

STONEMOR PARTNERS LP
Form 10-K
March 15, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED December 31, 2011

OR

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

Commission File Number: 000-50910

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

311 Veterans Highway, Suite B

Levittown, Pennsylvania
(Address of principal executive offices)

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

80-0103159
(I.R.S. Employer

Identification No.)

19056
(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Units

Name of each exchange on which registered
New York Stock Exchange

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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 (Check one):

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 Act). Yes No

The aggregate market value of the common units held by non-affiliates of the registrant was approximately \$517.2 million as of June 30, 2011 based on \$27.66 per unit, the closing price of the common units as reported on the NASDAQ Global Select Market on that date. 1

The number of the registrant's outstanding common units at March 1, 2012 was 19,368,987.

Documents incorporated by reference: None

The aggregate market value of the common units set forth above equals the number of the registrant's common units outstanding, reduced by the number of common units held by executive officers, directors and persons owning 10% or more of the registrant's common units, multiplied by the last reported sale price for the registrant's common units on June 30, 2011, the last day of the registrant's most recently completed second fiscal quarter. The information provided shall in no way be construed as an admission that any person whose holdings are excluded from this figure is an affiliate of the registrant or that any person whose holdings are included in this figure is not an affiliate of the registrant and any such admission is hereby disclaimed. The information provided herein is included solely for record keeping purposes of the Securities and Exchange Commission.

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We were formed as a Delaware limited partnership in April 2004 to own and operate the assets and businesses previously owned and operated by Cornerstone Family Services, Inc., (Cornerstone), which was converted into CFSI LLC, a limited liability company, prior to our initial public offering of common units representing limited partner interests on September 20, 2004. Cornerstone had been founded in 1999 by members of our management team and a private equity investment firm, which we refer to as McCown De Leeuw, in order to acquire a group of 123 cemetery properties and 4 funeral homes. On November 30, 2010, McCown De Leeuw transferred certain of its interests to MDC IV Trust U/T/A November 30, 2010, MDC IV Associates Trust U/T/A November 30, 2010 and Delta Trust U/T/A November 30, 2010, which we collectively refer to as the MDC IV Liquidating Trusts, and McCown De Leeuw was subsequently terminated.

We are currently the second largest owner and operator of cemeteries in the United States. As of December 31, 2011, we operated 274 cemeteries in 26 states and Puerto Rico. We own 253 of these cemeteries, and we manage or operate the remaining 21 under management or operating agreements with the nonprofit cemetery corporations that own the cemeteries. As of December 31, 2011, we also owned and operated 69 funeral homes in 18 states and Puerto Rico. Thirty-nine of these funeral homes are located on the grounds of the cemeteries that we own.

The cemetery products and services that we sell include the following:

Interment Rights	Merchandise	Services
burial lots	burial vaults	installation of burial vaults
lawn crypts	caskets	installation of caskets
mausoleum crypts	grave markers and grave marker bases	installation of other cemetery merchandise
cremation niches	memorials	other service items

perpetual care rights

We sell these 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. Our sales of real property, including burial lots (with and without installed vaults), lawn and mausoleum crypts and cremation niches, generate qualifying income sufficient for us to be treated as a partnership for federal income tax purposes. In 2011, we performed 45,236 burials and sold 30,047 interment rights (net of cancellations). Based on our sales of interment spaces in 2011, our cemeteries have an aggregated weighted average remaining sales life of 260 years.

Our cemetery properties are located in Alabama, California, Colorado, Delaware, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Mississippi, Missouri, New Jersey, North Carolina, Ohio, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Tennessee, Virginia, Washington and West Virginia. One cemetery in Hawaii that we acquired in December 2007 is still awaiting regulatory approval and has not yet been conveyed to us. Our cemetery operations accounted for approximately 86.7%, 87.1% and 87.1% of our revenues in 2011, 2010 and 2009, respectively.

Our primary funeral home products are caskets and related items. Our funeral home services include consultation, the removal and preparation of remains, and the use of funeral home facilities for visitation and prayer services.

Our funeral homes are located in Alabama, Arkansas, California, Florida, Illinois, Indiana, Kansas, Maryland, Mississippi, Missouri, Ohio, Oregon, Pennsylvania, Puerto Rico, South Carolina, Tennessee, Virginia, Washington and West Virginia. Our funeral home revenues accounted for approximately 13.3%, 12.9% and 12.9% of our revenues in 2011, 2010 and 2009, respectively. Our funeral home operations are conducted through various wholly-owned subsidiaries that are treated as corporations for U.S. federal income tax purposes.

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Operations

Segment Reporting and Related Information

We have five distinct reportable segments which are classified as Cemetery Operations Southeast, Cemetery Operations Northeast, Cemetery Operations West, Funeral Homes, and Corporate.

We have chosen 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 other segments; b) we have organized our management personnel at these operational levels; and c) it is the level at which our chief decision makers and other senior management evaluate performance.

Our Cemetery Operations segments sell interment rights, caskets, burial vaults, cremation niches, markers and other cemetery related merchandise. The nature of our customers differs in each of our regionally based Cemetery Operations 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 and prayer services. 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 selling and administrative expenses that are not allocable to the other operating segments.

Cemetery Operations

Our cemetery operations include sales of cemetery interment rights, merchandise and services and the performance of cemetery maintenance and other services. An interment right entitles a customer to a burial space in one of our cemeteries and the perpetual care of that burial space. Burial spaces, or lots, are parcels of property that hold interred human remains. Our cemeteries require a burial vault be placed in each burial lot. A burial vault is a rectangular container, usually made of concrete but also made of steel or plastic, which sits in the burial lot and in which the casket is placed. The top of the burial vault is buried approximately 18 to 24 inches below the surface of the ground, and the casket is placed inside the vault. Burial vaults prevent ground settling that otherwise occurs when a casket placed directly in the ground begins to decay creating uneven ground surface. Ground settling typically results in higher maintenance costs and increased potential liability for slip-and-fall accidents on the property. Lawn crypts are a series of closely spaced burial lots with preinstalled vaults and other improvements, such as landscaping, sprinkler systems and drainage. A mausoleum crypt is an above-ground structure that may be designed for a particular customer, which we refer to as a private mausoleum; or it may be a larger building that serves multiple customers, which we refer to as a community mausoleum. Cremation niches are spaces in which the ashes remaining after cremation are stored. Cremation niches are often part of community mausoleums, although we sell a variety of cremation niches to accommodate our customers' preferences.

Grave markers, monuments and memorials are above-ground products that serve as memorials by showing who is remembered, the dates of birth and death and other pertinent information. These markers, monuments and memorials include simple plates, such as those used in a community mausoleum or cremation niche, flush-to-the-ground granite or bronze markers, headstones or large stone obelisks.

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One of the principal services we provide at our cemeteries is an opening and closing, which is the digging and refilling of burial spaces to install the vault and place the casket into the vault. With pre-need sales, there are usually two openings and closings. During the initial opening and closing, we install the burial vault in the burial space. We usually perform this service shortly after the customer signs a pre-need contract. Advance installation allows us to withdraw the related funds from our merchandise trusts, making the amount in excess of our cost to purchase and install the vault available to us for other uses, and eliminates future merchandise trusting requirements for the burial vault and its installation. During the final opening and closing, we remove the dirt above the vault, open the lid of the vault, place the casket into the vault, close the vault lid and replace the ground cover. With at-need sales, we typically perform the initial opening and closing at the time we perform the final opening and closing. Our other services include the installation of other cemetery merchandise and the perpetual care related to interment rights.

As of December 31, 2011, we provided services to 21 cemeteries under management or operating agreements with the nonprofit cemetery corporations that own the cemeteries. These nonprofit cemeteries are organized as such either because state law requires cemetery properties to be owned by nonprofit entities, such as in New Jersey, or because they were originally established as nonprofit entities. We have voting rights, along with member owners of burial spaces, in the five New Jersey nonprofit cemeteries as a result of owning all of their outstanding certificates of indebtedness or interest. To obtain the benefit of professional management services, the remaining 16 nonprofit cemeteries have entered into agreements with us. The agreements under which we operate these 21 nonprofit cemeteries generally have terms ranging from 3 to 40 years (but some are subject to early termination rights and obligations) and provide us with management or operating fees that approximate what we would earn if we owned those cemeteries and held them in for-profit entities.

In 2011, of the 21 cemeteries we operated under management or operating agreements, the 3 cemeteries that we began operating under a long-term operating agreement in the third quarter of 2010 and the 3 cemeteries we began operating under long-term operating agreements in 2009 did not qualify as acquisitions for accounting purposes. As a result, we did not consolidate all of the existing assets and liabilities related to these cemeteries. We have consolidated the existing assets and liabilities of each of these cemeteries' merchandise and perpetual care trusts as variable interest entities since we control and receive the benefits and absorb any losses from operating these trusts. Under these long-term operating agreements, which are subject to certain termination provisions, we are the exclusive operator of these cemeteries. We earn revenues related to sales of merchandise, services, and interment rights and incur expenses related to such sales and the maintenance and upkeep of these cemeteries. Upon termination of these contracts, we will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. We have also recognized the existing merchandise liabilities assumed as part of these agreements.

Funeral Home Operations

As of December 31, 2011, we owned, operated and/ or managed 69 funeral homes, 39 of which are located on the grounds of cemetery properties that we own. Our funeral homes offer a range of services to meet a family's funeral needs, including family consultation, the removal and preparation of remains, provision of caskets and related funeral merchandise, the use of funeral home facilities for visitation, worship and funeral services and transportation services. Funeral home operations primarily generate revenues from at-need sales, for which there is a smaller potential customer base than pre-need sales, and have low barriers to entry by competitors. By focusing primarily on cemeteries and deriving significant revenues from pre-need sales, we minimize our exposure to these types of challenges.

We purchase caskets from Thacker Caskets, Inc. under a supply agreement that expires on December 31, 2015. This agreement entitles us to specified discounts on the price of caskets but gives Thacker Caskets, Inc. the right of first refusal on all of our casket purchases. We do not have minimum purchase requirements under this supply agreement.

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Cremation Products and Services

We operate crematories at some of our cemeteries or funeral homes, but our primary cremation operations are sales of receptacles for cremated remains, such as urns, and the inurnment of cremated remains in niches or scattering gardens. While cremation products and services usually cost less than traditional burial products and services, they yield higher margins on a percentage basis and take up less space than burials. We sell cremation products and services on both a pre-need and at-need basis.

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.

Sales Contracts

Pre-need products and services are typically sold on an installment basis. At-need products and services are generally required to be paid for in full in cash by the customer at the time of sale. See Management's Discussion and Analysis of Financial Condition and Results of Operations Operations Cemetery Operations Pre-need Sales and At-need Sales for a description of our pre-need and at-need products and services.

Trusts

Sales of cemetery products and services are subject to a variety of state regulations. In accordance with these regulations, we are required to establish and fund two types of trusts, merchandise trusts and perpetual care trusts, to ensure that we can meet our future obligations. Our funding obligations are generally equal to a percentage of sales proceeds of the products and services we sell. For a detailed discussion of these trusts, see Management's Discussion and Analysis of Financial Condition and Results of Operations Trusting.

Sales Personnel, Training and Marketing

As of December 31, 2011, we employed approximately 853 full-time commissioned salespeople and 122 full-time sales support and telemarketing employees. We have seven regional sales managers covering our cemeteries, who report to our Senior Vice President of Sales. Individual salespersons are typically located at the cemeteries they serve and report directly to the cemetery sales manager. We have made a strong commitment to the ongoing education and training of our sales force and to salesperson retention in order to ensure that our customers receive the highest quality customer service and to ensure compliance with all applicable requirements. Our training program includes classroom training at our headquarters, field training, continuously updated training materials that utilize media, such as the Internet, for interactive training and participation in industry seminars. We place special emphasis on training property sales managers, who are key elements to a successful pre-need sales program.

We reward our salespeople with incentives for generating new customers. Sales force performance is evaluated by sales budgets, sales mix and closing ratios, which are equal to the number of contracts written, divided by the number of presentations that are made. Substantially all of our sales force is compensated based solely on performance. Commissions are augmented with various bonus and incentive packages to ensure a high quality, motivated sales force. We pay commissions to our sales personnel on pre-need contracts based upon a percentage of the value of the underlying contracts. Such commissions vary depending upon the type of merchandise and services sold. We also pay commissions on at-need contracts that are generally equal to a fixed percentage of the contract amount. In addition, cemetery managers receive an override commission that is equal to a percentage of the gross sales price of the contracts entered into by the salespeople assigned to the cemeteries they manage.

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We generate sales leads through focused telemarketing, direct mail, television advertising, funeral follow-up and sales force cold calling, with the assistance of database mining and other marketing resources. We have created a marketing department to allow us to use more sophisticated marketing techniques to more effectively focus our telemarketing and direct sales efforts. Sales leads are referred to the sales force to schedule an appointment, most often at the customer's home. We believe these activities comply in all material respects with legal requirements.

Acquisitions and Long-Term Operating Agreements

Refer to Note 14 of our consolidated financial statements in Item 8 of this Form 10-K for a more detailed discussion of our acquisitions and long-term operating agreements. A summary of our acquisition activities is as follows:

2011

We completed six acquisitions during the year ended December 31, 2011 to acquire 17 cemeteries and 12 funeral homes. The acquired properties were located in Mississippi, Missouri, North Carolina, Puerto Rico, Tennessee and Virginia. The aggregate purchase price for these acquisitions was \$16.2 million. On December 30, 2011, we sold one funeral home in West Virginia for \$0.1 million, resulting in a gain of \$0.1 million.

2010

We completed four acquisitions during the year ended December 31, 2010 and entered into one long-term operating agreement to acquire and operate 22 cemeteries and 6 funeral homes in the aggregate. The acquired properties were located in Indiana, Kansas, Michigan, Ohio and Pennsylvania. The total consideration paid for these acquisitions was \$48.7 million.

2009

In 2009, we entered into, through certain of our subsidiaries, three long-term operating agreements (subject to certain early termination rights and obligations) wherein we have become the exclusive operator of the underlying cemetery land. Total consideration paid for the rights acquired under these agreements was approximately \$7.0 million.

These agreements did not qualify as acquisitions for accounting purposes. We have consolidated the existing merchandise trusts and perpetual care trusts, which had a fair value of approximately \$1.7 million and \$6.3 million, respectively, as variable interest entities as we will control and benefit from the operations of the trusts. The results of operations of these cemeteries are included in our results of operations from the date we began operating the properties.

Competition

Our cemeteries and funeral homes generally serve customers that live within a 10- to 15-mile radius of a property's location. Within this localized area, we face competition from other cemeteries and funeral homes located in the area. Most of these cemeteries and funeral homes are independently owned and operated, and most of these owners and operators are smaller than we are and have fewer resources than we do. We generally face limited competition from the three publicly held death care companies that have U.S. operations—Service Corporation International, Stewart Enterprises, Inc. and Carriage Services, Inc.—as they do not directly operate cemeteries in the same local geographic areas where we operate.

Within a localized area of competition, we compete primarily for at-need sales because many of the independently owned, local competitors either do not have pre-need sales programs or have pre-need programs

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that are not as developed as ours. Most of these competitors do not have as many of the resources that are available to us to launch and grow a substantial pre-need sales program. The number of customers that cemeteries and funeral homes are able to attract is largely a function of reputation and heritage, although competitive pricing, professional service and attractive, well maintained and conveniently located facilities are also important factors. The sale of cemetery and funeral home products and services on a pre-need basis has increasingly been used by many companies as an important marketing tool. Due to the importance of reputation and heritage, increases in customer base are usually gained over a long period of time.

Competitors within a localized area have an advantage over us if a potential customer's family members are already buried in the competitor's cemetery. If any of the three publicly held death care companies operated, or in the future were to operate, cemeteries within close proximity of our cemeteries, they may have a competitive advantage over us because they have greater financial resources available to them because of their size and access to the capital markets.

