STONEMOR PARTNERS LP
Form 10-Q/A
December 13, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2007

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	**80-0103159**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
155 Rittenhouse Circle	**19007**

Bristol, Pennsylvania
(Address of principal executive offices) **(Zip Code)**
(215) 826-2800

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

The number of the registrant s outstanding common units at November 9, 2007 was 5,855,725.

Table of Contents

Explanatory Note

We are filing this Amendment No. 1 on Form 10-Q/A (Amended 10-Q) to our quarterly report on Form 10-Q for the quarter ended September 30, 2007, initially filed with the Securities and Exchange Commission (SEC) on November 9, 2007 (Original 10-Q), along with amendments to our annual report on Form 10-K for the year ended December 31, 2006, initially filed with the SEC on March 19, 2007 and subsequently amended on April 30, 2007, and amendments to our quarterly reports on Forms 10-Q for the quarterly periods ended March 31, 2007 and June 30, 2007 (such Forms 10-K and 10-Q as amended, together with this Amended 10-Q, the Amended Reports), to correct immaterial errors recently discovered in these previously filed reports.

With respect to the Amended 10-Q, we are making immaterial corrections to the following information in Item 2., Management s Discussion and Analysis of Financial Condition and Results of Operations, of Part I of the Original 10-Q:

Description of Corrected Item	Previously Reported Number	Corrected Number
Interment rights (net of cancellations) sold during the nine months ended September 30, 2007	16,500	18,500
Interment rights (net of cancellations) sold during the nine months ended September 30, 2006	11,900	15,400
Increase in cemetery maintenance, as a component of cemetery expense, during the three months ended September 30, 2007 compared to the three months ended September 30, 2006	$0.7 million	$0.4 million
Increase in deferred cemetery revenues, net, during the three months ended September 30, 2006	$16.1 million, or 9.2%, from $175.3 million as of June 30, 2006	$17.2 million, or 9.9%, from $174.2 million as of June 30, 2006
Revenues recognized, net of costs, as a component in the description of the change in deferred cemetery revenue net, during the three months ended September 30, 2007	$13.6 million	$13.2 million
Sales commission and other compensation expenses, as a percentage of pre-need sales, during the nine months ended September 30, 2006	31.9%	30.8%
Increase in outstanding borrowings on the acquisition line of credit, as a component in the description of the change in interest expense, during the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006	$9.9 million	$14.3 million
Increase in borrowings on the revolving line of credit, as a component in the description of the change in interest expense, during the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006	$4.5 million	$7.4 million
Increase in deferred cemetery revenues, net, during the nine months ended September 30, 2006 as compared to December 31, 2005	$23.6 million, or 14.1%	$24.4 million, or 14.6%
Approximate aggregate purchase price of two cemeteries acquired in the third quarter of 2007	$25 million	$2.5 million

Table of Contents

With respect to the Amended 10-Q, we are making corrections to the following information in Item 3., Quantitative and Qualitative Disclosures About Market Risk, of Part I of the Original 10-Q:

Description of Corrected Item	Previously Reported Number	Corrected Number
Marketable equity securities, as a percentage of funds held in perpetual care trusts, as of September 30, 2007	50.3%	41.1%
Aggregate fair market value of marketable equity securities in merchandise trusts as of September 30, 2007	$84.4 million	$84.9 million

We believe that the corrections made in the Amended Reports, including those corrections described above, are not, individually or in the aggregate, material to our business, financial condition or results of operations. Accordingly, we believe that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective to provide reasonable assurance that information we are required to disclose in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure. Nonetheless, in light of the foregoing, we are reviewing our disclosure controls and procedures and intend to implement additional controls and procedures that we believe will enhance the effectiveness of our disclosure controls and procedures, including hiring an outside consultant to assist in the preparation of our annual report on Form 10-K for the year ending December 31, 2007 as well as hiring additional employees to assist with the preparation and filing of our financial statements and SEC reports.

We are also correcting the number of outstanding units at November 9, 2007 to 5,855,725 from 5,945,821 as reported on the cover page of the Original 10-Q.

In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original 10-Q has been amended to contain currently dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(a) under the Securities Exchange Act of 1934, which certifications are filed herewith as Exhibits 31.1 and 31.2, respectively.

