

STONEMOR PARTNERS LP  
Form 10-Q  
August 08, 2014  
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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, 2014**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .**

**Commission File Number: 001-32270**

**STONEMOR PARTNERS L.P.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

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

**311 Veterans Highway, Suite B**

**Levittown, Pennsylvania**  
**(Address of principal executive offices)**  
**(215) 826-2800**

**19056**  
**(Zip Code)**

**(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 ☒



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The number of the registrant's outstanding common units at July 31, 2014 was 28,962,846.

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**Table of Contents****Part I Financial Information****Item 1. Financial Statements****StoneMor Partners L.P.****Condensed Consolidated Balance Sheet****(in thousands)****(unaudited)**

|                                                           | <b>June 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|-----------------------------------------------------------|--------------------------|------------------------------|
| <b>Assets</b>                                             |                          |                              |
| Current assets:                                           |                          |                              |
| Cash and cash equivalents                                 | \$ 15,287                | \$ 12,175                    |
| Accounts receivable, net of allowance                     | 58,454                   | 55,415                       |
| Prepaid expenses                                          | 6,198                    | 3,622                        |
| Other current assets                                      | 25,123                   | 22,667                       |
| Total current assets                                      | 105,062                  | 93,879                       |
| Long-term accounts receivable, net of allowance           | 90,309                   | 78,367                       |
| Cemetery property                                         | 340,655                  | 316,469                      |
| Property and equipment, net of accumulated depreciation   | 100,708                  | 85,007                       |
| Merchandise trusts, restricted, at fair value             | 499,770                  | 431,556                      |
| Perpetual care trusts, restricted, at fair value          | 348,902                  | 311,771                      |
| Deferred financing costs, net of accumulated amortization | 7,364                    | 8,308                        |
| Deferred selling and obtaining costs                      | 93,372                   | 87,998                       |
| Deferred tax assets                                       | 42                       | 42                           |
| Goodwill                                                  | 57,128                   | 48,737                       |
| Intangible assets                                         | 68,572                   | 9,655                        |
| Other assets                                              | 4,902                    | 2,554                        |
| Total assets                                              | \$ 1,716,786             | \$ 1,474,343                 |
| <b>Liabilities and partners' capital</b>                  |                          |                              |
| Current liabilities:                                      |                          |                              |
| Accounts payable and accrued liabilities                  | \$ 37,329                | \$ 37,269                    |
| Accrued interest                                          | 1,500                    | 1,512                        |
| Current portion, long-term debt                           | 4,022                    | 2,916                        |
| Total current liabilities                                 | 42,851                   | 41,697                       |
| Other long-term liabilities                               | 1,390                    | 1,527                        |
| Obligation for lease and management agreements, net       | 8,424                    |                              |
| Long-term debt                                            | 252,981                  | 289,016                      |

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|                                                                                                              |                     |                     |
|--------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Deferred cemetery revenues, net                                                                              | 638,436             | 579,993             |
| Deferred tax liabilities                                                                                     | 12,692              | 12,407              |
| Merchandise liability                                                                                        | 156,819             | 130,412             |
| Perpetual care trust corpus                                                                                  | 348,902             | 311,771             |
| <b>Total liabilities</b>                                                                                     | <b>1,462,495</b>    | <b>1,366,823</b>    |
| Commitments and contingencies                                                                                |                     |                     |
| <b>Partners' capital (deficit)</b>                                                                           |                     |                     |
| General partner deficit                                                                                      | (3,309)             | (2,137)             |
| Common partners, 28,958 and 21,377 units outstanding as of June 30, 2014 and December 31, 2013, respectively | 257,600             | 109,657             |
| <b>Total partners' capital</b>                                                                               | <b>254,291</b>      | <b>107,520</b>      |
| <b>Total liabilities and partners' capital</b>                                                               | <b>\$ 1,716,786</b> | <b>\$ 1,474,343</b> |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

|                                                                                                                                                                                                                | <b>Three months<br/>ended<br/>June 30,</b> |             | <b>Six months ended<br/>June 30,</b> |             |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-------------|--------------------------------------|-------------|
|                                                                                                                                                                                                                | <b>2014</b>                                | <b>2013</b> | <b>2014</b>                          | <b>2013</b> |
| <b>Revenues:</b>                                                                                                                                                                                               |                                            |             |                                      |             |
| Cemetery                                                                                                                                                                                                       |                                            |             |                                      |             |
| Merchandise                                                                                                                                                                                                    | \$ 34,572                                  | \$ 28,669   | \$ 60,640                            | \$ 55,321   |
| Services                                                                                                                                                                                                       | 12,492                                     | 11,072      | 22,789                               | 22,371      |
| Investment and other                                                                                                                                                                                           | 12,991                                     | 12,005      | 29,266                               | 22,248      |
| Funeral home                                                                                                                                                                                                   |                                            |             |                                      |             |
| Merchandise                                                                                                                                                                                                    | 4,966                                      | 4,517       | 10,018                               | 9,470       |
| Services                                                                                                                                                                                                       | 6,512                                      | 6,159       | 13,207                               | 12,624      |
| Total revenues                                                                                                                                                                                                 | 71,533                                     | 62,422      | 135,920                              | 122,034     |
| <b>Costs and expenses:</b>                                                                                                                                                                                     |                                            |             |                                      |             |
| Cost of goods sold (exclusive of depreciation shown separately below):                                                                                                                                         |                                            |             |                                      |             |
| Perpetual care                                                                                                                                                                                                 | 1,821                                      | 1,500       | 3,212                                | 2,781       |
| Merchandise                                                                                                                                                                                                    | 6,829                                      | 6,212       | 12,942                               | 11,221      |
| Cemetery expense                                                                                                                                                                                               | 16,141                                     | 15,408      | 29,470                               | 28,193      |
| Selling expense                                                                                                                                                                                                | 14,861                                     | 12,218      | 26,050                               | 23,442      |
| General and administrative expense                                                                                                                                                                             | 8,880                                      | 7,898       | 16,525                               | 15,480      |
| Corporate overhead (including \$266 and \$360 in unit-based compensation for the three months ended June 30, 2014 and 2013, and \$537 and \$690 for the six months ended June 30, 2014 and 2013, respectively) | 6,546                                      | 5,672       | 14,002                               | 13,660      |
| Depreciation and amortization                                                                                                                                                                                  | 2,513                                      | 2,451       | 4,881                                | 4,781       |
| Funeral home expense                                                                                                                                                                                           |                                            |             |                                      |             |
| Merchandise                                                                                                                                                                                                    | 1,604                                      | 1,703       | 3,250                                | 3,225       |
| Services                                                                                                                                                                                                       | 4,714                                      | 4,768       | 9,501                                | 9,325       |
| Other                                                                                                                                                                                                          | 3,118                                      | 2,893       | 5,971                                | 5,550       |
| Acquisition related costs, net of recoveries                                                                                                                                                                   | 1,240                                      | (625)       | 1,589                                | 658         |
| Total cost and expenses                                                                                                                                                                                        | 68,267                                     | 60,098      | 127,393                              | 118,316     |
| Operating profit                                                                                                                                                                                               | 3,266                                      | 2,324       | 8,527                                | 3,718       |
| Gain on acquisition                                                                                                                                                                                            |                                            |             | 412                                  |             |

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|                                                                          |                 |                    |               |                    |
|--------------------------------------------------------------------------|-----------------|--------------------|---------------|--------------------|
| Gain on settlement agreement, net                                        | 888             | 11,349             | 888           | 12,261             |
| Gain on sale of other assets                                             |                 | 155                |               | 155                |
| Loss on early extinguishment of debt                                     |                 | 21,595             |               | 21,595             |
| Interest expense                                                         | 5,148           | 5,132              | 10,722        | 10,595             |
| Net loss before income taxes                                             | (994)           | (12,899)           | (895)         | (16,056)           |
| Income tax expense (benefit)                                             | (876)           | (1,090)            | (1,186)       | (2,047)            |
| <b>Net income (loss)</b>                                                 | <b>\$ (118)</b> | <b>\$ (11,809)</b> | <b>\$ 291</b> | <b>\$ (14,009)</b> |
| General partner's interest in net income (loss) for the period           | \$ (9)          | \$ (218)           | \$ (5)        | \$ (258)           |
| Limited partners' interest in net income (loss) for the period           | \$ (109)        | \$ (11,591)        | \$ 296        | \$ (13,751)        |
| Net income (loss) per limited partner unit (basic and diluted)           | \$              | \$ (.54)           | \$ .01        | \$ (.67)           |
| Weighted average number of limited partners' units outstanding - basic   | 25,552          | 21,345             | 24,031        | 20,541             |
| Weighted average number of limited partners' units outstanding - diluted | 25,552          | 21,345             | 24,312        | 20,541             |
| Distributions declared per unit                                          | \$ .600         | \$ .595            | \$ 1.200      | \$ 1.185           |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.



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

|                                      | <b>Partners' Capital (Deficit)</b> |                            |              |
|--------------------------------------|------------------------------------|----------------------------|--------------|
|                                      | <b>Common<br/>Unit<br/>Holders</b> | <b>General<br/>Partner</b> | <b>Total</b> |
| Balance, December 31, 2013           | \$ 109,657                         | \$ (2,137)                 | \$ 107,520   |
| Proceeds from public offerings       | 120,451                            |                            | 120,451      |
| Issuance of common units             | 53,717                             |                            | 53,717       |
| Compensation related to units awards | 537                                |                            | 537          |
| Net income (loss)                    | 296                                | (5)                        | 291          |
| Cash distributions                   | (27,058)                           | (1,167)                    | (28,225)     |
| Balance, June 30, 2014               | \$ 257,600                         | \$ (3,309)                 | \$ 254,291   |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

|                                                                                          | <b>For the six months<br/>ended<br/>June 30,</b> |             |
|------------------------------------------------------------------------------------------|--------------------------------------------------|-------------|
|                                                                                          | <b>2014</b>                                      | <b>2013</b> |
| <b>Operating activities:</b>                                                             |                                                  |             |
| Net income (loss)                                                                        | \$ 291                                           | \$ (14,009) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                                  |             |
| Cost of lots sold                                                                        | 5,656                                            | 4,194       |
| Depreciation and amortization                                                            | 4,881                                            | 4,781       |
| Unit-based compensation                                                                  | 537                                              | 690         |
| Accretion of debt discounts                                                              | 1,297                                            | 1,011       |
| Gain on acquisition                                                                      | (412)                                            |             |
| Gain on sale of other assets                                                             |                                                  | (155)       |
| Loss on early extinguishment of debt                                                     |                                                  | 21,595      |
| Changes in assets and liabilities that provided (used) cash:                             |                                                  |             |
| Accounts receivable                                                                      | (10,023)                                         | (7,199)     |
| Allowance for doubtful accounts                                                          | 2,891                                            | (83)        |
| Merchandise trust fund                                                                   | (16,292)                                         | (22,611)    |
| Prepaid expenses                                                                         | (2,576)                                          | (1,733)     |
| Other current assets                                                                     | (2,301)                                          | (1,261)     |
| Other assets                                                                             | (1,129)                                          | 3,972       |
| Accounts payable and accrued and other liabilities                                       | 525                                              | 3,677       |
| Deferred selling and obtaining costs                                                     | (5,374)                                          | (6,184)     |
| Deferred cemetery revenue                                                                | 32,204                                           | 33,766      |
| Deferred taxes (net)                                                                     | (1,672)                                          | (2,356)     |
| Merchandise liability                                                                    | (1,752)                                          | (1,612)     |
| Net cash provided by operating activities                                                | 6,751                                            | 16,483      |
| <b>Investing activities:</b>                                                             |                                                  |             |
| Cash paid for cemetery property                                                          | (2,914)                                          | (2,252)     |
| Purchase of subsidiaries                                                                 | (54,000)                                         | (9,100)     |
| Consideration for lease and management agreements                                        | (53,000)                                         |             |
| Cash paid for property and equipment                                                     | (4,104)                                          | (3,920)     |
| Proceeds from sales of other assets                                                      |                                                  | 155         |
| Net cash used in investing activities                                                    | (114,018)                                        | (15,117)    |

|                                                                  |           |           |
|------------------------------------------------------------------|-----------|-----------|
| <b>Financing activities:</b>                                     |           |           |
| Cash distributions                                               | (28,225)  | (25,267)  |
| Additional borrowings on long-term debt                          | 39,872    | 217,106   |
| Repayments of long-term debt                                     | (75,149)  | (205,800) |
| Proceeds from public offerings                                   | 120,451   | 38,377    |
| Proceeds from issuance of common units                           | 53,430    |           |
| Fees paid related to early extinguishment of debt                |           | (14,920)  |
| Cost of financing activities                                     |           | (4,733)   |
| Net cash provided by financing activities                        | 110,379   | 4,763     |
| Net increase in cash and cash equivalents                        | 3,112     | 6,129     |
| Cash and cash equivalents Beginning of period                    | 12,175    | 7,946     |
| Cash and cash equivalents End of period                          | \$ 15,287 | \$ 14,075 |
| <b>Supplemental disclosure of cash flow information:</b>         |           |           |
| Cash paid during the period for interest                         | \$ 9,395  | \$ 9,754  |
| Cash paid during the period for income taxes                     | \$ 3,152  | \$ 3,132  |
| <b>Non-cash investing and financing activities:</b>              |           |           |
| Acquisition of assets by financing                               | \$ 50     | \$ 92     |
| Issuance of limited partner units for cemetery acquisition       | \$        | \$ 3,718  |
| Acquisition of asset by assumption of directly related liability | \$ 8,368  | \$ 3,924  |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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**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, 2014, the Partnership operated 303 cemeteries in 27 states and Puerto Rico, of which 272 are owned and 31 are operated under management or operating agreements. The Partnership also owned and operated 99 funeral homes in 19 states and Puerto Rico.

**Basis of Presentation**

The unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). All interim financial data is unaudited. However, in the opinion of management, the interim financial data as of June 30, 2014 and for the three and six months ended June 30, 2014 and 2013 includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The results of operations for interim periods are not necessarily indicative of the results of operations to be expected for a full year. The December 31, 2013 condensed consolidated balance sheet data was derived from audited financial statements included in the Company s 2013 Annual Report on Form 10-K ( 2013 Form 10-K ) and has been adjusted to include the effects of retrospective adjustments resulting from the Company s 2013 first quarter acquisition, but does not include all disclosures required by GAAP, which are presented in the Company s 2013 Form 10-K.

The Company s presentation of its intangible assets within its consolidated balance sheet has changed. These assets were previously presented within the Other assets caption and are now presented as the separate caption, Intangible assets. The change in presentation is due to the recording of an intangible asset resulting from the transaction closed with the Archdiocese of Philadelphia. Refer to Note 13 for a detailed discussion on this transaction. This change in presentation has no effect on any other previously reported amounts, including Total Assets.

**Principles of Consolidation**

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

The Company operates 15 cemeteries under long-term lease, operating or management agreements that do not qualify as acquisitions for accounting purposes, including 13 cemeteries related to the transaction with the Archdiocese of Philadelphia that closed in the second quarter of 2014. As a result, the Company did not consolidate all of the existing assets and liabilities related to these cemeteries. The Company has consolidated the existing assets and liabilities of these cemeteries merchandise and perpetual care trusts as variable interest entities since the Company controls and receives the benefits and absorbs any losses from operating these trusts. Under these long-term lease, operating or

management agreements, which are subject to certain termination provisions, the Company is the exclusive operator of these cemeteries. The Company earns revenues related to sales of merchandise, services, and interment rights and incurs expenses related to such sales and the maintenance and upkeep of these cemeteries. Upon termination of these contracts, the Company will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. The Company has also recognized the existing merchandise liabilities that it assumed as part of these agreements.

### **New Accounting Pronouncements**

In the second quarter of 2014, the Financial Accounting Standards Board issued Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ( ASU 2014-09 ), which supersedes the revenue recognition requirements in Topic 605 Revenue Recognition and most industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects

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the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently in the process of evaluating the impact of this update.

**Use of Estimates**

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

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

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

|                                         | <b>June 30,<br/>2014</b> | <b>As of<br/>December 31,<br/>2013</b> |
|-----------------------------------------|--------------------------|----------------------------------------|
|                                         | <b>(in thousands)</b>    |                                        |
| Customer receivables                    | \$ 193,292               | \$ 174,062                             |
| Unearned finance income                 | (20,832)                 | (20,005)                               |
| Allowance for contract cancellations    | (23,697)                 | (20,275)                               |
|                                         | 148,763                  | 133,782                                |
| Less: current portion, net of allowance | 58,454                   | 55,415                                 |
| Long-term portion, net of allowance     | \$ 90,309                | \$ 78,367                              |

Activity in the allowance for contract cancellations is as follows:

|                               | <b>For the six months ended June 30,<br/>2014</b> | <b>2013</b> |
|-------------------------------|---------------------------------------------------|-------------|
|                               | <b>(in thousands)</b>                             |             |
| Balance - Beginning of period | \$ 20,275                                         | \$ 17,933   |
| Provision for cancellations   | 11,128                                            | 10,651      |
| Charge-offs - net             | (7,706)                                           | (7,886)     |

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|                         |    |        |    |        |
|-------------------------|----|--------|----|--------|
| Balance - End of period | \$ | 23,697 | \$ | 20,698 |
|-------------------------|----|--------|----|--------|

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Cemetery property consists of the following:

|                                  | <b>June 30,<br/>2014</b> | <b>As of<br/>December 31,<br/>2013</b> |
|----------------------------------|--------------------------|----------------------------------------|
|                                  | <b>(in thousands)</b>    |                                        |
| Developed land                   | \$ 79,155                | \$ 72,458                              |
| Undeveloped land                 | 172,212                  | 163,997                                |
| Mausoleum crypts and lawn crypts | 79,260                   | 70,216                                 |
| Other land                       | 10,028                   | 9,798                                  |
| <b>Total</b>                     | <b>\$ 340,655</b>        | <b>\$ 316,469</b>                      |

**4. PROPERTY AND EQUIPMENT**

Major classes of property and equipment follow:

|                                   | <b>June 30,<br/>2014</b> | <b>As of<br/>December 31,<br/>2013</b> |
|-----------------------------------|--------------------------|----------------------------------------|
|                                   | <b>(in thousands)</b>    |                                        |
| Building and improvements         | \$ 106,706               | \$ 91,575                              |
| Furniture and equipment           | 48,927                   | 44,828                                 |
|                                   | 155,633                  | 136,403                                |
| Less: accumulated depreciation    | (54,925)                 | (51,396)                               |
| <b>Property and equipment net</b> | <b>\$ 100,708</b>        | <b>\$ 85,007</b>                       |

Depreciation expense was \$2.0 million and \$4.0 million for the three and six months ended June 30, 2014, respectively, as compared to \$1.8 million and \$3.5 million during the same periods last year.