We believe that we currently face limited competition for cemetery acquisitions. The three publicly held death care companies identified above have historically been the industry's primary consolidators but have largely curtailed cemetery acquisition activity since 1999. Furthermore, these companies continue to generate a majority of their revenues from funeral home operations. Based on the relative levels of cemetery operations and funeral home operations of the three publicly traded death care companies, which are disclosed in their SEC filings, we believe that we are the only public death care company that focuses a significant portion of their efforts on cemetery operations.

Regulation

General

Our operations are subject to regulation, supervision and licensing under federal, state and local laws which impacts the goods and services that we may sell and the manner in which we may furnish goods and services.

Cooling-Off Legislation

Each of the states where our current cemetery properties are located has cooling-off legislation with respect to pre-need sales of cemetery and funeral home products and services. This legislation requires us to refund proceeds from pre-need sales contracts if canceled by the customer for any reason within three to thirty days, or in certain states until death, from the date of the contract, depending on the state (and some states permit cancellation and require refund beyond that time). The Federal Trade Commission, or FTC, also requires a cooling-off period of three business days for door to door sales, during which time a contract may be cancelled entitling a customer to refund of the funds paid.

Trusting

Sales of cemetery interment rights and pre-need sales of cemetery and funeral home merchandise and services are generally subject to trusting requirements imposed by state laws in most of the states where we operate. See Management's Discussion and Analysis of Financial Condition and Results of Operations Trusting.

Truth in Lending Act and Regulation Z

Our pre-need installment contracts are subject to the federal Truth-in-Lending Act, or TILA, and the regulations thereunder, which are referred to as Regulation Z. TILA and Regulation Z promote the informed use of consumer credit by requiring us to disclose, among other things, the annual percentage rate, finance charges and amount financed when extending credit to consumers.

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Other Consumer Credit-Related Laws and Regulations

As a provider of consumer credit and a business that generally deals with consumers, we are subject to various other state and federal laws covering matters such as credit discrimination, the use of credit reports, identity theft, the handling of consumer information, consumer privacy, marketing and advertising, debt collection, extensions of credit to service members, and prohibitions on unfair or deceptive trade practices.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank

Dodd-Frank, signed into law by President Obama on July 21, 2010, created a new federal Bureau of Consumer Financial Protection, or the Bureau. In addition to transferring to the Bureau rule-writing authority for nearly all federal consumer finance-related laws and giving the Bureau rule-writing authority in other areas, Dodd-Frank empowers the Bureau to conduct examinations and bring enforcement actions against certain consumer credit providers and other entities offering consumer financial products or services. While not presently subject to examination by the Bureau, we potentially could be in the future in connection with our pre-need installment contracts. The Bureau also has authority to conduct investigations and bring enforcement actions against providers of consumer financial services, including providers over which it may not currently have examination authority. The Bureau may seek penalties and other relief on behalf of consumers that are substantially in excess of the remedies available under such laws prior to Dodd-Frank. On July 21, 2011, the Bureau officially assumed rule-writing and enforcement authority for most federal consumer finance laws, as well as authority to write rules to prohibit unfair, deceptive or abusive practices related to consumer financial products and services.

Telemarketing Laws

We are subject to the requirements of two federal statutes governing telemarketing practices, the Telephone Consumer Protection Act, or TCPA, and the Telemarketing and Consumer Fraud and Abuse Prevention Act, or TCFAPA. These statutes impose significant penalties on those who fail to comply with their mandates. The Federal Communications Commission, or FCC, is the federal agency with authority to enforce the TCPA, and the FTC, has jurisdiction under the TCFAPA. The FTC and FCC jointly administer a national do not call registry, which consumers can join in order to prevent unwanted telemarketing calls. Primarily as a result of implementation of the do not call legislation and regulations, the percentage of our pre-need sales generated from telemarketing leads has decreased substantially in the past ten years. We are also subject to similar telemarketing consumer protection laws in all states in which we currently operate. These states' statutes similarly permit consumers to prevent unwanted telephone solicitations. In addition, in cases where telephone solicitations are permitted, there are various restrictions and requirements under state and federal law in connection with such calls.

Occupational Safety and Health Act and Environmental Law Requirements

We are subject to the requirements of the Occupational Safety and Health Act, or OSHA, and comparable state statutes. OSHA's regulatory requirement known as the Hazard Communication Standard, the Emergency Planning and Community Right-to-Know Act (EPCRA) and similar state statutes require us to report information about hazardous materials used or maintained for our operations to state, federal and local authorities. We may also be subject to Tier 1 or Tier 2 Emergency and Hazardous Chemical Inventory reporting requirements under EPCRA depending on the amount of hazardous materials maintained on-site at a particular facility. We are also subject to the federal Americans with Disabilities Act and similar laws which, among other things, may require that we modify our facilities to comply with minimum accessibility requirements for disabled persons.

Federal Trade Commission

Our funeral home operations are comprehensively regulated by the FTC under Section 5 of the Federal Trade Commission Act and a trade regulation rule for the funeral industry promulgated thereunder, referred to as

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the Funeral Rule. The Funeral Rule requires funeral service providers to disclose the prices for their goods and services as soon as the subject of price arises in a discussion with a potential customer (this entails presenting various itemized price lists if the consultation is in person, and readily answering all price-related questions posed over the telephone), and to offer their goods and services on an unbundled basis. The Funeral Rule also prohibits misrepresentations in connection with our sale of goods and services, and requires that the consumer receive an itemized statement of the goods and services purchased. Through these regulations, the FTC sought to give consumers the ability to compare prices among funeral service providers and to avoid buying packages containing goods or services that they did not want. The unbundling of goods from services has also opened the way for third-party, discount casket sellers to enter the market, although they currently do not possess substantial market share.

In addition, our pre-need installment contracts for sales of cemetery and funeral home merchandise and services are subject to the FTC's Holder Rule, which requires disclosure in the installment contract that any holder of the contract is subject to all claims and defenses that the consumer could assert against the seller of the goods or services, subject to certain limitations. These contracts are also subject to the FTC's Credit Practices Rule, which prohibits certain loan terms and practices.

Future Enactments and Regulation

Federal and state legislatures and regulatory agencies frequently propose new laws, rules and regulations and new interpretations of existing laws, rules and regulations which, if enacted or adopted, could have a material adverse effect on our operations and on the death care industry in general. A significant portion of our operations is located in California, Pennsylvania, New Jersey, Virginia, Maryland, North Carolina and West Virginia and any material adverse change in the regulatory requirements of those states applicable to our operations could have a material adverse effect on our results of operations. We cannot predict the outcome of any proposed legislation or regulations or the effect that any such legislation or regulations, if enacted or adopted, might have on us.

Environmental Regulations and Liabilities

Our operations are subject to federal, state and local environmental regulations in three principal areas: (1) crematories for emissions to air that may trigger requirements under the Clean Air Act, (2) funeral homes for the management of hazardous materials and medical wastes and (3) cemeteries and funeral homes for the management of solid waste, underground and above-ground storage tanks and discharges to wastewater treatment systems and/ or septic systems.

Clean Air Act

The Federal Clean Air Act and similar state laws, which regulate emissions into the air, can affect crematory operations through permitting and emissions control requirements. Our cremation operations may be subject to Clean Air Act regulations under federal and state law and may be subject to enforcement actions if these operations do not conform to the requirements of these laws.

Emergency Planning and Community Right-to-Know Act

As noted above, federal, state and local regulations apply to the storage and use of hazardous materials at our facilities. Depending on the types and quantities of materials we manage at any particular facility, we may be required to maintain and submit Material Safety Data Sheets and inventories of these materials located at our facilities to the regulatory authorities in compliance with EPCRA or similar state statutes.

Comprehensive Environmental Response, Compensation, and Liability Act

The Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, and similar state laws affect our cemetery and funeral home operations by, among other things, imposing investigation and

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remediation obligations for threatened or actual releases of hazardous substances that may endanger public health or welfare or the environment. Under CERCLA and similar state laws, strict, joint and several liability may be imposed upon generators, site owners and operators, and others regardless of fault or the legality of the original disposal activity. Our operations include the use of some materials that may meet the definition of hazardous substances under CERCLA or state laws and thus may give rise to liability if released to the environment through a spill or release. Should we acquire new properties with pre-existing conditions triggering CERCLA or similar state liability, we may become liable for responding to those conditions under CERCLA or similar state laws. We may become involved in proceedings, litigation or investigations at one or more sites where releases of hazardous substances have occurred, and we cannot assure you that the associated costs and potential liabilities would not be material.

Underground and Aboveground Storage Tank Laws and Solid Waste Laws

Federal, state and local laws regulate the installation, removal, operations and closure of underground storage tanks, or USTs and above-ground storage tanks, or ASTs, which are located at some of our facilities as well as the management and disposal of solid waste. Most of the USTs and ASTs contain petroleum for heating our buildings or are used for vehicle maintenance, or general operations. Depending upon the age and integrity of the USTs and ASTs, they may require upgrades, removal and/or closure, and remediation may be required if there has been a potential discharge or release of petroleum into the environment. All of the aforementioned activities may require us to incur capital costs and expenses to ensure continued compliance with environmental requirements. Should we acquire properties with existing USTs and ASTs that are not in compliance with environmental requirements, we may become liable for responding to releases to the environment or for costs associated with upgrades, removal and/or closure costs, and we cannot assure you that the costs or liabilities will not be material in that event. Solid wastes have been disposed of at some of our cemeteries, both lawfully and unlawfully. Prior to acquiring a cemetery, an environmental site assessment is usually conducted to determine, among other conditions, if a solid waste disposal area or landfill exists on the parcel which requires removal, cleaning or management. Depending upon the existence of any such solid waste disposal areas, we may be required by the applicable regulatory authority to remove the waste materials or to conduct remediation and we cannot assure you that the costs or liabilities will not be material in that event.

Employees

As of December 31, 2011, our general partner and its affiliates employed approximately 2,894 full-time and approximately 64 part-time employees. A total of 7 employees at one of our cemeteries located in New Jersey are represented by a union and are subject to collective bargaining agreements, one which expires in September 2015 and another that will expire in June 2012. Twenty-four employees at 11 of our cemeteries located in Pennsylvania are represented by 3 different unions and are subject to collective bargaining agreements that expire in June 2013, November 2014 and June 2015. Three employees at 1 of our cemeteries located in Illinois are represented by a union and are subject to a collective bargaining agreement that is currently being renegotiated. Ten employees at 1 of our locations in California are represented by a union and are subject to a collective bargaining agreement that expires in June 2013. Seven employees at 1 cemetery in Ohio are represented by a union and are subject to a collective bargaining agreement that expires in December 2013. Twenty-five employees at 3 of our cemeteries in Michigan are subject to a collective bargaining agreement that expires in December 2013. We believe that our relationship with our employees is good.

Available Information

We maintain an internet website with the address of <http://www.stonemor.com>. The information on this website is not, and should not be considered part, of this Annual Report on Form 10-K and is not incorporated by reference into this document. This website address is only intended to be an inactive textual reference. Copies of our reports filed with, or furnished to, the SEC on Forms 10-K, 10-Q, and 8-K and any amendments to such reports are available for viewing and copying at such internet website, free of charge, as soon as reasonably practicable after filing such material with, or furnishing it to, the SEC.

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Financial Information

Information for each of our segments is presented in Part II Item 8 Financial Statements and Supplementary Data in this report.

Item 1A Risk Factors

Risk Factors Related to Our Business

Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the risks set forth below. The risks described below should not be considered comprehensive and all-inclusive. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations, financial condition and results of operations. If any events occur that give rise to the following risks, our business, financial condition or results of operations could be materially and adversely impacted. These risk factors should be read in conjunction with other information set forth in this Annual Report on Form 10-K, including our consolidated financial statements and the related notes. Many such factors are beyond our ability to control or predict. Investors are cautioned not to put undue reliance on forward-looking statements.

We may not have sufficient cash from operations 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.

If we do not generate sufficient cash to continue paying distributions at their current level, the market price of our common units may decline materially. We expect that we will need working capital borrowings of approximately \$20.0 million during the twelve-month period ending December 31, 2012 in order to have sufficient operating surplus to pay distributions at their current level on all of our common units for that period, 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, allows us to generate available cash for operating surplus over time by accessing the funds held in trust for the products purchased.

Our substantial level of indebtedness could materially adversely affect our ability to generate sufficient cash for distribution to our unitholders, to fulfill our debt obligations and to operate our business.

We have a substantial amount of debt, which requires significant interest and principal payments. As of December 31, 2011, we had approximately \$195.3 million of total debt outstanding, and after giving effect to the amendment to our credit facilities on January 19, 2012, we would have approximately \$86.2 million of available borrowing capacity under our revised credit facility. Leverage makes us more vulnerable to economic downturns. Because we are obligated to dedicate a portion of our cash flow to service our debt obligations, our cash flow available for operations and for distribution to our unitholders will be reduced. The amount of indebtedness we

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have could limit our flexibility in planning for, or reacting to, changes in the markets in which we compete, limit our ability to obtain additional financing, if necessary, for working capital expenditures, acquisitions or other purposes, and require us to dedicate more cash flow to service our debt than we desire. Our ability to satisfy our indebtedness as required by the terms of our debt will be dependent on, among other things, the successful execution of our long-term strategic plan. Subject to limitations in our debt obligations, we may incur additional debt in the future, for acquisitions or otherwise, and servicing this debt could further limit our cash flow available for operations and distribution to unitholders.

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

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

enter into a new line of business;

enter into any agreement of merger or acquisition;

sell, transfer, assign or convey assets;

grant certain liens;

incur or guarantee additional indebtedness;

make certain loans, advances and investments;

declare and pay dividends and distributions;

enter into transactions with affiliates; and

make voluntary payments or modifications of indebtedness.

In addition, our secured debt obligations contain covenants requiring us to maintain certain financial ratios and tests. These restrictions may also limit our ability to obtain future financings. Our ability to comply with the covenants and restrictions contained in our senior notes and senior secured debt obligations may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions continue to deteriorate, our ability to comply with these covenants may be impaired. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Long-Term Debt. If we violate any of the restrictions, covenants, ratios or tests in our debt obligations, the lenders will be able to accelerate the maturity of all borrowings thereunder and demand repayment of amounts outstanding, and our lenders' commitment to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. Any subsequent replacement of our obligations or any new indebtedness could have similar or greater restrictions.

In addition, our debt obligations limit our ability to make distributions to our unitholders. Our senior notes and senior secured debt obligations prohibit us from making such distributions if we are in default, including with regard to our senior secured debt obligations as a result of our failure to maintain specified financial ratios. We cannot assure you that we will maintain these specified ratios and satisfy these tests for distributing available cash from operating surplus.

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If we violate any of the restrictions, covenants, ratios or tests in our senior secured debt obligations or senior notes indenture, the applicable lenders will be able to accelerate the maturity of all borrowings thereunder and demand repayment of amounts outstanding, and our lenders commitment to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. Any subsequent replacement of our senior debt obligations or any new indebtedness could have similar or greater restrictions.

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A material weakness was identified in our internal controls over financial reporting as of December 31, 2010.

Due to a material weakness in our internal control over financial reporting, management concluded that our disclosure controls and procedures and internal control over financial reporting were not effective as of December 31, 2010, based on the criteria in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. We identified the following material weakness in our assessment of the effectiveness of internal control over financial reporting:

We did not design and implement adequate controls related to the implementation of a new accounting standard for a material class of transactions, specifically in this instance, applying consolidation guidance to determine whether and how to consolidate another entity as it relates to our cemetery operating agreements. This material weakness resulted in the restatement of previously issued financial statements for the quarters ended June 30, 2009, September 30, 2009 and September 30, 2010 and the year ended December 31, 2009 for adjustments that were necessary to present the financial statements for such periods in accordance with generally accepted accounting principles.

