STONEMOR PARTNERS LP
Form 10-K
March 15, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED December 31, 2012

OR

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

Commission File Number: 001-32270

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	**Name of each exchange on which registered**
Common Units	**New York Stock Exchange**

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 x

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 x

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 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 x 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. x

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 x
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 x

The aggregate market value of the common units held by non-affiliates of the registrant was approximately $486.5 million as of June 29, 2012 based on $25.92 per unit, the closing price of the common units as reported on the New York Stock Exchange on that date.[1]

The number of the registrant s outstanding common units at March 1, 2013 was 19,732,579.

Documents incorporated by reference: None

1 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 29, 2012, 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.

FORM 10-K OF STONEMOR PARTNERS L.P.

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PART I

Item 1. Business

Overview

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. In this Annual Report on Form 10-K, unless the context otherwise requires, references to we, us, our, StoneMor , the Company, or the Partnership are to StoneMor Partne and its subsidiaries.

We are currently the second largest owner and operator of cemeteries in the United States. As of December 31, 2012, we operated 276 cemeteries in 27 states and Puerto Rico. We own 258 of these cemeteries, and we manage or operate the remaining 18 under management or operating agreements with the nonprofit cemetery corporations that own the cemeteries. As of December 31, 2012, we also owned and operated 86 funeral homes in 18 states and Puerto Rico. Forty-one 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 2012, we performed 45,128 burials and sold 29,829 interment rights (net of cancellations). Based on our sales of interment spaces in 2012, our cemeteries have an aggregated weighted average remaining sales life of 246 years.

Our cemetery properties are located in Alabama, California, Colorado, Delaware, Florida, 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 85.3%, 86.7% and 87.1% of our revenues in 2012, 2011 and 2010, 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.

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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 14.7%, 13.3% and 12.9% of our revenues in 2012, 2011 and 2010, respectively. Our funeral home operations are conducted through various wholly-owned subsidiaries that are treated as corporations for U.S. federal income tax purposes.

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.

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, 2012, we provided services to 18 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 13 nonprofit cemeteries have entered into agreements with us. The agreements under which we operate these 18 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 2012, of the 18 cemeteries we operated under management or operating agreements, the 2 cemeteries that 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, 2012, we owned, operated and/ or managed 86 funeral homes, 41 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. Our funeral home segment has continued to grow and has become a larger part of our total revenues in each of the last three years.

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

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right of first refusal on all of our casket purchases. We do not have minimum purchase requirements under this supply agreement.

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 Overview 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, 2012, we employed 824 full-time commissioned salespeople and 134 full-time sales support and telemarketing employees. We have eight regional sales vice presidents supporting our cemetery operations. They are supported by two Divisional Vice Presidents of Sales who report to our Chief Operating Officer. 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 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

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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.

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:

2012

We completed six acquisitions during the year ended December 31, 2012 to acquire 5 cemeteries and 17 funeral homes. The acquired properties were located in Ohio, Illinois, California, Oregon and Florida. The aggregate fair value of the total consideration paid for these acquisitions was $34.9 million. Effective March 31, 2012, we terminated a long-term operating agreement entered into in 2010 related to 3 cemeteries with the Archdiocese of Detroit, resulting in a gain of $1.7 million.

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 fair value of the total consideration paid for these acquisitions was $16.4 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.

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 due to 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 its 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.

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.

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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 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 credit 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, Michigan, New Jersey, Virginia, Maryland, North Carolina, Ohio, Indiana 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.

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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 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, 2012, our general partner and its affiliates employed approximately 2,938 full-time and approximately 89 part-time employees. A total of 6 employees at one of our cemeteries located in New Jersey are represented by a union and are subject to a collective bargaining agreement which expires in September 2015. Twenty-three 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. Nine 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. Six employees at 1 cemetery in Ohio are represented by a union and 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.

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 $22.0 million during the twelve-month period ending December 31, 2013 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, 2012, we had approximately $101.7 million of total debt outstanding on our credit facility that

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matures in January 2017, which would give us approximately $28.3 million of available borrowing capacity under our 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 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.

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.

A material weakness was identified in our internal control 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, 2012 and 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 five 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.

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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.

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.

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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.

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, 2012, we had approximately $28.3 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 41% of the United States deathcare market in 2010. 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.

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

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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.

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.

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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.

- 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.

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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.

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;
- 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.

Tax Risks to Common Unitholders

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. We are currently under audit by the IRS and the scope of the federal income tax audit includes an audit of our status as a partnership for federal income tax purposes.

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. The IRS is currently auditing our federal income tax return for the year ended December 31, 2010. The scope of this federal income tax audit includes an audit of our qualifying income. In order to be treated as a partnership for federal income tax purposes, at least 90% of our gross income must be qualifying income. An IRS formal notice of commencement of the audit will be provided to unitholders if the audit is not concluded on or before March 30, 2013. IRS procedures require that we forward the notice no later than April 29, 2013 to specific unitholders (generally unitholders with less than a 1% profits interest in us) that held units during our taxable year ended December 31, 2010 , and the IRS will provide notice to all other unitholders that held units during our taxable year ended December 31, 2010.

If we were treated as a corporation for federal income tax purposes for any taxable year for which the statute of limitations remains open, including the tax year currently under audit, 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, and no income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, including taxes with respect to prior periods, 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.

In connection with each public offering of our common units, including our initial public offering, outside counsel reviewed the various categories of our gross income and opined that we would be classified as a partnership for federal income tax purposes. We are fully cooperating with the IRS in the audit process. Although no assurance can be given, we do not anticipate any change in our status as a partnership for federal income tax purposes or any change in prior period taxable income.

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.

Our 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, distribution amounts will be adjusted to reflect the impact of that law on us.

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

Current law may change to cause us to be treated as a corporation for U.S. federal income tax purposes or otherwise subjecting us to entity-level taxation. Specifically, the present U.S. 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 changes or differing interpretations at any time. For example, from time to time, members of Congress propose and consider substantive changes to the existing U.S. federal income tax laws that affect publicly traded partnerships. We are unable to predict whether any of these changes or other proposals will be reintroduced or will ultimately be enacted. Any such changes could negatively impact the value of an investment in our common units. Any modification to U.S. federal income tax laws may be applied retroactively and could make it more difficult or impossible for us to meet the qualifying income requirement to be treated as a partnership for U.S. federal income tax purposes.

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.

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, may result in an ownership change. 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.

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 resulting 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 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

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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.

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 the subject of a securities loan (e.g., a loan 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.

Because there are no specific rules governing the U.S. federal income tax consequence of loaning a partnership interest, a unitholder whose units are the subject of a securities loan may be considered as having disposed of the loaned units. In that case, 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 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

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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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Cemeteries and Funeral Homes

The following table summarizes the distribution of our cemetery and funeral properties by state as of December 31, 2012 as well as the weighted average estimated remaining sales life in years for our cemeteries based upon number of interment spaces sold during 2012:

	Cemeteries	Funeral Homes	Total Net Acres	Weighted Average Estimated Net Sales Life in Years	Number of Interment Spaces Sold in 2012
Alabama	9	6	305	232	1,110
Arkansas		2			
California	7	10	270	72	1,037
Colorado	2		12	671	21
Delaware	1		12	290	16
Florida	4	11	119	352	146
Georgia	7		135	139	879
Hawaii	1		6	201	
Illinois	8	2	276	174	948
Indiana	11	5	1,013	309	1,645
Iowa	1		89	158	202
Kansas	3	2	84	179	264
Kentucky	2		59	101	292
Maryland	10	1	716	169	1,423
Michigan	13		818	540	1,031
Mississippi	2	1	44	168	110
Missouri	6	5	277	486	365
New Jersey	6		341	39	1,864
North Carolina	16		415	145	2,463
Ohio	14	2	953	180	3,540
Oregon	7	12	181	418	437
Pennsylvania	52	8	2,547	447	3,307
Puerto Rico	7	5	209	668	178
Rhode Island	2		70	810	32
South Carolina	8	3	395	286	653
Tennessee	11	5	657	228	1,774
Virginia	30	2	869	171	2,694
Washington	3	2	33	55	152
West Virginia	33	2	1,404	404	1,866
Total	276	86	12,309	246	28,449

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, 2012. We defined interment spaces sold in 2012 as:

- the number of burial lots sold, net of cancellations;
- the number of spaces sold in existing mausoleum crypts, net of cancellations; and
- 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 two interment spaces since a double-depth burial lot includes two interment rights. For the same reason we count an unsold double-depth burial lot as two unsold interment spaces. 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 2012, we estimate that our cemeteries have an aggregate weighted average remaining sales life of 246 years.

The following table shows the cemetery properties that we owned or operated as of December 31, 2012, 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		2		1	2	4
California	2	1	3			1
Colorado						2
Delaware						1
Florida			1	1		2
Georgia	1		2	1		3
Hawaii						1
Illinois		1	1	2		4
Indiana		1			2	8
Iowa					1	
Kansas			1	1		1
Kentucky		1			1	
Maryland	1		2	1	1	5
Michigan			1	1	1	10
Mississippi					1	1
Missouri					1	5
New Jersey	2	3				1
North Carolina			4	2	5	5
Ohio	1	2		1	2	8
Oregon			1			6
Pennsylvania	4	2	3	5	1	37
Puerto Rico		1	1			5
Rhode Island						2
South Carolina		1			1	6
Tennessee		1			1	9
Virginia	2	1	4	4	4	15

Washington	1		2			
West Virginia	3	3	1	1	3	22
Total	17	20	27	21	27	164

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We believe that we have either satisfactory title to or valid rights to use all of our cemetery properties. The 18 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 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

Our home office is located in 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.