**5. MERCHANDISE TRUSTS**

At June 30, 2014, the Company's merchandise trusts consisted of the following types of assets:

Money Market Funds that invest in low risk short term securities;



Publicly traded mutual funds that invest in underlying debt securities;

Publicly traded mutual funds that invest in underlying equity securities;

Equity investments primarily in securities that are currently paying dividends or distributions. These investments include Master Limited Partnerships and global equity securities;

Fixed maturity debt securities issued by various corporate entities; and

Assets acquired related to the second quarter 2014 acquisition of twelve cemeteries and nine funeral homes from Service Corporation International ( SCI ) (see Note 13). According to the terms of the agreement, SCI 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, 2014, 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.

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

The Company has included \$8.1 million and \$8.3 million of investments held in trust by the West Virginia Funeral Directors Association at June 30, 2014 and December 31, 2013, respectively, in its merchandise trust assets. As required by law, the Company deposits a portion of certain funeral merchandise sales in West Virginia into a trust that is held by the West Virginia Funeral Directors Association. These trusts are recorded at their account value, which approximates their fair value.

The cost and market value associated with the assets held in merchandise trusts at June 30, 2014 and December 31, 2013 were as follows:

| <b>As of June 30, 2014</b>       | <b>Cost</b>       | <b>Gross<br/>Unrealized<br/>Gains<br/>(in thousands)</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|----------------------------------|-------------------|----------------------------------------------------------|----------------------------------------|-----------------------|
| Short-term investments           | \$ 47,276         | \$                                                       | \$                                     | \$ 47,276             |
| Fixed maturities:                |                   |                                                          |                                        |                       |
| Corporate debt securities        | 9,463             | 124                                                      | (47)                                   | 9,540                 |
| Other debt securities            | 5,825             |                                                          | (11)                                   | 5,814                 |
| <b>Total fixed maturities</b>    | <b>15,288</b>     | <b>124</b>                                               | <b>(58)</b>                            | <b>15,354</b>         |
| Mutual funds - debt securities   | 118,962           | 1,272                                                    | (2,988)                                | 117,246               |
| Mutual funds - equity securities | 160,631           | 17,971                                                   | (309)                                  | 178,293               |
| Equity securities                | 86,847            | 15,386                                                   | (504)                                  | 101,729               |
| Other invested assets            | 2,416             |                                                          | (201)                                  | 2,215                 |
| <b>Total managed investments</b> | <b>\$ 431,420</b> | <b>\$ 34,753</b>                                         | <b>\$ (4,060)</b>                      | <b>\$ 462,113</b>     |
| Assets acquired via acquisition  | 29,512            |                                                          |                                        | 29,512                |
| West Virginia Trust Receivable   | 8,145             |                                                          |                                        | 8,145                 |
| <b>Total</b>                     | <b>\$ 469,077</b> | <b>\$ 34,753</b>                                         | <b>\$ (4,060)</b>                      | <b>\$ 499,770</b>     |

| <b>As of December 31, 2013</b> | <b>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains<br/>(in thousands)</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|--------------------------------|-------------|----------------------------------------------------------|----------------------------------------|-----------------------|
| Short-term investments         | \$ 46,518   | \$                                                       | \$                                     | \$ 46,518             |
| Fixed maturities:              |             |                                                          |                                        |                       |
| Corporate debt securities      | 9,105       | 162                                                      | (96)                                   | 9,171                 |

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|                                  |            |           |             |            |
|----------------------------------|------------|-----------|-------------|------------|
| Other debt securities            | 7,336      |           | (12)        | 7,324      |
| Total fixed maturities           | 16,441     | 162       | (108)       | 16,495     |
| Mutual funds - debt securities   | 117,761    | 729       | (7,157)     | 111,333    |
| Mutual funds - equity securities | 144,249    | 16,610    | (3,329)     | 157,530    |
| Equity securities                | 81,520     | 5,267     | (1,092)     | 85,695     |
| Other invested assets            | 5,809      |           | (86)        | 5,723      |
| Total managed investments        | \$ 412,298 | \$ 22,768 | \$ (11,772) | \$ 423,294 |
| West Virginia Trust Receivable   | 8,262      |           |             | 8,262      |
| Total                            | \$ 420,560 | \$ 22,768 | \$ (11,772) | \$ 431,556 |

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The contractual maturities of debt securities as of June 30, 2014 were as follows:

|                               | Less than<br>1 year | 1 year through<br>5 years | 6 years through<br>10 years | More than<br>10<br>years |
|-------------------------------|---------------------|---------------------------|-----------------------------|--------------------------|
| <b>As of June 30, 2014</b>    |                     |                           |                             |                          |
|                               |                     | (in thousands)            |                             |                          |
| Corporate debt securities     | \$                  | \$ 4,182                  | \$ 5,358                    | \$                       |
| Other debt securities         | 1,540               | 4,274                     |                             |                          |
| <b>Total fixed maturities</b> | <b>\$ 1,540</b>     | <b>\$ 8,456</b>           | <b>\$ 5,358</b>             | <b>\$</b>                |

An aging of unrealized losses on the Company's investments in fixed maturities and equity securities at June 30, 2014 and December 31, 2013 is presented below:

|                                  | Less than 12<br>months |                      | 12 Months or more |                      | Total             |                      |
|----------------------------------|------------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
| <b>As of June 30, 2014</b>       | Fair<br>Value          | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses |
|                                  |                        |                      | (in thousands)    |                      |                   |                      |
| Fixed maturities:                |                        |                      |                   |                      |                   |                      |
| Corporate debt securities        | \$ 3,039               | \$ 26                | \$ 871            | \$ 21                | \$ 3,910          | \$ 47                |
| Other debt securities            | 3,248                  | 7                    | 2,067             | 4                    | 5,315             | 11                   |
| <b>Total fixed maturities</b>    | <b>6,287</b>           | <b>33</b>            | <b>2,938</b>      | <b>25</b>            | <b>9,225</b>      | <b>58</b>            |
| Mutual funds - debt securities   |                        |                      | 93,556            | 2,988                | 93,556            | 2,988                |
| Mutual funds - equity securities |                        |                      | 4,643             | 309                  | 4,643             | 309                  |
| Equity securities                | 4,193                  | 365                  | 2,029             | 139                  | 6,222             | 504                  |
| Other invested assets            |                        |                      | 2,049             | 201                  | 2,049             | 201                  |
| <b>Total</b>                     | <b>\$ 10,480</b>       | <b>\$ 398</b>        | <b>\$ 105,215</b> | <b>\$ 3,662</b>      | <b>\$ 115,695</b> | <b>\$ 4,060</b>      |

|                                | Less than 12 months |                      | 12 Months or more |                      | Total         |                      |
|--------------------------------|---------------------|----------------------|-------------------|----------------------|---------------|----------------------|
| <b>As of December 31, 2013</b> | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
|                                |                     |                      | (in thousands)    |                      |               |                      |
| Fixed maturities:              |                     |                      |                   |                      |               |                      |
| Corporate debt securities      | \$ 2,812            | \$ 43                | \$ 1,249          | \$ 53                | \$ 4,061      | \$ 96                |
| Other debt securities          | 5,329               | 8                    | 995               | 4                    | 6,324         | 12                   |
| <b>Total fixed maturities</b>  | <b>8,141</b>        | <b>51</b>            | <b>2,244</b>      | <b>57</b>            | <b>10,385</b> | <b>108</b>           |

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|                                  |            |           |           |          |            |           |
|----------------------------------|------------|-----------|-----------|----------|------------|-----------|
| Mutual funds - debt securities   | 87,113     | 6,724     | 6,485     | 433      | 93,598     | 7,157     |
| Mutual funds - equity securities | 29,993     | 2,444     | 4,217     | 885      | 34,210     | 3,329     |
| Equity securities                | 25,379     | 1,031     | 1,492     | 61       | 26,871     | 1,092     |
| Other invested assets            | 2,266      | 86        |           |          | 2,266      | 86        |
| Total                            | \$ 152,892 | \$ 10,336 | \$ 14,438 | \$ 1,436 | \$ 167,330 | \$ 11,772 |

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A reconciliation of the Company's merchandise trust activities for the six months ended June 30, 2014 is presented below:

| Fair           |               |               |           | Capital       | Realized |         |         | Unrealized    | Fair       |
|----------------|---------------|---------------|-----------|---------------|----------|---------|---------|---------------|------------|
| Value at       |               |               | Interest/ | Gain          | Gain/    |         |         | Change        | Value at   |
| 12/31/2013     | Contributions | Distributions | Dividends | Distributions | Loss     | Taxes   | Fees    | in Fair Value | 6/30/2014  |
| (in thousands) |               |               |           |               |          |         |         |               |            |
| \$431,556      | 53,124        | (20,544)      | 9,061     | 36            | 10,735   | (2,237) | (1,658) | 19,697        | \$ 499,770 |

The Company made net contributions into the trusts of approximately \$32.6 million during the six months ended June 30, 2014. During the six months ended June 30, 2014, purchases and sales of securities available for sale included in trust investments were approximately \$217.9 million and \$222.1 million, respectively. Contributions include \$32.1 million of assets that were acquired through acquisitions during the six months ended June 30, 2014.

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

During the three and six months ended June 30, 2014, the Company determined that there were 2 securities with an aggregate cost basis of approximately \$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. During the six months ended June 30, 2013, the Company determined that there were 4 securities with an aggregate cost basis of approximately \$1.4 million and an aggregate fair value of approximately \$0.7 million, resulting in an impairment of \$0.7 million, wherein such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of these assets to their current value and offset this change against deferred revenue. This reduction in deferred revenue will be reflected in earnings in future periods as the underlying merchandise is delivered or the underlying service is performed.

During the three months ended June 30, 2013, the Company determined that there were no other than temporary impairments to the investment portfolio in the merchandise trusts.

**6. PERPETUAL CARE TRUSTS**

At June 30, 2014, the Company's perpetual care trusts consisted of the following types of assets:

Money Market Funds that invest in low risk short term securities;

Publicly traded mutual funds that invest in underlying debt securities;

Publicly traded mutual funds that invest in underlying equity securities;

Equity investments that are currently paying dividends or distributions. These investments include 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

Assets acquired related to the second quarter 2014 acquisition of twelve cemeteries and nine funeral homes from SCI (see Note 13). According to the terms of the agreement, Service Corporation International 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, 2014, 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.

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The cost and market value associated with the assets held in perpetual care trusts at June 30, 2014 and December 31, 2013 were as follows:

| <b>As of June 30, 2014</b>         | <b>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains<br/>(in thousands)</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|------------------------------------|-------------|----------------------------------------------------------|----------------------------------------|-----------------------|
| Short-term investments             | \$ 29,905   | \$                                                       | \$                                     | \$ 29,905             |
| Fixed maturities:                  |             |                                                          |                                        |                       |
| U.S. Government and federal agency | 100         | 19                                                       |                                        | 119                   |
| Corporate debt securities          | 24,427      | 508                                                      | (100)                                  | 24,835                |
| Other debt securities              | 371         |                                                          |                                        | 371                   |
| Total fixed maturities             | 24,898      | 527                                                      | (100)                                  | 25,325                |
| Mutual funds - debt securities     | 107,018     | 787                                                      | (1,916)                                | 105,889               |
| Mutual funds - equity securities   | 97,788      | 25,742                                                   | (49)                                   | 123,481               |
| Equity securities                  | 24,652      | 22,457                                                   | (2)                                    | 47,107                |
| Other invested assets              | 1,845       |                                                          |                                        | 1,845                 |
| Total managed investments          | \$ 286,106  | \$ 49,513                                                | \$ (2,067)                             | \$ 333,552            |
| Assets acquired via acquisition    | 15,350      |                                                          |                                        | 15,350                |
| Total                              | \$ 301,456  | \$ 49,513                                                | \$ (2,067)                             | \$ 348,902            |

| <b>As of December 31, 2013</b>     | <b>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains<br/>(in thousands)</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|------------------------------------|-------------|----------------------------------------------------------|----------------------------------------|-----------------------|
| Short-term investments             | \$ 16,686   | \$                                                       | \$                                     | \$ 16,686             |
| Fixed maturities:                  |             |                                                          |                                        |                       |
| U.S. Government and federal agency | 302         | 70                                                       |                                        | 372                   |
| Corporate debt securities          | 24,378      | 340                                                      | (208)                                  | 24,510                |
| Other debt securities              | 371         |                                                          |                                        | 371                   |
| Total fixed maturities             | 25,051      | 410                                                      | (208)                                  | 25,253                |



|                                  |                   |                  |                   |                   |
|----------------------------------|-------------------|------------------|-------------------|-------------------|
| Mutual funds - debt securities   | 121,493           | 466              | (5,946)           | 116,013           |
| Mutual funds - equity securities | 93,243            | 22,521           | (171)             | 115,593           |
| Equity securities                | 25,580            | 12,283           | (19)              | 37,844            |
| Other invested assets            | 172               | 210              |                   | 382               |
| <b>Total</b>                     | <b>\$ 282,225</b> | <b>\$ 35,890</b> | <b>\$ (6,344)</b> | <b>\$ 311,771</b> |

The contractual maturities of debt securities as of June 30, 2014 were as follows:

| <b>As of June 30, 2014</b>         | <b>Less than<br/>1 year</b> | <b>1 year through<br/>5 years</b> | <b>6 years through<br/>10 years</b> | <b>More than<br/>10 years</b> |
|------------------------------------|-----------------------------|-----------------------------------|-------------------------------------|-------------------------------|
|                                    | <b>(in thousands)</b>       |                                   |                                     |                               |
| U.S. Government and federal agency | \$                          | \$ 119                            | \$                                  | \$                            |
| Corporate debt securities          | 238                         | 12,828                            | 11,768                              | 1                             |
| Other debt securities              | 371                         |                                   |                                     |                               |
| <b>Total fixed maturities</b>      | <b>\$ 609</b>               | <b>\$ 12,947</b>                  | <b>\$ 11,768</b>                    | <b>\$ 1</b>                   |

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An aging of unrealized losses on the Company's investments in fixed maturities and equity securities at June 30, 2014 and December 31, 2013 held in perpetual care trusts is presented below:

| As of June 30, 2014              | 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:                |                     |                   |                   |                   |            |                   |
| Corporate debt securities        | \$ 5,218            | \$ 43             | \$ 2,293          | \$ 57             | \$ 7,511   | \$ 100            |
| Total fixed maturities           | 5,218               | 43                | 2,293             | 57                | 7,511      | 100               |
| Mutual funds - debt securities   | 995                 | 26                | 95,038            | 1,890             | 96,033     | 1,916             |
| Mutual funds - equity securities | 1,304               | 49                |                   |                   | 1,304      | 49                |
| Equity securities                | 127                 | 2                 |                   |                   | 127        | 2                 |
| Total                            | \$ 7,644            | \$ 120            | \$ 97,331         | \$ 1,947          | \$ 104,975 | \$ 2,067          |

| As of December 31, 2013          | 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:                |                     |                   |                   |                   |            |                   |
| Corporate debt securities        | \$ 5,664            | \$ 93             | \$ 3,122          | \$ 115            | \$ 8,786   | \$ 208            |
| Total fixed maturities           | 5,664               | 93                | 3,122             | 115               | 8,786      | 208               |
| Mutual funds - debt securities   | 93,473              | 4,781             | 16,367            | 1,165             | 109,840    | 5,946             |
| Mutual funds - equity securities | 1,185               | 171               |                   |                   | 1,185      | 171               |
| Equity securities                | 513                 | 19                |                   |                   | 513        | 19                |
| Total                            | \$ 100,835          | \$ 5,064          | \$ 19,489         | \$ 1,280          | \$ 120,324 | \$ 6,344          |

A reconciliation of the Company's perpetual care trust activities for the six months ended June 30, 2014 is presented below:

| Fair Value at 12/31/2013 | Contributions | Distributions | Interest/Dividends | Capital Gain Distributions | Realized Gain/Loss | Taxes | Fees  | Unrealized Change in Fair Value | Fair Value at 6/30/2014 |
|--------------------------|---------------|---------------|--------------------|----------------------------|--------------------|-------|-------|---------------------------------|-------------------------|
| (in thousands)           |               |               |                    |                            |                    |       |       |                                 |                         |
| \$311,771                | 19,437        | (7,164)       | 7,958              | 2                          | 180                | (242) | (940) | 17,900                          | \$348,902               |

The Company made net contributions into the trusts of approximately \$12.3 million during the six months ended June 30, 2014. During the six months ended June 30, 2014, purchases and sales of securities available for sale included in trust investments were approximately \$65.2 million and \$77.9 million, respectively. Contributions include \$16.0 million of assets that were acquired through acquisitions during the six months ended June 30, 2014.

**Table of Contents****Other-Than-Temporary Impairments of Trust Assets**

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

During the three and six months ended June 30, 2013, the Company determined that there were no other than temporary impairments to the investment portfolio in the perpetual care trusts.