To remediate the material weakness, we have implemented a series of controls designed to help ensure that all new accounting pronouncements are sufficiently researched and that our conclusions relative to the effect of such pronouncements on us are communicated to management, the Audit Committee and our auditors. We also employed a new Director of Financial Reporting and added a senior accountant to this function to give us additional resources to address and implement new accounting pronouncements. Management believes that the procedures described above and our changes in personnel have remediated the material weakness.

There were no identified material weaknesses in our internal control over financial reporting as of December 31, 2011. However, if we were to have additional material weaknesses and if we fail to maintain adequate disclosure controls and procedures, current unitholders and potential investors could lose confidence in our financial reporting, which would harm our business prospects and the trading price of our common units.

Any reductions in the principal or the earnings of the investments held in merchandise and perpetual care trusts could adversely affect our revenues and cash flow.

A substantial portion of our revenue is generated from investment returns that we realize from merchandise and perpetual care trusts. Due to the unstable economic conditions over the last four years, we have at times experienced declines in the fair value of the assets held in these trusts. Future cash flows could be negatively impacted if we are forced to liquidate assets that are in impaired positions.

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

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

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

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

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

The cemetery and funeral home industry continues to be competitive.

We face competition in all of our markets. Most of our competitors are independent operations. Our ability to compete successfully depends on our management's forward vision, timely responses to changes in the business environment, our cemeteries and funeral homes' ability to maintain a good reputation and high professional standards as well as offer products and services at competitive prices. We have historically experienced price competition from independent cemetery and funeral home operators. If we are unable to successfully compete, our financial condition, results of operations and cash flows could be materially adversely affected.

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

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

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

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

Our success also depends upon the services and capabilities of our management team. Management establishes the tone at the top by which an environment of ethical values, operating style and management philosophy is fostered. The inability of our senior management team to maintain a proper tone at the top or the loss of services of one or more members of senior management as well as the inability to attract qualified managers or other personnel could have a material adverse effect on our business, financial condition, and results of operations. We may not be able to locate or employ on acceptable terms qualified replacements for senior management or key employees if their services were no longer available. We do not maintain key employee insurance on any of our executive officers.

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

A primary component of our business strategy is to grow through acquisitions of cemeteries and, to a lesser extent, funeral homes. We cannot assure you that we will be able to identify and acquire cemeteries on terms favorable to us or at all. We may face competition from other death care companies in making acquisitions. Historically, we have funded a significant portion of our acquisitions through borrowings. Our ability to make acquisitions in the future may be limited by our inability to secure adequate financing, restrictions under our existing or future debt agreements, competition from third parties or a lack of suitable properties. As of December 31, 2011, after giving effect to the amendment to our credit facilities on January 19, 2012, we would have had approximately \$86.2 million of available borrowing capacity under our revised credit facility.

In addition, if we complete acquisitions, we may encounter various associated risks, including the possible inability to integrate an acquired business into our operations, diversion of management's attention and unanticipated problems or liabilities, some or all of which could have a material adverse effect on our operations and financial performance. Also, when we acquire cemeteries that do not have an existing pre-need sales program or a significant amount of pre-need products and services that have been sold but not yet purchased or performed, the operation of the cemetery and implementation of a pre-need sales program after acquisition may require significant amounts of working capital. This may make it more difficult for us to make acquisitions.

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

We and other death care companies that focus on traditional methods of interment face competition from the increasing number of cremations in the United States. Industry studies indicate that the percentage of cremations has steadily increased and that cremations represented approximately 38% of the United States deathcare market in 2009. This percentage of cremations is expected to continue to increase. Because the products and services associated with a cremation, such as niches and urns, produce lower revenues than the products and services associated with a traditional interment, a continuing trend toward cremations may reduce our revenues.

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

Declines in the number of deaths could cause at-need sales of cemetery and funeral home merchandise and services to decline and could cause a decline in the number of pre-need sales, both of which could decrease revenues. Changes in the number of deaths can vary among local markets and from quarter to quarter, and variations in the number of deaths in our markets or from quarter to quarter are not predictable. However, generally, the number of deaths fluctuates with the seasons with more deaths occurring during the winter months primarily resulting from pneumonia and influenza. These variations can cause revenues to fluctuate.

We rely significantly on information technology and any failure, inadequacy, interruption or security lapse of that technology, including any cybersecurity incidents, could harm our ability to operate our business effectively.

Our ability to manage and maintain our internal reports effectively and integration of new business acquisitions depends significantly on our enterprise resource planning system and other information systems. Some of our information technology systems may experience interruptions, delays or cessations of service or produce errors in connection with ongoing systems implementation work. Cybersecurity attacks in particular are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data and other electronic security breaches that could lead to disruptions in systems, misappropriation of our confidential or otherwise protected information and corruption of data. The failure of these systems to operate effectively or to integrate with other systems, or a breach in security or other unauthorized access of these systems, may also result in reduced efficiency of our operations and could require significant capital investments to remediate any such failure, problem or breach, all of which could adversely affect our business, financial condition and results of operations.

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

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

Regulatory and Legal Risks

Our operations are subject to regulation, supervision and licensing under numerous federal, state and local laws, ordinances and regulations, including extensive regulations concerning trusts/escrows, pre-need sales, cemetery ownership, funeral home ownership, marketing practices, crematories, environmental matters and various other aspects of our business.

If state laws or interpretations of existing state laws change or if new laws are enacted, we may be required to increase trust/escrow deposits or to alter the timing of withdrawals from trusts/escrows, which may have a negative impact on our revenues and cash flow.

We are required by most state laws to deposit specified percentages of the proceeds from our pre-need and at-need sales of interment rights into perpetual care trusts and generally proceeds from our pre-need sales of cemetery and funeral home products and services into merchandise trusts/escrows. These laws also determine when we are allowed to withdraw funds from those trusts/escrows. If those laws or the interpretations of those laws change or if new laws are enacted, we may be required to deposit more of the sales proceeds we receive from our sales into the trusts/escrows or to defer withdrawals from the trusts/escrows, thereby decreasing our cash flow until we are permitted to withdraw the deposited amounts. This could also reduce our cash available for distribution.

If state laws or their interpretations change, or new laws are enacted relating to the ownership of cemeteries and funeral homes, our business, financial condition and results of operations could be adversely affected.

Some states require cemeteries to be organized in the nonprofit form but permit those nonprofit entities to contract with for-profit companies for management services. If state laws change or new laws are enacted that prohibit us from managing cemeteries in those states, then our business, financial condition and results of operations could be adversely affected. Some state laws restrict ownership of funeral homes to licensed funeral directors. If state laws change or new laws are enacted that prohibit us from managing funeral homes in those instances, then our business, financial condition and results of operations could be adversely affected.

We are subject to legal restrictions on our marketing practices that could reduce the volume of our sales which could have an adverse effect on our business, operations and financial condition.

The enactment or amendment of legislation or regulations relating to marketing activities may make it more difficult for us to sell our products and services. For example, the federal do not call legislation has adversely affected our ability to market our products and services using telephone solicitation by limiting who we may call and increasing our costs of compliance. As a result, we rely heavily on direct mail marketing and telephone follow-up with existing contacts. Additional laws or regulations limiting our ability to market through direct mail, over the telephone, through internet and e-mail advertising or door-to-door may make it difficult to identify potential customers, which could increase our costs of marketing. Both increases in marketing costs and restrictions on our ability to market effectively could reduce our revenues and could have an adverse effect on our business, operations and financial condition, as well as our ability to make cash distributions to you.

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We are subject to environmental and health and safety laws and regulations that may adversely affect our operating results.

Our cemetery and funeral home operations are subject to numerous federal, state and local environmental and health and safety laws and regulations. We may become subject to liability for the removal of hazardous substances and solid waste under CERCLA and other federal and state laws. Under CERCLA and similar state laws, strict, joint and several liability may be imposed on various parties, regardless of fault or the legality of the original disposal activity. Our funeral home, cemetery and crematory operations include the use of some materials that may meet the definition of hazardous substances under CERCLA or state laws and thus may give rise to liability if released to the environment through a spill or release. We cannot assure you that we will not face liability under CERCLA or state laws for any environmental conditions at our facilities, and we cannot assure you that these liabilities will not be material. Our cemetery and funeral home operations are subject to regulation of underground and above ground storage tanks and laws managing the disposal of solid waste. If new requirements under local, state or federal laws were to be adopted, and were more stringent than existing requirements, new permits or capital expenditures may be required.

Our funeral home operations are generally subject to federal and state laws and regulations regarding the disposal of medical waste, and are also subject to regulation by federal, state or local authorities under the EPCRA. We are required by EPCRA to maintain, and report, to the regulatory authorities, if applicable thresholds are met, a list of any hazardous chemicals and extremely hazardous substances, which are stored or used at our facilities.

Our crematory operations may be subject to regulation under the federal Clean Air Act and any analogous state laws. If new regulations applicable to our crematory operations were to be adopted, they could require permits or capital expenditures that could increase our costs of operation and compliance.

Risk Factors Related to an Investment in Us

Our general partner and its affiliates have conflicts of interest and limited fiduciary duties, which may permit them to favor their own interests to your detriment.

CFSI LLC owns all of the Class A units of our general partner. Conflicts of interest may arise between CFSI LLC and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of the unitholders. These conflicts include, among others, the following situations:

The board of directors of our general partner is elected by the owners of our general partner. Although our general partner has a fiduciary duty to manage us in good faith, the directors of our general partner also have a fiduciary duty to manage our general partner in a manner beneficial to the owners of our general partner. By purchasing common units, unitholders will be deemed to have consented to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable law.

Our partnership agreement limits the liability of our general partner, reduces its fiduciary duties and restricts the remedies available to unitholders for actions that might, without the limitations, constitute breaches of fiduciary duty.

Our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional limited partner interests and reserves, each of which can affect the amount of cash that is distributed to unitholders.

Our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf.

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Our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates.

In some instances, our general partner may cause us to borrow funds or sell assets outside of the ordinary course of business in order to permit the payment of distributions, even if the purpose or effect of the borrowing is to make distributions in respect of incentive distribution rights.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors, which could reduce the price at which the common units will trade.

Unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management's decisions regarding our business. Unitholders did not select our general partner or elect the board of directors of our general partner and will have no right to select our general partner or elect its board of directors in the future. We are not required to have a majority of independent directors on our board. The board of directors of our general partner, including the independent directors, is chosen entirely by the owners of our general partner and not our unitholders. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

Our partnership agreement restricts the voting rights of unitholders owning 20% or more of our common units.

Unitholders' voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than the general partner, its affiliates, their transferees and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot be voted on any matter. In addition, the partnership agreement contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

Our general partner can transfer its ownership interest in us without unitholder consent under certain circumstances, and the control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, there is no restriction in the partnership agreement on the ability of the owners of our general partner to transfer their ownership interest in the general partner to a third party. The new owner of our general partner would then be in a position to replace the board of directors and officers of the general partner with its own choices and thereby influence the decisions taken by the board of directors and officers.

We may issue additional common units without your approval, which would dilute your existing ownership interests.

We may issue an unlimited number of limited partner interests of any type without the approval of the unitholders. You will not have the right to approve our issuance at any time of equity securities ranking junior to the common units.

The issuance of additional common units or other equity securities of equal or senior rank will have the following effects:

your proportionate ownership interest in us will decrease;

the amount of cash available for distribution on each unit may decrease;

the relative voting strength of each previously outstanding unit may be diminished;

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the market price of the common units may decline; and

the ratio of taxable income to distributions may increase.

Cost reimbursements due our general partner may be substantial and will reduce the cash available for distribution to you.

Prior to making any distribution on the common units, we will reimburse our general partner and its affiliates, including CFSI LLC and the officers and directors of our general partner, for all expenses they incur on our behalf. The reimbursement of expenses could adversely affect our ability to pay cash distributions to you. Our general partner determines the amount of these expenses. In addition, our general partner and its affiliates may provide us with other services for which we will be charged fees as determined by our general partner.

In establishing cash reserves, our general partner may reduce the amount of available cash for distribution to you.

Subject to the limitations on restricted payments contained in the indenture governing the 10.25% Senior Notes due 2017 and other indebtedness, the master partnership distributes all of our available cash each quarter to its limited partners and general partner. Available cash is defined in the master partnership's partnership agreement, and it generally means, for each fiscal quarter, all cash and cash equivalents on hand on the date of determination for that quarter less the amount of cash reserves established at the discretion of the general partner to:

provide for the proper conduct of our business;

comply with applicable law, the terms of any of our debt instruments or other agreements; or

provide funds for distributions to its unitholders and general partner for any one or more of the next four calendar quarters. These reserves will affect the amount of cash available for distribution to you.

Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.

If, at any time, our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the remaining common units held by unaffiliated persons at a price not less than their then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon the sale of your common units.

You may be required to repay distributions that you have received from us.

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Assignees who become substituted limited partners are liable for the obligations of the assignor to make contributions to the partnership. However, assignees are not liable for obligations unknown to the assignee at the time the assignee became a limited partner if the liabilities could not be determined from the partnership agreement. Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

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Tax Risks to Common Unitholders

Audit adjustments to the taxable income of our corporate subsidiaries for prior taxable years may reduce the net operating loss carryforwards of such subsidiaries and thereby increase their tax liabilities for future taxable periods.

Our business was conducted by an affiliated group of corporations during periods prior to the completion of our initial public offering and, since the initial public offering, continues to be conducted in part by corporate subsidiaries. The amount of cash distributions we receive from our corporate subsidiaries over the next several years will depend in part upon the amount of net operating losses available to those subsidiaries to reduce the amount of income subject to federal income tax they would otherwise pay. These net operating losses will begin to expire in 2019. The amount of net operating losses available to reduce the income tax liability of our corporate subsidiaries in future taxable years could be reduced as a result of audit adjustments with respect to prior taxable years. Notwithstanding any limited indemnification rights we may have, any increase in the tax liabilities of our corporate subsidiaries because of a reduction in net operating losses will reduce our cash available for distribution.

Changes in the ownership of our units may result in annual limitations on our corporate subsidiaries' ability to use their net operating loss carryforwards, which could increase their tax liabilities and decrease cash available for distribution in future taxable periods.

Our corporate subsidiaries' ability to use their net operating loss carryforwards may be limited if changes in the ownership of our units causes our corporate subsidiaries to undergo an ownership change under applicable provisions of the Internal Revenue Code. In general, an ownership change will occur if the percentage of our units, based on the value of the units, owned by certain unitholders or groups of unitholders increases by more than fifty percentage points during a running three-year period. Recent changes in our ownership, along with additional changes that will result from this equity offering, may result in an ownership change. Even if no ownership change results from this equity offering, our corporate subsidiaries will be close to the threshold for an ownership change and may experience one in the future. A future ownership change may result from issuances of our units, sales or other dispositions of our units by certain significant unitholders, certain acquisitions of our units, and issuances, sales or other dispositions or acquisitions of interests in significant unitholders, and we will have little to no control over any such events. To the extent that an annual net operating loss limitation for any one year does restrict the ability of our corporate subsidiaries to use their net operating loss carryforwards, an increase in tax liabilities of our corporate subsidiaries could result, which would reduce the amount of cash available for distribution to you.

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of additional entity-level taxation by individual states. If the IRS treats us as a corporation for federal tax purposes or we become subject to additional entity-level taxation for state tax purposes, it would reduce the amount of cash available for distribution to you.

The anticipated after-tax economic benefit of an investment in our common units depends largely on our being treated as a partnership for federal income tax purposes. Despite the fact that we are a limited partnership under Delaware law, it is possible in certain circumstances for a partnership such as ours to be treated as a corporation for federal income tax purposes. Although we do not believe based upon our current operations that we are so treated, if our view is incorrect or if there is a change in our business (or a change in current law) we could be treated as a corporation for federal income tax purposes or otherwise subject us to taxation as an entity.