This Amended 10-Q only amends and restates the number of outstanding units on the cover page, Items 2 and 3 of Part I and Item 6 of Part II of the Original 10-Q to the extent described above, and no other information in the Original 10-Q is amended hereby. None of the items restated herein nor any other item in the Original 10-Q has been updated to reflect events, results or developments concerning our business, financial condition or results of operations occurring after the Original 10-Q or to modify or update those disclosures affected by subsequent events. Except for the foregoing amended items, this Amended 10-Q continues to describe conditions as of the date of the Original 10-Q. Among other things, and without limiting the foregoing, forward looking statements made in the Original 10-Q have not been revised to reflect events, results or developments that occurred or facts that became known to us after the date of the Original 10-Q, and such forward looking statements should be read in their historical context.

Table of Contents

Index Form 10-Q

Table of Contents

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

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

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

Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, including, but not limited to, information regarding the status and progress of StoneMor s operating activities, the plans and objectives of StoneMor s management, assumptions regarding StoneMor s 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(i) of the Securities Act of 1933 and Section 21E(i) of the Securities Exchange Act of 1934. The words believe, may, will, estimate, continues, anticipate, intend, project, expect predict, and similar expressions identify these 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: future revenue and revenue growth; the impact of StoneMor s significant leverage on its operating plans; the ability of StoneMor to service its debt; StoneMor s 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; variances in death rates; variances in the use of cremation; changes in the political or regulatory environments, including potential changes in tax accounting and trusting policies; StoneMor s ability to successfully implement a strategic plan relating to producing operating improvement, strong cash flows and further deleveraging; uncertainties associated with the integration or the anticipated benefits of the acquisition of assets, information disclosed within this Quarterly Report on Form 10-Q; and various other uncertainties associated with the deathcare industry and StoneMor s operations in particular.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2006. We assume no obligation to publicly update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

Overview

On April 2, 2004, StoneMor Partners L.P. was created to own and operate the cemetery and funeral home business conducted by Cornerstone Family Services, Inc. (Cornerstone) and its subsidiaries. On September 20, 2004, in connection with the initial public offering by the Partnership of common units representing limited partner interests, Cornerstone contributed to the Partnership substantially all of the assets, liabilities and businesses owned and operated by it, 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 the Partnership.

Cornerstone was 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 StoneMor, acquired 57 additional cemeteries and 22 funeral homes, built two funeral homes, exited from one management contract and sold one cemetery and one funeral home.

We are an owner and operator of cemeteries in the United States of America. As of September 30, 2007, the Company operated 178 cemeteries in 21 states, located primarily in the eastern United States of America. The Company owns 172 of these cemeteries and operates the remaining 6 under long-term management agreements with cemetery associations that own the cemeteries. As a result of the agreements and other control arrangements, StoneMor consolidates the results of the 6 managed cemeteries in our historical consolidated financial statements.

StoneMor sells cemetery products and services both at the time of death, which the Company refers to as at-need, and prior to the time of death, which the Company refers to as pre-need. During the first nine months of 2007, StoneMor performed approximately 21,700 burials and sold more than 18,500 interment rights (net of cancellations) compared to 18,700 and 15,400, respectively, for the same period of 2006.

Cemetery Operations

Sources of Revenues. Our results of 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 revenues primarily from:

at-need sales of cemetery interment rights, merchandise and services, which we recognize as revenues at the time of sale;

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;

1

Table of Contents

- 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, other than perpetual care services, which we recognize as revenues when we perform the services for the customer;

- accumulated merchandise trust earnings related to the delivery of pre-need cemetery merchandise and the performance of pre-need cemetery services, which we recognize as revenues when we deliver the merchandise or perform the services;

- income from perpetual care trusts, 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.

Revenues from pre-need sales of cemetery merchandise and the related accumulated merchandise trust earnings are deferred until the merchandise is delivered to the customer, which generally means that:

- the merchandise is complete and ready for installation or, in the case of merchandise other than burial vaults, storage on third-party premises;

- 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, except as described below; 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.

Deferred Cemetery Revenues, Net. Deferred revenues from pre-need sales and related merchandise trust earnings are reflected on our balance sheet in deferred cemetery revenues, net, until we recognize the amounts as revenues. 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. These entities include those that we acquired at the time of the formation of Cornerstone and other entities we subsequently acquired. We recognize revenues from these acquired pre-need sales in the manner described above that is, when we deliver the merchandise to, or perform the services for, the customer. Our profit margin on these pre-need sales 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. We recognize certain expenses, such as indirect selling costs, maintenance costs and general and administrative costs, at the time the pre-need sale is made and defer other expenses, such as direct selling costs and costs of goods sold, until we recognize revenues on the sale. As a result, our profit margin on current pre-need sales is generally higher than on the pre-need sales we acquired.