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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, 2013, there were 19,732,579 common units outstanding, representing a 98.0% limited partner interest in us. As of February 20, 2013, there were 31,231 beneficial holders and 59 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.

	Price range		
Quarter ended	**High**	**Low**	**Declared Distributions (1)**
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
March 31, 2012	$ 26.65	$ 22.07	$ 0.5850
June 30, 2012	$ 26.70	$ 23.91	$ 0.5850
September 30, 2012	$ 28.68	$ 20.63	$ 0.5900
December 31, 2012	$ 24.51	$ 20.10	$ 0.5900

(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.

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 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.

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Unregistered Sale of Securities

Our general partner 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 were obligated to issue additional common units which were initially valued at a fair value of $0.5 million based on a unit price of $20.30 prior to the date of acquisition. As a result, we issued 9,853 units in June of 2012 and 2011, and we are also obligated to issue an additional 4,924 units in June of 2013.

In connection with and as partial consideration for one of our second quarter 2012 acquisitions, we issued 13,720 unregistered common units representing limited partnership interests in us valued at approximately $0.35 million pursuant to the terms of the purchase agreement. In connection with and as partial consideration for one of our third quarter 2012 acquisitions, we issued 128,299 unregistered common units representing limited partnership interests in us valued at approximately $3.5 million pursuant to the terms of the purchase agreement. In connection with and as partial consideration for our fourth quarter 2012 acquisition, we issued 28,863 unregistered common units representing limited partnership interests in us valued at approximately $0.65 million pursuant to the terms of the purchase agreement.

See Note 14 to the consolidated financial statements included in Part II of this Annual Report on Form 10-K for a description of these acquisitions.

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

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 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 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.

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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. 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; 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 target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price.

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 target distribution levels will be reduced to zero. Once the 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.

Adjustment of Target Distribution Levels

In addition to adjusting the 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 target distribution levels;

the unrecovered initial unit price.

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For example, if a two-for-one split of the common units should occur, 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 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 for the quarter during which liquidation occurs 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.

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 2011 and 2010 years 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

	Year ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands, except for unit data)				
Cemetery revenues					
Merchandise	$ 114,025	$ 108,088	$ 94,898	$ 87,836	$ 90,968
Services	46,094	46,995	40,951	36,947	36,894
Investment and other	46,808	42,901	35,897	33,055	31,623
Funeral home revenues					
Merchandise	15,551	12,810	10,435	9,701	9,249
Services	20,128	17,594	15,111	13,664	14,714
Total revenues	242,606	228,388	197,292	181,203	183,448
Cost of goods sold (exclusive of depreciation shown separately below):					
Perpetual care	5,715	5,727	5,094	4,727	4,326
Merchandise	22,386	20,388	18,435	17,067	18,556
Cemetery expense	55,410	57,145	48,784	41,246	41,651
Selling expense	46,878	45,291	38,245	34,123	34,806
General and administrative expense	28,928	29,544	24,591	22,498	21,372
Overhead (including unit-based compensation of $916 in 2012, $773 in 2011, $711 in 2010, $1,576 in 2009 and $2,262 in 2008) (1)	28,169	23,766	24,379	22,370	21,293
Depreciation and amortization	9,431	8,534	8,845	6,528	5,029
Funeral home expense					
Merchandise	5,200	4,473	4,001	3,716	3,684
Services	14,574	11,717	9,752	9,275	9,073
Other	8,951	7,364	6,184	6,015	6,308
Acquisition related costs	3,123	4,604	5,715	1,072	
Total costs and expenses	228,765	218,553	194,025	168,637	166,098
Operating profit	13,841	9,835	3,267	12,566	17,350
Gain on sale of funeral home		92		434	
Gain on acquisitions	122		7,152		
Gain on termination of operating agreement	1,737				
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	
Interest expense	20,503	19,198	21,973	14,410	12,714
Income (loss) before income taxes	(4,803)	(13,734)	(6,830)	(6,333)	4,636
Income tax expense (benefit)					
State	420	(701)	(245)	808	304
Federal	(2,210)	(3,318)	(5,138)	(2,753)	(224)

Total income tax expense (benefit)	(1,790)	(4,019)	(5,383)	(1,945)	80
Net income (loss)	$ (3,013)	$ (9,715)	$ (1,447)	$ (4,388)	$ 4,556
Net income (loss) per limited partner unit (basic and diluted)	$ (0.15)	$ (0.50)	$ (0.10)	$ (0.36)	$ 0.38

(1) Includes bonuses of $1.8 million in 2010.
(2) Represents write-downs in previously capitalized debt issuance costs.

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Table 2: Balance Sheet Data

	Year ended December 31, 2012	2011	2010	2009	2008
	(in thousands)				
Cemetery property	$ 309,980	$ 298,938	$ 283,460	$ 228,048	$ 228,499
Total assets (1)	1,343,725	1,248,758	1,145,592	855,301	738,240
Deferred cemetery revenues, net (2)	497,861	441,678	386,465	259,323	193,017
Total debt	254,949	195,322	220,394	183,199	160,934
Total partners capital	$ 135,182	$ 180,279	$ 128,191	$ 111,937	$ 119,389

(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, 2012	2011	2010	2009	2008
	(in thousands, except unit data)				
Net cash provided by (used in):					
Operating activities	$ 31,896	$ 5,466	$ 3,106	$ 14,729	$ 21,144
Investing activities	(39,948)	(29,186)	(49,551)	(12,180)	(17,046)
Financing activities	3,940	28,243	40,501	3,862	(10,830)
Change in assets and liabilities that provided (used) cash:					
Merchandise trust	(11,806)	(23,889)	(13,517)	(6,133)	(453)
Merchandise liability	(7,260)	(5,669)	(2,401)	(4,332)	(5,366)
Capital expenditures:					
Maintenance capital expenditures	4,874	6,040	7,878	2,524	4,809
Expansion capital expenditures, including acquisitions	35,074	23,268	41,327	4,770	12,237
Distributions declared per common unit	$ 2.350	$ 2.340	$ 2.250	$ 2.220	$ 2.160

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Table 4: Operating Data

	Year ended December 31, 2012	2011	2010	2009	2008
Interments performed	45,128	45,236	41,556	37,782	38,863
Cemetery revenues per interment performed	$ 4,585	$ 4,377	$ 4,133	$ 4,178	$ 4,104
Interment rights sold (1)					
Lots	26,638	26,403	24,353	22,637	22,552
Mausoleum crypts (including pre-construction)	2,206	2,518	2,584	2,316	1,881
Niches	985	1,126	1,071	889	864
Net interment rights sold (1)	29,829	30,047	28,008	25,842	25,297
Number of contracts written	98,297	101,281	92,661	83,043	80,144
Aggregate contract amount, in thousands (excluding interest)	$ 251,999	$ 244,921	$ 221,895	$ 197,787	$ 187,093
Average amount per contract (excluding interest)	$ 2,564	$ 2,418	$ 2,395	$ 2,382	$ 2,334
Number of pre-need contracts written	48,131	49,747	45,193	39,043	35,599
Aggregate pre-need contract amount, in thousands (excluding interest)	$ 163,627	$ 157,410	$ 143,022	$ 124,997	$ 115,024
Average amount per pre-need contract (excluding interest)	$ 3,400	$ 3,164	$ 3,165	$ 3,202	$ 3,231
Number of at-need contracts written	50,166	51,534	47,468	44,000	44,545
Aggregate at-need contract amount, in thousands (excluding interest)	$ 88,372	$ 87,511	$ 78,873	$ 72,790	$ 72,068
Average amount per at-need contract (excluding interest)	$ 1,762	$ 1,698	$ 1,662	$ 1,654	$ 1,618

(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 our other filings with the SEC and elsewhere are forward-looking statements. The words believe, may, will, estimate, continue, anticipate, intend, project, expect, predict and similar expressions identify these forwar statements. These forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated or implied, including, but not limited to, the following: uncertainties associated with future revenue and revenue growth; the effect of 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 achieving operating improvements, strong cash flows and further deleveraging; our ability to successfully compete in the cemetery and funeral home industry; uncertainties associated with the integration or anticipated benefits of our recent acquisitions or any future acquisitions; our ability to complete and fund additional acquisitions; 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 . Except as required by federal and state securities laws, we assume no obligation to update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

Organization

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

Cornerstone had been founded in 1999 by members of our management team and a private equity investment firm in order to acquire a group of 123 cemetery properties and 4 funeral homes. Since that time, Cornerstone, succeeded by us, has acquired additional cemeteries and funeral homes, entered into long term cemetery operating agreements, built funeral homes, and sold cemeteries and funeral homes, resulting in the operation of 276 cemeteries and 86 funeral homes as of December 31, 2012.