If we were treated as a corporation for federal income tax purposes for any taxable year for which the statute of limitations remains open or for any future taxable year, we would pay federal income tax on our taxable income for such year(s) at the corporate tax rate, which is currently a maximum of 35% and would likely pay state income tax at varying rates. Distributions to you would generally be taxed again as corporate distributions,

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and no income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, our cash available for distribution to you would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to the unitholders, likely causing a substantial reduction in the value of our common units. Moreover, treatment of us as a corporation could materially and adversely affect our ability to make payment on our debt.

Current law may change so as to cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. For example, members of Congress have recently considered substantive changes to the existing federal income tax laws that would affect the tax treatment of certain publicly traded partnerships. In addition, because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. If any of these states were to impose a tax on us, the cash available for distribution to you would be reduced. We are unable to predict whether any of these changes, or other proposals, will ultimately be enacted. Any such changes could negatively impact the value of an investment in our units.

The partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution amounts will be adjusted to reflect the impact of that law on us.

We have subsidiaries that will be treated as corporations for federal income tax purposes and subject to corporate-level income taxes.

Some of our operations are conducted through subsidiaries that are organized as C corporations. Accordingly, these corporate subsidiaries are subject to corporate-level tax, which reduces the cash available for distribution to our partnership and, in turn, to you. If the IRS were to successfully assert that these corporations have more tax liability than we anticipate or legislation was enacted that increased the corporate tax rate, the cash available for distribution could be further reduced.

If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted, and the cost of any IRS contest will reduce our cash available for distribution to you.

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of the positions we take. A court may not agree with some or all of the positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. In addition, our costs of any contest with the IRS will be borne indirectly by our unitholders and our general partner because the costs will reduce our cash available for distribution.

You may be required to pay taxes on income from us even if you do not receive any cash distributions from us.

Because you will be treated as a partner to whom we will allocate taxable income that could be different in amount than the cash we distribute, you may be required to pay any federal income taxes and, in some cases, state and local income taxes on your share of our taxable income even if you receive no cash distributions from us. You may not receive cash distributions from us equal to your share of our taxable income or even equal to the actual tax liability that results from that income.

Tax gain or loss on disposition of our common units could be more or less than expected.

If you sell your common units, you will recognize a gain or loss equal to the difference between your amount realized and your tax basis in those common units. Because distributions in excess of your allocable

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share of our total net taxable income decrease your tax basis in your common units, the amount, if any, of such prior excess distributions with respect to the units you sell will, in effect, become taxable income to you if you sell such units at a price greater than your tax basis in those units, even if the price you receive is less than your original cost. Furthermore, a substantial portion of the amount realized, whether or not representing gain, may be taxed as ordinary income due to potential recapture items, including depreciation recapture. In addition, because the amount realized includes a unitholder's share of our nonrecourse liabilities, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale.

Tax-exempt entities and non-U.S. persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

Investment in common units by tax-exempt entities, such as employee benefit plans individual retirement accounts (known as IRAs) and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including IRAs and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file United States federal tax returns and pay tax on their share of our taxable income. If you are a tax-exempt entity or a non-U.S. person, you should consult your tax advisor before investing in our common units.

We treat each purchaser of common units as having the same tax benefits without regard to the actual common units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.

Due to a number of factors, including our inability to match transferors and transferees of common units, we take depreciation and amortization positions that may not conform to all aspects of the existing Treasury Regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from the sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns.

We have adopted certain valuation methodologies that may result in a shift of income, gain, loss and deduction between the general partner and the unitholders. The IRS may challenge this treatment, which could adversely affect the value of the common units.

When we issue additional units or engage in certain other transactions, we will determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of our unitholders and our general partner. If the IRS challenges our methodology it may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and the general partner, which may be unfavorable to such unitholders. Moreover, under our valuation methods, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of income, gain, loss and deduction between the general partner and certain of our unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our unitholders. It also could affect the amount of gain from our unitholders' sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders' tax returns without the benefit of additional deductions.

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The sale or exchange of 50% or more of our capital and profits interests during any twelve month period will result in the termination of our partnership for federal income tax purposes.

We will be considered to have terminated our partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. For purposes of determining whether the 50% threshold has been met, multiple sales of the same interest will be counted only once. Our termination would, among other things, result in the closing of our taxable year for all unitholders which would result in our filing two tax returns for one fiscal year and could result in a deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year other than a calendar year, the closing of our taxable year may result in more than twelve months of our taxable income or loss being includable in his taxable income for the year of termination. Our termination currently would not affect our classification as a partnership for federal income tax purposes, but instead, we would be treated as a new partnership for tax purposes. If treated as a new partnership, we must make new tax elections and could be subject to penalties if we are unable to determine that a termination occurred. The IRS has recently announced a relief procedure whereby if a publicly traded partnership that has technically terminated requests and the IRS grants special relief, among other things, the partnership will be required to provide only a single Schedule K-1 to unitholders for the tax years in which the termination occurs.

You will likely be subject to state and local taxes and filing requirements in jurisdictions where you do not live as a result of an investment in units.

In addition to federal income taxes, you will likely be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property, even if you do not live in any of those jurisdictions. You will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, you may be subject to penalties for failure to comply with those requirements. We own assets or conduct business in a majority of states and in Puerto Rico. Most of these various jurisdictions currently impose, or may in the future impose, an income tax on individuals, corporations and other entities. As we make acquisitions or expand our business, we may own assets or do business in additional states that impose a personal income tax. It is your responsibility to file all United States federal, state and local tax returns.

A unitholder whose units are loaned to a short seller to cover a short sale of units may be considered as having disposed of those units. If so, the unitholder would no longer be treated for tax purposes as a partner with respect to those units during the period of the loan and may recognize gain or loss from the disposition.

If you loan your units to a short seller to cover a short sale of units, you may be considered as having disposed of the loaned units, and you may no longer be treated for tax purposes as a partner with respect to those units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of our income, gain, loss or deduction with respect to those units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those units could be fully taxable as ordinary income. Unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. Nonetheless, we allocate certain deductions for depreciation of capital additions based upon the date the underlying property is put in service. The use of this proration method may not

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be permitted under existing Treasury Regulations. Recently, however, the U.S. Treasury Department issued proposed Treasury Regulations that provide a safe harbor pursuant to which publicly traded partnerships may use a similar monthly simplifying convention to allocate tax items among transferor and transferee unitholders. Nonetheless, the proposed regulations do not specifically authorize the use of the proration method we have adopted. If the IRS were to challenge our proration method, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders. Vinson & Elkins L.L.P. has not rendered an opinion with respect to whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations.

The tax treatment of publicly traded partnerships or an investment in our common units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time. For example, members of Congress have recently considered substantive changes to the existing federal income tax laws that would have affected certain publicly traded partnerships. Any modification to the federal income tax laws and interpretations thereof may or may not be applied retroactively. Although the recently considered legislation would not have appeared to affect our federal income tax treatment as a partnership, we are unable to predict whether any of these changes, or other proposals, will be reconsidered or will ultimately be enacted. Any such changes could negatively impact the value of an investment in our common units.

Item 1B. Unresolved Staff Comments

None.

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Cemeteries and Funeral Homes**

The following table summarizes the distribution of our cemetery and funeral properties by state as of December 31, 2011 as well as the weighted average estimated remaining sales life in years for our cemeteries based upon number of interment spaces sold during 2011:

	Cemeteries	Funeral Homes	Total Net Acres	Weighted Average Estimated Net Sales Life in Years	Number of Interment Spaces Sold in 2011
Alabama	9	6	305	219	1,179
Arkansas		2			
California	7	8	270	63	1,207
Colorado	2		12	784	18
Delaware	1		12	424	11
Florida		1			
Georgia	7		135	155	797
Hawaii	1		6	201	
Illinois	7	2	243	200	797
Indiana	11	5	1,013	325	1,569
Iowa	1		89	213	151
Kansas	3	2	84	140	340
Kentucky	2		59	88	336
Maryland	10	1	716	152	1,600
Michigan	16		1,534	374	2,952
Mississippi	2	1	44	1,428	13
Missouri	6	5	277	606	293
New Jersey	6		341	39	1,905
North Carolina	16		415	131	2,739
Ohio	14	2	953	184	3,481
Oregon	7	7	181	301	609
Pennsylvania	52	8	2,547	699	2,121
Puerto Rico	7	5	209	505	236
Rhode Island	2		70	1,443	18
South Carolina	8	3	395	211	889
Tennessee	11	5	657	360	1,131
Virginia	30	2	869	188	2,473
Washington	3	2	33	53	162
West Virginia	33	2	1,404	399	1,894
Total	274	69	12,873	260	28,921

We calculated estimated remaining sales life for each of our cemeteries by dividing the number of unsold interment spaces by the number of interment spaces sold at that cemetery in the most recent year. For purposes of estimating remaining sales life, we defined unsold interment spaces as unsold burial lots and unsold spaces in existing mausoleum crypts as of December 31, 2011. We defined interment spaces sold in 2011 as:

the number of burial lots sold, net of cancellations;

the number of spaces sold in existing mausoleum crypts, net of cancellations; and

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the number of spaces sold in mausoleum crypts that we have not yet built, net of cancellations.

We count the sale of a double-depth burial lot as the sale of one interment space even though a double-depth burial lot includes two interment rights. We count an unsold double-depth burial lot as one unsold interment

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space. Because our sales of cremation niches were immaterial, we did not include cremation niches in the calculation of estimated remaining sales life. When calculating estimated remaining sales life, we did not take into account any future cemetery expansion. In addition, sales of an unusually high or low number of interment spaces in a particular year affect our calculation of estimated remaining sales life. Future sales may differ from previous years' sales, and actual remaining sales life may differ from our estimates. We calculated the weighted average estimated remaining sales life by aggregating unsold interment spaces and interment spaces sold on a state-by-state or company-wide basis. Based on the number of interment spaces sold in 2011, we estimate that our cemeteries have an aggregate weighted average remaining sales life of 260 years.

The following table shows the cemetery properties that we owned or operated as of December 31, 2011, grouped by estimated remaining sales life:

	0 - 25 years	26 - 49 years	50 - 100 years	101 - 150 years	151 - 200 years	Over 200 years
Alabama			3	2		4
California	2	1	3			1
Colorado						2
Delaware						1
Georgia		1	1	2		3
Hawaii						1
Illinois			2		2	3
Indiana		1				10
Iowa						1
Kansas			2			1
Kentucky		1			1	
Maryland	1	1	2	1	1	4
Michigan	1		1	1	3	10
Mississippi					1	1
Missouri			1			5
New Jersey	2	2	1			1
North Carolina			6	3	3	4
Ohio	1	2	1	2	1	7
Oregon			1	2		4
Pennsylvania	5		1	1	3	42
Puerto Rico	1	1	1		1	3
Rhode Island						2
South Carolina		1	1	2		4
Tennessee				1		10
Virginia	1	2	6	4	4	13
Washington	1		2			
West Virginia	4	2	2	1	3	21
Total	19	15	37	22	23	158

We believe that we have either satisfactory title to or valid rights to use all of our cemetery properties. The 21 cemetery properties that we manage or operate under long-term operating agreements have nonprofit owners. We believe that these cemeteries have either satisfactory title to or valid rights to use these cemetery properties and that we have valid rights to use these properties under the long-term agreements. Although title to the cemetery properties is subject to encumbrances such as liens for taxes, encumbrances securing payment obligations, easements, restrictions and immaterial encumbrances, we do not believe that any of these burdens should materially detract from the value of these properties or from our interest in these properties, nor should these burdens materially interfere with the use of our cemetery properties in the operation of our business as

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described above. Many of our cemetery properties are located in zoned regions, and we believe that cemetery use is permitted for those cemeteries either (1) as expressly permitted under applicable zoning ordinances; (2) through a special exception to applicable zoning designations; or (3) as an existing non-conforming use.

Other

In January of 2008, we relocated our home office to a 37,000 square foot leased space in Levittown, Pennsylvania. The lease has a term expiring in 2020, and we consider the space to be adequate for our present and anticipated future requirements. We are also tenants under various leases covering office spaces other than our corporate headquarters.

In addition, we own a 13,500-square-foot plant in Butler County, Pennsylvania, where we manufacture burial vaults used in our cemetery operations, and we own a 4,800-square-foot building in Marion, Virginia, which is no longer being used in our business.

Item 3. 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 effect on our results of operations, financial condition 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 4. Mine Safety Disclosures

None.

Table of Contents**PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**
Market Information

Our common units were listed on the NASDAQ Global Select Market (Nasdaq) until December 23, 2011 when our units began listing on the New York Stock Exchange (NYSE). Our units are listed under the symbol STON . As of March 1, 2012, there were 19,368,987 common units outstanding, representing a 98.0% limited partner interest in us. As of February 22, 2012, there were 31,026 beneficial holders and 58 unitholders of record. The following table sets forth the high and low sale prices of our common units for the periods indicated, based on the daily composite listing of common unit transactions for the Nasdaq and NYSE, as applicable.

Quarter ended	Price range		Declared Distributions (1)
	High	Low	
March 31, 2010	\$ 21.44	\$ 18.01	\$ 0.5550
June 30, 2010	\$ 21.20	\$ 18.22	\$ 0.5550
September 30, 2010	\$ 26.95	\$ 19.75	\$ 0.5650
December 31, 2010	\$ 30.62	\$ 24.90	\$ 0.5750
March 31, 2011	\$ 33.51	\$ 24.58	\$ 0.5850
June 30, 2011	\$ 28.30	\$ 23.10	\$ 0.5850
September 30, 2011	\$ 29.50	\$ 25.59	\$ 0.5850
December 31, 2011	\$ 29.32	\$ 20.55	\$ 0.5850

(1) Distributions were declared and paid within 45 days of the close of each quarter.

Cash Distribution Policy**Quarterly Distributions of Available Cash****General**

Within 45 days after the end of each quarter, we will distribute all of our available cash to unitholders of record on the applicable record date.

Available cash for any quarter consists of cash on hand at the end of that quarter, plus cash on hand from working capital borrowings made after the end of the quarter but before the date of determination of available cash for the quarter, less cash reserves. Cash and other investments held in merchandise trusts and perpetual care trusts are not treated as available cash until they are distributed to us.

Conversion of Subordinated Units

During the quarter ended September 30, 2009, we met the final early conversion test of our subordinated units and accordingly, all remaining subordinated units converted into common units on November 13, 2009.

Any reference to, or any explanation related to subordinated units and their respective distribution rights are no longer applicable. All prior units considered to be subordinated units are now common units with equal distribution priority rights of all other common units.

General Partner Interest and Incentive Distribution Rights

Our general partner is entitled to 2% of all distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its

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2% general partner interest. The general partner's 2% interest in these distributions may be reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us to maintain its 2% general partner interest.

Our general partner also currently holds incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 50%, of the cash we distribute from operating surplus in excess of \$0.5125 per unit. The maximum distribution of 50% includes distributions paid to the general partner on its 2% general partner interest but does not include any distributions that the general partner may receive on units that it owns.

Unregistered Sale of Securities

In connection with and as partial consideration for our second quarter 2010 acquisition, we issued 293,947 unregistered common units representing limited partnership interests in us valued at approximately \$5.8 million pursuant to the terms of the settlement agreement. Further, the general partner of the Company entered into a Non-Competition Agreement dated as of June 21, 2010 with Ronald P. Robertson, pursuant to which Mr. Robertson agreed not to compete with the general partner and the companies under its management and control. Pursuant to the Non-Competition Agreement, we issued 9,853 common units on the closing date of the transaction and we are obligated to issue additional Units which were initially valued at a fair value of \$0.5 million based on a unit price of \$20.30 just prior to the date of acquisition. As a result, we issued 9,853 units in June of 2011, and we are also obligated to issue an additional 9,853 units and 4,924 units in June of 2012 and June of 2013, respectively. A total of 9,853 and 303,800 common units were issued in 2011 and 2010, respectively, as a result of this transaction.

Operating Surplus and Capital Surplus

General

All cash distributed to unitholders is characterized as either operating surplus or capital surplus. We distribute available cash from operating surplus differently than available cash from capital surplus. We treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since we began operations equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus.