Funeral Home Operations

We also derive revenues 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. These services and merchandise are sold by us almost exclusively at the time of need by salaried licensed funeral directors.

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.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on the historical consolidated financial statements of StoneMor. 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. At-need sales of cemetery interment rights, merchandise and services and at-need sales of funeral home merchandise and services are recognized as revenues when the interment rights or merchandise is delivered or the 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. Revenues from pre-need sales of cemetery interment rights in unconstructed burial property, such as mausoleum crypts and lawn crypts, are deferred until at least 10% of the sales price has been collected, at which time revenues are recognized using the percentage-of-completion method of accounting. The percentage-of-completion method of accounting requires us to estimate the percentage of completion as of the balance sheet date and future costs (including estimates for future inflation). Changes to our estimates of the percentage of completion or the related future costs would impact the amount of recognized and deferred revenues.

Revenues from pre-need sales of cemetery merchandise and services are deferred until the merchandise is delivered or the services are performed. Investment earnings generated by funds required to be deposited into merchandise trusts, including realized gains and losses, in connection with pre-need sales of cemetery merchandise and services are deferred until the associated merchandise is delivered or the services are performed.

We defer recognition of the direct costs associated with pre-need sales of cemetery products and services. Direct costs are those costs that vary with and are directly related to obtaining new pre-need cemetery business and the actual cost of the products and services we sell. Direct costs are expensed when the related revenues are recognized. Until that time, direct costs are reflected on our balance sheet in deferred cemetery revenues, net.

Allowance for Cancellations. Allowances for cancellations arising from non-payment of pre-need contracts are estimated at the date of sale based upon our historical cancellation experience. Due to the number of estimates and projections used in determining an expected cancellation rate and the possibility of changes in collection patterns resulting from modifications to our collection policies or contract terms, actual collections could differ from these estimates.

Impairment of Long-Lived Assets. We monitor the recoverability of long-lived assets, including cemetery property, property and equipment, merchandise and perpetual care trusts, and other assets, based on estimates using factors such as current market value, future asset utilization, business and regulatory climate and future undiscounted cash flows expected to result from the use of the related assets. Our policy is to record an impairment loss in the period when it is determined that the sum of future undiscounted cash flows is less than the carrying value of the asset. Modifications to our estimates could result in our recording impairment charges in future periods.

Property and Equipment. Property and equipment is recorded at cost and depreciated on a straight-line basis. Maintenance and repairs are charged to expense as incurred, whereas additions and major replacements are capitalized and depreciated over the estimated useful life of the asset. We estimate that the useful lives of our buildings and improvements are 10 to 40 years, that the useful lives of our furniture and equipment are 5 to 10 years and that the useful lives of our leasehold improvements are the respective terms of the leases. These estimates could be impacted in the future by changes in market conditions or other factors.

Income Taxes. We make estimates and judgments to calculate some of our tax liabilities and determine the recoverability of some of our deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenues and expenses. We also estimate a reserve for deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized 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.

3

Table of Contents

We expect to reduce the amount of our taxable income as a result of our treatment as a partnership for U.S. federal tax purposes. However, some of our operations will be continue to be conducted through corporate subsidiaries that will be subject to applicable U.S. federal and state income taxes. Accordingly, changes in our income tax plans and estimates may impact our earnings in future periods.

As of December 31, 2006, the Company s taxable corporate subsidiaries had a federal net operating loss carryover of approximately $40.9 million, which will begin to expire in 2019. As of December 31, 2006, the Company also had a state net operating loss carry-forward of approximately $74.2 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.

For additional information about, among other things, our pre-need sales, at-need sales, trusting requirements, cash flow, expenses and operations, please see Management s Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in our annual report on Form 10-K/A for the fiscal year ended December 31, 2006 and our other reports and statements filed with the SEC.

Recent Accounting Pronouncements

In July 2006, the FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes: an Interpretation of FASB Statement No. 109 (Interpretation 48).* Interpretation 48, which clarifies Statement 109, *Accounting for Income Taxes*, establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Company s financial statements. On initial application, Interpretation 48 was applied to all tax positions for which the statute of limitations remains open. Only tax positions that meet the more-likely-than-not recognition threshold at the adoption date will be recognized or continue to be recognized. The cumulative effect of applying Interpretation 48 were reported as an adjustment to retained earnings at the beginning of the period in which it is adopted. The adoption of Interpretation 48 as of January 31, 2007 did not have a significant effect on the Company s financial statements or its ability to comply with its current debt covenants. See Note 8 to Notes to Condensed Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. FAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. FAS 157 does not expand or require any new fair value measures, however the application of this statement may change current practice. The requirements of FAS 157 are effective for our fiscal year beginning January 1, 2008. StoneMor is in the process of evaluating this guidance and therefore has not yet determined the impact that FAS 157 will have on its financial statements upon adoption.