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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.

Overview

Cemetery Operations

We are currently the second largest owner and operator of cemeteries in the United States. As of December 31, 2012, we operated 276 cemeteries in 27 states and Puerto Rico. We own 258 of these cemeteries, and we operate the remaining 18 under management or operating agreements with the nonprofit cemetery corporations that own the cemeteries. As a result of the agreements, other control arrangements and applicable accounting rules, we have treated 16 of these cemeteries as acquisitions for accounting purposes.

We operate 2 cemeteries under long-term operating agreements that do not qualify as acquisitions for accounting purposes. As a result, we did not consolidate all of the existing assets and liabilities related to these cemeteries. We have consolidated the existing assets and liabilities of each of these cemeteries merchandise and perpetual care trusts as variable interest entities since we control and receive the benefits and absorb any losses from operating these trusts. Under these long-term operating agreements, which are subject to certain termination provisions, we are the exclusive operator of these cemeteries. We earn revenues related to sales of merchandise, services, and interment rights and incur expenses related to such sales and the maintenance and upkeep of these cemeteries. Upon termination of these contracts, we will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. We have also recognized the existing merchandise liabilities assumed as part of these agreements.

We sell cemetery products and services both at the time of death, which we refer to as at-need, and prior to the time of death, which we refer to as pre-need. During the year ended December 31, 2012, we performed 45,128 burials and sold 29,829 interment rights (net of cancellations) compared to 45,236 and 30,047 in 2011 and 41,556 and 28,008 in 2010, respectively. Cemetery revenues accounted for approximately 85.3%, 86.7% and 87.1% during the years ended December 31, 2012, 2011 and 2010, respectively.

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

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

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

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

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

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

investment income from perpetual care 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.

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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 2012, 2011 and 2010.

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.

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Funeral Home Operations

As of December 31, 2012, we owned and operated 86 funeral homes. These properties are located in eighteen states and Puerto Rico. Forty-one of our funeral homes are located on the grounds of cemeteries that we own.

We derive revenues at our funeral homes from the sale of funeral home merchandise, including caskets and related funeral merchandise, and services, including removal and preparation of remains, the use of our facilities for visitation, worship and performance of funeral services and transportation services. We sell these services and merchandise almost exclusively at the time of need utilizing salaried licensed funeral directors. Funeral home revenues accounted for approximately 14.7%, 13.3% and 12.9% during the years ended December 31, 2012, 2011 and 2010, 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.

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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,		
	2012	2011	2010
Alabama	3.8%	3.6%	4.6%
California	8.0%	8.8%	9.7%
Florida	1.0%	0.1%	0.1%
Georgia	1.3%	1.2%	1.6%
Illinois	2.6%	2.3%	2.7%
Indiana	6.9%	8.0%	5.2%
Kansas	1.3%	1.4%	1.1%
Maryland	5.8%	6.0%	6.6%
Michigan	6.1%	8.9%	5.0%
Missouri	1.5%	1.6%	1.3%
New Jersey	7.1%	6.8%	7.8%
North Carolina	5.8%	5.8%	6.2%
Ohio	9.3%	8.7%	9.3%
Oregon	2.7%	2.9%	3.2%
Pennsylvania	13.2%	14.7%	15.3%
Puerto Rico	3.3%	0.9%	0.3%
South Carolina	1.9%	2.1%	2.2%
Tennessee	3.7%	2.4%	2.4%
Virginia	6.8%	6.5%	7.1%
West Virginia	5.6%	5.3%	5.9%
All others	2.3%	2.0%	2.4%
Total	100.0%	100.0%	100.0%

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Principal Products and Services

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,		
	2012	2011	2010
Pre-need sales:			
Burial lots	9.9%	8.9%	9.6%
Mausoleum crypts	5.1%	4.7%	5.2%
Markers	4.8%	4.2%	4.6%
Grave marker bases	1.1%	1.1%	1.2%
Burial vaults	5.1%	5.0%	5.6%
Lawn crypts	1.5%	1.4%	1.5%
Caskets	0.8%	2.9%	1.0%
Initial openings and closings (1)	6.2%	6.5%	6.3%
Other (2)	5.5%	4.8%	5.3%
Total pre-need sales	40.0%	39.5%	40.3%
Interest from pre-need sales	2.8%	2.6%	2.9%
Investment income from trusts:			
Perpetual care trusts	6.1%	6.6%	7.3%
Merchandise trusts	3.8%	3.7%	2.1%
Total investment income from trusts	9.9%	10.3%	9.4%
At-need sales:			
Openings and closings (3)	11.1%	12.4%	13.0%
Markers	7.8%	7.7%	7.7%
Burial lots	3.4%	3.6%	3.8%
Mausoleum crypts	1.3%	1.2%	1.3%
Grave marker bases	1.6%	1.7%	1.6%
Foundations and inscriptions (4)	0.8%	1.0%	1.0%
Burial vaults	1.5%	1.6%	1.7%
Other (5)	3.3%	3.7%	2.5%
Total at-need sales	30.8%	32.9%	32.6%
Funeral home revenues	14.7%	13.3%	12.9%
Other revenues (6)	1.8%	1.4%	1.9%
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.

(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 plants. 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.

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 9.9%, 10.3% and 9.3% of our 2012, 2011 and 2010 total revenues, respectively. During 2012, 2011 and 2010 our average annual rates of return (not including changes in unrealized gains and losses) on funds held in merchandise trusts were 6.7%, 7.5% and 3.7%, respectively, while our average annual rates of return on funds held in perpetual care trusts were 5.9%, 6.2% and 7.1%, 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

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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.

We determine whether or not the assets in the merchandise and perpetual care trusts 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 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 of our consolidated financial statements included in Part II Item 8) disclose the adjusted cost basis of the assets in the trusts and contain a more detailed discussion of other-than- temporarily impaired assets.

Current Market Conditions and Economic Developments

We are subject to fluctuations in the fair value of equity and fixed-maturity debt securities in our trust. These values can be negatively impacted by contractions in the credit market and overall downturns in economic activity. As of December 31, 2010, the market value of the assets in our merchandise trusts and perpetual care trusts exceeded their amortized cost by 3.7% and 6.5%, respectively.

The financial markets generally improved throughout 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%.

The overall markets have experienced fluctuation during 2012, but have generally improved since 2011. We continued to monitor our invested assets in our merchandise and perpetual care trusts and during 2012, we determined that some of these assets were impaired, and we took a charge of approximately $1.0 million and $2.8 million respectively. As of December 31, 2012, the market value of the assets in our merchandise trusts and perpetual care trusts exceeded their amortized cost by 0.2% and 5.8%, respectively.

Further, we raised 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, 2012, the majority of our long-term debt consisted of $150.0 million in Senior Notes due in 2017 and $101.7 million of borrowings on our Credit Facility which expires in 2017. As of December 31, 2012, we had an unused line of $28.3 million under our Credit Agreement.

The average dollar value of pre-need and at-need contracts written has not deteriorated and values for the year ended December 31, 2012 exceed values from 2011.

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

Recent Developments

On February 19, 2013, we entered into the First Amendment to our Third Amended and Restated Credit Agreement which increased the total availability under our Credit Facility by $10.0 million to $140.0 million.

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On February 19, 2013, certain of our subsidiaries entered into an Asset Purchase and Sale Agreement (the Seawinds Agreement) with certain Florida limited liability companies and one individual (collectively the Seller). Pursuant to the Agreement, we acquired six funeral homes in Florida, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, we paid the Seller $9.0 million in cash and issued 159,635 common units, which equates to approximately $3.6 million worth of units. We also issued an unsecured promissory note in the amount of $3.0 million that is payable on February 19, 2014 and bears interest at 5%. In addition, we will also pay an aggregate amount of $1.2 million in six equal annual installments commencing on February 19, 2014 in exchange for a non-compete agreement with the Seller.

Change in Market Value of Trust Assets

We have a substantial portfolio of invested assets in both our merchandise trusts and the perpetual care trusts. 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 2008 and 2009. Since that time, the financial markets have been slowly recovering, and continued to improve through the end of 2012. During 2012 and 2011, we determined that some of the assets in our trusts had been impaired and we took an impairment charge of approximately $1.0 million and $0.5 million, respectively, related to assets in our merchandise trusts and a charge of approximately $2.8 million and $0.1 million, respectively, related to our assets in our perpetual care trusts. 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, 2012, the aggregate post write-down fair value of the assets in our merchandise trust exceeded its amortized cost by 0.2% and the aggregate post write-down fair value of the assets in our perpetual care trust exceeded its amortized cost by 5.8%.

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.

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 nor will it impact our financial position or liquidity at any point in time.

Our primary risks 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 $16.7 million, $15.8 million and $14.9 million during the years ended December 31, 2012, 2011 and 2010, 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 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, 2012, the merchandise trust had approximately $27.9 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, 2012 were approximately $3.1 million, which includes an inflow of $12.0 million related to acquisitions made in 2012. 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.