Operating Surplus

Operating surplus consists of:

our cash balance on September 20, 2004; plus

\$5.0 million (as described below); plus

cash receipts from our operations, including cash withdrawn from merchandise and perpetual care trusts; plus

working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for that quarter; less

operating expenditures, including cash deposited in merchandise and perpetual care trusts, maintenance capital expenditures and the repayment of working capital borrowings; less

the amount of cash reserves for future operating expenditures and maintenance capital expenditures.

As reflected above, operating surplus includes \$5.0 million in addition to our cash balance on September 20, 2004, cash receipts from our operations and cash from working capital borrowings. This amount does not reflect

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actual cash on hand that is available for distribution to our unitholders. Rather, it is a provision that will enable us, if we choose, to distribute as operating surplus up to \$5.0 million of cash we receive in the future from non-operating sources, such as asset sales outside the ordinary course of business, sales of our equity and debt securities, and long-term borrowings, that would otherwise be distributed as capital surplus.

As described above, operating surplus is reduced by the amount of our maintenance capital expenditures but not our expansion capital expenditures. For our purposes, maintenance capital expenditures are those capital expenditures required to maintain, over the long term, the operating capacity of our capital assets, and expansion capital expenditures are those capital expenditures that increase, over the long term, the operating capacity of our capital assets.

Examples of maintenance capital expenditures include costs to build roads and install sprinkler systems on our cemetery properties and purchases of equipment for those purposes and, in most instances, costs to develop new areas of our cemeteries. Examples of expansion capital expenditures include costs to identify and complete acquisitions of new cemeteries and funeral homes and to construct new funeral homes. Costs to construct mausoleum crypts and lawn crypts may be considered to be a combination of maintenance capital expenditures and expansion capital expenditures. Our general partner, with the concurrence of its conflicts committee, may allocate capital expenditures between maintenance capital expenditures and expansion capital expenditures and may determine the period over which maintenance capital expenditures will be subtracted from operating surplus.

As described above, operating surplus is reduced by the amount of our operating expenditures. Our partnership agreement specifically excludes certain items from the definition of operating expenditures, such as cash expenditures made for acquisitions or capital improvements, including, without limitation, all cash expenditures, whether or not expensed or capitalized for tax or accounting purposes, incurred during the first four years following an acquisition in order to bring the operating capacity of the acquisition to the level expected to be achieved in the projections forming the basis on which our general partner approved the acquisition. Examples of such cash expenditures include certain maintenance capital expenditures and cash expenditures that we believe are necessary to develop the pre-need sales programs of businesses or assets we acquire. Where cash expenditures are made in part for acquisitions or capital improvements and in part for other purposes, our general partner, with the concurrence of our conflicts committee, will determine the allocation between the amounts paid for each and the period over which cash expenditures made for other purposes will be subtracted from operating surplus.

Capital Surplus

Capital surplus consists of:

Borrowings other than working capital borrowings;

sales of our equity and debt securities; and

sales or other dispositions of assets for cash (other than sales or other dispositions of excess cemetery property up to an aggregate amount in any four-quarter period calculated pursuant to our Partnership Agreement; sales or other dispositions of inventory, accounts receivable and other current assets in the ordinary course of business; and sales or other dispositions of assets as a part of normal retirements or replacements).

The exception for sales of excess cemetery property in any four-quarter period beginning with the quarter ending September 30, 2008 generally is calculated by multiplying \$1.0 million by a fraction, the numerator of which is the number of cemeteries and funeral homes owned and operated by us on the last day of the quarter in which the sale occurs and the denominator of which is 139. Prior to the third quarter of 2008, the exception for sales of excess cemetery property was \$1.0 million, which was subject to increase by our general partner, with the concurrence of its conflicts committee, if the size of our operations increased as a result of acquisitions or other expansions.

Table of Contents**Distributions of Available Cash from Operating Surplus**

The following table illustrates the priority of distributions of available cash from operating surplus between the unitholders and our general partner as a result of the conversion of all subordinated units during the subordination period, which ended in the fourth quarter of 2009. The amounts set forth in the table in the column titled *Marginal Percentage Interest in Distributions* are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column titled *Total Quarterly Distribution Target Amount per Common Unit*, until the available cash from operating surplus that we distribute reaches the next target distribution level, if any. The percentage interests shown for our general partner include its 2% general partner interest and assume the general partner has contributed any additional capital required to maintain its 2% general partner interest and has not transferred the incentive distribution rights.

	Total Quarterly Distribution Target Amount per Common Unit	Marginal Percentage Interest in Distributions	
		Common Unitholders	General Partner
First Target Distribution	up to \$0.5125	98%	2%
Second Target Distribution	Above \$0.5125 to \$0.5875	85%	15%
Third Target Distribution	Above \$0.5875 to \$0.7125	75%	25%
Thereafter	Above \$0.7125	50%	50%

Distributions of Available Cash from Capital Surplus

We do not currently expect to make any distributions of available cash from capital surplus. However, to the extent that we make any distributions of available cash from capital surplus, they will be made in the following manner:

first, 98% to common unitholders, pro rata, and 2% to our general partner, until we have distributed for each common unit an amount of available cash from capital surplus equal to the initial public offering price;

second, 98% to the common unitholders, pro rata, and 2% to our general partner, until we have distributed for each common unit an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units; and

thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

The partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from the initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the *unrecovered initial unit price*. Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price.

Because distributions of capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for the general partner to receive incentive distributions. Any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied, however, to the payment of the minimum quarterly distribution or any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters.

If we distribute capital surplus on a unit in an amount equal to the initial unit price and have paid all arrearages on the common units, the minimum quarterly distribution and the target distribution levels will be reduced to zero. Once the minimum quarterly distribution and target distribution levels are reduced to zero, all subsequent distributions will be from operating surplus, with 50% being paid to the holders of units and 50% to our general partner.

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Adjustment of Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, we will proportionately adjust:

the minimum quarterly distribution;

the target distribution levels;

the unrecovered initial unit price.

For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level. We will not make any adjustment by reason of the issuance of additional units for cash or property.

In addition, if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, we will reduce the minimum quarterly distribution and the target distribution levels for each quarter by multiplying each distribution level by a fraction, the numerator of which is available cash for that quarter and the denominator of which is the sum of available cash for that quarter plus our general partner's estimate of our aggregate liability for the income taxes payable by reason of that legislation or interpretation. To the extent that the actual tax liability differs from the estimated tax liability for any quarter, the difference will be accounted for in subsequent quarters.

Distributions of Cash Upon Liquidation

If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to the unitholders and our general partner, in accordance with their respective capital account balances, as adjusted to reflect any taxable gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of taxable gain upon liquidation are intended, to the extent possible, to allow the holders of common units to receive proceeds equal to their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters prior to any allocation of gain to the common units. There may not be sufficient taxable gain upon our liquidation to enable the holders of common units to fully recover all of these amounts. Any additional taxable gain will be allocated in a manner intended to allow our general partner to receive proceeds in respect of its incentive distribution rights.

If there are losses upon liquidation, they will first be allocated to the general partner and then to the common units and the general partner interest until the capital accounts of the common units have been reduced to zero. Any remaining loss will be allocated to the general partner interest.

Equity Compensation Plan Information

See the equity compensation plan table set forth in Part III, Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Table of Contents**Item 6. Selected Financial Data**

The following tables present selected financial and operating data of the Company for the periods and as of the dates indicated derived from our audited consolidated financial statements. The following tables should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited historical consolidated financial statements and accompanying notes thereto set forth in this Annual Report on Form 10-K. Further, data for the 2010 year has been recast to retrospectively reflect adjustments made to our initial assessment of the net values of assets and liabilities acquired in acquisitions.

Table 1: Operating and net income data

	2011	Year ended December 31,			2007
		2010	2009	2008	
		(in thousands, except for unit data)			
Cemetery revenues					
Merchandise	\$ 108,088	\$ 94,898	\$ 87,836	\$ 90,968	\$ 74,509
Services	46,995	40,951	36,947	36,894	28,547
Investment and other	42,901	35,897	33,055	31,623	31,476
Funeral home revenues					
Merchandise	12,810	10,435	9,701	9,249	4,655
Services	17,594	15,111	13,664	14,714	6,127
Total revenues	228,388	197,292	181,203	183,448	145,314
Cost of goods sold (exclusive of depreciation shown separately below):					
Perpetual care	5,727	5,094	4,727	4,326	3,553
Merchandise	20,388	18,435	17,067	18,556	16,118
Cemetery expense	57,145	48,784	41,246	41,651	30,767
Selling expense	45,291	38,245	34,123	34,806	29,245
General and administrative expense	29,544	24,591	22,498	21,372	15,684
Overhead (including unit-based compensation of \$773 in 2011, \$711 in 2010, \$1,576 in 2009, \$2,262 in 2008 and \$4,741 in 2007) (1)	23,766	24,379	22,370	21,293	24,991
Depreciation and amortization	8,534	8,845	6,528	5,029	3,891
Funeral home expense					
Merchandise	4,473	4,001	3,716	3,684	1,575
Services	11,717	9,752	9,275	9,073	4,198
Other	7,364	6,184	6,015	6,308	2,649
Acquisition related costs	4,604	5,715	1,072		
Total costs and expenses	218,553	194,025	168,637	166,098	132,671
Operating profit	9,835	3,267	12,566	17,350	12,643
Gain on sale of funeral home	92		434		
Gain on acquisitions		7,152			
Early extinguishment of debt	4,010				
Increase (decrease) in fair value of interest rate swap		4,724	(2,681)		
Expenses related to refinancing (2)	453		2,242		157
Interest expense	19,198	21,973	14,410	12,714	9,075
Income (loss) before income taxes	(13,734)	(6,830)	(6,333)	4,636	3,411
Income tax expense (benefit)					
State	(701)	(245)	808	304	398
Federal	(3,318)	(5,138)	(2,753)	(224)	227
Total income tax expense (benefit)	(4,019)	(5,383)	(1,945)	80	625

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Net income (loss)	\$ (9,715)	\$ (1,447)	\$ (4,388)	\$ 4,556	\$ 2,786
Net income (loss) per limited partner unit					
Basic	\$ (0.50)	\$ (0.10)	\$ (0.36)	\$ 0.38	\$ 0.30
Diluted	\$ (0.50)	\$ (0.10)	\$ (0.36)	\$ 0.38	\$ 0.30

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- (1) Includes a write-off of \$571,000 in 2007 incurred in connection with a potential acquisition of a group of cemeteries in Michigan that we determined were unlikely to take place. Also includes bonuses of \$1.8 million and \$3.2 million in 2010 and 2007, respectively.
- (2) Represents write-downs in previously capitalized debt issuance costs.

Table 2: Balance Sheet Data

	Year ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands)				
Cemetery property	\$ 298,938	\$ 283,460	\$ 228,048	\$ 228,499	\$ 187,552
Total assets (1)	1,249,125	1,145,592	855,301	738,240	816,862
Deferred cemetery revenues, net (2)	441,878	386,465	259,323	193,017	220,942
Total debt	195,322	220,394	183,199	160,934	146,164
Total partners' capital	\$ 180,279	\$ 128,191	\$ 111,937	\$ 119,389	\$ 136,746

- (1) Includes the fair value of assets held in the merchandise and perpetual care trusts. Refer to Note 1 of our Consolidated Financial Statements for a detailed discussion of the consolidation rules for these assets.
- (2) Represents revenues to be recognized from the sale of merchandise and services. Refer to Note 1 of our Consolidated Financial Statements for a detailed discussion on the revenue recognition rules.

Table 3: Cash Flow and Other Financial Data

	Year ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except unit data)				
Net cash provided by (used in):					
Operating activities	\$ 5,466	\$ 3,106	\$ 14,729	\$ 21,144	\$ 18,973
Investing activities	(29,186)	(49,551)	(12,180)	(17,046)	(86,777)
Financing activities	28,243	40,501	3,862	(10,830)	71,690
Change in assets and liabilities that provided (used) cash:					
Merchandise trust	(23,889)	(13,517)	(6,133)	(453)	(5,223)
Merchandise liability	(5,669)	(2,401)	(4,332)	(5,366)	(7,171)
Capital expenditures:					
Maintenance capital expenditures	6,040	7,878	2,524	4,809	3,051
Expansion capital expenditures, including acquisitions	23,268	41,327	4,770	12,237	83,726
Distributions declared per common unit	\$ 2.340	\$ 2.250	\$ 2.220	\$ 2.160	\$ 2.045

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	Year ended December 31,				
	2011	2010	2009	2008	2007
Interments performed	45,236	41,556	37,782	38,863	29,380
Cemetery revenues per interment performed	\$ 4,377	\$ 4,141	\$ 4,196	\$ 4,104	\$ 4,579
Interment rights sold (1)					
Lots	26,403	24,353	22,637	22,552	17,509
Mausoleum crypts (including pre-construction)	2,518	2,584	2,316	1,881	2,314
Niches	1,126	1,071	889	864	602
Net interment rights sold (1)	30,047	28,008	25,842	25,297	20,425
Number of contracts written	101,281	92,661	83,043	80,144	63,026
Aggregate contract amount, in thousands (excluding interest)	\$ 244,921	\$ 221,895	\$ 197,787	\$ 187,093	\$ 138,588
Average amount per contract (excluding interest)	\$ 2,418	\$ 2,395	\$ 2,382	\$ 2,334	\$ 2,199
Number of pre-need contracts written	49,747	45,193	39,043	35,599	29,546
Aggregate pre-need contract amount, in thousands (excluding interest)	\$ 157,410	\$ 143,022	\$ 124,997	\$ 115,024	\$ 89,486
Average amount per pre-need contract (excluding interest)	\$ 3,164	\$ 3,165	\$ 3,202	\$ 3,231	\$ 3,029
Number of at-need contracts written	51,534	47,468	44,000	44,545	33,480
Aggregate at-need contract amount, in thousands (excluding interest)	\$ 87,511	\$ 78,873	\$ 72,790	\$ 72,068	\$ 49,102
Average amount per at-need contract (excluding interest)	\$ 1,698	\$ 1,662	\$ 1,654	\$ 1,618	\$ 1,467

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

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and notes thereto included in Part II Item 8 of this Annual Report on Form 10-K. Those notes also give more detailed information regarding the basis of presentation for the following information.

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K, including, but not limited to, information regarding the status and progress of our operating activities, the plans and objectives of our management, assumptions regarding our future performance and plans, and any financial guidance provided, as well as certain information in other filings with the SEC and elsewhere are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "project," "expect," "predict" and similar expressions identify these forward-looking statements. These forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated, including, but not limited to, the following: uncertainties associated with future revenue and revenue growth; the effect of the current economic downturn; the impact of our significant leverage on our operating plans; our ability to service our debt and pay distributions; the decline in the fair value of certain equity and debt securities held in our trusts; our ability to attract, train and retain an adequate number of sales people; uncertainties associated with the volume and timing of pre-need sales of cemetery services and products; increased use of cremation; changes in the death rate; changes in the political or regulatory environments, including potential changes in tax accounting and trusting policies; our ability to successfully implement a strategic plan relating to producing operating improvements, strong cash flows and further deleveraging; our ability to successfully compete in the cemetery and funeral home industry; uncertainties associated with the integration or anticipated benefits of our recent acquisitions or any future acquisitions; our ability to complete and fund additional acquisitions; our ability to maintain effective disclosure controls and procedures and internal control over financial reporting; the effects of cyber security attacks due to our significant reliance on information technology; uncertainties relating to the financial condition of third-party insurance companies that fund our pre-need funeral contracts; and various other uncertainties associated with the death care industry and our operations in particular.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth under Risk Factors in Part I, Item 1A. We assume no obligation to update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

Organization

We were organized on April 2, 2004 to own and operate the cemetery and funeral home business conducted by Cornerstone and its subsidiaries. On September 20, 2004, in connection with our initial public offering of common units representing limited partner interests, Cornerstone contributed to us substantially all of its assets, liabilities and businesses, and then converted into CFSI LLC, a limited liability company. This transfer represented a reorganization of entities under common control and was recorded at historical cost. In exchange for these assets, liabilities and businesses, CFSI LLC received 564,782 common units and 4,239,782 subordinated units representing limited partner interests in us.