In February 2007, the FASB issued SFAS No. 159, *Establishing the Fair Value Option for Financial Assets and Liabilities* (FAS 159), to permit all entities to choose to elect to measure eligible financial instruments at fair value. FAS 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157, *Fair Value Measurements* . An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. The Company is currently evaluating the impact of SFAS No. 159 on its consolidated financial statements.

Table of Contents

The following table summarizes our results of operations for the periods presented:

	Three months ended September 30, 2006 (in thousands)	Three months ended September 30, 2007 (in thousands)	Nine months ended September 30, 2006 (in thousands)	Nine months ended September 30, 2007 (in thousands)
Statement of Operations Data:				
Revenues:				
Cemetery :				
Merchandise	$ 13,303	$ 19,477	$ 41,458	$ 57,338
Services	6,182	7,188	18,524	21,523
Investment and other	6,185	6,438	18,043	19,913
Funeral home :				
Merchandise	477	1,110	1,656	3,442
Services	638	1,163	2,048	4,364
Total	26,785	35,376	81,729	106,580
Costs and Expenses:				
Cost of goods sold:				
Perpetual care	794	845	2,377	2,685
Merchandise and services	2,735	4,054	8,287	11,802
Cemetery expense	5,983	7,933	17,985	22,593
Selling expense	5,270	7,145	16,689	21,860
General and administrative expense	3,105	4,031	9,255	11,462
Corporate overhead	3,772	5,821	12,006	16,054
Depreciation and amortization	842	1,111	2,588	2,900
Funeral home expense:				
Merchandise	186	344	589	1,198
Services	426	1,041	1,374	3,057
Other	330	556	1,033	1,833
Expenses related to refinancing	0	157	0	157
Interest expense	1,860	2,263	5,375	6,441
Income taxes	423	82	1,091	533
Net income	$ 1,059	$ (7)	$ 3,080	$ 4,005

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

	Three months ended September 30, 2006	Three months ended September 30, 2007	Nine months ended September 30, 2006	Nine months ended September 30, 2007
Operating Data:				
Interments Performed	6,116	6,992	18,704	21,740
Cemetery revenues per interment performed	$ 4,197	$ 4,734	$ 4,172	$ 4,543
Interment rights sold (1):				
Lots	3,495	4,082	9,971	14,214
Mausoleum crypts (including pre-construction)	522	599	1,706	1,861
Niches	88	130	317	463
Total interment rights sold	4,105	4,811	11,994	16,538

Number of contracts written	12,689	15,281	39,998	47,305
Aggregate contract amount, in thousands (excluding interest)	$ 27,126	$ 33,797	$ 85,390	$ 104,178
Average amount per contract (excluding interest)	$ 2,138	$ 2,212	$ 2,135	$ 2,202
Number of pre-need contracts written	5,743	7,222	18,540	22,191
Aggregate pre-need contract amount, in thousands (excluding interest)	$ 17,272	$ 21,762	$ 54,976	$ 67,605
Average amount per pre-need contract (excluding interest)	$ 3,007	$ 3,013	$ 2,965	$ 3,047
Number of at-need contracts written	6,946	8,059	21,458	25,114
Aggregate at-need contract amount, in thousands	$ 9,854	$ 12,036	$ 30,414	$ 36,572
Average amount per at-need contract	$ 1,419	$ 1,493	$ 1,417	$ 1,456

(1) Net of cancellations. Counts the sale of a double-depth burial lot as the sale of two interment rights.

Table of Contents

Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

Cemetery Revenues. Cemetery revenues were $33.1 million in the third quarter of 2007, an increase of $7.4 million, or 28.8%, as compared to $25.7 million in the third quarter of 2006. Cemetery revenues from pre-need sales, including interest income from pre-need installment contracts and investment income from trusts, were $21.9 million in the third quarter of 2007, an increase of $5.2 million, or 31.1%, as compared to $16.7 million in the third quarter of 2006. The increase primarily resulted from increased lot sales ($0.3 million), additional vault deliveries ($0.3 million), additional marker and marker base deliveries ($3.5 million), additional casket deliveries ($0.2 million) and additional crypt sales ($0.2 million). Total revenues from merchandise and perpetual care trusts for the third quarter of 2007 were $4.0 million, an increase of $0.1 million, or 2.6%, as compared to $3.9 million during the same period in 2006. The increase in trust revenues is a result of the increased product deliveries, as indicated above.