**7. GOODWILL AND INTANGIBLE ASSETS****Goodwill**

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

A rollforward of goodwill by reportable segment is as follows:

|                                                                               | <b>Southeast</b>      | <b>Cemeteries<br/>Northeast</b> | <b>West</b> | <b>Funeral<br/>Homes</b> | <b>Total</b> |
|-------------------------------------------------------------------------------|-----------------------|---------------------------------|-------------|--------------------------|--------------|
|                                                                               | <b>(in thousands)</b> |                                 |             |                          |              |
| Balance as of December 31, 2013                                               | \$ 6,174              | \$                              | \$ 11,948   | \$ 30,615                | \$ 48,737    |
| Goodwill acquired from acquisitions during the six months ended June 30, 2014 | 3,643                 | 2,903                           |             | 1,845                    | 8,391        |
| Balance as of June 30, 2014                                                   | \$ 9,817              | \$ 2,903                        | \$ 11,948   | \$ 32,460                | \$ 57,128    |

**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. All of the intangible assets are subject to amortization. The major classes of intangible assets are as follows:

|                                 | <b>As of<br/>June 30, 2014</b>       |                                     |                                                        | <b>As of<br/>December 31, 2013</b>   |                                     |                                     |
|---------------------------------|--------------------------------------|-------------------------------------|--------------------------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|
|                                 | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Intangible<br/>Asset<br/>(in thousands)</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Intangible<br/>Asset</b> |
| Amortized intangible assets:    |                                      |                                     |                                                        |                                      |                                     |                                     |
| Lease and management agreements | \$ 59,758                            | \$ (83)                             | \$ 59,675                                              | \$                                   | \$                                  | \$                                  |

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|                           |           |            |           |           |            |          |
|---------------------------|-----------|------------|-----------|-----------|------------|----------|
| Underlying contract value | 6,239     | (780)      | 5,459     | 6,239     | (702)      | 5,537    |
| Non-compete agreements    | 7,950     | (4,675)    | 3,275     | 7,950     | (4,003)    | 3,947    |
| Other intangible assets   | 269       | (106)      | 163       | 269       | (98)       | 171      |
| Total intangible assets   | \$ 74,216 | \$ (5,644) | \$ 68,572 | \$ 14,458 | \$ (4,803) | \$ 9,655 |

On May 28, 2014, the Company and the Archdiocese of Philadelphia closed the transaction involving a lease agreement and a management agreement, pursuant to which the Company will operate 13 cemeteries in Pennsylvania for a term of 60 years, subject to certain termination provisions. Refer to Note 13 for a detailed discussion on this transaction. The Company recorded the underlying value of the lease and management agreements as a contract-based intangible asset at the present value of the consideration, less the fair value of net assets acquired. The discounted value was determined using an effective annual rate of 8.3% and will be amortized over the term of the agreements. The costs associated with obtaining the rights pursuant to these agreements were also capitalized and will be amortized over the life of the agreements.

**Table of Contents****8. LONG-TERM DEBT**

The Company had the following outstanding debt:

|                                                  | June 30,<br>2014 | As of<br>December 31,<br>2013 |
|--------------------------------------------------|------------------|-------------------------------|
|                                                  | (in thousands)   |                               |
| 7.875% Senior Notes, due 2021                    | \$ 175,000       | \$ 175,000                    |
| Revolving Credit Facility, due January 2017      | 78,402           | 114,002                       |
| Notes payable - acquisition debt                 | 944              | 1,571                         |
| Notes payable - acquisition non-competes         | 3,318            | 3,945                         |
| Insurance and vehicle financing                  | 3,158            | 1,529                         |
| <br>Total                                        | <br>260,822      | <br>296,047                   |
| Less current portion                             | 4,022            | 2,916                         |
| Less unamortized bond and note payable discounts | 3,819            | 4,115                         |
| <br>Long-term portion                            | <br>\$ 252,981   | <br>\$ 289,016                |

This note includes a summary of material terms of the Company's senior notes and revolving credit facility. For a more detailed description of the Company's long-term debt agreements, see the Company's 2013 Form 10-K.

**7.875% Senior Notes due 2021**

On May 28, 2013, the Company issued \$175.0 million aggregate principal amount of 7.875% Senior Notes due 2021 (the "Senior Notes"). The Company pays 7.875% interest per annum on the principal amount of the Senior Notes, payable in cash semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2013. The net proceeds from the offering were used to retire a \$150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 (the "Prior Senior Notes") and the remaining proceeds were used for general corporate purposes. The Senior Notes were issued at 97.832% of par resulting in gross proceeds of \$171.2 million with an original issue discount of approximately \$3.8 million. The Company incurred debt issuance costs and fees of approximately \$4.6 million. These costs and fees are deferred and will be amortized over the life of these notes. Based on trades made on June 30, 2014, the Company has estimated the fair value of its Senior Notes to be in excess of par and trading at a premium of 6.25%, which would imply a fair value of \$185.9 million at June 30, 2014. The Senior Notes are valued using Level 2 inputs as defined by the Fair Value Measurements and Disclosures topic of the ASC in Note 15. As of June 30, 2014, the Company was in compliance with all applicable covenants of the Senior Notes.

**Credit Facility**

On January 19, 2012, the Company entered into the Third Amended and Restated Credit Agreement (the "Credit Agreement"). The terms of the Credit Agreement are substantially the same as the terms of the Second Amended and Restated Credit Agreement, as amended. Capitalized terms which are not defined in the following description shall have the meaning assigned to such terms in the Credit Agreement or the amendments to the Credit Agreement, as applicable. The Credit Agreement was amended three times in 2013.

On May 22, 2014, the Company entered into the Fourth Amendment to the Credit Agreement. The Fourth Amendment increased the maximum Consolidated Leverage Ratio to 4.00 to 1.0 for any period and amended the definition of Consolidated EBITDA to, among other things, remove existing balance sheet adjustments and replace them with certain cash flow statement adjustments. The Fourth Amendment also contains certain conforming changes to reflect the Lenders' consent to the closing of the transactions with the Archdiocese of Philadelphia and Service Corporation International, both of which are described in detail in Note 13.

As amended, the Company has a revolving credit facility (the "Credit Facility") with a borrowing limit of \$140.0 million, of which \$78.4 million was outstanding at June 30, 2014, and a maturity date of January 19, 2017. The Credit Facility may be used to finance working capital requirements, Permitted Acquisitions and Capital Expenditures. The maximum Consolidated Leverage Ratio is 4.00 to 1.0 for any measurement period. The minimum Consolidated Debt Service Coverage Ratio is 2.50 for any measurement period. The ranges of the Applicable Rates are 3.00%, 4.00%, and 0.800% for Base Rate Loans, Eurodollar Rate Loans and Letter of Credit Fees, and Commitment Fees, respectively, when the Consolidated Leverage Ratio is greater than or equal to 3.75 to 1.0. The Company is not allowed to permit Consolidated EBITDA for any measurement period to be less than the sum of (i) \$57.8 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after March 31, 2013.

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The amount of aggregate consideration the Company may pay for a Permitted Acquisition, without Required Lender approval, is \$10.0 million on an individual basis and \$50.0 million when aggregated with the total Aggregate Consideration paid by or on behalf of the Company for all other Permitted Acquisitions which closed within the immediately preceding 365 days.

The interest rates on amounts outstanding under the Credit Facility were approximately 4.0% at June 30, 2014. Amounts borrowed may be either Base Rate Loans or Eurodollar Rate Loans and amounts repaid or prepaid during the term may be reborrowed. Depending on the type of loan, borrowings bear interest at the Base Rate or Eurodollar Rate, plus applicable margins ranging from 1.25% to 3.00% and 2.25% to 4.00%, respectively, depending on the Company's Consolidated Leverage Ratio. The Base Rate is the highest of the Prime Rate, the Federal Funds Rate plus 0.50%, or the Eurodollar Rate plus 1.0%. The Eurodollar Rate is the British Bankers Association LIBOR Rate. Amounts outstanding under the Credit Facility approximate their fair value.

The Credit Agreement requires the Company to pay an unused Commitment Fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments. The Commitment Fee Rate ranges from 0.375% to 0.800% depending on the Company's Consolidated Leverage Ratio.

The Credit Agreement contains restrictive covenants that, among other things, prohibit distributions upon defined events of default, restrict investments and sales of assets and require the Company to maintain certain financial covenants, including specified financial ratios. A material decrease in revenues could cause the Company to breach certain of its financial covenants. Any such breach could allow the Lenders to accelerate the Company's debt (and cause cross-default) which would have a material adverse effect on the Company's business, financial condition or results of operations. The Company's covenants include a certain measure of Consolidated EBITDA, a Consolidated Leverage Ratio and a Consolidated Debt Service Coverage Ratio. As of June 30, 2014, the Company was in compliance with all applicable financial covenants.

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

## **9. INCOME TAXES**

As of June 30, 2014, the Company's taxable corporate subsidiaries had federal net operating loss carryforwards of approximately \$194.3 million, which will begin to expire in 2019 and \$238.2 million in state net operating losses, a portion of which expires annually.

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

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



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

The provision for income taxes for the three and six months ended June 30, 2014 and 2013 is based upon the estimated annual effective tax rates expected to be applicable to the Company for 2014 and 2013, respectively. The Company's effective tax rate differs from its statutory tax rate primarily because the Company's legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

The Internal Revenue Service ( IRS ) audited the Company's federal income tax return for the year ended December 31, 2010. The scope of this audit included an audit of the Company's qualifying income. In order to be treated as a partnership for federal income tax purposes, at least 90% of the Company's gross income must be qualifying income. The IRS concluded its audit and notified the Company on April 11, 2013 that it was not proposing any adjustments to the return as filed.

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

**10. DEFERRED CEMETERY REVENUES, NET**

At June 30, 2014 and December 31, 2013, deferred cemetery revenues, net, consisted of the following:

|                                                      | <b>June 30,<br/>2014</b> | <b>As of<br/>December 31,<br/>2013</b> |
|------------------------------------------------------|--------------------------|----------------------------------------|
|                                                      | <b>(in thousands)</b>    |                                        |
| Deferred cemetery revenue                            | \$ 430,906               | \$ 403,250                             |
| Deferred merchandise trust revenue                   | 94,951                   | 88,730                                 |
| Deferred merchandise trust unrealized gains (losses) | 30,693                   | 10,996                                 |
| Deferred pre-acquisition margin                      | 139,987                  | 131,274                                |
| Deferred cost of goods sold                          | (58,101)                 | (54,257)                               |
| Deferred cemetery revenues, net                      | \$ 638,436               | \$ 579,993                             |
| Deferred selling and obtaining costs                 | \$ 93,372                | \$ 87,998                              |

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

**11. COMMITMENTS AND CONTINGENCIES*****Legal***

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

***Leases***

At June 30, 2014, the Company was committed to operating lease payments for premises, automobiles and office equipment under various operating leases with initial terms ranging from one to twenty five years and options to renew at varying terms. Expenses under operating leases were \$0.6 million and \$1.2 million for the three and six months ended June 30, 2014, respectively, and \$0.6 million and \$1.3 million for the three and six months ended June 30, 2013, respectively.



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At June 30, 2014, operating leases will result in future payments in the following approximate amounts from January 1, 2015 and beyond:

|              | (in thousands)  |
|--------------|-----------------|
| 2015         | \$ 1,405        |
| 2016         | 1,219           |
| 2017         | 1,113           |
| 2018         | 983             |
| 2019         | 904             |
| Thereafter   | 1,215           |
| <b>Total</b> | <b>\$ 6,839</b> |

**12. PARTNERS CAPITAL*****Unit-Based Compensation***

The Company has issued to certain key employees, management, and directors unit-based compensation in the form of unit appreciation rights and 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, 2014 and 2013 are summarized in the table below:

|                                              | Three months ended<br>June 30,<br>2014      2013<br>(in thousands) |               | Six months ended<br>June 30,<br>2014      2013<br>(in thousands) |               |
|----------------------------------------------|--------------------------------------------------------------------|---------------|------------------------------------------------------------------|---------------|
| Unit appreciation rights                     | \$ 20                                                              | \$ 140        | \$ 39                                                            | \$ 279        |
| Restricted phantom units                     | 246                                                                | 220           | 498                                                              | 411           |
| <b>Total unit-based compensation expense</b> | <b>\$ 266</b>                                                      | <b>\$ 360</b> | <b>\$ 537</b>                                                    | <b>\$ 690</b> |

As of June 30, 2014, there was approximately \$0.2 million in non-vested unit appreciation rights expense outstanding. These unit appreciation rights will be expensed through 2018.

The diluted weighted average number of limited partners units outstanding presented on the unaudited condensed consolidated statement of operations does not include 267,580 units for the three months ended June 30, 2014, and 335,547 and 325,083 units for the three and six months ended June 30, 2013, respectively, as their effects would be anti-dilutive.

***Other Unit Issuances***

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

On April 1, 2014, the Company issued 15,363 common units in connection with Mr. Peter K. Grunebaum's retirement from the Board of Directors of the Company's general partner. In connection with his service as a director, Mr. Grunebaum received restricted phantom units awards and was entitled to distribution equivalent rights accruing on restricted phantom units pursuant to the StoneMor Partners L.P. Long-Term Incentive Plan, as amended. Mr. Grunebaum's restricted phantom units were settled for the same number of common units upon his retirement.

On May 21, 2014, the Company sold to American Cemeteries Infrastructure Investors, LLC, a Delaware limited liability company ( "ACII" ), 2,255,947 common units in the Company at an aggregate purchase price of \$55.0 million, or \$24.38 per unit, pursuant to a Common Unit Purchase Agreement (the "Common Unit Purchase Agreement" ), dated May 19, 2014, by and between the Company and ACII. The proceeds were used primarily to fund the up-front rent consideration for the transaction with the Archdiocese of Philadelphia that closed during the second quarter of 2014. Refer to Note 13 for a more detailed discussion on the transaction with the Archdiocese of Philadelphia.

Pursuant to the Common Unit Purchase Agreement, commencing with the quarter ended June 30 2014, ACII is entitled to receive distributions equal to those paid on common units generally. Through the quarterly distribution payable for the quarter ending June 30, 2018, such distributions may be paid in cash, common units issued to ACII in

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lieu of cash distributions (the "Distribution Units"), or a combination of cash and Distribution Units, as determined by the Company in its sole discretion. If the Company elects to pay distributions through the issuance of Distribution Units, the number of common units to be issued in connection with a quarterly distribution will be the quotient of (A) the amount of the quarterly distribution paid on the common units by (B) the volume-weighted average price of the common units for the thirty (30) trading days immediately preceding the date a quarterly distribution is declared with respect to the common units. Beginning with the quarterly distribution payable with respect to the quarter ending September 30, 2018, the common units purchased by ACII will receive cash distributions on the same basis as all other common units and the Company will no longer have the ability to elect to pay quarterly distributions in kind through the issuance of Distribution Units.

Under the Common Unit Purchase Agreement, the units purchased by ACII are also subject to a lock-up period (the "Lock-Up Period") ending on July 1, 2018. During the Lock-Up Period, ACII may not directly or indirectly (a) offer for sale, sell, pledge or otherwise dispose of these units, (b) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of these units, or (c) publicly disclose the intention to do any of the foregoing. However, ACII may transfer the units to any affiliate or any investment fund or other entity controlled or managed by ACII who agrees to be bound by the terms of the Common Unit Purchase Agreement. Distribution Units are not subject to the Lock-Up Period.

On June 12, 2014, after the exercise of the underwriters' over-allotment option, the Company completed a follow-on public offering of 2,990,000 common units at a price of \$23.67 per unit. Net proceeds of the offering, after deducting underwriting discounts and offering expenses, were approximately \$67.3 million. The proceeds from the offering were used to pay the purchase price related to the transaction with Service Corporation International, which closed in the second quarter of 2014, with the remainder used to pay down borrowings outstanding under the Credit Facility. Refer to Note 13 for a more detailed discussion of the acquisition.

The number of common units outstanding was 28,958,497 and 21,377,102 as of June 30, 2014 and December 31, 2013, respectively.

## **13. ACQUISITIONS**

### **First Quarter 2014 Acquisition**

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

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

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

**Second Quarter 2014 Acquisition**

On June 10, 2014, certain subsidiaries of the Company (collectively the Buyers) closed the transaction under the Asset Sale Agreements (the Agreements), with certain subsidiaries of Service Corporation International (collectively the Sellers) to acquire nine funeral homes, twelve cemeteries and certain related assets in Central Florida, North Carolina, Southeastern Pennsylvania and Virginia. In consideration for the net assets acquired, the Buyers paid the Sellers \$53.8 million in cash. This amount is subject to post-closing adjustments dependent upon the actual amounts of accounts receivable, merchandise trusts net of merchandise liabilities and perpetual care trusts transferred.

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

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|                                                  | <b>Preliminary<br/>Assessment<br/>(in thousands)</b> |
|--------------------------------------------------|------------------------------------------------------|
| <b>Assets:</b>                                   |                                                      |
| Accounts receivable                              | \$ 6,191                                             |
| Cemetery property                                | 26,033                                               |
| Property and equipment                           | 15,782                                               |
| Merchandise trusts, restricted, at fair value    | 29,512                                               |
| Perpetual care trusts, restricted, at fair value | 15,350                                               |
| Other assets                                     | 1,408                                                |
| <br>Total assets                                 | <br>94,276                                           |
| <b>Liabilities:</b>                              |                                                      |
| Deferred margin                                  | 11,233                                               |
| Merchandise liabilities                          | 20,918                                               |
| Deferred tax liability                           | 1,315                                                |
| Perpetual care trust corpus                      | 15,350                                               |
| Other liabilities                                | 51                                                   |
| <br>Total liabilities                            | <br>48,867                                           |
| <br>Fair value of net assets acquired            | <br>45,409                                           |
| <br>Consideration paid                           | <br>53,800                                           |
| <br>Goodwill from purchase                       | <br>\$ 8,391                                         |

**Agreements with the Archdiocese of Philadelphia**

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

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

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



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

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

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

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

The table below reflects the assets and liabilities recognized:

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

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

**First Quarter 2013 Acquisition**

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

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

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

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

If the acquisitions from 2014 and 2013 had been consummated at the beginning of the comparable prior annual reporting period, on a pro forma basis, for the three and six months ended June 30, 2014 and 2013, consolidated revenues, consolidated net income (loss) and net income (loss) per limited partner unit (basic and diluted) would have been as follows:

| <b>Three months ended<br/>June 30,</b>      |             | <b>Six months ended<br/>June 30,</b> |             |
|---------------------------------------------|-------------|--------------------------------------|-------------|
| <b>2014</b>                                 | <b>2013</b> | <b>2014</b>                          | <b>2013</b> |
| <b>(in thousands, except per unit data)</b> |             |                                      |             |

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|                                                                |           |           |            |            |
|----------------------------------------------------------------|-----------|-----------|------------|------------|
| Revenue                                                        | \$ 77,196 | \$ 71,381 | \$ 149,386 | \$ 139,865 |
| Net income (loss)                                              | 573       | (10,851)  | 1,327      | (11,691)   |
| Net income (loss) per limited partner unit (basic and diluted) | \$ .02    | \$ (.40)  | \$ .05     | \$ (.44)   |

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

The properties acquired in 2014 have contributed \$2.2 million and \$2.3 million of revenue, for the three and six months ended June 30, 2014, respectively and less than \$0.1 million of operating profit for both the three and six months ended June 30, 2014. The properties acquired in the first quarter of 2013 have contributed \$0.8 million and \$1.8 million of revenue, for the three and six months ended June 30, 2014, respectively and incurred less than \$0.2 million of operating loss for both the three and six months ended June 30, 2014.