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

We have two primary debt covenants that are dependent upon our financial results, the leverage ratio and the consolidated debt service coverage ratio. The leverage ratio relates to the ratio of consolidated debt to the Profitability Measure. Our leverage ratio was 3.48 at December 31, 2012 compared to a maximum allowed ratio

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of 3.65. The consolidated debt service coverage ratio relates to the ratio of Consolidated EBITDA to Consolidated Debt Service. Our consolidated debt service coverage ratio was 3.48 at December 31, 2012 compared 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 2012, 2011 and 2010, respectively:

	Year ended December 31,		
	2012	2011	2010
		(in thousands)	
Net income (loss)	$ (3,013)	$ (9,715)	$ (1,447)
Operating cash flows	31,896	5,466	3,106
Partner distributions	47,454	44,605	32,443

Cash flows from operations for the years ended December 31, 2012, 2011 and 2010 were $31.9 million, $5.5 million and $3.1 million, respectively, which exceeded our net loss of $3.0 million, $9.7 million and $1.4 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.

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 18 cemeteries, 16 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.

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.

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 acquisitions 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, 2012 or 2011.

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 trusts 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 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 trusts due to an other-than-temporary impairment is offset against deferred revenue. Refer to Note 5 of our consolidated 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 trusts 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 consolidated 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 further evaluate whether or not all assets in the merchandise trusts 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 trusts. This adjusted cost basis includes any adjustments to the original cost basis due to other-than-temporary impairments.

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, 2012, our taxable corporate subsidiaries had a federal net operating loss carryover of approximately $163.6 million, which will begin to expire in 2019 and a state net operating loss carry-forward of approximately $201.8 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.

Segment Reporting and Related Information

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

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

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

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

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

Results of Operations Segments

We account for and analyze the results of operations for our segments on a basis of accounting that is different from generally accepted accounting principles. We reconcile these non-GAAP accounting results of operations to GAAP based amounts at the consolidated level. This reconciliation is included in Note 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

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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.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Cemetery Segments

Cemetery Operations Southeast

In 2011 and 2012, we made several acquisitions in our Cemetery Operations Southeast segment. Of these acquisitions, 6 occurred during the third quarter of 2011, 5 occurred during the fourth quarter of 2011 and 4 occurred during the third quarter of 2012. Therefore, the results of operations for these properties have less of an impact, and in some cases no impact, on the year ended December 31, 2011, but are included in the results of operations for the year ended December 31, 2012. These additions are contributing to approximately two thirds of the increase in revenues and the entire increase in 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, 2012 to the year ended December 31, 2011:

	Year ended December 31,			
	2012	2011	Change ($)	Change (%)
		(in thousands) (non-GAAP)		
Total revenues	$ 129,212	$ 113,756	$ 15,456	13.6%
Total costs and expenses	91,239	82,673	8,566	10.4%
Segment operating profit	$ 37,973	$ 31,083	$ 6,890	22.2%

Revenues

The increase in revenues was related to an overall increase in the value of contracts written, with an increase of $9.7 million in the value of pre-need contracts and $2.8 million in the value of at-need contracts. We also had increases of $1.1 million in income from our trusts, $0.8 million in interest on accounts receivable and $1.1 million in other income.

Total costs and expenses

The increase in costs and expenses was primarily related to:

- A $2.7 million increase in cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.

- A $1.6 million increase in selling expenses. This was primarily attributable to increases of $0.6 million in salary and benefit expenses and $1.3 million in commission related expenses, offset by a decrease of $0.4 million in advertising, telephone and telemarketing costs.

- A $2.4 million increase in cemetery expenses. The increase was primarily due to increases of $0.9 million in labor costs, $1.0 million in repair and maintenance costs and $0.1 million in utility and fuel costs, with the remainder attributable to equipment rental and other miscellaneous costs.

A $1.3 million increase in general and administrative expenses. This was primarily due to increases of $0.9 in labor costs, $0.1 in insurance costs, $0.1 million in professional fees and $0.2 million in other general office and miscellaneous costs.

A $0.5 million increase in depreciation.

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Cemetery Operations Northeast

The table below compares the results of operations for our Cemetery Operations Northeast for the year ended December 31, 2012 to the year ended December 31, 2011:

	Year ended December 31,			
	2012	2011	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$ 60,357	$ 57,263	$ 3,094	5.4%
Total costs and expenses	40,620	39,943	677	1.7%
Segment operating profit	$ 19,737	$ 17,320	$ 2,417	14.0%

Revenues

The increase in revenues was related to an overall increase in the value of contracts written, with an increase of $1.6 million in the value of pre-need contracts and $0.4 million in the value of at-need contracts. In addition, we had an increase of $0.2 million in income from our trusts and $0.9 million in other income.

Total costs and expenses

The increase in costs and expenses was primarily related to:

A $0.6 million increase in cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.

A $0.8 million increase in selling expenses. This was primarily attributable to increases of $0.3 million in labor costs, $0.2 million in commissions, and $0.2 million in advertising, telephone and telemarketing costs.

A $0.3 million decrease in cemetery expenses. The decrease was primarily due to decreases of $0.2 million in labor costs and $0.1 million in utility and fuel costs.

A $0.4 million decrease in general and administrative expenses primarily due to a decrease of $0.3 million in insurance costs and $0.1 million in other general office and miscellaneous costs.

Cemetery Operations West

Effective March 31, 2012, we terminated our operating agreement with the Archdiocese of Detroit. Therefore, the results of operations for these properties are only included in the year ended December 31, 2012 up to that point, but are included in the entire year ended December 31, 2011. The removal of these properties from our results of operations resulted in a $6.5 million decrease in revenues and $5.2 million decrease in costs and expenses period over period, and therefore is responsible for the majority of the decrease in revenues and costs and expenses.

Further, in the second quarter of 2011 we made 3 acquisitions and in the second quarter of 2012 we made one acquisition in our Cemetery Operations West segment. Therefore, the results of operations for these properties have less of an impact on the year ended December 31, 2011, but are included in the results of operations for the year ended December 31, 2012. The addition of these properties to our results of operations is responsible for a $1.5 million increase in revenues and $1.1 million increase in costs and expenses period over period.

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The table below compares the results of operations for our Cemetery Operations West for the year ended December 31, 2012 to the year ended December 31, 2011:

	Year ended December 31,			
	2012	2011	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$ 68,766	$ 78,458	$ (9,692)	-12.4%
Total costs and expenses	45,437	52,992	(7,555)	-14.3%
Segment operating profit	$ 23,329	$ 25,466	$ (2,137)	-8.4%

Revenues

The decrease in revenues was driven by a decrease in the value of contracts written as a result of the aforementioned contract termination. There was a decrease of $5.6 million in the value of pre-need contracts written, a decrease of $3.3 million in the value of at-need contracts written, and a decrease of $1.7 million in income from our trusts offset by an increase of $0.9 million in other income.

Total costs and expenses

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

A $0.6 million decrease in cost of goods sold. This was attributable to the corresponding decrease in the value of contracts written.

A $1.5 million decrease in selling expense. The decrease was primarily due to decreases of $0.6 million in labor, $0.8 million in commissions and $0.1 in telemarketing costs.

A $3.8 million decrease in cemetery expenses. The decrease was primarily due to decreases of $2.5 million in labor costs, $0.3 million in utility costs, $0.3 million in repair and maintenance costs and $0.4 million in real estate taxes.

A $1.7 million decrease in general and administrative expenses. The decrease was primarily due to decreases of $0.5 million in labor costs, $0.3 million in insurance costs, $0.3 million in professional fees, $0.2 million in management information costs and $0.4 million in other office costs.

Funeral Homes Segment

In 2011 and 2012 we acquired several funeral homes. Of these acquisitions, 4 occurred during the second quarter of 2011, 4 occurred during the third quarter of 2011, 4 occurred during the fourth quarter of 2011, 2 occurred during the second quarter of 2012, 14 occurred during the third quarter of 2012 and 1 occurred during the fourth quarter of 2012. Therefore, the results of operations for these properties have either no impact or, in some cases, have less of an impact on the year ended December 31, 2011, but are included in the results of operations for the year ended December 31, 2012. These additions are primarily responsible for the increase to revenues and costs and expenses for this segment.

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The table below compares the results of operations for our Funeral Home segment for the year ended December 31, 2012 to the year ended December 31, 2011:

	Year ended December 31,			
	2012	2011	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$ 37,988	$ 31,163	$ 6,825	21.9%
Total costs and expenses	31,486	25,151	6,335	25.2%
Segment operating profit	$ 6,502	$ 6,012	$ 490	8.2%

Revenues

The increase in revenues was primarily attributable to a $2.9 million increase in at-need revenues, a $1.9 million increase in pre-need revenues and a $2.0 million increase in other revenues.

Total costs and expenses

The increase in costs and expenses was primarily attributable to increases of $2.9 million in personnel expenses, $0.6 million in facility costs, $0.9 million in merchandise costs, $0.2 million in advertising costs, $0.1 million in vehicle costs and $0.9 million in depreciation, with the remainder attributable to increases in other general and administrative expense categories.