Cornerstone had been founded in 1999 by members of our management team and a private equity investment firm, which we refer to as McCown De Leeuw, in order to acquire a group of 123 cemetery properties and 4 funeral homes. Since that time, Cornerstone, succeeded by us, has 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 274 cemeteries and 69 funeral homes as of December 31, 2011.

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Capitalization

On September 20, 2004, we completed our initial public offering. Since that time, we have completed additional follow-on public offerings in December 2007, November 2009, September 2010 and February 2011. In addition, in November 2009, certain of our subsidiaries made a private offering to eligible purchasers of \$150.0 million aggregate principal amount of senior notes due 2017.

On February 9, 2011, we completed a follow-on public offering of 3,756,155 common units, including an option to purchase up to 731,155 common units to cover over-allotments which was exercised in full by the underwriters, at a price of \$29.25 per unit, representing a 19.4% interest in us. Total gross proceeds from these transactions were approximately \$109.9 million, before offering costs and underwriting discounts. Net proceeds of the offering, including the related capital contribution of our General Partner, after deducting underwriting discounts and offering expenses, were approximately \$105.5 million. The proceeds were used to pay off \$33.5 million of debt under our credit facilities and \$35.0 million of debt outstanding on our Series B and Series C Senior Secured Notes. As part of this transaction, selling unitholders also sold 1,849,366 common units. We did not receive any of the proceeds generated by the sale of any units held by the selling unitholders.

Overview

Cemetery Operations

We are currently the second largest owner and operator of cemeteries in the United States. As of December 31, 2011, we operated 274 cemeteries in 26 states and Puerto Rico. We own 253 of these cemeteries, and we operate the remaining 21 under management or operating agreements with the nonprofit cemetery corporations that own the cemeteries. As a result of the agreements, other control arrangements and applicable accounting rules, we have treated 15 of these cemeteries as acquisitions for accounting purposes. There were three cemeteries to which we entered into a long-term operating agreement in the third quarter of 2010, and three cemeteries to which we entered into long-term operating agreements in 2009 that did not qualify as acquisitions for accounting purposes. The results of operations of these 6 cemeteries are included in our results of operations from the date we began operating the properties.

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. During the year ended December 31, 2011, we performed 45,236 burials and sold 30,047 interment rights (net of cancellations) compared to 41,556 and 28,008 in 2010 and 37,782 and 25,842 in 2009, respectively. Cemetery revenues accounted for approximately 86.7%, 87.1% and 87.1% during the years ended December 31, 2011, 2010 and 2009, respectively.

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

at-need sales of cemetery interment rights, merchandise and services, which we recognize as revenue when we have delivered the related merchandise or performed the service;

pre-need sales of cemetery interment rights, which we generally recognize as revenues when we have collected 10% of the sales price from the customer;

pre-need sales of cemetery merchandise, which we recognize as revenues when we satisfy the criteria specified below for delivery of the merchandise to the customer;

pre-need sales of cemetery services which we recognize as revenues when we perform the services for the customer;

investment income from assets held in our merchandise trust, which we recognize as revenues when we deliver the underlying merchandise or perform the underlying services and recognize the associated sales revenue as discussed above;

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investment income from perpetual care trusts, excluding realized gains and losses on the sale of trust assets, which we recognize as revenues as the income is earned in the trust; and

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

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

the merchandise is complete and ready for installation; or

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

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

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

Pre-need Sales

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

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

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

Contracts related to pre-need installment sales are usually for a period not to exceed 60 months, with payments of principal and interest required. Pre-need sales contracts normally contain provisions for both principal and interest. For those contracts that do not bear a market rate of interest, we impute such interest based upon the prime rate plus 150 basis points, which resulted in a rate of 4.75% during 2011, 2010 and 2009.

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

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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 includes other costs of obtaining product and service sales, such as advertising, marketing, postage and telephone.

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

2. Cemetery Expenses

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

3. General and administrative expenses

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

4. Depreciation and amortization

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

5. Acquisition related costs

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

Funeral Home Operations

As of December 31, 2011, we owned and operated 69 funeral homes. These properties are located in eighteen states and Puerto Rico. Thirty-nine of our funeral homes are located on the grounds of cemeteries that we own.

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We derive revenues at our funeral homes from the sale of funeral home merchandise, including caskets and related funeral merchandise, and services, including removal and preparation of remains, the use of our facilities for visitation, worship and performance of funeral services and transportation services. We sell these services and merchandise almost exclusively at the time of need utilizing salaried licensed funeral directors. Funeral home revenues accounted for approximately 13.3%, 12.9% and 12.9% during the years ended December 31, 2011, 2010 and 2009, respectively.

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

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

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

Corporate

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

Revenues by State

The following table shows the percentage of revenues attributable to each of the states in which we operate for the periods presented:

	Year ended December 31,		
	2011	2010	2009
Alabama	3.6%	4.6%	4.6%
California	8.8%	9.7%	10.2%
Georgia	1.2%	1.6%	1.6%
Illinois	2.3%	2.7%	2.4%
Indiana	8.0%	5.2%	2.4%
Kansas	1.4%	1.1%	1.6%
Maryland	6.0%	6.6%	7.3%
Michigan	8.9%	5.0%	1.3%
Missouri	1.6%	1.3%	1.5%
New Jersey	6.8%	7.8%	8.0%
North Carolina	5.8%	6.2%	6.3%
Ohio	8.7%	9.3%	8.2%
Oregon	2.9%	3.2%	4.2%
Pennsylvania	14.7%	15.3%	17.0%
South Carolina	2.1%	2.2%	2.5%
Tennessee	2.4%	2.4%	2.4%
Virginia	6.5%	7.1%	8.1%
West Virginia	5.3%	5.9%	7.3%
All others	3.0%	2.8%	3.1%
Total	100.0%	100.0%	100.0%

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The following table shows the percentage of revenues attributable to our principal products, services and other items during the periods presented:

	Year ended December 31,		
	2011	2010	2009
Pre-need sales:			
Burial lots	8.9%	9.6%	9.8%
Mausoleum crypts	4.7%	5.2%	4.7%
Markers	4.2%	4.6%	5.6%
Grave marker bases	1.1%	1.2%	1.4%
Burial vaults	5.0%	5.6%	5.0%
Lawn crypts	1.4%	1.5%	1.0%
Caskets	2.9%	1.0%	1.5%
Initial openings and closings (1)	6.5%	6.3%	5.9%
Other (2)	4.8%	5.3%	5.3%
Total pre-need sales	39.5%	40.3%	40.2%
Interest from pre-need sales	2.6%	2.9%	3.2%
Investment income from trusts:			
Perpetual care trusts	6.6%	7.3%	7.0%
Merchandise trusts	3.7%	2.1%	3.8%
Total investment income from trusts	10.3%	9.4%	10.8%
At-need sales:			
Openings and closings (3)	12.4%	13.0%	12.5%
Markers	7.7%	7.7%	7.6%
Burial lots	3.6%	3.8%	3.9%
Mausoleum crypts	1.2%	1.3%	1.6%
Grave marker bases	1.7%	1.6%	1.5%
Foundations and inscriptions (4)	1.0%	1.0%	1.0%
Burial vaults	1.6%	1.7%	1.8%
Other (5)	3.7%	2.5%	1.8%
Total at-need sales	32.9%	32.6%	31.7%
Funeral home revenues	13.3%	12.9%	12.9%
Other revenues (6)	1.4%	1.9%	1.2%
Total revenues	100.0%	100.0%	100.0%

(1) Installation of the burial vault into the ground.

(2) Includes revenues from niches, mausoleum lights, cremations, pet cemeteries, installation of burial vaults and markers sold to our customers by third parties and pre-need sales made in connection with the relocation of other cemetery interment rights. Also includes document processing fees on pre-need contracts and fees from sales of travel care protection, which covers shipping costs of a body if death occurs more than 100 miles from the place of residence.

(3) Installation of the burial vault into the ground and the placement of the casket into the vault.

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- (4) Installation of the marker on the ground and its inscription.
- (5) Includes revenues from lawn crypts, decorative lights installed on mausoleum crypts, installations of burial vaults, markers sold to our customers by third parties, cremation fees and document-processing fees on at-need contracts.
- (6) Includes sales of manufactured burial vaults to third parties, sales of cemetery and undeveloped land, commissions from sales of pre-need funeral and death benefit insurance policies provided through a third-party insurer and other miscellaneous revenues.

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Cash Flow

Pre-need sales often generate short-term cash flow deficits due to the timing of when we receive amounts from customers, pay related commissions and deposit amounts into the perpetual care and merchandise trusts.

We generally require customers to make a down payment on a pre-need contract of at least 5% of the total sales price. When we receive a payment from a customer on a pre-need contract, we first deposit the requisite portion into trust as required by state law. Then, we pay all or a portion of the commission due to the salesperson responsible for the sale up to a maximum of total cash received. In many cases, the sum of the commission paid and amount deposited into the trust exceeds the total cash received, causing a short-term cash flow deficit.

If the down payment received from the customer is not sufficient to cover the entire commission, the remaining commission is paid from subsequent installments, but only to the extent of 80% of the cash received from the customer in each installment. Again, in the near-term there is a possibility that the sum of the commission paid and amount deposited into the trust exceeds the total cash received, causing an additional short-term cash flow deficit. These short-term deficits are eventually recaptured as the total amount received exceeds the commissions paid and we meet the requirements for withdrawing amounts deposited into the merchandise trust.

The following example assumes a pre-need contract with a total sales price of \$1,000, a 10% down payment, a 40% perpetual care and merchandise trusting requirement, a 15% sales commission and a one-year term without interest, our short-term cash flow would be as follows:

When we receive the \$100 down payment from the customer, we would deposit 40% of the payment, or \$40 in trust and pay 100% of the commission due to the salesperson, or \$150, but only to the extent that we received cash from the customer, or \$100. Our total cash obligations would be \$140 even though we only received \$100 from the customer. We would use \$40 of our operating cash to pay the sales commission and, at this time, would be cash flow negative on the contract.

In month one, when we receive the first \$75 installment from the customer, we would deposit 40%, or \$30, into trust and pay 100% of the balance of the commission due to the sales person, or \$50. Our total cash obligations would be \$80 even though we only received \$75 from the customer. We would use \$5 of our operating cash to pay sales commission and would still be cash flow negative on the contract.

In month two, when we receive the next \$75 installment from the customer, we would deposit 40%, or \$30, into trust, but we would have no further commission due on the sale. The remaining \$45 received from the customer would go back into our operating cash, and we would break even on the contract on a cash-flow basis.

In month three, when we receive the next \$75 installment from the customer, we would deposit 40%, or \$30, into trust and the remaining \$45 would go back into our operating cash. In this month, we would become cash flow positive on the contract.

We can accelerate our operating cash flow by purchasing and delivering many of our products in advance of the time of customer need, either by installing them in the customer's burial space (in the case of burial vaults) or storing them for the customer, and by performing certain services prior to the time of need. For example, within the allowances of state law, we purchase burial vaults, grave markers and caskets, and perform initial openings and closings to install the burial vault in the ground before the time of need. When we satisfy the criteria for delivery of pre-need products or perform pre-need services, we are permitted to withdraw the related principal and any income and capital gains that we have not already withdrawn from the merchandise trust, and we recognize the amounts withdrawn, including amounts previously withdrawn, as revenues. Advance purchasing helps us avoid the negative cash flow impact of depositing significant portions of our sales proceeds in trusts while earning rates on those trusts that are currently less than interest rates we pay on our debt. To the extent that we can purchase and deliver products and perform services in advance of the time of need, we can accelerate,

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within the limitations of GAAP, the timing of our revenue recognition for these products and services. As a result, decisions made by our management to purchase and deliver products or perform services in advance, for cash flow or other reasons, affect the timing of revenue recognition from the underlying sales.

We are somewhat limited, however, in our ability to purchase some products in advance of the time of need because of their availability. Given our large volume of pre-need sales, it is unlikely that our suppliers could provide, or we could manufacture, all of the products included in our pre-need backlog at any given time. For example, we generally need more vaults per year to fulfill our pre-need contract obligations, than we currently manufacture at our plant. We must purchase any excess from third party suppliers who must also meet the demands of other cemetery operators.

We currently purchase burial vaults from third-party providers to assist us in meeting the demands of our accelerated purchase and delivery program. We are also limited in our ability to perform certain services in advance of the time of need because of their nature or our resources. For example, we cannot perform the final opening and closing, which is the placing of the casket into the ground, or inscribe the date of death on the monument or marker until the time of need. Even if we chose to perform all of the services in our pre-need backlog that could be performed in advance of need, such as installing all of the burial vaults in our pre-need backlog, we would not currently have the labor, equipment or other resources to perform all of those services in a short period of time.

Trusting

We are required to deposit a portion of amounts received on sales of certain cemetery merchandise and services into a perpetual care and/ or merchandise trust. These amounts are invested by third-party investment managers who are selected by the Trust and Compliance Committee of the board of directors of our general partner. These investment managers are required to invest our trust funds in accordance with applicable state law and internal investment guidelines adopted by the Trust and Compliance Committee. Our investment managers are monitored by third-party investment advisors selected by the Trust and Compliance Committee who advise the committee on the determination of asset allocations, evaluate the investment managers and provide detailed monthly reports on the performance of each merchandise and perpetual care trust.

Perpetual Care Trust

Pursuant to state law, a portion of the proceeds from the sale of cemetery property is required to be paid into perpetual care trusts. While this amount varies, it is generally 10% to 20% of the sales price of the interment right. All principal must remain in this trust into perpetuity while interest and dividends may be released to us and used to defray cemetery maintenance costs, which are expensed as incurred. Earnings from the perpetual care trusts are recognized in current cemetery revenues. To maximize this income, we have established investment guidelines for the third-party investment managers that manage the trust so that substantially all of the funds are invested in intermediate-term investment-grade fixed-income securities, high-yield fixed-income securities, master limited partnerships and real estate investment trusts.

We fund these amounts pro-rata on an as received basis. As payments are received from the customer, we deposit a pro-rata amount of the payment into a perpetual care trust. For example, if we receive a payment of 20% of the sales price from the customer, we would deposit into the perpetual care trust 20% of the total amount required to be placed into trust for that sale.

We consolidate the assets of the trust in accordance with the provisions of ASC 810, as the trust is considered to be a variable interest entity for which we are the primary beneficiary. Assets are reflected at fair market value on the asset portion of our balance sheet as an asset entitled perpetual care trusts, restricted, at fair value, and an equal amount is reflected as a liability as perpetual care trust corpus.

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Merchandise Trust

We are generally required by state law to deposit a portion of the sales price of pre-need cemetery merchandise and services, or the estimated current cost of providing that merchandise and those services, into a merchandise trust to ensure that we will have sufficient funds in the future to purchase the merchandise or perform the services. The amount we are required to deposit into a merchandise trust varies from state to state but is generally 40% to 70% of the sales price of the merchandise or services.

We fund these amounts pro-rata on an *as received* basis. As payments are received from the customer, we deposit a pro-rata amount of the payment into a merchandise trust. For example, if we receive a payment of 20% of the sales price from the customer, we would deposit into the merchandise trust 20% of the total amount required to be placed into trust for the merchandise and services sold.

We consolidate the assets of the trust in accordance with the provisions of ASC 810, as the trust is considered to be a variable interest entity for which we are the primary beneficiary. Assets are reflected at fair market value on the asset portion of our balance sheet as an asset entitled *merchandise trusts, restricted, at fair value*.

Unlike assets in the perpetual care trusts, assets in the merchandise trusts will be released to us at the time we meet the requirements. These requirements vary from state to state depending upon applicable laws.