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### **Second Quarter 2014 Settlement**

During the three months ended June 30, 2014, the Company received \$1.5 million in cash proceeds related to the settlement of claims from locations acquired by the Company in 2010. Of this amount, \$0.3 million is for the reimbursement of legal fees and is recorded as a recovery to corporate overhead and another \$0.3 million has been accrued for contingent legal fees payable. A gain of \$0.9 million has been recorded as gain on settlement agreement, net on the unaudited condensed consolidated statement of operations for the proceeds received, net of legal fees.

### **First and Second Quarter 2013 Settlement**

During the six months ended June 30, 2013 the Company recovered \$18.4 million, net of legal fees, costs, and contractual obligations related to the settlement of claims from locations that the Company acquired in 2010 and 2011. Of this amount \$6.5 million was contributed directly to the related perpetual care and merchandise trusts on the Company's behalf. \$3.4 million of these direct payments represent a gain on settlement agreement on the unaudited condensed consolidated statement of operations due to an increase in the merchandise trusts not previously accrued for in purchase accounting.

The Company received \$11.9 million in cash proceeds from the settlement. Of this amount, \$1.7 million and \$1.3 million are for the reimbursement of legal fees and are recorded as recoveries to corporate overhead and acquisition related costs, respectively. The remaining proceeds were recorded as a gain on settlement agreement on the unaudited condensed consolidated statement of operations. The total gain on settlement for the six months ended June 30, 2013 was \$12.3 million. Of the amounts noted above, \$1.3 million, inclusive of a gain on settlement agreement of \$0.9 million and \$0.4 million of recovery of legal fees, was recognized during the first quarter of 2013.

## **14. SEGMENT INFORMATION**

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

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

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

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

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

Segment information is as follows:

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

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|                                              | Southeast  | Cemeteries<br>Northeast | West       | Funeral<br>Homes<br>(in thousands) | Corporate  | Adjustment  | Total        |
|----------------------------------------------|------------|-------------------------|------------|------------------------------------|------------|-------------|--------------|
| <b>Revenues</b>                              |            |                         |            |                                    |            |             |              |
| Sales                                        | \$ 24,565  | \$ 10,945               | \$ 13,878  | \$                                 | \$         | \$ (11,428) | \$ 37,960    |
| Service and other                            | 9,362      | 7,885                   | 7,212      |                                    |            | (2,364)     | 22,095       |
| Funeral home                                 |            |                         |            | 13,066                             |            | (1,588)     | 11,478       |
| Total revenues                               | 33,927     | 18,830                  | 21,090     | 13,066                             |            | (15,380)    | 71,533       |
| <b>Costs and expenses</b>                    |            |                         |            |                                    |            |             |              |
| Cost of sales                                | 5,425      | 2,343                   | 2,742      |                                    |            | (1,860)     | 8,650        |
| Cemetery                                     | 7,129      | 4,688                   | 4,324      |                                    |            |             | 16,141       |
| Selling                                      | 8,598      | 4,069                   | 4,227      |                                    | 304        | (2,337)     | 14,861       |
| General and administrative                   | 4,614      | 1,909                   | 2,357      |                                    |            |             | 8,880        |
| Corporate overhead                           |            |                         |            |                                    | 6,546      |             | 6,546        |
| Depreciation and amortization                | 661        | 338                     | 533        | 743                                | 238        |             | 2,513        |
| Funeral home                                 |            |                         |            | 9,635                              |            | (199)       | 9,436        |
| Acquisition related costs, net of recoveries |            |                         |            |                                    | 1,240      |             | 1,240        |
| Total costs and expenses                     | 26,427     | 13,347                  | 14,183     | 10,378                             | 8,328      | (4,396)     | 68,267       |
| <b>Operating profit</b>                      | \$ 7,500   | \$ 5,483                | \$ 6,907   | \$ 2,688                           | \$ (8,328) | \$ (10,984) | \$ 3,266     |
| Total assets                                 | \$ 645,165 | \$ 422,577              | \$ 454,896 | \$ 164,459                         | \$ 29,689  | \$          | \$ 1,716,786 |
| Amortization of cemetery property            | \$ 1,213   | \$ 838                  | \$ 579     | \$                                 | \$         | \$ (248)    | \$ 2,382     |
| Long lived asset additions                   | \$ 24,956  | \$ 70,868               | \$ 1,403   | \$ 8,764                           | \$ 208     | \$          | \$ 106,199   |
| Goodwill                                     | \$ 9,817   | \$ 2,903                | \$ 11,948  | \$ 32,460                          | \$         | \$          | \$ 57,128    |



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

|                                              | Southeast  | Cemeteries<br>Northeast | West       | Funeral<br>Homes<br>(in thousands) | Corporate   | Adjustment  | Total        |
|----------------------------------------------|------------|-------------------------|------------|------------------------------------|-------------|-------------|--------------|
| <b>Revenues</b>                              |            |                         |            |                                    |             |             |              |
| Sales                                        | \$ 46,666  | \$ 18,355               | \$ 23,699  | \$                                 | \$          | \$ (21,886) | \$ 66,834    |
| Service and other                            | 20,988     | 18,489                  | 18,135     |                                    |             | (11,751)    | 45,861       |
| Funeral home                                 |            |                         |            | 26,320                             |             | (3,095)     | 23,225       |
| Total revenues                               | 67,654     | 36,844                  | 41,834     | 26,320                             |             | (36,732)    | 135,920      |
| <b>Costs and expenses</b>                    |            |                         |            |                                    |             |             |              |
| Cost of sales                                | 10,217     | 4,021                   | 5,519      |                                    |             | (3,603)     | 16,154       |
| Cemetery                                     | 13,524     | 7,923                   | 8,023      |                                    |             |             | 29,470       |
| Selling                                      | 15,846     | 6,871                   | 7,461      |                                    | 849         | (4,977)     | 26,050       |
| General and administrative                   | 8,710      | 3,401                   | 4,414      |                                    |             |             | 16,525       |
| Corporate overhead                           |            |                         |            |                                    | 14,002      |             | 14,002       |
| Depreciation and amortization                | 1,294      | 574                     | 1,054      | 1,479                              | 480         |             | 4,881        |
| Funeral home                                 |            |                         |            | 19,139                             |             | (417)       | 18,722       |
| Acquisition related costs, net of recoveries |            |                         |            |                                    | 1,589       |             | 1,589        |
| Total costs and expenses                     | 49,591     | 22,790                  | 26,471     | 20,618                             | 16,920      | (8,997)     | 127,393      |
| <b>Operating profit</b>                      | \$ 18,063  | \$ 14,054               | \$ 15,363  | \$ 5,702                           | \$ (16,920) | \$ (27,735) | \$ 8,527     |
| Total assets                                 | \$ 645,165 | \$ 422,577              | \$ 454,896 | \$ 164,459                         | \$ 29,689   | \$          | \$ 1,716,786 |
| Amortization of cemetery property            | \$ 2,464   | \$ 1,421                | \$ 1,802   | \$                                 | \$          | \$ (582)    | \$ 5,105     |
| Long lived asset additions                   | \$ 26,520  | \$ 71,310               | \$ 2,444   | \$ 8,821                           | \$ 260      | \$          | \$ 109,355   |
| Goodwill                                     | \$ 9,817   | \$ 2,903                | \$ 11,948  | \$ 32,460                          | \$          | \$          | \$ 57,128    |

As of and for the three months ended June 30, 2013:

|                   | Southeast | Cemeteries<br>Northeast | West      | Funeral<br>Homes<br>(in thousands) | Corporate | Adjustment  | Total     |
|-------------------|-----------|-------------------------|-----------|------------------------------------|-----------|-------------|-----------|
| <b>Revenues</b>   |           |                         |           |                                    |           |             |           |
| Sales             | \$ 24,767 | \$ 9,724                | \$ 12,284 | \$                                 | \$        | \$ (14,479) | \$ 32,296 |
| Service and other | 8,474     | 5,754                   | 6,611     |                                    |           | (1,389)     | 19,450    |
| Funeral home      |           |                         |           | 11,983                             |           | (1,307)     | 10,676    |

|                                              |            |            |            |            |            |             |              |
|----------------------------------------------|------------|------------|------------|------------|------------|-------------|--------------|
| Total revenues                               | 33,241     | 15,478     | 18,895     | 11,983     |            | (17,175)    | 62,422       |
| <b>Costs and expenses</b>                    |            |            |            |            |            |             |              |
| Cost of sales                                | 5,399      | 2,658      | 2,088      |            |            | (2,433)     | 7,712        |
| Cemetery                                     | 6,987      | 3,885      | 4,536      |            |            |             | 15,408       |
| Selling                                      | 7,932      | 3,435      | 3,669      |            | 461        | (3,279)     | 12,218       |
| General and administrative                   | 4,216      | 1,608      | 2,074      |            |            |             | 7,898        |
| Corporate overhead                           |            |            |            |            | 5,672      |             | 5,672        |
| Depreciation and amortization                | 584        | 233        | 525        | 749        | 360        |             | 2,451        |
| Funeral home                                 |            |            |            | 9,498      |            | (134)       | 9,364        |
| Acquisition related costs, net of recoveries |            |            |            |            | (625)      |             | (625)        |
| Total costs and expenses                     | 25,118     | 11,819     | 12,892     | 10,247     | 5,868      | (5,846)     | 60,098       |
| <b>Operating profit</b>                      | \$ 8,123   | \$ 3,659   | \$ 6,003   | \$ 1,736   | \$ (5,868) | \$ (11,329) | \$ 2,324     |
| Total assets                                 | \$ 546,851 | \$ 310,187 | \$ 419,902 | \$ 132,010 | \$ 27,860  | \$          | \$ 1,436,810 |
| Amortization of cemetery property            | \$ 1,179   | \$ 737     | \$ 314     | \$         | \$         | \$ (304)    | \$ 1,926     |
| Long lived asset additions                   | \$ 1,416   | \$ 382     | \$ 746     | \$ 271     | \$ 717     | \$          | \$ 3,532     |
| Goodwill                                     | \$ 6,174   | \$         | \$ 11,948  | \$ 30,615  | \$         | \$          | \$ 48,737    |

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As of and for the six months ended June 30, 2013:

|                                              | Southeast  | Cemeteries<br>Northeast | West       | Funeral<br>Homes<br>(in thousands) | Corporate   | Adjustment  | Total        |
|----------------------------------------------|------------|-------------------------|------------|------------------------------------|-------------|-------------|--------------|
| <b>Revenues</b>                              |            |                         |            |                                    |             |             |              |
| Sales                                        | \$ 46,637  | \$ 18,701               | \$ 22,044  | \$                                 | \$          | \$ (25,102) | \$ 62,280    |
| Service and other                            | 19,580     | 12,305                  | 15,741     |                                    |             | (9,966)     | 37,660       |
| Funeral home                                 |            |                         |            | 24,810                             |             | (2,716)     | 22,094       |
| Total revenues                               | 66,217     | 31,006                  | 37,785     | 24,810                             |             | (37,784)    | 122,034      |
| <b>Costs and expenses</b>                    |            |                         |            |                                    |             |             |              |
| Cost of sales                                | 9,774      | 4,526                   | 3,598      |                                    |             | (3,896)     | 14,002       |
| Cemetery                                     | 12,959     | 7,118                   | 8,116      |                                    |             |             | 28,193       |
| Selling                                      | 15,144     | 6,593                   | 6,762      |                                    | 833         | (5,890)     | 23,442       |
| General and administrative                   | 8,202      | 3,192                   | 4,086      |                                    |             |             | 15,480       |
| Corporate overhead                           |            |                         |            |                                    | 13,660      |             | 13,660       |
| Depreciation and amortization                | 1,112      | 455                     | 1,065      | 1,409                              | 740         |             | 4,781        |
| Funeral home                                 |            |                         |            | 18,421                             |             | (321)       | 18,100       |
| Acquisition related costs, net of recoveries |            |                         |            |                                    | 658         |             | 658          |
| Total costs and expenses                     | 47,191     | 21,884                  | 23,627     | 19,830                             | 15,891      | (10,107)    | 118,316      |
| <b>Operating profit</b>                      | \$ 19,026  | \$ 9,122                | \$ 14,158  | \$ 4,980                           | \$ (15,891) | \$ (27,677) | \$ 3,718     |
| Total assets                                 | \$ 546,851 | \$ 310,187              | \$ 419,902 | \$ 132,010                         | \$ 27,860   | \$          | \$ 1,436,810 |
| Amortization of cemetery property            | \$ 2,030   | \$ 1,358                | \$ 561     | \$                                 | \$          | \$ (338)    | \$ 3,611     |
| Long lived asset additions                   | \$ 2,326   | \$ 1,259                | \$ 1,258   | \$ 8,925                           | \$ 748      | \$          | \$ 14,516    |
| Goodwill                                     | \$ 6,174   | \$                      | \$ 11,948  | \$ 30,615                          | \$          | \$          | \$ 48,737    |

Results of individual operating segments are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of individual operating segments are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the operating segments. Methodologies are refined from time to time as management accounting practices are enhanced and businesses change. Revenues and associated expenses are not deferred in accordance with SAB No. 104; therefore, the deferral of these revenues and expenses is provided in the adjustment column to reconcile the Company's managerial financial statements to those prepared in accordance with GAAP. Pre-need sales revenues included within the sales category consist primarily of the sale of burial lots, burial vaults, mausoleum crypts, grave markers and memorials, and caskets. Management accounting practices included in the Southeast, Northeast, and Western Regions reflect these pre-need sales when contracts are signed by the customer

and accepted by the Company. Pre-need sales reflected in the unaudited condensed consolidated financial statements, prepared in accordance with GAAP, recognize revenues for the sale of burial lots and mausoleum crypts when the product is constructed and at least 10% of the sales price is collected. With respect to the other products, the unaudited condensed consolidated financial statements prepared under GAAP recognize sales revenues when the criteria for delivery under SAB No. 104 are met. These criteria include, among other things, purchase of the product, delivery and installation of the product in the ground, and transfer of title to the customer. In each case, costs are accrued in connection with the recognition of revenues; therefore, the unaudited condensed consolidated financial statements reflect Deferred Cemetery Revenue, Net, and Deferred Selling and Obtaining Costs on the unaudited condensed consolidated balance sheet, whereas the Company's management accounting practices exclude these items.

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**15. FAIR VALUE MEASUREMENTS**

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

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

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

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

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

The following table displays the Company's assets measured at fair value as of June 30, 2014 and December 31, 2013.

**Table of Contents****As of June 30, 2014****Merchandise Trust**

|                                                       | Level 1    | Level 2<br>(in thousands) | Total      |
|-------------------------------------------------------|------------|---------------------------|------------|
| Assets                                                |            |                           |            |
| Short-term investments                                | \$ 47,276  | \$                        | \$ 47,276  |
| Fixed maturities:                                     |            |                           |            |
| Corporate debt securities                             |            | 9,540                     | 9,540      |
| Other debt securities                                 |            | 5,814                     | 5,814      |
| Total fixed maturity investments                      |            | 15,354                    | 15,354     |
| Mutual funds - debt securities                        | 117,246    |                           | 117,246    |
| Mutual funds - equity securities - real estate sector | 54,344     |                           | 54,344     |
| Mutual funds - equity securities - energy sector      | 8,746      |                           | 8,746      |
| Mutual funds - equity securities - MLP s              | 28,333     |                           | 28,333     |
| Mutual funds - equity securities - other              | 86,870     |                           | 86,870     |
| Equity securities:                                    |            |                           |            |
| Master limited partnerships                           | 70,394     |                           | 70,394     |
| Global equity securities                              | 31,335     |                           | 31,335     |
| Other invested assets                                 |            | 2,215                     | 2,215      |
| Total                                                 | \$ 444,544 | \$ 17,569                 | \$ 462,113 |

**Perpetual Care Trust**

|                                                       | Level 1   | Level 2<br>(in thousands) | Total     |
|-------------------------------------------------------|-----------|---------------------------|-----------|
| Assets                                                |           |                           |           |
| Short-term investments                                | \$ 29,905 | \$                        | \$ 29,905 |
| Fixed maturities:                                     |           |                           |           |
| U.S. government and federal agency                    | 119       |                           | 119       |
| Corporate debt securities                             |           | 24,835                    | 24,835    |
| Other debt securities                                 |           | 371                       | 371       |
| Total fixed maturity investments                      | 119       | 25,206                    | 25,325    |
|                                                       |           |                           |           |
| Mutual funds - debt securities                        | 105,889   |                           | 105,889   |
| Mutual funds - equity securities - real estate sector | 38,731    |                           | 38,731    |
| Mutual funds - equity securities - energy sector      | 16,755    |                           | 16,755    |
| Mutual funds - equity securities - MLP s              | 46,429    |                           | 46,429    |
| Mutual funds - equity securities - other              | 21,566    |                           | 21,566    |

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|                             |            |           |            |
|-----------------------------|------------|-----------|------------|
| Equity securities:          |            |           |            |
| Master limited partnerships | 46,161     |           | 46,161     |
| Global equity securities    | 946        |           | 946        |
| Other invested assets       |            | 1,845     | 1,845      |
| Total                       | \$ 306,501 | \$ 27,051 | \$ 333,552 |