Corporate Segment

The table below compares expenses incurred by the Corporate segment for the year ended December 31, 2012 to the year ended December 31, 2011:

	Year ended December 31,			
	2012	2011	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Selling, cemetery and general and administrative expenses	$ 870	$ 832	$ 38	4.6%
Depreciation and amortization	1,542	2,127	(585)	-27.5%
Acquisition related costs	3,123	4,604	(1,481)	-32.2%
Corporate expenses				
Corporate personnel expenses	12,309	11,580	729	6.3%
Other corporate expenses	15,860	12,186	3,674	30.1%
Total corporate overhead	28,169	23,766	4,403	18.5%
Total corporate expenses	$ 33,704	$ 31,329	$ 2,375	7.6%

Selling, cemetery and general and administrative expenses allocated to the Corporate segment remained relatively consistent from period to period.

The decrease in depreciation and amortization was due to a decrease in amortized deferred financing fees.

Acquisition related costs include legal fees and other third party costs incurred in acquisition related activities. These costs will vary from period to period depending on the amount of acquisition activity that takes place. For the years ended December 31, 2012 and 2011, acquisition related costs include legal fees, net of recoveries, of $0.3 million and $1.2 million, respectively, related to amounts paid to pursue the recovery of misappropriation claims related to our fourth quarter 2011 and second quarter 2010 acquisitions, respectively.

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The increase in total corporate overhead was primarily attributable to increases of $0.7 million in personnel costs, $1.0 million in professional fees, $1.0 million in advertising expenses, and $0.1 million in technology and management information costs, with the remainder attributable to various corporate expenses.

Reconciliation of Segment Results of Operations to Consolidated Results of Operations

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

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

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

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

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The table below analyzes results of operations and the changes therein for the year ended December 31, 2012 compared to the year ended December 31, 2011. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/or changes in the timing of when merchandise and services were delivered. During 2011 we acquired 17 cemeteries and 12 funeral homes. During 2012 we acquired another 5 cemeteries and 17 funeral homes. 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, 2011, but are included in the results of operations for the year ended December 31, 2012. These additions are contributing the majority of the increases to revenues and costs and expenses in the table below.

Effective March 31, 2012, we terminated our operating agreement with the Archdiocese of Detroit; consequently, the results of operations for these properties are only included in 2012 up to that point, but are included in the entire period for the year ended December 31, 2011.

	Year ended December 31, 2012 (in thousands)			Year ended December 31, 2011 (in thousands)				
	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Change in GAAP results ($)	Change in GAAP results (%)
Revenues								
Pre-need cemetery revenues	$ 128,437	$(31,437)	$ 97,000	$ 122,789	$(31,735)	$ 91,054	$ 5,946	6.5%
At-need cemetery revenues	79,346	(4,552)	74,794	79,501	(5,141)	74,360	434	0.6%
Investment income from trusts	38,571	(14,446)	24,125	38,943	(15,399)	23,544	581	2.5%
Interest income	6,698		6,698	5,864		5,864	834	14.2%
Funeral home revenues	37,988	(2,309)	35,679	31,163	(759)	30,404	5,275	17.3%
Other cemetery revenues	5,283	(973)	4,310	2,380	782	3,162	1,148	36.3%
Total revenues	296,323	(53,717)	242,606	280,640	(52,252)	228,388	14,218	6.2%
Costs and expenses								
Cost of goods sold	33,807	(5,706)	28,101	31,154	(5,039)	26,115	1,986	7.6%
Cemetery expense	55,410		55,410	57,145		57,145	(1,735)	-3.0%
Selling expense	54,641	(7,763)	46,878	53,784	(8,493)	45,291	1,587	3.5%
General and administrative expense	28,928		28,928	29,547	(3)	29,544	(616)	-2.1%
Corporate overhead	28,169		28,169	23,766		23,766	4,403	18.5%
Depreciation and amortization	9,431		9,431	8,534		8,534	897	10.5%
Funeral home expense	28,977	(252)	28,725	23,554		23,554	5,171	22.0%
Acquisition related costs	3,123		3,123	4,604		4,604	(1,481)	-32.2%
Total costs and expenses	242,486	(13,721)	228,765	232,088	(13,535)	218,553	10,212	4.7%
Operating profit	$ 53,837	$ (39,996)	$ 13,841	$ 48,552	$ (38,717)	$ 9,835	$ 4,006	40.7%

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Revenues

Pre-need cemetery revenues were $97.0 million for the year ended December 31, 2012, an increase of $5.9 million, or 6.5%, as compared to $91.1 million during 2011. The increase was primarily caused by an increase of $5.6 million in the value of cemetery contracts written and a decrease of $0.3 million in deferred revenue.

At-need cemetery revenues were $74.8 million for the year ended December 31, 2012, an increase of $0.4 million, or 0.6%, as compared to $74.4 million during 2011. The increase was primarily caused by a decrease of $0.2 million in the value of cemetery contracts written which was offset by a decrease of $0.6 million in deferred revenue.

The majority of the increase in the value of pre-need and at-need contracts was primarily driven by our Cemetery Operations Southeast segment where we acquired 6 cemeteries during the third quarter of 2011, 5 cemeteries during the fourth quarter of 2011 and 4 cemeteries during the third quarter of 2012. Therefore, the results of operations for these cemeteries are included in the year ended December 31, 2012, but have little to no impact on the year ended December 31, 2011. In addition, the value of pre-need and at-need contracts was negatively impacted by the termination of our operating agreement with the Archdiocese of Detroit that occurred March 31, 2012.

Investment income from trusts was $24.1 million for the year ended December 31, 2012, an increase of $0.6 million, or 2.5%, as compared to $23.5 million during 2011. On a segment basis, we had a decrease of $0.4 million, which was offset by an adjustment of $1.0 million related to funds for which we have met the requirements that would allow us to recognize them as revenue.

Interest income on accounts receivable was $6.7 million for the year ended December 31, 2012, an increase of $0.8 million, or 14.2%, as compared to $5.9 million during 2011.

Revenues for the Funeral Home segment were $35.7 million for the year ended December 31, 2012, an increase of $5.3 million, or 17.3%, compared to $30.4 million during 2011. The increase was primarily attributable to the acquisitions of 29 funeral homes made during 2011 and 2012.

Other cemetery revenues include miscellaneous items that are not grouped with our cemetery merchandise and services. Other cemetery revenues were $4.3 million for the year ended December 31, 2012, an increase of $1.1 million, or 36.3%, as compared to $3.2 million during 2011. The increase was primarily related to non-recurring other income from the sale of assets.

Costs and Expenses

Cost of goods sold were $28.1 million for the year ended December 31, 2012, an increase of $2.0 million, or 7.6%, as compared to $26.1 million in 2011. The ratio of cost of goods sold to pre-need and at-need cemetery revenues was16.4% for the year ended December 31, 2012 as compared to 15.8% during 2011. The change in the ratio primarily relates to changes in product mix.

Cemetery expenses were $55.4 million during the year ended December 31, 2012, a decrease of $1.7 million, or 3.0%, compared to $57.1 million during 2011. Overall, expense decreases of $1.8 million in labor costs, $0.3 million in utility and fuel cost, and $0.3 million in real estate taxes were partially offset by an increase of $0.7 million in repairs and maintenance expense. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our operating costs relative to our overall cemetery operations. An increase in the ratio indicates that expense increases related to the operation and maintenance of our cemetery properties exceeded increases in the value of contracts written, while a decrease in the ratio indicates that expense growth did not exceed increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decline as many of the expenses in this category are fixed in nature. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 26.7% during the year ended December 31, 2012 as compared to 28.2% during 2011.

Selling expenses were $46.9 million during the year ended December 31, 2012, an increase of $1.6 million, or 3.5%, as compared to $45.3 million in 2011. The major components of the overall expense increase include $0.7 million in commissions and $0.3 million in salaries and benefits, as well as a reduction in deferred selling expenses of $0.7 million, which were offset in part by a decrease of $0.3 million in advertising, telephone and telemarketing costs. The ratio of selling expenses to cemetery revenues was 27.3% for the year ended December 31, 2012 as compared to 27.4% during 2011. This ratio gives some indication of how effectively the money we invest in selling efforts is translating into sales. However, the majority of our selling expenses are directly related to sales commissions and bonuses, which would be directly related to changes in the value of pre-need and at-need contracts written. As a result, we would expect this ratio to remain fairly consistent.

General and administrative expenses were $28.9 million during the year ended December 31, 2012, a decrease of $0.6 million, or 2.1%, as compared to $29.5 million during 2011. The major components of the overall expense decrease include decreases of $0.7 million in information system related charges, $0.6 million in insurance costs and $0.1 million in professional fees, which were offset in part by increases $0.4 million in labor costs and $0.4 million in general office and miscellaneous costs. General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our general and administrative costs relative to our overall cemetery operations. An increase in the ratio indicates that general and administrative percentage expense increases related to our cemetery properties exceeded percent increases in the value of contracts written, while a decrease in the ratio indicates that expense growth on a percentage basis did not exceed percentage increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decrease as many of the expenses in this category are fixed in nature. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues was 13.9% during the year ended December 31, 2012 as compared to 14.6% during 2011.