Earnings on funds held in merchandise trusts, including investment income and capital gains, are deferred and included in our balance sheet in deferred cemetery revenues, net, until such time that we recognize the revenue from the related sale.

We are permitted to withdraw the investment income, such as interest and dividends, as well as capital gains, from merchandise trusts at varying times depending on the applicable state law. In some states, we are permitted to make monthly withdrawals of investment income, but in other states we are permitted to withdraw income less frequently or only upon death. In all states, however, we are permitted to withdraw trust principal and earnings to purchase the merchandise or perform the services or, generally, when the customer cancels the contract. Some states impose additional restrictions on our ability to withdraw merchandise trust earnings if those trusts have realized losses. For example, if a Pennsylvania merchandise trust realizes a loss, the trust is required to recover the amount of the realized loss, either by earning income or generating capital gains, before we are allowed to withdraw earnings, except to purchase the related products or perform the related services. Other states, such as Virginia, permit continued withdrawals of merchandise trust earnings following a realized loss so long as the fair market value of the funds held in trust equals or exceeds the cost of the related products and services.

We invest the amounts deposited into merchandise trusts, within specified investment guidelines, primarily in intermediate-term, investment-grade fixed-income securities, high-yield fixed-income securities, real estate investment trusts and, to a lesser extent, equity securities and cash.

The income earned on funds held in perpetual care trusts and merchandise trusts can be materially affected by fluctuations in interest rates, dividend payments, and in the case of merchandise trusts, by the performance of the stock market. Investment income from trusts accounted for 10.3%, 9.3%, and 10.8% of our 2011, 2010 and 2009 total revenues, respectively. During 2011, 2010 and 2009 our average annual rates of return (not including changes in unrealized gains and losses) on funds held in merchandise trusts were 7.5%, 3.7% and 7.2%, respectively, while our average annual rates of return on funds held in perpetual care trusts were 6.2%, 7.1% and 8.3%, respectively. Past performance is not indicative of future performance.

Unrealized gains and losses in merchandise trusts are deferred and accordingly have no immediate impact on our revenues, earnings or cash flow unless the fair market value of the funds declines below the estimated costs to deliver the related products and services, in which case we would be required to record a current charge to earnings equal to the difference between the fair market value of the funds and the estimated costs.

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We determine whether or not the assets in the merchandise and perpetual care trust have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions, concerns related to the specific issuer and our ability and intent to hold securities until they recover their value. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its market value.

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

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

The trust footnotes (Notes 5 and 6 of our consolidated financial statements included in Part II Item 8) disclose the adjusted cost basis of the assets in the trust and contain a more detailed discussion of other-than-temporarily impaired assets.

Current Market Conditions and Economic Developments

Beginning in the fourth quarter of 2008, we began discussing the significant instability in various financial markets and in general economic conditions. Amongst other things, we noted that there had been a decline in the fair value of equity and, to a lesser degree, fixed-maturity debt securities and that there was a contraction in the credit market as well as an overall downturn in economic activity. In general, markets started to improve in 2009 and continued that improvement in 2010. At December 31, 2009, the ratio of the fair value to the amortized cost of our merchandise trust assets was 88.5%. As the financial markets continued to improve in 2010, we continued to monitor our invested assets in our merchandise and perpetual care trusts and in the third quarter of 2010, we determined that some of these assets were impaired, and we took a charge of approximately \$13.3 million and \$14.8 million, respectively. As of December 31, 2010, markets had recovered to the point where the market value of the assets in our merchandise trust and perpetual care trust exceeded its amortized cost by 3.7% and 6.5%, respectively.

Markets generally continued to improve through the first half of 2011, however in the third quarter of 2011, the markets took a downturn over fears of a European debt crisis. As a result, in the third quarter of 2011, the cost values of our merchandise and perpetual care trusts exceeded their market values for the first time since our second quarterly period ended June 30, 2010. We have seen some improvement in the fourth quarter of 2011, and as of December 31, 2011, the market value of the assets in our perpetual care trust exceeded its amortized cost by 0.7%, and the ratio of the fair value to the amortized cost of our merchandise trust assets was 97.7%. We continued to monitor our invested assets in our merchandise and perpetual care trusts and during 2011, we determined that some of these assets were impaired, and we took a charge of approximately \$0.5 million and \$0.1 million, respectively.

Further, we were able to raise capital via a follow-on public offering of our common units, representing a limited partnership interest in us, in February of 2011 and September of 2010. In addition, as of December 31, 2011, the majority of our long-term debt consisted of \$150.0 million in Senior Notes which are due in 2017 and \$33.0 million and \$10.8 million of borrowings on our Revolving Credit Facility and Acquisition Credit Facility, respectively. We also had availability on our revolving and acquisition credit facilities of \$22.0 million and \$54.2 million, respectively, at December 31, 2011. As noted below in recent developments, we have amended our credit facility and increased the total availability of the credit facility by \$10.0 million.

The value of pre-need and at-need contracts written has not deteriorated and values for the year ended December 31, 2011 generally outpace values from 2010.

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

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Recent Developments

On January 19, 2012, we entered into the Third Amended and Restated Credit Agreement which amended our existing Credit Agreement. The amendments primarily relate to the following:

converting and consolidating the Acquisition Credit Facility of \$65.0 million and the Revolving Credit Facility of \$55.0 million into a single revolving credit facility (the Credit Facility);

eliminating the borrowing formula under the Credit Facility;

increasing the Credit Facility to \$130.0 million;

extending the maturity date to January 19, 2017;

effectively reducing the interest rate on the Credit Facility; and

amending certain financial covenants.

See Liquidity and Capital Resources within this Item 7 for more information.

Change in Market Value of Trust Assets

We have a substantial portfolio of invested assets in both our merchandise trust and the perpetual care trust. Both trusts have a mix of cash and cash equivalents, fixed maturity debt securities and equity securities. A critical issue for us had been the decline in the fair value of equity and, to a lesser degree, fixed maturity debt securities held in our trusts. This decline took place primarily during the last six months of 2008. Since that time, the financial markets have been slowly recovering, and continued to improve through the first half of 2011. However in the third quarter of 2011, the markets took a smaller downturn over fears of a European debt crisis, and have recovered to a certain degree in the fourth quarter of 2011. During 2011 and 2010, we determined that some of the assets in our trusts had been impaired and we took an impairment charge of approximately \$0.5 million and \$13.3 million, respectively, related to assets in our merchandise trust and a charge of approximately \$0.1 million and \$14.8 million, respectively, related to our assets in our perpetual care trust. This charge is deferred until such time that we deliver the merchandise or perform the services for which the trust assets are set aside. The impairment charge reduced the cost basis of the assets to their fair value. As of December 31, 2011, the aggregate post write-down fair value of the assets in our perpetual care trust exceeded its amortized cost by 0.7%, and the ratio of the aggregate post write-down fair value to the amortized cost of our merchandise trust assets was 97.7%.

Funds in our trusts are managed by third-party investment managers who are in turn monitored by a third-party investment advisor selected by our Trust and Compliance Committee. The third-party investment advisor is providing the committee with frequent updates on the performance of the investments. We will continue to monitor performance closely. See Item 7A. Quantitative and Qualitative Disclosure About Market Risk for more information.

The perpetual care trust and merchandise trust serve vastly different purposes and the risks and implications of changes in trust asset values are dissimilar.

Perpetual Care Trust

Pursuant to state law, a portion of the proceeds from the sale of cemetery property must be deposited into a perpetual care trust.

The perpetual care trust principal does not belong to us and must remain in the trust into perpetuity. We consolidate the trust into our financial statements in accordance with ASC 810-10-15-(13 through 22) because the trust is considered a variable interest entity for which we are the

primary beneficiary.

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The fair value of trust assets is recorded as an asset on our balance sheet and is entirely offset by a liability. This liability is recorded as Perpetual care trust corpus. Changes in fair value of trust assets are recognized by adjusting both the trust asset and the offsetting liability. Impairment of the value of trust assets, whether temporary or other-than-temporary, will not impact periodic earnings or comprehensive income nor will it impact our financial position or liquidity at any point in time.

Our primary risk related to the assets in the perpetual care trust relate to the interest and dividends paid and released to us and used to defray cemetery maintenance costs. Any material reduction in this income stream could have a material effect on our financial condition, results of operations and liquidity. Interest income earned on perpetual care trust assets was approximately \$ 15.8 million, \$14.9 million and \$12.6 million during the years ended December 31, 2011, 2010 and 2009, respectively.

Merchandise Trust

Pursuant to state law, a portion of the proceeds from the sale of pre-need cemetery and funeral home merchandise and services must be deposited into a merchandise trust.

Unlike the perpetual care trust, the principal in the merchandise trust will ultimately revert to us. This will occur once we have met the various requirements for its release which is generally the delivery of merchandise or performance of underlying services. Accordingly, changes in the fair value of trust assets, both temporary and other-than-temporary, may ultimately impact our periodic earnings, comprehensive income and financial position or liquidity at any point in time.

Managing the cash flow associated with the release of trust assets and investment income is a critical component of our overall corporate strategy. Our investment strategy reflects the fact that the release of trust assets and the resultant cash flow is critical to our ability to meet our profitability goals and liquidity needs. Accordingly, we set such strategy to balance the potential for return with the need to maintain asset value.

A decline in the market value of the assets in the merchandise trust could ultimately impair our profitability and resulting financial position and liquidity should we be forced to liquidate such assets at an amount significantly below our original expectation, which is ultimately asset cost.

We mitigate this risk by ensuring that a sufficient portion of trust assets is invested in cash and cash equivalents that do not have significant risk to principal. We can then manage trust assets so that released amounts are liquidated from this pool as opposed to any pool of assets that are currently valued below cost.

At December 31, 2011, the merchandise trust had approximately \$38.3 million in cash and cash equivalents. This amount functions to mitigate the risk of liquidating impaired assets. In evaluating the sufficiency of this amount as to its effectiveness in mitigating the risk of liquidating impaired assets, we have considered the net inflows and outflows of cash into the trust in recent prior periods. These net inflows and outflows are a function of both sales originations and the corresponding trust deposits and meeting the criteria for releasing funds. Total net cash inflows into the merchandise trust for the year ended December 31, 2011 were approximately \$22.4 million, which includes an inflow of \$15.4 million related to acquisitions made in 2011. See Liquidity and Capital Resources within this Item 7 for more information.

Absent a substantial downturn in pre-need sales, we believe that the cash and cash equivalent allocation of merchandise trust assets is sufficient to mitigate the risk of liquidating impaired assets in the near future.

Impact of Current Market Conditions on Our Ability to Meet Our Debt Covenants

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

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The Profitability Measure is primarily related to the current period value of contracts written, investment income from the merchandise and perpetual care trust, and current expenses incurred. The revenue recognition rules that we must follow for GAAP purposes is not considered.

The leverage ratio relates to the ratio of consolidated debt to the Profitability Measure. Our leverage ratio is 3.09 at December 31, 2011 as opposed to a maximum allowed ratio of 3.65. The coverage ratio related to the excess of the Profitability Measure less distributions made to partners over fixed charges. On January 19, 2012, we amended our credit agreement and replaced the coverage ratio with a consolidated debt service coverage ratio, the calculation of which does not include distributions made by the Partnership. Our consolidated debt service coverage ratio was 3.28 at December 31, 2011 as opposed to a minimum allowed ratio of 2.50.

Net Income, Operating Cash Flows and Partner Distributions

The table below details net income, operating cash flows and partner distributions made in 2011, 2010 and 2009, respectively:

	Year ended December 31,		
	2011	2010	2009
	(in thousands)		
Net income (loss)	\$ (9,715)	\$ (1,447)	\$ (4,388)
Operating cash flows	5,466	3,106	14,729
Partner distributions	44,605	32,443	27,253

Cash flows from operations for the years ended December 31, 2011, 2010 and 2009 were \$5.5 million, \$3.1 million and \$14.7 million, respectively, which exceeded our net loss of \$9.7 million, \$1.4 million and \$4.4 million, respectively, during the same periods. The differences between our operating cash flows and net loss are in large part attributable to the fact that various cash inflows for payments of amounts due under pre-need sales contracts were not and are not as of yet recognized as revenues as we had not and have not met the delivery criteria for revenue recognition. Although there is no assurance, we expect that the trend of operating cash flows exceeding our net income or net loss will continue into the foreseeable future.

Segment Reporting and Related Information

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

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

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

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

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

Consolidation

Our historical operations are part of a consolidated group for financial reporting purposes that include the cemeteries we operate under long-term operating agreements. We currently operate 21 cemeteries, 15 of which have been fully consolidated, under these long-term operating agreements. Intercompany balances and transactions have been eliminated in consolidation.

Income Taxes

Our historical financial statements include the effects of applicable U.S. federal and state income taxes in order to comply with GAAP. We are a limited partnership that has elected to be treated as a partnership for U.S. federal income tax purposes and therefore not be subject to U.S. federal or applicable state income taxes. In order to be treated as a partnership for federal income tax purposes, at least 90% of our gross income must be qualifying income, which includes income from the sale of real property, including burial lots (with and without installed vaults), lawn and mausoleum crypts and cremation niches. Most of our activities that do not generate qualifying income, such as the sale of other cemetery products, the provision of perpetual care services, the operation of our managed cemeteries and all funeral home operations, will be owned by and conducted through corporate subsidiaries, which will be subject to tax on their net taxable income. Dividends we receive from corporate subsidiaries will be qualifying income.

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.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our historical consolidated financial statements. We prepared these financial statements in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements required us to make estimates, judgments and assumptions that affected the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We based our estimates, judgments and assumptions on historical experience and known facts and other assumptions that we believed to be reasonable under the circumstances. In future periods, we expect to make similar estimates, judgments and assumptions on the same basis as we have historically. Our actual results in future periods may differ from these estimates under different assumptions and conditions. We believe that the following accounting policies or estimates had or will have the greatest potential impact on our consolidated financial statements for the periods discussed and for future periods.

Revenue Recognition

We sell our merchandise and services on both a pre-need and at-need basis. All at-need sales are recognized as revenues and recorded in earnings at the time that merchandise is delivered and services are performed.

Revenues from pre-need sales of cemetery interment rights in constructed burial property are deferred until at least 10% of the sales price has been collected, at which time they are fully earned.

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Revenues from pre-need sales of cemetery interment rights in unconstructed burial property, such as mausoleum crypts and lawn crypts are recognized using the percentage-of-completion method of accounting, with no revenue being recognized until at least 10% of the sales price has been received. The percentage-of-completion method of accounting requires us to make certain estimates as of our reporting dates. These estimates are made based upon information available at the reporting date and are updated on a specific identification method at the end of each reporting period. Periodic earnings are calculated based upon the total sales price, estimated costs to complete and the percentage completed during a given reporting period.

Revenues from pre-need sales of cemetery merchandise and services are deferred until the merchandise is delivered or the services are performed, at which time they are fully earned.

Investment earnings, including realized gains and losses, generated by assets in our merchandise trusts are deferred until the associated merchandise is delivered or the services are performed.

In order to appropriately match revenue and expenses, we defer certain pre-need cemetery and prearranged funeral direct obtaining costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral business until such time that the associated revenue is recognized.

Deferred Cemetery Revenues, Net

Revenues from the sale of services and merchandise, as well as any investment income from the merchandise trust is deferred until such time that the services are performed or the merchandise is delivered.

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

Accounts Receivable Allowance for Cancellations

At the time of a pre-need sale, we record an account receivable in an amount equal to the total contract value less any cash deposit paid net of an estimated allowance for cancellations.

The allowance for cancellations is established based upon our estimate of expected cancellations and historical experiences and is currently approximately 10% of total contract values. Future cancellation rates may differ from this current estimate. We will continue to evaluate cancellation rates and will make changes to the estimate should the need arise. Actual cancellations did not vary significantly from the estimates of expected cancellations at December 31, 2011 or 2010.