**Table of Contents****As of December 31, 2013****Merchandise Trust**

|                                                       | Level 1    | Level 2<br>(in thousands) | Total      |
|-------------------------------------------------------|------------|---------------------------|------------|
| Assets                                                |            |                           |            |
| Short-term investments                                | \$ 46,518  | \$                        | \$ 46,518  |
| Fixed maturities:                                     |            |                           |            |
| Corporate debt securities                             |            | 9,171                     | 9,171      |
| Other debt securities                                 |            | 7,324                     | 7,324      |
|                                                       |            |                           |            |
| Total fixed maturity investments                      |            | 16,495                    | 16,495     |
|                                                       |            |                           |            |
| Mutual funds - debt securities                        | 111,333    |                           | 111,333    |
| Mutual funds - equity securities - real estate sector | 49,103     |                           | 49,103     |
| Mutual funds - equity securities - MLP s              | 36,193     |                           | 36,193     |
| Mutual funds - equity securities - other              | 72,234     |                           | 72,234     |
| Equity securities:                                    |            |                           |            |
| Master limited partnerships                           | 57,258     |                           | 57,258     |
| Global equity securities                              | 28,437     |                           | 28,437     |
| Other invested assets                                 |            | 5,723                     | 5,723      |
|                                                       |            |                           |            |
| Total                                                 | \$ 401,076 | \$ 22,218                 | \$ 423,294 |

**Perpetual Care Trust**

|                                                       | Level 1        | Level 2 | Total     |
|-------------------------------------------------------|----------------|---------|-----------|
|                                                       | (in thousands) |         |           |
| Assets                                                |                |         |           |
| Short-term investments                                | \$ 16,686      | \$      | \$ 16,686 |
| Fixed maturities:                                     |                |         |           |
| U.S. government and federal agency                    | 372            |         | 372       |
| Corporate debt securities                             |                | 24,510  | 24,510    |
| Other debt securities                                 |                | 371     | 371       |
| Total fixed maturity investments                      | 372            | 24,881  | 25,253    |
|                                                       |                |         |           |
| Mutual funds - debt securities                        | 116,013        |         | 116,013   |
| Mutual funds - equity securities - real estate sector | 40,763         |         | 40,763    |
| Mutual funds - equity securities - energy sector      | 14,761         |         | 14,761    |
| Mutual funds - equity securities - MLP s              | 46,817         |         | 46,817    |
| Mutual funds - equity securities - other              | 13,252         |         | 13,252    |
| Equity securities:                                    |                |         |           |



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|                             |            |           |            |
|-----------------------------|------------|-----------|------------|
| Master limited partnerships | 36,925     |           | 36,925     |
| Global equity securities    | 919        |           | 919        |
| Other invested assets       |            | 382       | 382        |
| Total                       | \$ 286,508 | \$ 25,263 | \$ 311,771 |

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

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

There were no level 3 assets.

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

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

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

### **Forward-Looking Statements**

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

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

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

Our additional risks and uncertainties, include, but are not limited to, the following: uncertainties associated with future revenue and revenue growth; uncertainties associated with the integration or anticipated benefits of our recent acquisitions or any future acquisitions; our ability to complete and fund additional acquisitions; the effect of economic

downturns; the impact of our significant leverage on our operating plans; the decline in the fair value of certain equity and debt securities held in our trusts; our ability to attract, train and retain an adequate number of sales people; uncertainties associated with the volume and timing of pre-need sales of cemetery services and products; increased use of cremation; changes in the death rate; changes in the political or regulatory environments, including potential changes in tax accounting and trusting policies; our ability to successfully implement a strategic plan relating to achieving operating improvements, strong cash flows and further deleveraging; our ability to successfully compete in the cemetery and funeral home industry; litigation or legal proceedings that could expose us to significant liabilities and damage our reputation; the effects of cyber security attacks due to our significant reliance on information technology; uncertainties relating to the financial condition of third-party insurance companies that fund our pre-need funeral contracts; and various other uncertainties associated with the death care industry and our operations in particular.

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When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 ( 2013 Form 10-K ) and our other reports filed with the SEC. Except as required under applicable law, we assume no obligation to update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

## **Organization**

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

Cornerstone had been founded in 1999 by members of our management team and a private equity investment firm in order to acquire a group of 123 cemetery properties and 4 funeral homes. Since that time, Cornerstone, succeeded by us, has acquired additional cemeteries and funeral homes, entered into long term cemetery operating agreements, built funeral homes, and sold cemeteries and funeral homes, resulting in the operation of 303 cemeteries and 99 funeral homes as of June 30, 2014.

## **Capitalization**

On September 20, 2004, we completed our initial public offering. Since that time, we have completed additional follow-on public offerings and debt offerings.

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

On May 21, 2014, we sold 2,255,947 common units to American Cemeteries Infrastructure Investors, LLC, a Delaware limited liability company ( ACII ), at an aggregate purchase price of \$55.0 million, or \$24.38 per unit, pursuant to a Common Unit Purchase Agreement dated May 19, 2014. The proceeds were used primarily to fund the up-front rent consideration for the transaction with the Archdiocese of Philadelphia that closed during the second quarter of 2014.

On June 12, 2014, after the exercise of the underwriters' over-allotment option, we completed our most recent follow-on public offering of 2,990,000 common units at a price of \$23.67 per unit. Net proceeds of the offering, after deducting underwriting discounts and offering expenses, were approximately \$67.3 million. The proceeds from the offering were used primarily to pay the purchase price related to our acquisition from Service Corporation International, which closed in the second quarter of 2014, with the remainder used to pay down borrowings outstanding under our Credit Facility. Refer to Note 13 of our unaudited condensed consolidated financial statements in Item 1 of this Form 10-Q for a more detailed discussion of the acquisition.

## **Overview**

### ***Cemetery Operations***

We are currently the second largest owner and operator of cemeteries in the United States. As of June 30, 2014, we operated 303 cemeteries in 27 states and Puerto Rico. We own 272 of these cemeteries, and we operate the remaining 31 under lease, operating or management contracts. As a result of the agreements, other control arrangements and applicable accounting rules, we have treated 16 of these cemeteries as acquisitions for accounting purposes.

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

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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 84.0% and 82.9% of our total revenues during the three and six months ended June 30, 2014 as compared to 82.9% and 81.9% 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 trust, excluding realized gains and losses on the sale of trust assets, which we recognize as revenues as the income is earned in the trust; and

other items, such as interest income on pre-need installment contracts and sales of land.

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

the merchandise is complete and ready for installation; or

the merchandise is either installed or stored at an off-site location, at no additional cost to us, and specifically identified with a particular customer; and

the risks and rewards of ownership have passed to the customer.

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

#### Pre-need Sales

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

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

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

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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, 2014 and 2013.

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

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

## At-need Sales

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

## Expenses

We analyze and categorize our operating expenses as follows:

### 1. Cost of goods sold and selling expenses

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

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

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

### 2. Cemetery Expenses



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

### 3. General and administrative expenses

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

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### **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, 2014, we owned and operated 99 funeral homes. These properties are located in 19 states and Puerto Rico. Forty-six of our funeral homes are located on the grounds of cemeteries that we own.

We derive revenues at our funeral homes from the sale of funeral home merchandise, including caskets and related funeral merchandise, and services, including removal and preparation of remains, the use of our facilities for visitation, worship and performance of funeral services and transportation services. We sell these services and merchandise generally at the time of need utilizing salaried licensed funeral directors. Funeral home revenues accounted for approximately 16.0% and 17.1% of our total revenues during the three and six months ended June 30, 2014 as compared to 17.1% and 18.1% during the same periods last year.

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

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

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

## ***Corporate***

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

## ***2014 Developments***

Significant business developments for the six months ended June 30, 2014 include the following:

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

revolving credit facility.

On May 21, 2014, we sold 2,255,947 common units to ACII, at an aggregate purchase price of \$55.0 million, or \$24.38 per unit, pursuant to a Common Unit Purchase Agreement dated May 19, 2014. The proceeds were used primarily to fund the up-front rent consideration for the transaction with the Archdiocese of Philadelphia that closed during the second quarter of 2014. ACII is an affiliate of American Infrastructure Funds, L.L.C., an investment adviser registered with SEC. Robert B. Hellman, Jr., a director of our general partner is a managing member of American Infrastructure Funds, L.L.C. and he is affiliated with entities that own membership interests in ACII and the entity that is the manager of ACII.

On May 21, 2014, Cornerstone Family Services LLC, and its direct and indirect subsidiaries: CFSI LLC ( CFSI ) and our general partner completed a series of transactions to streamline the ownership structure of CFSI and our general partner. As a result, our general partner has become a wholly-owned subsidiary of StoneMor GP Holdings LLC ( GP Holdings ), formerly known as CFSI. Also, Mr. Hellman, as Trustee of a trust, for the pecuniary benefit of ACII, has exclusive voting and investment power over approximately 67% of membership interests in GP Holdings, and Lawrence Miller, our President and Chief Executive Officer and a

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director of our general partner, William Shane, Allen Freedman, and Martin Lautman, directors of our general partner, Michael Stache and Robert Stache, retired executive officers of our general partner, and two family partnerships affiliated with Messrs. Miller and Shane collectively hold approximately 33% of membership interests in GP Holdings.

On May 22, 2014, we entered into the Fourth Amendment to the Third Amended and Restated Credit Agreement. The Amendment obtained the Lenders' approval for the closing of the transactions with the Archdiocese of Philadelphia and Service Corporation International, increased the Consolidated Leverage Ratio to 4.00 to 1.0 for any measurement period and amended the definition of Consolidated EBITDA to, among other things, remove existing balance sheet adjustments and replace them with certain cash flow statement adjustments. See Liquidity and Capital Resources for further discussion.

On May 28, 2014, we and the Archdiocese of Philadelphia closed the transaction, pursuant to which we will operate 13 cemeteries in Pennsylvania for a term of 60 years, subject to certain termination provisions. At closing we paid an up-front rent of \$53.0 million to the Archdiocese of Philadelphia. We recorded a contract-based intangible asset of \$59.8 million, representing the underlying value from the agreements, at the present value of the total consideration less the fair value of net assets received, consisting of acquired accounts receivable of \$1.6 million. A liability of \$8.4 million was also recorded for the present value of future rent payments.

On June 10, 2014, we closed the transaction with certain subsidiaries of Service Corporation International to acquire nine funeral homes, twelve cemeteries and certain related assets in Central Florida, North Carolina, Southeastern Pennsylvania and Virginia. In consideration for the net assets acquired, we paid \$53.8 million in cash, subject to certain post-closing adjustments dependent upon the final value of certain net assets actually transferred.

On June 12, 2014, after the exercise of the underwriters' over-allotment option, we completed a follow-on public offering of 2,990,000 common units at a price of \$23.67 per unit. Net proceeds of the offering, after deducting underwriting discounts and offering expenses, were approximately \$67.3 million. The proceeds from the offering were used primarily to pay the purchase price related to our transaction with Service Corporation International, with the remainder used to pay down borrowings outstanding under our revolving credit facility.

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

In general, the financial markets have trended upward over the past few years. As of June 30, 2014, the market value of the assets in our merchandise trusts exceeded their amortized cost by 6.5%, which is an improvement from December 31, 2013 when the market value of the assets exceeded their amortized cost by 2.6%. As of June 30, 2014, the market value of the assets in our perpetual care trusts exceeded their amortized cost by 15.7%, which is an improvement from December 31, 2013 when the market value of the assets exceeded their amortized cost by 10.5%.

As of June 30, 2014, the majority of our long-term debt consisted of \$175.0 million in Senior Notes due 2021 and \$78.4 million of borrowings under our revolving credit facility which expires in 2017. As of June 30, 2014, we had \$61.6 million of availability under our revolving credit facility. Further, on February 27, 2014 and June 12, 2014, we raised capital via follow-on public offerings of our common units.

The aggregate values of pre-need and at-need contracts written were \$77.9 million and \$141.6 million for the three and six months ended June 30, 2014 as compared to \$71.3 million and \$135.2 million during the same periods last year.

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

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

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

We have two primary debt covenants that are dependent upon our financial results, the Consolidated Leverage Ratio and the Consolidated Debt Service Coverage Ratio. The Consolidated Leverage Ratio relates to the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA. Our Consolidated Leverage Ratio was 2.46 at June 30, 2014 compared to a maximum allowed ratio of 4.00. The Consolidated Debt Service Coverage Ratio relates to the ratio of Consolidated EBITDA to Consolidated Debt Service. Our Consolidated Debt Service Coverage Ratio was 4.61 at June 30, 2014 compared 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. Our cemetery operations are disaggregated into three different geographically based segments. The nature of our customers differs in each of our regionally based cemetery operating segments. Cremation rates in the West region are substantially higher than they are in the Southeast region. Rates in the Northeast region tend to be somewhere between the two. Statistics indicate that customers who select cremation services have certain attributes that differ from customers who select other methods of interment. The disaggregation of cemetery operations into the three distinct regional segments is primarily due to these differences in customer attributes along with the previously mentioned management structure and senior management analysis methodologies.

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

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

### **Critical Accounting Policies and Estimates**

The unaudited condensed consolidated financial statements are prepared in conformity with GAAP. The preparation of these financial statements required us to make estimates, judgments and assumptions that affected the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods (see Note 1 to the unaudited condensed consolidated financial statements). Our critical accounting policies are those that are both important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgment. These critical accounting policies are discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2013 Form 10-K. There have been no significant changes to our critical accounting policies since the filing of our 2013 Form 10-K.

### ***Results of Operations   Segments***

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

The method of accounting we utilize to analyze our overall results of operations, including segment results, provides for a production based view of our business. Under the production based view, we recognize revenues at their contract

value at the point in time in which the contract is written, less a historic cancellation reserve. All related costs are expensed in the period the contract is recognized as revenue. In contrast, GAAP requires that we defer all revenues and the direct costs associated with these revenues, until we meet certain delivery and performance requirements. The nature of our business is such that there is no meaningful relationship between the time that elapses from the date a contract is executed and the date the underlying merchandise is delivered or the service, delivery and performance requirements are met. Further, certain factors affecting this time period, such as weather and supplier issues, are out of our control. As a result, during a period of growth, operating profits as defined by GAAP will tend to lag behind operating profits on a production based view because of the required deferral of revenues. Our performance based view ignores these delays and presents results based upon the underlying value of contracts written. We believe this is the most reliable indicator of

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our performance for a given period as the value of contracts written less a historical cancellation reserve reflects the economic value added during a given period of time. Accordingly, the ensuing segment discussion is on a basis of accounting that differs from generally accepted accounting principles. See Note 1 to the consolidated financial statements included in the 2013 Form 10-K for a more detailed discussion of our accounting policies under GAAP.

**Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013****Cemetery Segments****Cemetery Operations    Southeast**

Since June 30, 2013, we have acquired eleven properties in our Cemetery Operations    Southeast segment. The first acquisition occurred during the third quarter of 2013, the second occurred during the first quarter of 2014 and the remaining nine occurred during the second quarter of 2014. The results of operations for these acquired properties have no impact on the results for the three months ended June 30, 2013, but are included in the results for the three months ended June 30, 2014. The acquisitions contributed approximately \$1.4 million of the revenues and \$0.8 million of the costs and expenses of the segment for the three months ended June 30, 2014.

The table below compares the results of operations for our Cemetery Operations    Southeast for the three months ended June 30, 2014 to the same period last year:

|                          | 2014      | 2013      | Change (\$)                        | Change (%) |
|--------------------------|-----------|-----------|------------------------------------|------------|
|                          |           |           | <b>Three months ended June 30,</b> |            |
|                          |           |           | <b>(in thousands)</b>              |            |
|                          |           |           | <b>(non-GAAP)</b>                  |            |
| Total revenues           | \$ 33,927 | \$ 33,241 | \$ 686                             | 2.1%       |
| Total costs and expenses | 26,427    | 25,118    | 1,309                              | 5.2%       |
| Operating profit         | \$ 7,500  | \$ 8,123  | \$ (623)                           | -7.7%      |

**Revenues**

The increase in revenues was primarily related to an increase of \$0.6 million in income from our trusts and \$0.1 million in the value of at-need contracts written. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

**Total costs and expenses**

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

A \$0.1 million increase in cemetery expenses primarily due to an increase in labor costs.

A \$0.7 million increase in selling expenses due to an increase in advertising costs.



A \$0.4 million increase in general and administrative expenses primarily due to a \$0.3 million increase in personnel costs.

A \$0.1 million increase in depreciation expense.

**Cemetery Operations   Northeast**

During the second quarter of 2014, we acquired three properties and separately obtained the rights from the Archdiocese of Philadelphia to operate thirteen properties in our Cemetery Operations   Northeast segment. The results of operations for these properties have no impact on the results for the three months ended June 30, 2013, but are included in the results for the three months ended June 30, 2014. The additions have contributed approximately \$2.0 million of the revenues and \$1.9 million of the costs and expenses of the segment for the three months ended June 30, 2014.

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The table below compares the results of operations for our Cemetery Operations Northeast for the three months ended June 30, 2014 to the same period last year:

|                          | 2014      | 2013                                                        | Change (\$) | Change (%) |
|--------------------------|-----------|-------------------------------------------------------------|-------------|------------|
|                          |           | Three months ended June 30,<br>(in thousands)<br>(non-GAAP) |             |            |
| Total revenues           | \$ 18,830 | \$ 15,478                                                   | \$ 3,352    | 21.7%      |
| Total costs and expenses | 13,347    | 11,819                                                      | 1,528       | 12.9%      |
| Operating profit         | \$ 5,483  | \$ 3,659                                                    | \$ 1,824    | 49.8%      |

**Revenues**

The increase in revenues was primarily related to increases of \$1.6 million in the value of at-need contracts written, \$0.7 million in the value of pre-need contracts written and \$1.0 million in income from our trusts. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

**Total costs and expenses**

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

A \$0.3 million decrease in cost of goods sold primarily attributable to changes in product mix.

A \$0.8 million increase in cemetery expenses due to a \$0.6 million increase in labor costs and a \$0.2 million increase in repairs and maintenance expense.

A \$0.6 million increase in selling expenses attributable to a \$0.4 million increase in commissions and personnel expenses and a \$0.2 million increase in advertising costs.