Total corporate overhead was $28.2 million during the year ended December 31, 2012, an increase of $4.4 million, or 18.5%, compared to $23.8 million during 2011. The increase in total corporate overhead was primarily attributable to increases of $0.7 million in personnel costs, $1.0 million in professional fees, $1.0 million in advertising expenses, and $0.1 million in technology and management information costs, with the remainder attributable to various corporate expenses.

Depreciation and amortization was $9.4 million during the year ended December 31, 2012, an increase of $0.9 million, or 10.5%, as compared to $8.5 million during the period last year. The increase was primarily due to additional depreciation and amortization from recent acquisitions.

Funeral Home expenses were $28.7 million for the year ended December 31, 2012, an increase of $5.2 million, or 22.0%, compared to $23.5 million during 2011. The increase in costs and expenses was primarily attributable to increases of $2.9 million in personnel expenses, $0.6 million in facility costs, $0.9 million in merchandise costs, $0.2 million in advertising costs and $0.1 million in vehicle costs.

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Acquisition related costs were $3.1 million for the year ended December 31, 2012, a decrease of $1.5 million, or 32.2%, as compared to $4.6 million during 2011. Acquisition related costs include legal fees and other third party costs incurred in acquisition related activities. These costs will vary from period to period depending on the amount of acquisition activity that takes place. For the years ended December 31, 2012 and 2011, acquisition related costs include legal fees, net of recoveries, of $0.3 and $1.2 million, respectively, related to amounts paid to pursue the recovery of misappropriation claims related to our fourth quarter 2011 acquisition and second quarter 2010 acquisition, respectively.

Non-segment Allocated Results

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

The table below summarizes these items and the changes between the years ended December 31, 2012 and 2011:

	Year ended December 31,			
	2012	2011	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Expenses related to refinancing	$	$ 453	$ (453)	-100.0%
Gain on acquisition	122		122	100.0%
Gain on sale of funeral home		92	(92)	-100.0%
Gain on termination of operating agreement	1,737		1,737	100.0%
Early extinguishment of debt		4,010	(4,010)	-100.0%
Interest expense	20,503	19,198	1,305	6.8%
Income tax (benefit)	$ (1,790)	$ (4,019)	$ 2,229	-55.5%

During the year ended December 31, 2011, we incurred $0.5 million of expenses when we amended our credit facilities in January of 2011 and incurred an early extinguishment of debt charge of $4.0 million related to a one-time make-whole premium we paid in connection with the early repayment of our $35.0 million in Class B and Class C Senior Secured Notes.

During the year ended December 31, 2012, we recognized a gain of $1.7 million related to the termination of an operating agreement. The gain on acquisition relates to one of our second quarter 2012 acquisitions. Refer to Note 14 of our consolidated financial statements in Item 8 of this Form 10-K for a more detailed discussion.

The gain on sale of a funeral home in 2011 relates to the sale of one funeral home in West Virginia that we sold for $0.1 million.

Interest expense has increased during the year ended December 31, 2012 as compared to the same period last year. This increase is caused by increased borrowings on our Credit Facility, which are offset in part by a change in our debt mix and reduced interest rates. Average amounts outstanding under our Credit Facility were $80.7 million and $15.9 million during the year ended December 31, 2012 and 2011, respectively. However, amendments that we made to our Credit Facility have lowered our interest rate to a lower rate than what was in effect in the same period last year. In addition, we had $35.0 million of Senior Secured Notes which bore interest at 12.5% outstanding at the beginning of 2011. The Senior Secured Notes were repaid in February of 2011.

We had an income tax benefit of $1.8 million for the year ended December 31, 2012, a decrease of $2.2 million, or 55.5%, compared to a benefit of $4.0 million during 2011. The decrease in the income tax benefit is due to a decrease in pre-tax losses at our corporate subsidiaries that are subject to corporate tax. Further, in 2011 we recorded a one-time income tax benefit of $0.9 million related to the reversal of uncertain tax positions

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for which the statute of limitations had expired. In addition, our effective tax rate differs from our statutory tax rate primarily because our legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

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 as compared to the year ended December 31, 2010:

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

Revenues

The increase in revenues 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

The increase in total costs and expenses, 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.

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Cemetery Operations Northeast

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

	Year ended December 31,			
	2011	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%
Segment operating profit	$ 17,320	$ 16,733	$ 587	3.5%

Revenues

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 decrease 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.

Total costs and expenses

The overall decrease in total costs and expenses 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 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 occurred 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.

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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:

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

Revenues

The increase in revenues 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

The increase in total costs and expenses, 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 Home Segment

In 2010 and 2011, we acquired several funeral homes. Of these acquisitions, 5 occurred during the second quarter of 2010, 1 during the fourth quarter of 2010, 4 during the second quarter of 2011, 4 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.

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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:

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

Revenues

The increase in revenues 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

The increase in total costs and expenses 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.

Corporate Segment

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

	Year ended December 31,			
	2011	2010	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
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 $3.8 million during the same period last year. The decrease was due to a decrease in amortized deferred financing fees.

Acquisition related costs were $4.6 million for the year ended December 31, 2011, a decrease of $1.1 million, or 19.4%, as compared to $5.7 million during 2010. Acquisition related costs include legal fees and

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other third party costs incurred in acquisition related activities. These costs will vary from period to period depending on the amount of acquisition activity that takes place. For the years ended December 31, 2011 and 2010, acquisition related costs include legal fees net of recoveries, of $1.2 million and $0.4 million, respectively, related to amounts paid to pursue the recovery of misappropriation claims related to our second quarter 2010 acquisition.

Total corporate overhead was $23.8 million for the year ended December 31, 2011, a decrease of $0.6 million, or 2.5% compared to $24.4 million during 2010. The overall decrease consists of a decrease of $1.0 million in personnel costs offset by an increase of $0.4 million in non-personnel expenses. The decrease in personnel related expenses was primarily attributable to a decrease of $1.8 million in bonus expenses, which were zero in 2011, offset by increased labor costs. The increase in other corporate expenses was attributable to increases of $0.5 million in professional fees and $0.2 million in technology and management information costs, offset by a decrease of $0.4 million in general office costs and corporate expenses.

Reconciliation of Segment Results of Operations to Consolidated Results of Operations

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

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

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

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

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The table below analyzes results of operations and the changes therein for the year ended December 31, 2011 compared to the year ended December 31, 2010. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/or changes in the timing of when merchandise and services were delivered. During 2010 we acquired 22 cemeteries and 6 funeral homes. During 2011 we acquired another 17 cemeteries and 12 funeral homes. 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 for the year ended December 31, 2011. These additions are contributing the majority of the increases to revenues and costs and expenses in the table below:

	Year ended December 31, 2011 (in thousands)			Year ended December 31, 2010 (in thousands)				
	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Change in GAAP results ($)	Change in GAAP results (%)
Revenues								
Pre-need cemetery revenues	$ 122,789	$ (31,735)	$ 91,054	$ 113,183	$ (34,089)	$ 79,094	$ 11,960	15.1%
At-need cemetery revenues	79,501	(5,141)	74,360	71,764	(6,743)	65,021	9,339	14.4%
Investment income from trusts	38,943	(15,399)	23,544	28,511	(10,136)	18,375	5,169	28.1%
Interest income	5,864		5,864	5,649		5,649	215	3.8%
Funeral home revenues	31,163	(759)	30,404	25,546		25,546	4,858	19.0%
Other cemetery revenues	2,380	782	3,162	2,747	860	3,607	(445)	-12.3%
Total revenues	280,640	(52,252)	228,388	247,400	(50,108)	197,292	31,096	15.8%
Costs and expenses								
Cost of goods sold	31,154	(5,039)	26,115	29,865	(6,336)	23,529	2,586	11.0%
Cemetery expense	57,145		57,145	48,784		48,784	8,361	17.1%
Selling expense	53,784	(8,493)	45,291	47,400	(9,155)	38,245	7,046	18.4%
General and administrative expense	29,547	(3)	29,544	24,591		24,591	4,953	20.1%
Corporate overhead	23,766		23,766	24,379		24,379	(613)	-2.5%
Depreciation and amortization	8,534		8,534	8,845		8,845	(311)	-3.5%
Funeral home expense	23,554		23,554	19,937		19,937	3,617	18.1%
Acquisition related costs	4,604		4,604	5,715		5,715	(1,111)	-19.4%
Total costs and expenses	232,088	(13,535)	218,553	209,516	(15,491)	194,025	24,528	12.6%
Operating profit	$ 48,552	$ (38,717)	$ 9,835	$ 37,884	$ (34,617)	$ 3,267	$ 6,568	201.0%

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Revenues

Pre-need cemetery revenues were $91.1 million for the year ended December 31, 2011, an increase of $12.0 million, or 15.1%, as compared to $79.1 million during 2010. The increase was primarily caused by an increase of $9.6 million in the value of cemetery contracts written and a decrease of $2.4 million in deferred revenue.

At-need cemetery revenues were $74.3 million for the year ended December 31, 2011, an increase of $9.3 million, or 14.4%, as compared to $65.0 million during 2010. The increase was primarily caused by an increase of $7.7 million in the value of cemetery contracts written and a decrease of $1.6 million in deferred revenue.

