will not be considered a part of this Agreement for purposes of interpreting, construing or applying this Agreement and will not define, limit, extend, explain or describe the scope or extent of this Agreement or any of its terms and conditions.

2.8 Governing Law . THE VALIDITY, CONSTRUCTION, INTERPRETATION AND EFFECT OF THIS AGREEMENT SHALL EXCLUSIVELY BE GOVERNED BY AND DETERMINED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA (WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAW PRINCIPLES THEREOF), EXCEPT TO THE EXTENT PREEMPTED BY FEDERAL LAW.

2.9 Notices . All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing, sent by facsimile, by overnight courier or by registered or certified mail, postage prepaid and return receipt requested, or hand-delivered by the Participant and acknowledged in writing by the Company. Notices to the Company shall be deemed to have been duly given or made upon actual receipt by the Company. Such communications shall be addressed and directed to the parties listed below (except where this Agreement expressly provides that it be directed to another) as follows, or to such other address or recipient for a party as may be hereafter notified by such party hereunder:

(a) if to the Partnership or Company: StoneMor GP LLC
311 Veterans Highway, Suite B
Levittown PA 19056
Attention: Chief Financial Officer

(b) if to the Participant: to the address for the Participant as it appears on the Company's records.

2.10 Severability . If any provision hereof is found by a court of competent jurisdiction to be prohibited or unenforceable, it shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability, and such prohibition or unenforceability shall not invalidate the balance of such provision to the extent it is not prohibited or unenforceable, nor invalidate the other provisions hereof.

2.11 Entire Agreement; Counterparts; Construction . This Agreement constitutes the entire understanding and supersedes any and all other agreements, oral or written, between the parties hereto, in respect of the subject matter of this Agreement, and embodies the entire understanding of the parties with respect to the subject matter hereof. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original against any party whose signature appears thereon. The rule of construction that ambiguities in a document are construed against the draftsperson shall not apply to this Agreement.

2.12 Binding Agreement . The terms and conditions of this Agreement shall be binding upon the estate, heirs, beneficiaries and other representatives of the Participant to the same extent that said terms and conditions are binding upon the Participant.

2.13 Arbitration . Any dispute or disagreement with respect to any portion of this Agreement or its validity, construction, meaning, performance, or Participant’s rights hereunder shall be settled by arbitration, conducted in Philadelphia, Pennsylvania, in accordance with the Commercial Arbitration Rules of the American Arbitration Association or its successor, as amended from time to time. However, prior to submission to arbitration the Participant will attempt to resolve any disputes or disagreements with the Partnership over this Agreement amicably and informally, in good faith, for a period not to exceed two weeks. Thereafter, the dispute or disagreement will be submitted to arbitration. At any time prior to a decision from the arbitrator(s) being rendered, the Participant and the Partnership may resolve the dispute by settlement. The Participant and the Partnership shall equally share the costs charged by the American Arbitration Association or its successor, but the Participant and the Partnership shall otherwise be solely responsible for their own respective counsel fees and expenses. The decision of the arbitrator(s) shall be made in writing, setting forth the award, the reasons for the decision and award and shall be binding and conclusive on the Participant and the Partnership. Further, neither Participant nor the Partnership shall appeal any such award. Judgment of a court of competent jurisdiction may be entered upon the award and may be enforced as such in accordance with the provisions of the award. **THE PARTICIPANT HEREBY WAIVES ANY RIGHT TO A JURY TRIAL.**

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have executed this Agreement as of the day first above written.

STONEMOR PARTNERS L.P.

By: StoneMor GP LLC

By: ______________________________

Name: ______________________________

Title: ______________________________

The Participant hereby acknowledges receipt of a copy of the foregoing Unit Appreciation Rights Agreement and the Plan, and having read them, hereby signifies his or her understanding of, and his or her agreement with, their terms and conditions. The Participant hereby accepts this Agreement in full satisfaction of any previous written or verbal promises made to him or her by the Partnership or the Company or any of its other Affiliates with respect to Awards under the Plan, but does not affect outstanding Awards.

______________________________ (seal)
(Signature of Participant)

____
(Date)

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: August 7, 2012

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: August 7, 2012

By: /s/ Timothy K. Yost
Timothy K. Yost
Chief Financial Officer and Secretary
(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 June 30, 2012 (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: August 7, 2012

(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 June 30, 2012 (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 and Secretary

Date: August 7, 2012

(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.