A \$0.3 million increase in general and administrative expenses primarily related to increases in personnel costs and professional fees.

A \$0.1 million increase in depreciation expense, primarily due to acquired properties.

**Cemetery Operations West**

The table below compares the results of operations for our Cemetery Operations West for the three months ended June 30, 2014 to the same period last year:

|                          | 2014      | 2013      | Change (\$)                                                 | Change (%) |
|--------------------------|-----------|-----------|-------------------------------------------------------------|------------|
|                          |           |           | Three months ended June 30,<br>(in thousands)<br>(non-GAAP) |            |
| Total revenues           | \$ 21,090 | \$ 18,895 | \$ 2,195                                                    | 11.6%      |
| Total costs and expenses | 14,183    | 12,892    | 1,291                                                       | 10.0%      |
| Operating profit         | \$ 6,907  | \$ 6,003  | \$ 904                                                      | 15.1%      |

Revenues

The increase in revenues was primarily related to increases of \$0.9 million in the value of pre-need contracts written, \$0.7 million in the value of at-need contracts written and \$0.6 million in income from our trusts. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

**Table of Contents****Total costs and expenses**

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

A \$0.7 million increase in cost of goods sold primarily related to the increase in the value of contracts written and changes in product mix.

A \$0.2 million decrease in cemetery expenses due to a \$0.3 million decrease in real estate taxes, partially offset by a \$0.1 million increase in repairs and maintenance expenses.

A \$0.5 million increase in selling expenses primarily due to increases of \$0.3 million in commissions and personnel expenses and \$0.2 million in advertising costs.

A \$0.3 million increase in general and administrative expenses due to increases of \$0.2 million in professional fees and \$0.1 million in personnel costs.

**Funeral Homes Segment**

In the second quarter of 2014 we acquired nine funeral homes. Therefore, the results of operations for these properties have no impact on the results for the three months ended June 30, 2013, but are included in the results for the three months ended June 30, 2014. The additions have contributed approximately \$0.6 million of the revenues and \$0.3 million of the costs and expenses of the segment for the three months ended June 30, 2014.

The table below compares the results of operations for our Funeral Homes segment for the three months ended June 30, 2014 to the same period last year:

|                          | 2014      | 2013      | Change (\$)                                                 | Change (%) |
|--------------------------|-----------|-----------|-------------------------------------------------------------|------------|
|                          |           |           | Three months ended June 30,<br>(in thousands)<br>(non-GAAP) |            |
| Total revenues           | \$ 13,066 | \$ 11,983 | \$ 1,083                                                    | 9.0%       |
| Total costs and expenses | 10,378    | 10,247    | 131                                                         | 1.3%       |
| Operating profit         | \$ 2,688  | \$ 1,736  | \$ 952                                                      | 54.8%      |

**Revenues**

The increase in revenues was primarily attributable to increases of \$0.5 million in the value of pre-need contracts written and \$0.4 million in the value of at-need contracts written.

**Total costs and expenses**

The increase in costs and expenses was primarily attributable to an increase of \$0.2 million in facility related costs, partially offset by a \$0.1 million decrease in personnel costs.

**Corporate Segment**

The table below compares expenses incurred by the Corporate segment for the three months ended June 30, 2014 to the same period last year:

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|                                                           | Three months ended June 30,  |          |             |            |
|-----------------------------------------------------------|------------------------------|----------|-------------|------------|
|                                                           | 2014                         | 2013     | Change (\$) | Change (%) |
|                                                           | (in thousands)<br>(non-GAAP) |          |             |            |
| Selling, cemetery and general and administrative expenses | \$ 304                       | \$ 461   | \$ (157)    | -34.1%     |
| Depreciation and amortization                             | 238                          | 360      | (122)       | -33.9%     |
| Acquisition related costs, net of recoveries              | 1,240                        | (625)    | 1,865       | -298.4%    |
| Corporate expenses                                        |                              |          |             |            |
| Corporate personnel expenses                              | 3,117                        | 3,150    | (33)        | -1.0%      |
| Other corporate expenses                                  | 3,429                        | 2,522    | 907         | 36.0%      |
| Total corporate overhead                                  | 6,546                        | 5,672    | 874         | 15.4%      |
| Total corporate expenses                                  | \$ 8,328                     | \$ 5,868 | \$ 2,460    | 41.9%      |

The increase in corporate expenses was primarily driven by increases of \$1.9 million in acquisition related costs and \$0.9 million in professional fees. Due to a legal settlement during the three months ended June 30, 2013, acquisition related costs resulted in a net recovery of \$0.6 million. This legal settlement also resulted in a recovery of legal costs of \$1.3 million, driving down professional fees expense for the prior period. Acquisition related costs will vary from period to period depending on the amount of acquisition activity that takes place.

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

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

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

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

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

The table below analyzes results of operations and the changes therein for the three months ended June 30, 2014 as compared to the same period last year. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/or changes in the timing of when merchandise and services were delivered:

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|                                              | Three months ended<br>June 30, 2014<br>(in thousands) |                     |                 | Three months ended<br>June 30, 2013<br>(in thousands) |                     |                 | Change in            |                                  |
|----------------------------------------------|-------------------------------------------------------|---------------------|-----------------|-------------------------------------------------------|---------------------|-----------------|----------------------|----------------------------------|
|                                              | Segment<br>Results<br>(non-GAAP)                      | GAAP<br>Adjustments | GAAP<br>Results | Segment<br>Results<br>(non-GAAP)                      | GAAP<br>Adjustments | GAAP<br>Results | GAAP results<br>(\$) | Change in<br>GAAP results<br>(%) |
| <b>Revenues</b>                              |                                                       |                     |                 |                                                       |                     |                 |                      |                                  |
| Pre-need cemetery revenues                   | \$ 38,409                                             | \$ (12,659)         | \$ 25,750       | \$ 36,796                                             | \$ (12,961)         | \$ 23,835       | \$ 1,915             | 8.0%                             |
| At-need cemetery revenues                    | 23,110                                                | 1,595               | 24,705          | 20,595                                                | (1,570)             | 19,025          | 5,680                | 29.9%                            |
| Investment income from trusts                | 9,612                                                 | (3,138)             | 6,474           | 7,403                                                 | (1,405)             | 5,998           | 476                  | 7.9%                             |
| Interest income                              | 2,034                                                 |                     | 2,034           | 1,860                                                 |                     | 1,860           | 174                  | 9.4%                             |
| Funeral home revenues                        | 13,066                                                | (1,588)             | 11,478          | 11,983                                                | (1,307)             | 10,676          | 802                  | 7.5%                             |
| Other cemetery revenues                      | 682                                                   | 410                 | 1,092           | 960                                                   | 68                  | 1,028           | 64                   | 6.2%                             |
| Total revenues                               | 86,913                                                | (15,380)            | 71,533          | 79,597                                                | (17,175)            | 62,422          | 9,111                | 14.6%                            |
| <b>Costs and expenses</b>                    |                                                       |                     |                 |                                                       |                     |                 |                      |                                  |
| Cost of goods sold                           | 10,510                                                | (1,860)             | 8,650           | 10,145                                                | (2,433)             | 7,712           | 938                  | 12.2%                            |
| Cemetery expense                             | 16,141                                                |                     | 16,141          | 15,408                                                |                     | 15,408          | 733                  | 4.8%                             |
| Selling expense                              | 17,198                                                | (2,337)             | 14,861          | 15,497                                                | (3,279)             | 12,218          | 2,643                | 21.6%                            |
| General and administrative expense           | 8,880                                                 |                     | 8,880           | 7,898                                                 |                     | 7,898           | 982                  | 12.4%                            |
| Corporate overhead                           | 6,546                                                 |                     | 6,546           | 5,672                                                 |                     | 5,672           | 874                  | 15.4%                            |
| Depreciation and amortization                | 2,513                                                 |                     | 2,513           | 2,451                                                 |                     | 2,451           | 62                   | 2.5%                             |
| Funeral home expense                         | 9,635                                                 | (199)               | 9,436           | 9,498                                                 | (134)               | 9,364           | 72                   | 0.8%                             |
| Acquisition related costs, net of recoveries | 1,240                                                 |                     | 1,240           | (625)                                                 |                     | (625)           | 1,865                | -298.4%                          |
| Total costs and expenses                     | 72,663                                                | (4,396)             | 68,267          | 65,944                                                | (5,846)             | 60,098          | 8,169                | 13.6%                            |
| Operating profit                             | \$ 14,250                                             | \$ (10,984)         | \$ 3,266        | \$ 13,653                                             | \$ (11,329)         | \$ 2,324        | \$ 942               | 40.5%                            |

**Revenues**

Pre-need cemetery revenues were \$25.8 million for the three months ended June 30, 2014, an increase of \$2.0 million, or 8.0%, as compared to \$23.8 million during the same period last year. The increase was the result of an increase of \$1.7 million in the value of cemetery contracts written and a decrease of \$0.3 million in deferred revenue.

At-need cemetery revenues were \$24.7 million for the three months ended June 30, 2014, an increase of \$5.7 million, or 29.9%, as compared to \$19.0 million during the same period last year. The increase was primarily caused by an increase of \$2.5 million in the value of cemetery contracts written and a decrease of \$3.2 million in deferred revenue.

Investment income from trusts was \$6.5 million for the three months ended June 30, 2014, an increase of \$0.5 million, or 7.9%, as compared to \$6.0 million during the same period last year. On a segment basis, we had an increase of \$2.2 million primarily related to an increase in realized gains on our investments, which was offset by an adjustment of \$1.7 million related to funds for which we have not met the requirements that would allow us to recognize them as revenue. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

Interest income on accounts receivable was \$2.0 million for the three months ended June 30, 2014, an increase of \$0.1 million, or 9.4%, as compared to \$1.9 million during the same period last year.

Funeral home revenues were \$11.5 million for the three months ended June 30, 2014, an increase of \$0.8 million, or 7.5%, as compared to \$10.7 million during the same period last year. The increase was primarily caused by an increase of \$1.1 million in the value of contracts written and other revenue, which was partially offset by an increase of \$0.3 million in deferred revenue.

Other cemetery revenues were \$1.1 million during the three months ended June 30, 2014 compared to \$1.0 million in the same period last year, a 6.2% increase.

#### Costs and Expenses

The cost of goods sold was \$8.7 million for the three months ended June 30, 2014, an increase of \$1.0 million, or 12.2%, as compared to \$7.7 million during the same period last year. The ratio of cost of goods sold to pre-need and at-need cemetery revenues was 17.1% during the three months ended June 30, 2014 as compared to 18.0% during the same period last year. The change in the ratio primarily relates to changes in product mix.

Cemetery expenses were \$16.1 million during the three months ended June 30, 2014, an increase of \$0.7 million, or 4.8%, compared to \$15.4 million during the same period last year. Within this category, there were increases of \$0.8 million in personnel costs and \$0.3 million in general repairs and maintenance expenses, partially offset by a decrease of \$0.3 million in real estate taxes and a net \$0.1 million decrease in other expenses. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not



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deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our operating costs relative to our overall cemetery operations. An increase in the ratio indicates that expense increases related to the operation and maintenance of our cemetery properties exceeded increases in the value of contracts written, while a decrease in the ratio indicates that expense growth did not exceed increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decline as many of the expenses in this category are fixed in nature. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 26.2% during the three months ended June 30, 2014 as compared to 26.8% during the same period last year.

Selling expenses were \$14.9 million during the three months ended June 30, 2014, an increase of \$2.7 million, or 21.6%, as compared to \$12.2 million during the same period last year. The ratio of selling expenses to cemetery revenues was 29.5% during the three months ended June 30, 2014 as compared to 28.5% during the same period last year, largely due to an increase in advertising costs and the reduction in deferred selling expenses. This ratio gives some indication of how effectively the money we invest in selling efforts is translating into sales. However, most of our selling expenses are directly related to sales commissions and bonuses, which would be directly related to changes in the value of pre-need and at-need contracts written. As a result, we would expect this ratio to remain fairly consistent.

General and administrative expenses were \$8.9 million during the three months ended June 30, 2014, an increase of \$1.0 million, or 12.4%, as compared to \$7.9 million during the same period last year. The majority of the increase was due to increases of \$0.2 million in taxes and licenses expense, \$0.2 million in professional fees and \$0.4 million in personnel 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 was 14.4% during the three months ended June 30, 2014 as compared to 13.8% during the same period last year.

Total corporate overhead was \$6.5 million for the three months ended June 30, 2014, an increase of \$0.8 million, or 15.4% compared to \$5.7 million during the same period last year. The increase in corporate overhead was driven by an increase of \$0.9 million in professional fees. Due to a legal settlement during the three months ended June 30, 2013, we had a recovery of legal costs of \$1.3 million, driving down professional fees expense for the prior period.

Depreciation and amortization was \$2.5 million during the three months ended June 30, 2014, and the same period last year.

Funeral home expenses were \$9.4 million for the three months ended June 30, 2014 and the same period last year.

Due to a legal settlement during the three months ended June 30, 2013, acquisition related costs resulted in a net recovery of \$0.6 million. Acquisition related costs were \$1.2 million for the three months ended June 30, 2014. These costs will vary from period to period depending on the amount of acquisition activity that takes place.

### **Non-segment Allocated Results**

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

The table below summarizes these items and the changes between the three months ended June 30, 2014 and 2013:

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|                                      | Three months ended June 30, |            |             |            |
|--------------------------------------|-----------------------------|------------|-------------|------------|
|                                      | 2014                        | 2013       | Change (\$) | Change (%) |
|                                      | (in thousands)              |            |             |            |
| Gain on settlement agreement, net    | \$ 888                      | \$ 11,349  | \$ (10,461) | -92.2%     |
| Gain on sale of other assets         |                             | 155        | (155)       | -100.0%    |
| Loss on early extinguishment of debt |                             | 21,595     | (21,595)    | -100.0%    |
| Interest expense                     | 5,148                       | 5,132      | 16          | 0.3%       |
| Income tax expense (benefit)         | \$ (876)                    | \$ (1,090) | \$ 214      | -19.6%     |

During the three months ended June 30, 2014, we recovered an additional \$1.5 million related to the settlement of claims from locations acquired in 2010. A gain of \$0.9 million has been recorded as gain on settlement agreement, on the unaudited condensed consolidated statement of operation, which was net of legal fees of \$0.6 million. During the second quarter of 2013 certain proceeds received from a legal settlement were recorded as a gain on settlement agreement on the unaudited condensed consolidated statement of operations, resulting in a total gain on settlement of \$11.3 million.

Interest expense was consistent period over period. In general, there was an increase in discount accretion expense, which was mostly offset due to a reduction in interest expense primarily due to a decrease in the interest rates and amounts outstanding under the credit facility. Average amounts outstanding under the credit facility were \$84.9 million and \$86.3 million during the three months ended June 30, 2014 and 2013, respectively.

We had an income tax benefit of \$0.9 million for the three months ended June 30, 2014, as compared to \$1.1 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, 2014 Compared to Six Months Ended June 30, 2013****Cemetery Operations Southeast**

Since June 30, 2013, we have acquired eleven properties in our Cemetery Operations Southeast segment. The first acquisition occurred during the third quarter of 2013, the second occurred during the first quarter of 2014, and the remaining nine occurred during the second quarter of 2014. The results of operations for these acquired properties have no impact on the results for the six months ended June 30, 2013, but are included in the results for the six months ended June 30, 2014. The acquisitions contributed approximately \$2.1 million of the revenues and \$1.2 million of the costs and expenses of the segment for the six months ended June 30, 2014.

The table below compares the results of operations for our Cemetery Operations Southeast for the six months ended June 30, 2014 to the same period last year:

|                          | Six months ended June 30, |           |             |            |
|--------------------------|---------------------------|-----------|-------------|------------|
|                          | 2014                      | 2013      | Change (\$) | Change (%) |
|                          | (in thousands)            |           |             |            |
|                          | (non-GAAP)                |           |             |            |
| Total revenues           | \$ 67,654                 | \$ 66,217 | \$ 1,437    | 2.2%       |
| Total costs and expenses | 49,591                    | 47,191    | 2,400       | 5.1%       |

|                  |           |           |          |       |
|------------------|-----------|-----------|----------|-------|
| Operating profit | \$ 18,063 | \$ 19,026 | \$ (963) | -5.1% |
|------------------|-----------|-----------|----------|-------|

Revenues

The increase in revenues was related to an increase in income from our trusts of \$1.2 million and increases of \$0.1 million in the value of both at-need and pre-need contracts written. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

Total costs and expenses

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

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A \$0.4 million increase in cost of goods sold attributable to product mix.

A \$0.6 million increase in cemetery expenses primarily due to increases of \$0.1 million in labor costs, \$0.3 million in repairs and maintenance costs and an increase of \$0.2 million in utility and fuel costs.

A \$0.7 million increase in selling expenses primarily attributable to an increase of \$0.9 million in advertising costs, partially offset by a \$0.1 million decrease in travel costs and a \$0.1 million in commissions and personnel expenses.

A \$0.5 million increase in general and administrative expense primarily due to a \$0.3 million increase in personnel expenses, with the remaining net increase due to general office costs.

A \$0.2 million increase in depreciation expense.

**Cemetery Operations Northeast**

During the second quarter of 2014, we acquired three properties and separately obtained the rights from the Archdiocese of Philadelphia to operate thirteen properties in our Cemetery Operations Northeast segment. The results of operations for these properties have no impact on the results for the six months ended June 30, 2013, but are included in the results for the six months ended June 30, 2014. The additions have contributed approximately \$2.0 million of the revenues and \$1.9 million of the costs and expenses of the segment for the six months ended June 30, 2014.