The increase in the value of pre-need and at-need contracts was primarily driven by our Cemetery Operations West segment, and to a lesser extent by our Cemetery Operations Southeast segment. We had numerous acquisitions in these segments in 2010 and 2011 and the results of operations for these acquired cemeteries are included in the year ended December 31, 2011, but have less of an impact, and in some cases little or no impact, on the year ended December 31, 2010.

Investment income from trusts was $23.5 million for the year ended December 31, 2011, an increase of $5.2 million, or 28.1%, as compared to $18.3 million during 2010. On a segment basis, we had an increase of $10.4 million, which was offset by an adjustment of $5.2 million related to funds for which we have not met the requirements that would allow us to recognize them as revenue.

Interest income on accounts receivable was $5.9 million for the year ended December 31, 2011, an increase of $0.2 million, or 3.8%, as compared to $5.7 million during 2010.

Revenues for the Funeral Home segment were $30.4 million for the year ended December 31, 2011, an increase of $4.9 million, or 19.0%, compared to $25.5 million during 2010. The increase was primarily attributable to the acquisitions of funeral homes we made during 2010 and 2011.

Other cemetery revenues include miscellaneous items that are not grouped with our cemetery merchandise and services. Other cemetery revenues were $3.2 million for the year ended December 31, 2011, a decrease of $0.4 million, or 12.3%, as compared to $3.6 million during 2010. The decrease was primarily related to non-recurring other income of $0.8 million related to the sale of assets that occurred in 2010, offset by other miscellaneous increases of $0.4 million.

Costs and Expenses

Cost of goods sold were $26.1 million for the year ended December 31, 2011, an increase of $2.6 million, or 11.0%, as compared to $23.5 million in 2010. The ratio of cost of goods sold to pre-need and at-need cemetery revenues remained relatively consistent as it slightly decreased to 15.8% for the year ended December 31, 2011 as compared to 16.3% during 2010. The change in the ratio primarily relates to changes in product mix.

Cemetery expenses were $57.2 million during the year ended December 31, 2011, an increase of $8.4 million, or 17.1%, compared to $48.8 million during 2010. The major components of the overall expense increase were $4.3 million in labor costs, $1.1 million in utility and fuel cost, $1.9 million in repairs and maintenance expenditures and $0.8 in real estate taxes. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our operating costs relative to our overall cemetery operations. An increase in the ratio indicates that expense increases related to the operation and maintenance of our cemetery properties exceeded increases in the value of contracts written, while a decrease in the ratio indicates that expense growth did not exceed increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decline as many of the expenses in this category are fixed in nature. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 28.2% during the year ended December 31, 2011 as compared to 26.4% during 2010.

Selling expenses were $45.3 million during the year ended December 31, 2011, an increase of $7.0 million, or 18.4%, as compared to $38.3 million in 2010. The major components of the overall expense increase include $2.3 million in commissions, $2.4 million in salaries and benefits, $1.2 million in advertising, telephone and telemarketing costs and $0.1 million related to a new sales training program started in the current year as well as a reduction in deferred selling expenses of $0.7 million. The ratio of selling expenses to cemetery revenues increased to 27.4% for the year ended December 31, 2011 as compared to 26.5% during 2010. This ratio gives some indication of how effectively the money we invest in selling efforts is translating into sales. However, the majority of our selling expenses are sales commissions and bonuses which are based on a percentage of the value of actual contracts written. As a result, we would expect this ratio to remain fairly consistent.

General and administrative expenses were $29.5 million during the year ended December 31, 2011, an increase of $4.9 million, or 20.1%, as compared to $24.6 million during 2010. The major components of the overall expense increase include $1.9 million in labor costs, $1.8 million in insurance costs, and $0.3 million in professional fees, with the remaining increase attributable to general office and miscellaneous costs. General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our general and administrative costs relative to our overall cemetery operations. An increase in the ratio indicates that general and administrative percentage expense increases related to our cemetery properties exceeded percent increases in the value of contracts written, while a decrease in the ratio indicates that expense growth on a percentage basis did not exceed percentage increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decrease as many of the expenses in this category are fixed in nature. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues increased to 14.6% during the year ended December 31, 2011 as compared to 13.3% during 2010.

Total corporate overhead was $23.8 million during the year ended December 31, 2011, a decrease of $0.6 million, or 2.5%, compared to $24.4 million during 2010. The overall decrease consists of a decrease of $1.0 million in personnel costs offset by an increase of $0.4 million in non-personnel expenses. The decrease in personnel related expenses was primarily attributable to a decrease of $1.8 million in bonus expenses, which were zero in 2011, offset by increased labor costs. The increase in other corporate expenses was attributable to increases of $0.5 million in professional fees and $0.2 million in technology and management information costs, offset by a decrease of $0.4 million in general office costs and corporate expenses.

Depreciation and amortization was $8.5 million during the year ended December 31, 2011, a decrease of $0.3 million, or 3.5%, as compared to $8.8 million during the same period last year. The overall decrease was due to a decrease in amortized deferred financing fees, which is partially offset by increased depreciation and amortization from tangible and intangible assets acquired in our 2010 and 2011 acquisitions.

Funeral Home expenses were $23.5 million for the year ended December 31, 2011, an increase of $3.6 million, or 18.1%, compared to $19.9 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.

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Acquisition related costs were $4.6 million for the year ended December 31, 2011, a decrease of $1.1 million, or 19.4%, as compared to $5.7 million during 2010. Acquisition related costs include legal fees and other third party costs incurred in acquisition related activities. These costs will vary from period to period depending on the amount of acquisition activity that takes place. For the years ended December 31, 2011 and 2010, acquisition related costs include legal fees net of recoveries, of $1.2 million and $0.4 million, respectively, related to amounts paid to pursue the recovery of misappropriation claims related to our second quarter 2010 acquisition.

Non-segment Allocated Results

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

The table below summarizes these items and the changes between the years ended December 31, 2011 and 2010:

	Year ended December 31,			
	2011	2010	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Expenses related to refinancing	$ 453	$	$ 453	100.0%
Gain on acquisition		7,152	(7,152)	-100.0%
Gain on sale of funeral home	92		92	100.0%
Early extinguishment of debt	4,010		4,010	100.0%
Increase (decrease) in fair value of interest rate swap		4,724	(4,724)	-100.0%
Interest expense	19,198	21,973	(2,775)	-12.6%
Income tax (benefit)	$ (4,019)	$ (5,383)	$ 1,364	-25.3%

The expenses related to refinancing for the year ended December 31, 2011 were incurred when we amended our credit facilities in January of 2011.

The gain on acquisition relates to our first and third quarter 2010 acquisitions. Refer to Note 14 of our consolidated financial statements in Item 8 of this Form 10-K for a more detailed discussion.

The gain on sale of a funeral home relates to the sale of one funeral home in West Virginia that we sold for $0.1 million.

The early extinguishment of debt charge of $4.0 million relates to a one-time make-whole premium we paid in connection with the early repayment of our $35.0 million in Class B and Class C Senior Secured Notes.

We entered into two interest rate swaps during the fourth quarter of 2009. In October of 2010, when the swaps were in a favorable position to us, we elected to early terminate our interest rate swap agreements. As a result, we received a payment of approximately $2.0 million at the time the agreement was settled. This payment combined with the reversal of the preceding year s interest rate swap liability created the prior year gain of $4.7 million.

Interest expense decreased as a result of our reduced debt. Borrowings on our credit facilities have fluctuated and have been impacted by borrowings we made for acquisitions and repayments of borrowings using proceeds from follow-on public offerings. The average debt outstanding under our credit facilities was $15.9 million for year ended December 31, 2011 compared to $28.0 million for the year ended December 31,

2010. We also had $35.0 million of Senior Secured Notes outstanding at December 31, 2010. The Senior Secured Notes, along with all amounts outstanding on our credit facilities were repaid in February of 2011. We did not have any borrowing on our credit facilities from this point through the end of May 2011. From May of 2011 through the end of the year, we have borrowed additional amounts on our credit facilities and we had $33.0 million and $10.8 million outstanding on our revolving and acquisition credit facilities, respectively, at December 31, 2011. In addition, the decrease in interest expense for the year ended December 31, 2011 was partially offset by interest rate swaps that reduced our interest payments and expense by approximately $1.2 million. The interest rate swaps were terminated in fourth quarter of 2010.

Income tax benefit was $4.0 million for the year ended December 31, 2011, a decrease of $1.4 million, or 25.3%, as compared to $5.4 million during 2010. The decrease in the income tax benefit is due to a decrease in pre-tax losses at our corporate subsidiaries that are subject to corporate tax, offset in part by the recording of a $0.9 million income tax benefit related to the reversal of uncertain tax positions for which the statute of limitations had expired. In addition, our effective tax rate differs from our statutory tax rate primarily because our legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

Liquidity and Capital Resources

Overview

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

Our primary sources of liquidity are cash flow from operations and amounts available under our Credit Facility as described below. In the past, we have been able to increase our liquidity through long-term bank borrowings and the issuance of additional common units and other partnership securities, including debt, subject to the restrictions in our Credit Facility and under our senior secured notes.

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

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

Offerings of Common Units

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. 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.