Cemetery revenues from at-need sales in the third quarter of 2007 were $10.9 million, an increase of $2.3 million, or 26.7%, as compared to $8.6 million in the third quarter of 2006. The increase in cemetery revenues from at-need sales was primarily attributable to higher sales of openings and closings of $0.6 million, higher sales of monument bases and markers of $0.9 million, higher sales of lots of $0.2 million, higher sales of mausoleums of $0.3 million and higher sales of vaults of $0.2 million.

Other cemetery revenues were $0.4 million in the third quarter of 2007, essentially unchanged from the third quarter of 2006

Costs of Goods Sold. Cost of goods sold was $4.9 million in the third quarter of 2007, an increase of $1.4 million, or 40.0%, as compared to $3.5 million in the third quarter of 2006 due to the composition of the items serviced during the period. As a percentage of cemetery revenues, cost of goods sold was 14.8% in the third quarter of 2007 an increase of 1.2% from 13.6% in the third quarter of 2006. The increase in cost of goods sold as a percentage of cemetery revenue was attributable to a change in product mix delivered in the third quarter of 2007.

Selling Expense. Total selling expense was $7.1 million in the third quarter of 2007, an increase of $1.8 million, or 34.0%, as compared to $5.3 million in the third quarter of 2006 due to the increase in sales commissions and other compensation expenses. Sales commissions and other compensation expenses contributed $6.0 million to total selling expense during the third quarter of 2007, an increase of $.5 million, or 9.1%, compared to $5.5 million in the third quarter of 2006. As a percentage of pre-need sales, sales commissions and other compensation expenses were 27.4% in the third quarter of 2007, a decrease of 5.5% from the third quarter of 2006. This decrease in percentage is attributable to the fixed cost component of our selling expense being leveraged over a greater sales volume.

Cemetery Expense. Cemetery expense was $7.9 million in the third quarter of 2007, an increase of $1.9 million, or 31.7%, as compared to $6.0 million in the third quarter of 2006. This increase was primarily due to an increase in cemetery labor costs of $0.9 million, an increase in cemetery maintenance of $0.4 million and an increase in utilities of $0.1 million.

General and Administrative Expense. General and administrative expense was $4.0 million in the third quarter of 2007, an increase of $0.9 million, or 29.0%, as compared to $3.1 million in the third quarter of 2006. The increase was primarily attributable to an increase in office salaries of $0.5 million and moderate increases in all other general and administrative expenses.

Funeral Home Revenues and Expenses. Funeral home revenues were $2.3 million in the third quarter of 2007, an increase of $1.2 million, or 109.1%, as compared to $1.1 million in the third quarter of 2006. The primary reason for the increase was an increase in the number of services performed, 669 in the third quarter of 2007 compared to 264 in the third quarter of 2006. Funeral home expenses were $1.9 million in the third quarter of 2007, an increase of $1.0 million, or 111.1%, as compared to $0.9 million in the third quarter of 2006. The majority of all increases in funeral home revenues and expenses were attributable to our acquisition of 14 funeral homes from Service Corporation International in September 2006.

Corporate Overhead. Corporate overhead was $5.8 million in the third quarter of 2007, an increase of $2.0 million, or 52.6%, as compared to $3.8 million in the third quarter of 2006. The increase was primarily attributable to $1.8 million in additional non-cash expenses resulting from a grant of unit-based compensation under our Long-Term Incentive Plan in November of 2006 which will be expensed over the vesting term in accordance with FAS 123R.

Table of Contents

Depreciation and Amortization. Depreciation and amortization was $1.1 million in the third quarter of 2007, an increase of $0.3 million, or 37.5%, as compared to $0.8 million in the third quarter of 2006.

Interest Expense. Interest expense was $2.3 million in the third quarter of 2007, an increase of $0.4 million, or 21.1%, as compared to $1.9 million in the third quarter of 2006. This increase was attributable to $13.2 million increase in debt outstanding at September 30, 2007.

Provision (Benefit) for Income Taxes. Provision for income taxes was $0.2 million in the third quarter of 2007, a decrease of approximately $0.2 million, or 50.0%, as compared to $0.4 million in the third quarter of 2006. The change in provision for income taxes was primarily due to a decrease in operating profit in our non-qualified entities attained during the first nine months of 2007.