The table below compares the results of operations for our Cemetery Operations Northeast for the six months ended June 30, 2014 to the same period last year:

|                          | 2014      | 2013      | Six months ended June 30,<br>Change (\$)<br>(in thousands)<br>(non-GAAP) | Change (%) |
|--------------------------|-----------|-----------|--------------------------------------------------------------------------|------------|
| Total revenues           | \$ 36,844 | \$ 31,006 | \$ 5,838                                                                 | 18.8%      |
| Total costs and expenses | 22,790    | 21,884    | 906                                                                      | 4.1%       |
| Operating profit         | \$ 14,054 | \$ 9,122  | \$ 4,932                                                                 | 54.1%      |

**Revenues**

The increase in revenues was primarily caused by an increase in other income of \$4.4 million primarily related to one land sale during the first quarter of 2014. Also, we had increases of \$0.9 million in the value of at-need contracts written and \$1.0 million in income from our trusts. These increases were partially offset by a decrease of \$0.5 million in the value of pre-need contracts written. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

Total costs and expenses

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

A \$0.5 million decrease in cost of goods sold attributable to changes in product mix.

A \$0.8 million increase in cemetery expenses primarily attributable to increases of \$0.6 million in labor costs, \$0.1 million in repairs and maintenance expense, \$0.1 million in utility and fuel costs and \$0.1 million in real estate tax expense. These increases were partially offset by a \$0.1 million decrease in automobile related costs.

A \$0.3 million increase in selling expenses primarily due to increases in advertising costs.

A \$0.2 million increase in general and administrative expenses primarily due to \$0.1 million increases in both personnel costs and professional fees.

A \$0.1 million increase in depreciation expense.

**Table of Contents****Cemetery Operations West**

The table below compares the results of operations for our Cemetery Operations West for the six months ended June 30, 2014 to the same period last year:

|                          | 2014      | Six months ended June 30,<br>2013 |             |            |  |
|--------------------------|-----------|-----------------------------------|-------------|------------|--|
|                          |           |                                   | Change (\$) | Change (%) |  |
|                          |           | (in thousands)                    |             |            |  |
|                          |           | (non-GAAP)                        |             |            |  |
| Total revenues           | \$ 41,834 | \$ 37,785                         | \$ 4,049    | 10.7%      |  |
| Total costs and expenses | 26,471    | 23,627                            | 2,844       | 12.0%      |  |
| Operating profit         | \$ 15,363 | \$ 14,158                         | \$ 1,205    | 8.5%       |  |

**Revenues**

The increase in revenues was caused by a \$1.1 million increase in the value of pre-need contracts written, a \$0.5 million increase in the value of at-need contracts written and an increase of \$2.4 million in income from our trusts. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

**Total costs and expenses**

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

A \$1.9 million increase in cost of goods sold attributable to the corresponding increase in the value of contracts written and change in product mix.

A \$0.1 million decrease in cemetery expenses primarily due to a decrease of \$0.3 million in real estate tax expense, offset by an increase of \$0.2 million in repairs and maintenance expenses.

A \$0.7 million increase in selling expenses primarily due to a \$0.4 million increase in commission and personnel related costs and a \$0.2 million increase in advertising costs.

A \$0.3 million increase in general and administrative expenses primarily due to increases in professional fees.

**Funeral Homes Segment**

In the first quarter of 2013 we acquired six funeral homes. In the second quarter of 2014 we acquired nine funeral homes. Therefore, the results of operations for these properties have either a lesser or no impact on the results for the six months ended June 30, 2013, but are included in the results for the six months ended June 30, 2014. These additions are primarily responsible for the increases to revenues and costs and expenses for the Funeral Homes

segment.

The table below compares the results of operations for our Funeral Homes segment for the six months ended June 30, 2014 to the same period last year:

|                          | 2014      | 2013      | Change (\$)                                               | Change (%) |
|--------------------------|-----------|-----------|-----------------------------------------------------------|------------|
|                          |           |           | Six months ended June 30,<br>(in thousands)<br>(non-GAAP) |            |
| Total revenues           | \$ 26,320 | \$ 24,810 | \$ 1,510                                                  | 6.1%       |
| Total costs and expenses | 20,618    | 19,830    | 788                                                       | 4.0%       |
| Operating profit         | \$ 5,702  | \$ 4,980  | \$ 722                                                    | 14.5%      |

### Revenues

The increase in revenues was primarily attributable to a \$1.1 million increase in the value of pre-need contracts written and a \$0.3 million increase in the value of at-need contracts written.



**Table of Contents****Total costs and expenses**

The increase in costs and expenses was primarily attributable to increases of \$0.4 million in facility costs, \$0.2 million in merchandise costs and \$0.1 million in depreciation, with the net 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, 2014 to the same period last year:

|                                                           | 2014      | Six months ended June 30,<br>2013      Change (\$)      Change (%)<br>(in thousands)<br>(non-GAAP) |          |        |
|-----------------------------------------------------------|-----------|----------------------------------------------------------------------------------------------------|----------|--------|
| Selling, cemetery and general and administrative expenses | \$ 849    | \$ 833                                                                                             | \$ 16    | 1.9%   |
| Depreciation and amortization                             | 480       | 740                                                                                                | (260)    | -35.1% |
| Acquisition related costs, net of recoveries              | 1,589     | 658                                                                                                | 931      | 141.5% |
| Corporate expenses                                        |           |                                                                                                    |          |        |
| Corporate personnel expenses                              | 6,359     | 7,454                                                                                              | (1,095)  | -14.7% |
| Other corporate expenses                                  | 7,643     | 6,206                                                                                              | 1,437    | 23.2%  |
| Total corporate overhead                                  | 14,002    | 13,660                                                                                             | 342      | 2.5%   |
| Total corporate expenses                                  | \$ 16,920 | \$ 15,891                                                                                          | \$ 1,029 | 6.5%   |

The increase in corporate expenses was primarily attributable to increases of \$1.3 million in professional fees and \$0.9 million in acquisition related costs, partially offset by a decrease of \$1.1 million in personnel costs. Due to a legal settlement during the six months ended June 30, 2013, acquisition related costs were reduced by \$1.3 million. This legal settlement also resulted in recoveries of legal costs of \$1.7 million, driving down professional fees expense for the prior period. Acquisition related costs will vary from period to period depending on the amount of acquisition activity that takes place.

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

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

The table below analyzes results of operations and the changes therein for the six months ended June 30, 2014 as compared to the same period last year. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/or changes in the timing of when merchandise and services were delivered:



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|                                              | Six months ended<br>June 30, 2014<br>(in thousands) |                     |                 | Six months ended<br>June 30, 2013<br>(in thousands) |                     |                 | Change<br>in         | Change<br>in        |
|----------------------------------------------|-----------------------------------------------------|---------------------|-----------------|-----------------------------------------------------|---------------------|-----------------|----------------------|---------------------|
|                                              | Segment<br>Results<br>(non-GAAP)                    | GAAP<br>Adjustments | GAAP<br>Results | Segment<br>Results<br>(non-GAAP)                    | GAAP<br>Adjustments | GAAP<br>Results | GAAP results<br>(\$) | GAAP results<br>(%) |
| <b>Revenues</b>                              |                                                     |                     |                 |                                                     |                     |                 |                      |                     |
| Pre-need cemetery revenues                   | \$ 68,385                                           | \$ (21,927)         | \$ 46,458       | \$ 67,739                                           | \$ (22,390)         | \$ 45,349       | \$ 1,109             | 2.4%                |
| At-need cemetery revenues                    | 42,958                                              | 370                 | 43,328          | 41,337                                              | (2,934)             | 38,403          | 4,925                | 12.8%               |
| Investment income from trusts                | 25,240                                              | (12,789)            | 12,451          | 20,505                                              | (9,878)             | 10,627          | 1,824                | 17.2%               |
| Interest income                              | 4,041                                               |                     | 4,041           | 3,725                                               |                     | 3,725           | 316                  | 8.5%                |
| Funeral home revenues                        | 26,320                                              | (3,095)             | 23,225          | 24,810                                              | (2,716)             | 22,094          | 1,131                | 5.1%                |
| Other cemetery revenues                      | 5,708                                               | 709                 | 6,417           | 1,702                                               | 134                 | 1,836           | 4,581                | 249.5%              |
| <b>Total revenues</b>                        | <b>172,652</b>                                      | <b>(36,732)</b>     | <b>135,920</b>  | <b>159,818</b>                                      | <b>(37,784)</b>     | <b>122,034</b>  | <b>13,886</b>        | <b>11.4%</b>        |
| <b>Costs and expenses</b>                    |                                                     |                     |                 |                                                     |                     |                 |                      |                     |
| Cost of goods sold                           | 19,757                                              | (3,603)             | 16,154          | 17,898                                              | (3,896)             | 14,002          | 2,152                | 15.4%               |
| Cemetery expense                             | 29,470                                              |                     | 29,470          | 28,193                                              |                     | 28,193          | 1,277                | 4.5%                |
| Selling expense                              | 31,027                                              | (4,977)             | 26,050          | 29,332                                              | (5,890)             | 23,442          | 2,608                | 11.1%               |
| General and administrative expense           | 16,525                                              |                     | 16,525          | 15,480                                              |                     | 15,480          | 1,045                | 6.8%                |
| Corporate overhead                           | 14,002                                              |                     | 14,002          | 13,660                                              |                     | 13,660          | 342                  | 2.5%                |
| Depreciation and amortization                | 4,881                                               |                     | 4,881           | 4,781                                               |                     | 4,781           | 100                  | 2.1%                |
| Funeral home expense                         | 19,139                                              | (417)               | 18,722          | 18,421                                              | (321)               | 18,100          | 622                  | 3.4%                |
| Acquisition related costs, net of recoveries | 1,589                                               |                     | 1,589           | 658                                                 |                     | 658             | 931                  | 141.5%              |
| <b>Total costs and expenses</b>              | <b>136,390</b>                                      | <b>(8,997)</b>      | <b>127,393</b>  | <b>128,423</b>                                      | <b>(10,107)</b>     | <b>118,316</b>  | <b>9,077</b>         | <b>7.7%</b>         |

|                  |           |             |          |           |             |          |          |        |
|------------------|-----------|-------------|----------|-----------|-------------|----------|----------|--------|
| Operating profit | \$ 36,262 | \$ (27,735) | \$ 8,527 | \$ 31,395 | \$ (27,677) | \$ 3,718 | \$ 4,809 | 129.3% |
|------------------|-----------|-------------|----------|-----------|-------------|----------|----------|--------|

### Revenues

Pre-need cemetery revenues were \$46.5 million for the six months ended June 30, 2014, an increase of \$1.2 million, or 2.4%, as compared to \$45.3 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 of \$0.5 million in deferred revenue.

At-need cemetery revenues were \$43.3 million for the six months ended June 30, 2014, an increase of \$4.9 million, or 12.8%, as compared to \$38.4 million during the same period last year. The increase was primarily caused by an increase of \$1.6 million in the value of cemetery contracts written and a decrease of \$3.3 million in deferred revenue.

Investment income from trusts was \$12.5 million for the six months ended June 30, 2014, an increase of \$1.9 million, or 17.2%, as compared to \$10.6 million during the same period last year. On a segment basis, we had an increase of \$4.8 million primarily related to an increase in realized gains on our investments, which was offset by an adjustment of \$2.9 million related to funds for which we have not met the requirements that would allow us to recognize them as revenue. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

Interest income on accounts receivable was \$4.0 million for the six months ended June 30, 2014 as compared to \$3.7 million for the six months ended June 30, 2013, primarily due to a larger accounts receivable balance.

Revenues for the Funeral Homes segment were \$23.2 million for the six months ended June 30, 2014, an increase of \$1.1 million, or 5.1%, compared to \$22.1 million during the same period last year. The increase was primarily driven by the 15 funeral homes we acquired in 2013 and 2014.

Other cemetery revenues were \$6.4 million for the six months ended June 30, 2014, as compared to \$1.8 million during the same period last year. The increase was primarily caused by one land sale during the first quarter of 2014.

### Costs and Expenses

The cost of goods sold was \$16.2 million for the six months ended June 30, 2014, an increase of \$2.2 million, or 15.4%, as compared to \$14.0 million during the same period last year. The ratio of cost of goods sold to pre-need and at-need cemetery revenues was 18.0% during the six months ended June 30, 2014 as compared to 16.7% during the same period last year. The change in the ratio primarily relates to changes in product mix.

Cemetery expenses were \$29.5 million during the six months ended June 30, 2014, an increase of \$1.3 million, or 4.5%, compared to \$28.2 million during the same period last year. Within this category, there were increases of \$0.6 million in repairs and maintenance expenses, \$0.8 million in personnel costs and \$0.4 million in utility costs offset by a decrease of \$0.3 million in real estate taxes, with the remaining decrease in general cemetery costs. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred.

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and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our operating costs relative to our overall cemetery operations. An increase in the ratio indicates that expense increases related to the operation and maintenance of our cemetery properties exceeded increases in the value of contracts written, while a decrease in the ratio indicates that expense growth did not exceed increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decline as many of the expenses in this category are fixed in nature. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 26.5% during the six months ended June 30, 2014 as compared to 25.8% during the same period last year.

Selling expenses were \$26.1 million during the six months ended June 30, 2014, an increase of \$2.6 million, or 11.1%, as compared to \$23.4 million during the same period last year. The overall expense increase was primarily caused by a decrease in deferred selling expenses of \$0.9 million, an increase of \$0.3 million in commission related expenses and \$1.3 million in advertising costs, with the remaining increase in other general selling expenses. The ratio of selling expenses to cemetery revenues was 29.0% during the six months ended June 30, 2014 as compared to 28.0% 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 directly related to sales commissions and bonuses, which would be directly related to changes in the value of pre-need and at-need contracts written. As a result, we would expect this ratio to remain fairly consistent.

General and administrative expenses were \$16.5 million during the six months ended June 30, 2014, an increase of \$1.0 million, or 6.8%, compared to \$15.5 million during the same period last year. The majority of the increase was due to increases of \$0.5 million in personnel costs and \$0.2 million in professional fees, with the remainder due to net increases in general office 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 was 14.8% during the six months ended June 30, 2014 as compared to 14.2% during the same period last year.

Total corporate overhead was \$14.0 million for the six months ended June 30, 2014, an increase of \$0.3 million, or 2.5% compared to \$13.7 million during the same period last year. The increase in corporate expenses was primarily attributable to an increase of \$1.3 million in professional fees, partially offset by a decrease of \$1.1 million in personnel costs. Due to a legal settlement during the six months ended June 30, 2013, we had recoveries of legal costs of \$1.7 million, driving down professional fees expense for the prior period.

Depreciation and amortization was \$4.9 million during the six months ended June 30, 2014, an increase of \$0.1 million, or 2.1%, as compared to \$4.8 million during the same period last year. The increase was primarily due to additional depreciation and amortization from assets acquired in our recent acquisitions.

Funeral home expenses were \$18.7 million for the six months ended June 30, 2014, an increase of \$0.6 million, or 3.4%, compared to \$18.1 million during the same period last year. The increase was primarily driven by our 2013 and 2014 acquisitions and was primarily attributable to increases of \$0.4 million in facility costs, and \$0.2 million in commission expense, with the remainder attributable to increases in other general expense categories.

Acquisition related costs were \$1.6 million for the six months ended June 30, 2014, an increase of \$0.9 million, or 141.5%, as compared to \$0.7 million during the same period last year. The increase was primarily due to a legal settlement which resulted in a recovery of \$1.3 million of legal fees during the six months ended June 30, 2013. 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 statement of operations amounts are not allocated to segment operations. These amounts are those line items that can be found on our unaudited condensed consolidated statement of operations below operating profit and above net income (loss).

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The table below summarizes these items and the changes between the six months ended June 30, 2014 and 2013:

|                                      | 2014       | Six months ended June 30, |             |            |
|--------------------------------------|------------|---------------------------|-------------|------------|
|                                      |            | 2013                      | Change (\$) | Change (%) |
|                                      |            | (in thousands)            |             |            |
| Gain on acquisition                  | \$ 412     | \$ 412                    | \$ 412      | 100.0%     |
| Gain on settlement agreement, net    | 888        | 12,261                    | (11,373)    | -92.8%     |
| Gain on sale of other assets         |            | 155                       | (155)       | -100.0%    |
| Loss on early extinguishment of debt |            | 21,595                    | (21,595)    | -100.0%    |
| Interest expense                     | 10,722     | 10,595                    | 127         | 1.2%       |
| Income tax expense (benefit)         | \$ (1,186) | \$ (2,047)                | \$ 861      | -42.1%     |

The gain on acquisition recorded during the six months ended June 30, 2014 relates to our first quarter 2014 acquisition.

During the six months ended June 30, 2014, we recovered an additional \$1.5 million related to the settlement of claims from locations acquired in 2010. A gain of \$0.9 million has been recorded as gain on settlement agreement on the unaudited condensed consolidated statement of operations, which was net of legal fees of \$0.6 million. During the six months ended June 30, 2013 certain proceeds received from a legal settlement were recorded as a gain on settlement agreement on the unaudited condensed consolidated statement of operations, resulting in a total gain on settlement of \$12.3 million.

The early extinguishment of debt charge during the six months ended June 30, 2013 of \$21.6 million relates to the tender premium of \$14.9 million we paid in connection with the early repayment of \$150.0 million of our 10.25% Senior Notes due 2017 and the write-off of \$6.7 million of unamortized fees and discounts related to those notes.

Interest expense was consistent period over period. In general, there was an increase in discount accretion expense, which was mostly offset due to a reduction in interest expense primarily due to a decrease in the interest rates and amounts outstanding under the credit facility. Average amounts outstanding under the credit facility were \$92.6 million and \$97.7 million during the six months ended June 30, 2014 and 2013, respectively.