Merchandise Trust Assets

Assets held in our merchandise trusts are carried at fair value. Any change in unrealized gains and losses are reflected in the carrying value of the assets and is recognized as deferred revenue. Any and all investment income streams, including interest, dividends or gains and losses from the sale of trust assets are offset against deferred revenue until such time that we deliver the underlying merchandise. Investment income generated from our merchandise trust is included in Cemetery revenues investment and other.

We evaluate whether or not the assets in the merchandise trust have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions, concerns related to the specific issuer

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and our ability and intent to hold the security until it regains its value. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its market value. Any reduction in the cost basis of assets held in our merchandise trust due to an other-than-temporary impairment is offset against deferred revenue. Refer to Note 5 of our financial statements included in this Annual Report on Form 10-K for a more detailed discussion of other-than-temporarily impaired assets.

Perpetual Care Trust Assets

Pursuant to state law, a portion of the proceeds from the sale of cemetery property is required to be paid into perpetual care trusts. All principal must remain in this trust into perpetuity while interest and dividends may be released and used to defray cemetery maintenance costs, which are expensed as incurred.

Assets in our perpetual care trusts are carried at fair value. Any change in unrealized gains and losses are reflected in the carrying value of the assets and is offset against perpetual care trust corpus.

We evaluate whether or not the assets in our perpetual care trust have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions, concerns related to the specific issuer and our ability and intent to hold the security until it recovers its value. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its market value.

Any reduction in the cost basis of assets held in our perpetual care trusts due to an other-than-temporary impairment is offset against perpetual care trust corpus. There is no impact on earnings. Refer to Notes 5 and 6 of our financial statements included in this Annual Report on Form 10-K for a more detailed discussion of other-than-temporarily impaired assets.

Other-Than-Temporary Impairment of Trust Assets

We determine whether or not the impairment of a fixed maturity debt security is other-than-temporary by evaluating each of the following:

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

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

We have further evaluated whether or not all assets in the merchandise trust have other-than-temporary impairments based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer.

If an impairment is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair value.

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

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

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

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Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. We test goodwill for impairment using a two-step test. In the first step of the test, we compare the fair value of the reporting unit to its carrying amount, including goodwill. We determine the fair value of each reporting unit using the income approach. We do not record an impairment of goodwill in instances where the fair value of a reporting unit exceeds its carrying amount. If the aggregate fair value of a reporting unit is less than the related carrying amount, we would record an impairment loss in an amount equal to the excess of the carrying amount of goodwill over the implied fair value. The goodwill impairment test is performed annually or more frequently if events or circumstances indicate that impairment may exist.

Income Taxes

Our corporate subsidiaries are subject to both federal and state income taxes. We record deferred tax assets and liabilities to recognize temporary differences between the bases of assets and liabilities in our tax and GAAP balance sheets and for federal and state net operating loss carryforwards and alternative minimum tax credits.

We record a valuation allowance against our deferred tax assets if we deem that it is more likely than not that some portion or all of the recorded deferred tax assets will not be realizable in future periods.

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results, recent cumulative losses and our forecast of future taxable income. In determining future taxable income, we make assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record an additional valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

As of December 31, 2011, our taxable corporate subsidiaries had a federal net operating loss carryover of approximately \$152.8 million, which will begin to expire in 2019 and a state net operating loss carry-forward of approximately \$184.1 million, a portion of which expires annually. Our ability to use such federal net operating losses may be limited by changes in the ownership of our units deemed to result in an ownership change under the applicable provisions of the Internal Revenue Code of 1986, as amended.

Recent Accounting Pronouncements

In the third quarter of 2011, the Financial Accounting Standards Board issued Update No. 2011-08, Intangibles—Goodwill and Other (Topic 350) (ASU 2011-08). Prior to ASU 2011-08, the first step in the goodwill impairment test was to compare the fair value of a reporting unit to its carrying amount, including goodwill. ASU 2011-08 allows a Company to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, after this assessment, it is determined that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, the goodwill test can be concluded and it is not necessary to calculate the fair value of the reporting unit. However, if the qualitative assessment does not lead to this conclusion, the full two step goodwill test, which has not been changed by ASU 2011-08, must be performed. We plan to adopt the provisions of ASU 2011-08 in 2012. This adoption is not expected to have a significant impact on our financial position, results of operations, or cash flows.

Table of Contents**Results of Operations Segments****Year Ended December 31, 2011 versus Year Ended December 31, 2010****Cemetery Segments**

Our cemetery operations are disaggregated into three different geographically based segments. We have chosen this level of disaggregation due to the fact that a) each reportable segment has unique characteristics that set it apart from each other; b) we have organized our management personnel at these operational levels; and c) this is the level at which our chief decision makers and other senior management evaluate performance.

We account for and analyze the results of operations for each of these segments on a basis of accounting that is different from generally accepted accounting principles. We reconcile these non-GAAP accounting results of operations to GAAP based amounts at the consolidated level. This reconciliation is included in Note 15 to the consolidated financial statements included in this Annual Report on Form 10-K.

The method of accounting we utilize to analyze our overall results of operations, including segment results, provides for a production based view of our business. Under the production based view, we recognize revenues at their contract value at the point in time in which the contract is written, less a historic cancellation reserve. All related costs are expensed in the period the contract is recognized as revenue. In contrast, GAAP requires that we defer all revenues, and the direct costs associated with these revenues, until we meet certain delivery and performance requirements. The nature of our business is such that there is no meaningful relationship between the time that elapses from the date a contract is executed and the date the underlying merchandise is delivered or the service, delivery and performance requirements are met. Further, certain factors affecting this time period, such as weather and supplier issues, are out of our control. As a result, during a period of growth, operating profits as defined by GAAP will tend to lag behind operating profits on a production based view because of the required deferral of revenues. Our performance based view ignores these delays and presents results based upon the underlying value of contracts written. We believe this is the most reliable indicator of our performance for a given period as the value of contracts written less a historical cancellation reserve reflects the economic value added during a given period of time. Accordingly, the ensuing segment discussion is on a basis of accounting that differs from generally accepted accounting principles. See Note 1 to the consolidated financial statements included in this Annual Report on Form 10-K for a more detailed discussion of our accounting policies under GAAP.

Cemetery Operations Southeast

In 2010 and 2011, we made several acquisitions in our Cemetery Operations Southeast segment. Of these acquisitions, 2 occurred during the second quarter of 2010, 3 during the first quarter of 2011, 6 during the third quarter of 2011, and 5 during the fourth quarter of 2011. Therefore, the results of operations for these properties have very little impact, and in some cases no impact, on the year ended December 31, 2010, but are included in the results of operations for the year ended December 31, 2011. These additions are contributing to approximately half of the increase in revenues and costs and expenses for this segment.

The table below compares the results of operations for our Cemetery Operations Southeast for the year ended December 31, 2011 to the year ended December 31, 2010:

	2011	Year ended December 31, 2010		Change (%)
		(in thousands) (non-GAAP)		
		2010	Change (\$)	
Total revenues	\$ 113,756	\$ 104,576	\$ 9,180	8.8%
Total costs and expenses	82,673	73,764	8,909	12.1%
Operating profit	\$ 31,083	\$ 30,812	\$ 271	0.9%

Table of ContentsRevenues

Revenues for Cemetery Operations Southeast were \$113.8 million for the year ended December 31, 2011, an increase of \$9.2 million, or 8.8%, compared to \$104.6 million during 2010.

The increase was primarily related to an overall increase in the value of contracts written, with an increase of \$3.6 million in the value of pre-need contracts and an increase of \$1.7 million in the value of at-need contracts. We also had an increase of \$3.5 million in income from our trusts.

Total costs and expenses

Total costs and expenses for Cemetery Operations Southeast were \$82.7 million for the year ended December 31, 2011, an increase of \$8.9 million, or 12.1%, compared to \$73.8 million during 2010.

The increase, of which approximately half is driven by acquisitions, was primarily related to:

A \$1.2 million increase in cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.

A \$3.0 million increase in selling expenses. This was primarily attributable to an increase of \$1.4 million in salary and benefit expenses, \$0.9 million in commission related expenses and \$0.5 million in advertising, telephone and telemarketing costs.

A \$2.6 million increase in cemetery expenses. The increase was primarily due to increases of \$1.1 million in labor costs, \$0.9 million in repair and maintenance costs, \$0.4 million in utility and fuel costs and \$0.1 million in real estate taxes.

A \$2.0 million increase in general and administrative expenses. This was primarily due to an increase of \$0.7 in insurance costs, \$0.8 in labor costs, \$0.1 million in professional fees and \$0.4 million in other general office and miscellaneous costs.

A \$0.1 million increase in depreciation.

Cemetery Operations Northeast

The table below compares the results of operations for our Cemetery Operations Northeast for the year ended December 31, 2011 to the year ended December 31, 2010:

	2011	Year ended December 31, 2010		Change (%)
		Change (\$)		
		(in thousands)		
		(non-GAAP)		
Total revenues	\$ 57,263	\$ 56,744	\$ 519	0.9%
Total costs and expenses	39,943	40,011	(68)	-0.2%
Operating profit	\$ 17,320	\$ 16,733	\$ 587	3.5%

Revenues

Revenues for Cemetery Operations Northeast were \$57.3 million for the year ended December 31, 2011, an increase of \$0.5 million, or 0.9%, compared to \$56.8 million during 2010.

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On an overall basis, we had a decrease in the value of contracts written, with an increase of \$0.6 million in the value of at-need contracts being offset by a decrease of \$1.2 million in the value of pre-need contracts. This was offset by an increase of \$2.1 million in income from our trusts. Further, in 2010 we had non-recurring other income of \$0.8 million related to the sale of assets.

Table of Contents**Total costs and expenses**

Total costs and expenses for Cemetery Operations Northeast were \$39.9 million for the year ended December 31, 2011, a decrease of \$0.1 million, or 0.2%, compared to \$40.0 million during 2010.

The overall decrease was primarily related to:

A \$1.3 million decrease in cost of goods sold. This was attributable to the corresponding decrease in the value of contracts written.

A \$0.3 million increase in selling expenses. This was primarily attributable to an increase in advertising, telephone and telemarketing costs.

A \$0.5 million increase in cemetery expenses. The increase was primarily due to increases of \$0.4 million in labor costs and \$0.1 million in utility and fuel costs.

A \$0.3 million increase in general and administrative expenses primarily due to an increase in insurance and other general office and miscellaneous costs.

A \$0.1 million increase in depreciation.

Cemetery Operations West

In 2010 and 2011, we made several acquisitions in our Cemetery Operations West segment. Of these acquisitions, 9 occurred at the end of the first quarter of 2010, 6 occurred at the end of the second quarter of 2010, 3 during the third quarter of 2010, 1 during the fourth quarter of 2010 and 3 during the second quarter of 2011. Therefore, the results of operations for these properties have less of an impact, and in some cases little or no impact, on the year ended December 31, 2010, but are included in the results of operations of the year ended December 31, 2011. These additions are contributing the majority of the increases to revenues and costs and expenses for this segment.

The table below compares the results of operations for our Cemetery Operations West for the year ended December 31, 2011 to the year ended December 31, 2010:

	2011	Year ended December 31, 2010		Change (%)
		(in thousands) (non-GAAP)		
			Change (\$)	
Total revenues	\$ 78,458	\$ 60,524	\$ 17,934	29.6%
Total costs and expenses	52,992	39,633	13,359	33.7%
Operating profit	\$ 25,466	\$ 20,891	\$ 4,575	21.9%

Revenues

Revenues for Cemetery Operations West were \$78.4 million for the year ended December 31, 2011, an increase of \$17.9 million, or 29.6%, compared to \$60.5 million during 2010.

The increase was primarily related to an increase of \$7.3 million in the value of pre-need contracts written, an increase of \$5.4 million in the value of at-need contracts written and an increase of \$4.8 million in income from our trusts.

Total costs and expenses

Total costs and expenses for Cemetery Operations West were \$53.0 million for the year ended December 31, 2011, an increase of \$13.4 million, or 33.7%, compared to \$39.6 million during 2010.

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The increase, which is driven by our recent acquisitions, was primarily related to:

A \$1.4 million increase in the cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.

A \$2.9 million increase in selling expenses. The increase was primarily due to increases of \$1.4 million in commissions, \$0.9 million in labor costs and \$0.4 million in advertising, telephone and telemarketing costs.

A \$5.2 million increase in cemetery expenses. This consisted of a \$2.8 million increase in labor costs, a \$1.0 million increase in repair and maintenance costs, a \$0.6 million increase in utility and fuel related costs and a \$0.7 million increase in real estate taxes.

A \$2.7 million increase in general and administrative expenses. The increase was primarily due to increases of \$1.2 million in labor costs, \$0.9 million in insurance costs, \$0.3 million in professional fees and \$0.3 million in other general office and miscellaneous costs.

A \$1.1 million increase in depreciation.

Funeral Homes Segment

In 2010 and 2011, we acquired several funeral homes. Of these acquisitions, 5 occurred during the second quarter of 2010, 1 occurred during the fourth quarter of 2010, 4 occurred during the second quarter of 2011, 4 occurred during the third quarter of 2011 and 4 occurred during the fourth quarter of 2011. Therefore, the results of operations for these properties have less of an impact, and in some cases little or no impact, on the year ended December 31, 2010, but are included in the results of operations of the year ended December 31, 2011. These additions are contributing the entire increase to revenues and almost all of the increases to costs and expenses for this segment.

The table below compares the results of operations for our Funeral Home segment for the year ended December 31, 2011 to the year ended December 31, 2010:

	2011	2010	Year ended December 31, Change (\$) (in thousands) (non-GAAP)	Change (%)
Total revenues	\$ 31,163	\$ 25,546	\$ 5,617	22.0%
Total costs and expenses	25,151	21,591	3,560	16.5%
Operating profit	\$ 6,012	\$ 3,955	\$ 2,057	52.0%

Revenues

Revenues for the Funeral Home segment were \$31.2 million for the year ended December 31, 2011, an increase of \$5.6 million, or 22.0%, compared to \$25.6 million during 2010.

The increase was primarily attributable to a \$2.2 million increase in at-need revenues, a \$2.5 million increase in pre-need revenues and a \$0.9 million increase in other revenues.

Total costs and expenses

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Total costs and expenses for the Funeral Home segment were \$25.2 million for the year ended December 31, 2011, an increase of \$3.6 million, or 16.5%, compared to \$21.6 million during 2010.

The increase was primarily attributable to increases of \$2.0 million in personnel expenses, \$0.8 million in facility costs, and \$0.5 million in merchandise costs, with the remainder attributable to various increases in other general expense categories.

Table of Contents**Corporate Segment**

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

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

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

Certain depreciation and amortization expenses.

Acquisition related costs.

The table below details expenses incurred by the Corporate segment for the year ended December 31, 2011 and December 31, 2010:

	2011	Year ended December 31, 2010	Change (\$) (in thousands) (non-GAAP)	Change (%)
Selling, cemetery and general and administrative expenses	\$ 832	\$ 619	\$ 213	34.4%
Depreciation and amortization	2,127	3,804	(1,677)	-44.1%
Acquisition related costs	4,604	5,715	(1,111)	-19.4%
Corporate expenses				
Corporate personnel expenses	11,580	12,575	(995)	-7.9%
Other corporate expenses	12,186	11,804	382	3.2%
Total corporate overhead	23,766	24,379	(613)	-2.5%
Total corporate expenses	\$ 31,329	\$ 34,517	\$ (3,188)	-9.2%

Selling, cemetery and general administrative expenses allocated to the Corporate segment were \$0.8 million for the year ended December 31, 2011, an increase of \$0.2 million, or 34.4%, compared to \$0.6 million for the year ended December 31, 2010. The increase is primarily related to a \$0.1 million increase for a new sales training program started in the current year and an increase of \$0.1 million in personnel expenses.

Depreciation and amortization was \$2.1 million during the year ended December 31, 2011, a decrease of \$1.7 million, or 44.1%, as compared to