Net Income(loss). Net loss was $0.1 million during the third quarter of 2007, a decrease of $1.2 million, or 109.1%, as compared to a net income of $1.1 million during the third quarter of 2006. The decrease was primarily attributable to $1.8 million in non-cash expenses resulting from an equity grant under our Long-Term Incentive Plan in November of 2006 and $0.6 million in accumulated acquisition costs for locations that we did not ultimately acquire which were written off during the quarter. We incurred no similar expense in the third quarter of 2006.

Deferred Cemetery Revenue, net. Deferred cemetery revenues, net, decreased $3.6 million, or 1.8% in the third quarter of 2007, from $205.4 million as of June 30, 2007 to $201.8 million as of September 30, 2007. In the comparable period in 2006, deferred cemetery revenues, net, increased $17.2 million, or 9.9%, from $174.2 million as of June 30, 2006 to $191.4 million as of September 30, 2006. The net decrease in the quarter ended September 30, 2007 was primarily attributable to an increase in delivery of products and services that were sold in previous quarters. In the three months ended September 30, 2007, we added $9.2 million in pre-need sales of cemetery merchandise and services, net of deferred costs and cancellations, to our pre-need sales backlog which was offset by revenues recognized, net of costs, of $13.2 million, including accumulated merchandise trust earnings related to the delivery and performance of pre-need cemetery merchandise and services. In the three months ended September 30, 2006, we added $15.2 million in pre-need sales of cemetery merchandise and services, net of deferred costs and cancellations, to our pre-need sales backlog which was offset by revenues recognized, net of costs, of $9.4 million, including accumulated merchandise trust earnings related to the delivery and performance of pre-need cemetery merchandise and services.

Segment Discussion. Revenues for the Southeast and West increased significantly due to the acquisition of 21 cemeteries and 14 funeral homes in September of 2006. For the third quarter of 2007, the company owned these locations for the entire third quarter. This also accounted for the significant increase in operating earnings recognized. Revenue and operating earnings for the Northeast decreased during the third quarter of 2007 when compared to the same period in 2006 due to decreased investment performance in our merchandise and perpetual care trusts.

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

Cemetery Revenues. Cemetery revenues were $98.8 million in the first nine months of 2007, an increase of $20.8 million, or 26.7%, as compared to $78.0 million in the first nine months of 2006. Cemetery revenues from pre-need sales, including interest income from pre-need installment contracts and investment income from trusts, were $64.6 million in the first nine months of 2007, an increase of $15.5 million, or 31.6%, as compared to $49.1 million in the first nine months of 2006. The increase primarily resulted from additional lot sales ($1.4 million), additional vault deliveries ($1.6 million), additional marker and marker base sales ($7.0 million), additional casket deliveries ($2.0 million), additional crypt sales ($1.0 million) and additional document fees ($0.2 million). An additional contribution to the increase in cemetery revenues from pre-need sales was higher accumulated earnings from merchandise trusts allocated to the pre-need products delivered during the first nine months of 2007. Total revenues from merchandise and perpetual care trusts for the first nine months of 2007 were higher by $2.2 million than the same period in 2006. The increase in trust revenues is a result of the increased product deliveries, as indicated above, and improved investment return of our trusts.

Table of Contents

Cemetery revenues from at-need sales in the first nine months of 2007 were $33.4 million, an increase of $6.2 million, or 22.8%, as compared to $27.2 million in the first nine months of 2006. The increase in cemetery revenues from at-need sales was primarily attributable to higher sales of monument bases and markers of $2.4 million, higher sales of at-need interment rights of $1.9 million, higher mausoleum sales of $0.5 million, higher sales of burial vaults of $0.5 million and higher sales of lots of $0.5 million.

Other cemetery revenues were $0.8 million in the first nine months of 2007, a decrease of $0.9 million, or 52.9%, from $1.7 million in the first nine months of 2006. The decrease in other cemetery revenues was primarily attributable to a decrease in sales of undeveloped land for net proceeds of $0.7 million.

Costs of Goods Sold. Cost of goods sold was $14.5 million in the first nine months of 2007, an increase of $3.8 million, or 35.5%, as compared to $10.7 million in the first nine months of 2006. As a percentage of cemetery revenues, cost of goods sold increased to 14.7% in the first nine months of 2007 from 13.7% in the first nine months of 2006. The increase in cost of goods sold as a percentage of cemetery revenue was attributable to the change in product mix delivered in the first nine months of 2007.