We had an income tax benefit of \$1.2 million for the six months ended June 30, 2014, as compared to \$2.0 million during the same period last year. Our effective tax rate differs from our statutory tax rate primarily because our legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

**Table of Contents****Supplemental Data**

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

|                                                                       | Three months<br>ended<br>June 30,<br>2014 | Three months<br>ended<br>June 30,<br>2013 | Six months<br>ended<br>June 30, 2014 | Six months<br>ended<br>June 30, 2013 |
|-----------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|--------------------------------------|--------------------------------------|
| <b>Operating Data:</b>                                                |                                           |                                           |                                      |                                      |
| Interments performed                                                  | 12,188                                    | 11,325                                    | 23,501                               | 23,444                               |
| Interment rights sold (1):                                            |                                           |                                           |                                      |                                      |
| Lots                                                                  | 10,470                                    | 8,228                                     | 15,747                               | 13,987                               |
| Mausoleum crypts (including pre-construction)                         | 639                                       | 596                                       | 1,203                                | 1,052                                |
| Niches                                                                | 520                                       | 271                                       | 781                                  | 558                                  |
| Net interment rights sold (1)                                         | 11,629                                    | 9,095                                     | 17,731                               | 15,597                               |
| Number of contracts written                                           | 28,822                                    | 27,047                                    | 52,653                               | 51,541                               |
| Aggregate contract amount, in thousands (excluding interest)          | \$ 77,938                                 | \$ 71,327                                 | \$ 141,610                           | \$ 135,151                           |
| Average amount per contract (excluding interest)                      | \$ 2,704                                  | \$ 2,637                                  | \$ 2,689                             | \$ 2,622                             |
| Number of pre-need contracts written                                  | 14,331                                    | 13,777                                    | 26,259                               | 25,719                               |
| Aggregate pre-need contract amount, in thousands (excluding interest) | \$ 52,249                                 | \$ 48,538                                 | \$ 94,011                            | \$ 89,837                            |
| Average amount per pre-need contract (excluding interest)             | \$ 3,646                                  | \$ 3,523                                  | \$ 3,580                             | \$ 3,493                             |
| Number of at-need contracts written                                   | 14,491                                    | 13,270                                    | 26,394                               | 25,822                               |
| Aggregate at-need contract amount, in thousands (excluding interest)  | \$ 25,689                                 | \$ 22,789                                 | \$ 47,599                            | \$ 45,314                            |
| Average amount per at-need contract (excluding interest)              | \$ 1,773                                  | \$ 1,717                                  | \$ 1,803                             | \$ 1,755                             |

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

**Liquidity and Capital Resources*****Overview***

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

Our primary sources of liquidity are cash flows from operations and amounts available under our revolving credit facility as described below. In the past, we have been able to increase our liquidity through long-term bank



borrowings and the issuance of additional common units and other partnership securities, including debt, subject to the restrictions in our revolving credit facility and under our senior notes.

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

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

### ***Long-term Debt***

#### **7.875% Senior Notes due 2021**

On May 28, 2013, we issued \$175.0 million aggregate principal amount of 7.875% Senior Notes due 2021 (the Senior Notes). We pay 7.875% interest per annum on the principal amount of the Senior Notes, payable in cash semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2013. The net proceeds from the offering were used to retire a \$150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 (the Prior Senior Notes) and the remaining proceeds were used for general corporate purposes. The Senior Notes were issued at 97.832% of par resulting in gross proceeds of \$171.2 million with an original issue discount of approximately \$3.8 million. We incurred debt issuance costs and fees of approximately \$4.6 million. These costs and fees are deferred and will be amortized over the life of these notes. As of June 30, 2014, we were in compliance with all applicable covenants of the Senior Notes.

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### **Credit Facility**

On January 19, 2012, we entered into the Third Amended and Restated Credit Agreement (the "Credit Agreement"). The terms of the Credit Agreement are substantially the same as the terms of the Second Amended and Restated Credit Agreement, as amended. Capitalized terms which are not defined in the following description shall have the meaning assigned to such terms in the Credit Agreement or the amendments to the Credit Agreement, as applicable. The Credit Agreement was amended three times in 2013.

On May 22, 2014, we entered into the Fourth Amendment to the Credit Agreement. The Fourth Amendment increased the maximum Consolidated Leverage Ratio to 4.00 to 1.0 for any period and amended the definition of Consolidated EBITDA to, among other things, remove existing balance sheet adjustments and replace them with certain cash flow statement adjustments. The Fourth Amendment also contains certain conforming changes to reflect the Lenders consent to the closing of the transactions with the Archdiocese of Philadelphia and Service Corporation International, both of which are described in detail in Note 13 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

As amended, we have a revolving credit facility (the "Credit Facility") with a borrowing limit of \$140.0 million and a maturity date of January 19, 2017. The Credit Facility may be used to finance working capital requirements, Permitted Acquisitions and Capital Expenditures. The maximum Consolidated Leverage Ratio is 4.00 to 1.0 for any measurement period. The minimum Consolidated Debt Service Coverage Ratio is 2.50 for any measurement period. The ranges of the Applicable Rates are 3.00%, 4.00%, and 0.800% for Base Rate Loans, Eurodollar Rate Loans and Letter of Credit Fees, and Commitment Fees, respectively, when the Consolidated Leverage Ratio is greater than or equal to 3.75 to 1.0. We are not allowed to permit Consolidated EBITDA for any measurement period to be less than the sum of (i) \$57.8 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after March 31, 2013.

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

The interest rates on amounts outstanding under the Credit Facility were approximately 4.0% at June 30, 2014. Amounts borrowed may be either Base Rate Loans or Eurodollar Rate Loans and amounts repaid or prepaid during the term may be reborrowed. Depending on the type of loan, borrowings bear interest at the Base Rate or Eurodollar Rate, plus applicable margins ranging from 1.25% to 3.00% and 2.25% to 4.00%, respectively, depending on our Consolidated Leverage Ratio. The Base Rate is the highest of the Prime Rate, the Federal Funds Rate plus 0.50%, or the Eurodollar Rate plus 1.0%. The Eurodollar Rate is the British Bankers Association LIBOR Rate. Amounts outstanding under the Credit Facility approximate their fair value.

The Credit Agreement requires us to pay an unused Commitment Fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments. The Commitment Fee Rate ranges from 0.375% to 0.800% depending on our Consolidated Leverage Ratio.

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

Ratio. As of June 30, 2014, we were in compliance with all applicable financial covenants.

Amounts outstanding under our Credit Facility fluctuated during the six months ended June 30, 2014 and 2013. At the beginning of 2014, we had \$114.0 million outstanding on our Credit Facility. During the first quarter of 2014, we reduced our borrowings on the Credit Facility by \$36.6 million as we had borrowed \$17.0 million prior to February 27, 2014 and then we used the net proceeds from our February 27, 2014 follow-on public offering and other available cash to repay \$53.6 million of amounts outstanding on our Credit Facility. During the second quarter of 2014, we increased our borrowings on the Credit Facility by \$1.0 million resulting in outstanding borrowings of \$78.4 million at June 30,

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2014. Prior to June 12, 2014 we had borrowed \$19.0 million and then we used a portion of the proceeds from our June 2014 follow-on public offering and other available cash to repay \$18.0 million of amounts outstanding on our Credit Facility in June. At the beginning of 2013, we had \$101.7 million outstanding on our Credit Facility. During the first quarter of 2013, we reduced our borrowings on the Credit Facility by \$19.8 million as we had borrowed \$18.6 million prior to March 26, 2013 and then we used the net proceeds of approximately \$38.4 million from our March 26, 2013 follow-on public offering to repay amounts outstanding on our Credit Facility. We borrowed an additional \$21.0 million during the second quarter of 2013 and then we used the remaining proceeds of approximately \$11.9 million from our May 28, 2013 debt offering to further repay amounts outstanding on our Credit Facility, resulting in outstanding borrowings of \$91.0 million on our Credit Facility at June 30, 2013. The average amounts borrowed under our Credit Facility were \$92.6 million and \$97.7 million for the six months ended June 30, 2014 and 2013, respectively.

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

***Cash Flow from Operating Activities***

Cash flows provided by operating activities were \$6.8 million during the six months ended June 30, 2014, compared to \$16.5 million during the same period last year. The prior year amount is primarily higher as a result of cash received in a legal settlement during our second quarter of 2013. Other factors include an increased use of cash to settle accounts payable and accrued liabilities offset by smaller cash outflows to our merchandise trusts.

***Cash Flow from Investing Activities***

Net cash used in investing activities was \$114.0 million during the six months ended June 30, 2014 as compared to \$15.1 million during the same period last year. Cash flows used for investing activities during the six months ended June 30, 2014 were \$54.0 million for the acquisition of 13 cemeteries and 9 funeral homes, \$53.0 million for up-front rent for the transaction with the Archdiocese of Philadelphia and \$7.0 million for other capital expenditures. Cash flows used for investing activities during the six months ended June 30, 2013 were \$9.1 million for the acquisition of 6 funeral homes and \$6.2 million for other capital expenditures offset by \$0.2 million in proceeds from the sale of other assets.

***Cash Flow from Financing Activities***

Cash flows provided by financing activities were \$110.4 million during the six months ended June 30, 2014 as compared to \$4.8 million during the same period last year. Cash flows provided by financing activities for the six months ended June 30, 2014 consisted of \$120.5 million of proceeds from our follow-on public offerings and \$53.4 million of proceeds from our issuance of common units to ACII, partially offset by net repayments of long-term debt of \$35.3 million, and cash distributions to unit holders of \$28.2 million. Cash flows provided by financing activities for the six months ended June 30, 2013 consisted of \$38.4 million of proceeds from our follow-on public offering and \$217.1 million from long term borrowings on our Credit Facility combined with the issuance of \$175.0 million of Senior Notes partially offset by repayments of long-term debt of \$205.8 million, inclusive of the retirement of our \$150.0 million of senior notes, and fees associated with this retirement of \$14.9 million, costs of financing activities of \$4.7 million and cash distributions to unit holders of \$25.3 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:

|                                   | <b>Three months<br/>ended<br/>June 30,<br/>2014      2013<br/>(in thousands)</b> |                 | <b>Six months ended<br/>June 30,<br/>2014      2013<br/>(in thousands)</b> |                  |
|-----------------------------------|----------------------------------------------------------------------------------|-----------------|----------------------------------------------------------------------------|------------------|
| Maintenance capital expenditures  | \$ 2,774                                                                         | \$ 2,149        | \$ 4,104                                                                   | \$ 3,920         |
| Expansion capital expenditures    | 108,966                                                                          | 1,176           | 109,914                                                                    | 11,352           |
| <b>Total capital expenditures</b> | <b>\$ 111,740</b>                                                                | <b>\$ 3,325</b> | <b>\$ 114,018</b>                                                          | <b>\$ 15,272</b> |

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

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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, 2014, the fair value of fixed-income securities in our merchandise trusts represented 3.1% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 7.3% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was \$15.4 million and \$25.3 million in merchandise trusts and perpetual care trusts, respectively, as of June 30, 2014. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately \$154,000 and \$253,000 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, 2014, the fair value of money market and short-term investments in our merchandise trusts represented 9.5% 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 8.6% of the fair value of total trust assets. The aggregate quoted fair value of these money market and short-term investments was \$47.3 million and \$29.9 million in the merchandise trusts and perpetual care trusts, respectively, as of June 30, 2014. Each 1% change in interest rates on these money market and short-term investments would result in changes of approximately \$473,000 and \$299,000 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows.

## Marketable Equity Securities

Our marketable equity securities subject to market risk consist primarily of investments held in our merchandise trusts and perpetual care trusts. These assets consist of investments in both individual equity securities as well as closed and open ended mutual funds. As of June 30, 2014, the fair value of marketable equity securities in our merchandise trusts represented 20.4% of the fair value of total trust assets while the fair value of marketable equity securities in our perpetual care trusts represented 13.5% of total trust assets. The aggregate quoted fair market value of these marketable equity securities was \$101.7 million and \$47.1 million in our merchandise trusts and perpetual care trusts, respectively, as of June 30, 2014, based on final quoted sales prices. Each 10% change in the average market prices of the equity securities would result in a change of approximately \$10.2 million and \$4.7 million in the fair market value of securities held in the merchandise trusts and perpetual care trusts, respectively. As of June 30, 2014, the fair value of marketable closed and open ended mutual funds in our merchandise trusts represented 59.1% 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 65.7% of total trust assets. The aggregate quoted fair market value of these closed and open ended mutual funds was \$295.5 million and \$229.4 million in the merchandise trusts and perpetual care trusts, respectively, as of June 30, 2014, based on final quoted sales prices. Each 10% change in the average market prices of the closed and open ended mutual funds would result in a change of approximately \$29.6 million and \$22.9 million in the fair market value of securities held in our merchandise trusts and perpetual care trusts, respectively.

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### **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 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, 2014, we had \$78.4 million of borrowings outstanding under our Credit Facility. After these borrowings, our unused line of credit under the Credit Facility is \$61.6 million. The interest rates on amounts outstanding under the Credit Facility were approximately 4.0% at June 30, 2014.

## **Item 4. Controls and Procedures**

### **Disclosure Controls and Procedures**

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

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

## **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued an updated version of its Internal Control – Integrated Framework (2013 Framework). Originally issued in 1992 (1992 Framework), the 1992 framework remains available during the transition period, which extends to December 15, 2014. As of June 30, 2014, we continue to utilize the 1992 Framework and anticipate transition to the 2013 Framework by the transition date.

## **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 factor set forth below and risk factors discussed in Part I, Item 1A. Risk Factors in our 2013 Form 10-K and other reports that we file with the SEC, which could materially affect our business, financial condition or future results.

***We may not have sufficient cash from operations to increase distributions, to continue paying distributions at their current level, or at all, after we have paid our expenses, including the expenses of our general partner, funded merchandise and perpetual care trusts and established necessary cash reserves.***

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

the volume of our sales;

the prices at which we sell our products and services; and

the level of our operating and general and administrative costs.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, such as working capital borrowings, capital expenditures and funding requirements for trusts and our ability to withdraw amounts from trusts. Therefore, our major risk is related to uncertainties associated with our cash flow from our pre-need and at-need sales, our trusts, and financings, which may impact our ability to meet our financial projections, our ability to service our debt and pay distributions, and our ability to increase our distributions.

If we do not generate sufficient cash to continue paying distributions at least at their current level, the market price of our common units may decline materially and the same may be true if we do not increase our distributions as projected. We expect that we will need working capital borrowings of approximately \$21.0 million during the fiscal year ending December 31, 2014 in order to have sufficient operating surplus to pay distributions at their current level and with the projected increase on our common units, although the actual amount of working capital borrowings could be materially more or less. These working capital borrowings enable us to finance the build-up in our accounts receivables and to construct mausoleums and purchase products for our pre-need sales in advance of the time of need which, in turn, allow us to generate available cash for operating surplus over time by accessing the funds held in trust for the products purchased.

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The risks described in this Current Report on Form 10-Q, the 2013 Form 10-K and other reports that we file with the SEC are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by us described in this Current Report on Form 10-Q, our 2013 Form 10-K and other reports that we file with the SEC.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Table of Contents****Item 6. Exhibits**

| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1                   | Asset Sale Agreement dated April 2, 2014, by and among StoneMor Operating LLC, StoneMor Florida LLC, StoneMor Florida Subsidiary LLC, StoneMor North Carolina LLC, StoneMor North Carolina Subsidiary LLC, StoneMor North Carolina Funeral Services, Inc., Loewen [Virginia] LLC, Loewen [Virginia] Subsidiary, Inc., Rose Lawn Cemeteries LLC, Rose Lawn Cemeteries Subsidiary, Incorporated, StoneMor Pennsylvania LLC, StoneMor Pennsylvania Subsidiary LLC, CMS West Subsidiary LLC, S.E. Funeral Homes of Florida, LLC, S.E. Cemeteries of Florida, LLC, S.E. Combined Services of Florida, LLC, S.E. Cemeteries of North Carolina, Inc., S.E. Funeral Homes of North Carolina, Inc., Montlawn Memorial Park, Inc., S.E. Cemeteries of Virginia, LLC, SCI Virginia Funeral Services, Inc., George Washington Memorial Park, Inc., Sunset Memorial Park Company and S.E. Mid- Atlantic Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on April 8, 2014). |
| 2.2                   | Asset Sale Agreement dated April 2, 2014, by and among StoneMor Operating LLC, StoneMor North Carolina LLC, StoneMor North Carolina Subsidiary LLC, Laurel Hill Memorial Park LLC, Laurel Hill Memorial Park Subsidiary, Inc., StoneMor Pennsylvania LLC, StoneMor Pennsylvania Subsidiary LLC, S.E. Cemeteries of North Carolina, Inc., Clinch Valley Memorial Cemetery, Inc., and S.E. Acquisition of Pennsylvania, Inc. (incorporated by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K filed on April 8, 2014).                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 4.1                   | Registration Rights Agreement, dated as of May 21, 2014, by and between StoneMor Partners L.P. and American Cemeteries Infrastructure Investors, LLC (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on May 23, 2014).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 10.1                  | Common Unit Purchase Agreement, dated as of May 19, 2014, by and between StoneMor Partners L.P. and American Cemeteries Infrastructure Investors, LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 23, 2014).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 10.2                  | Fourth Amendment to Third Amended and Restated Credit Agreement, dated May 22, 2014, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, its Subsidiaries, the Lenders party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on May 23, 2014).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 10.3                  | Amendment No. 2 to Lease Agreement, dated as of May 28, 2014, by and among StoneMor Operating, LLC, StoneMor Pennsylvania LLC, StoneMor Pennsylvania Subsidiary LLC, the Archdiocese of Philadelphia, and StoneMor Partners L.P.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 10.4                  | Joinder to Amended and Restated Credit Agreement, dated June 10 2014, by and among Kirk & Nice, Inc., Kirk & Nice Suburban Chapel, Inc. and the other Credit Parties named therein in favor of the Lenders and Bank of America, N.A. as Administrative Agent for the benefit of the Lenders, as Collateral Agent for the benefit of the Secured Parties, as Swing Line Lender and as L/C Issuer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 31.1                  | Certification pursuant to Exchange Act Rule 13a-14(a) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 31.2                  | Certification pursuant to Exchange Act Rule 13a-14(a) of Timothy K. Yost, Chief Financial Officer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

- 32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors (furnished herewith).

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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) Unaudited Condensed Consolidated Balance Sheets as of June 30, 2014, and December 31, 2013; (ii) Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013; (iii) Unaudited Condensed Consolidated Statement of Partners Capital (Deficit); (iv) Unaudited Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2014 and 2013; and (v) Notes to the Unaudited Condensed Consolidated Financial Statements. Users of this data are advised that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of StoneMor Partners L.P.

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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 8, 2014

/s/ Lawrence Miller

Lawrence Miller

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

August 8, 2014

/s/ Timothy K. Yost

Timothy K. Yost

Chief Financial Officer (Principal Financial Officer)



**Table of Contents****Exhibit Index**

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