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Long-term Debt

Purchase Agreement

On November 18, 2009, we entered into a Purchase Agreement (the Purchase Agreement) by and among StoneMor Operating LLC (the Operating Company), Cornerstone Family Services of West Virginia Subsidiary, Inc. (CFS West Virginia), Osiris Holding of Maryland Subsidiary, Inc. (Osiris), the Partnership, the subsidiary guarantors named in the Purchase Agreement (together with us, the Note Guarantors) and Bank of America Securities LLC (BAS), acting on behalf of itself and as the representative for the other initial purchasers named in the Purchase Agreement (collectively, the Initial Purchasers). Pursuant to the Purchase Agreement, the Operating Company, CFS West Virginia and Osiris (collectively, the Issuers), each our wholly-owned subsidiary, as joint and several obligors, agreed to sell to the Initial Purchasers $150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 (the Senior Notes), with an original issue discount of approximately $4.0 million, in a private placement exempt from the registration requirements under the Securities Act of 1933, as amended (the Securities Act), for resale by the Initial Purchasers (i) to qualified institutional buyers pursuant to Rule 144A under the Securities Act or (ii) outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act (the Notes Offering). The Notes Offering closed on November 24, 2009.

The Purchase Agreement contains customary representations and warranties of the parties and indemnification and contribution provisions under which we, the Issuers, and other Note Guarantors, on one hand, and the Initial Purchasers, on the other, have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act. The Issuers, us and the other Note Guarantors also agreed to enter into a Registration Rights Agreement (described below) for the benefit of holders of the Senior Notes.

Indenture

On November 24, 2009, the Issuers, we and the other Note Guarantors, entered into an indenture (the Indenture), among the Issuers, us, the other Note Guarantors and Wilmington Trust FSB, as trustee (the Trustee) governing the Senior Notes.

The Issuers will pay 10.25% interest per annum on the principal amount of the Senior Notes, payable in cash semi-annually in arrears on June 1 and December 1 of each year, starting on June 1, 2010. The Senior Notes mature on December 1, 2017.

The Senior Notes are senior unsecured obligations of the Issuers and:

- rank equally in right of payment with all existing and future senior unsecured debt of the Issuers;
- rank senior in right of payment to all existing and future senior subordinated and subordinated debt of the Issuers;
- are effectively subordinated in right of payment to existing and future secured debt of the Issuers, to the extent of the value of the assets securing such debt; and
- are structurally subordinated to all of the existing and future liabilities of each subsidiary of the Issuers that does not guarantee the Senior Notes.

The Issuers obligations under the Senior Notes and the Indenture are jointly and severally guaranteed (the Note Guarantees) by us and each subsidiary, other than the Issuers, that is a guarantor of any indebtedness under the Credit Agreement (as defined below), or is a borrower under the Credit Agreement and each other subsidiary that the Issuers shall otherwise cause to become a Note Guarantor pursuant to the terms of the Indenture (each, a Restricted Subsidiary).

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At any time on or after December 1, 2013, the Issuers, at their option, may redeem the Senior Notes, in whole or in part, at the redemption prices (expressed as percentages of the principal amount) set forth below, together with accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period beginning December 1 of the years indicated:

Year	Optional Redemption Price
2013	105.125%
2014	102.563%
2015 and thereafter	100%

At any time prior to December 1, 2013, the Issuers may, on one or more occasions, redeem all or any portion of the Senior Notes, upon not less than 30 nor more than 60 days notice, at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed, plus the Applicable Premium (as defined in the Indenture) as of the date of redemption, including accrued and unpaid interest to the redemption date.

Subject to certain exceptions, upon the occurrence of a Change of Control (as defined in the Indenture), each holder of Senior Notes will have the right to require the Issuers to purchase that holder s Senior Notes for a cash price equal to 101% of the principal amounts to be purchased, plus accrued and unpaid interest to the date of purchase.

The Indenture requires us, the Issuers and/or the Note Guarantors, as applicable, to comply with various covenants including, but not limited to, covenants that, subject to certain exceptions, limit our and our subsidiaries ability to (i) incur additional indebtedness; (ii) make certain dividends, distributions, redemptions or investments; (iii) enter into certain transactions with affiliates; (iv) create, incur, assume or permit to exist certain liens against their assets; (v) make certain sales of their assets; and (vi) engage in certain mergers, consolidations or sales of all or substantially all of their assets. The Indenture also contains various affirmative covenants regarding, among other things, delivery of certain reports filed with the SEC and materials required pursuant to Rule 144A under the Securities Act to holders of the Senior Notes and joinder of future subsidiaries as Note Guarantors under the Indenture. We were in compliance with all covenants at December 31, 2012.

Events of default under the Indenture that could, subject to certain conditions, cause all amounts owing under the Senior Notes to become immediately due and payable include, but are not limited to, the following:

1. failure by the Issuers to pay interest on any of the Senior Notes when it becomes due and the continuance of any such failure for 30 days;

2. failure by the Issuers to pay the principal on any of the Senior Notes when it becomes due and payable, whether at stated maturity, upon redemption, upon purchase, upon acceleration or otherwise;

3. the Issuers failure to comply with the agreements and covenants relating to limitations on entering into certain mergers, consolidations or sales of all or substantially all of their assets or in respect of their obligations to purchase the Senior Notes in connection with a Change of Control;

4. failure by us or the Issuers to comply with any other agreement or covenant in the Indenture and the continuance of this failure for 60 days after notice of the failure has been given to us by the Trustee or holders of at least 25% of the aggregate principal amount of the Senior Notes then outstanding;

5. failure by us to comply with our covenant to deliver certain reports and the continuance of such failure to comply for a period of 120 days after written notice thereof has been given to us by the Trustee or by the holders of at least 25% in aggregate principal amount of the Senior Notes then outstanding;

6. certain defaults under mortgages, indentures or other instruments or agreements under which there may be issued or by which there may be secured or evidenced our indebtedness or indebtedness of any Restricted Subsidiary, whether such indebtedness now exists or is incurred after the date of the Indenture;

7. certain judgments or orders that exceed $7.5 million for the payment of money have been entered by a court of competent jurisdiction against us or any Restricted Subsidiary and such judgments have not been satisfied, stayed, annulled or rescinded within 60 days of being entered;

8. certain events of bankruptcy of us, StoneMor GP LLC, our general partner (the General Partner), or any Restricted Subsidiary; or

9. other than in accordance with the terms of the Note Guarantee and the Indenture, any Note Guarantee ceasing to be in full force and effect, being declared null and void and unenforceable, found to be invalid or any Guarantor denying its liability under its Note Guarantee.

Registration Rights Agreement

In connection with the sale of the Senior Notes, on November 24, 2009, the Issuers, we, the other Note Guarantors and BAS, as representative of the Initial Purchasers, entered into a Registration Rights Agreement (the Registration Rights Agreement), pursuant to which the Issuers, we and the other Note Guarantors, agreed, for the benefit of the holders of the Senior Notes, to use their commercially reasonable efforts to file a registration statement with the SEC with respect to a registered offer to exchange the Senior Notes for new exchange notes having terms substantially identical in all material respects to the Senior Notes, with certain exceptions (the Exchange Offer). The Issuers, us and the other Note Guarantors, agreed to use their commercially reasonable efforts to consummate such Exchange Offer on or before the 366-th day after the issuance of the Senior Notes.

In addition, upon the occurrence of certain events described in the Registration Rights Agreement which result in the inability to consummate the Exchange Offer, the Issuers, we and the other Note Guarantors, agreed to file a shelf registration statement with the SEC covering resales of the Senior Notes and to use their commercially reasonable efforts to cause such shelf registration statement to be declared effective.

The Issuers are required to pay additional interest to the holders of the Senior Notes under certain circumstances if they fail to comply with their obligations under the Registration Rights Agreement. In October of 2010, we complied with the terms of the registration rights agreement.

Note Purchase Agreement

On August 15, 2007, we entered into, along with the General Partner and certain of our subsidiaries, (collectively, the Note Issuers) the Amended and Restated Note Purchase Agreement (the NPA). The NPA was amended seven times prior to January 28, 2011 to, among other things, amend borrowing levels, interest rates, maturity dates and covenants. On January 28, 2011, and in connection with our February 2011 follow-on public offering of common units, we entered into an additional amendment to our credit agreement. This amendment included the lenders consent to the use of a portion of the proceeds from the public offering of common units to redeem in full the outstanding $17.5 million of Series B Notes and $17.5 million of Series C Notes and to pay an aggregate make-whole premium of $4.0 million related thereto, which represented our final obligations outstanding under the NPA.

Credit Facility

On August 15, 2007, we, the General Partner, and the Operating Company and various subsidiaries of the Operating Company (collectively, the Borrowers), entered into an Amended and Restated Credit Agreement (the Original Credit Agreement) with Bank of America, N.A. (Bank of America), other lenders, and BAS (collectively, the Lenders). The Original Credit Agreement provided for both an acquisition credit facility (the Acquisition Credit Facility) and a revolving credit facility (the Revolving Credit Facility). Capitalized terms which are not defined in the following description shall have the same meaning assigned to such terms in the Original Credit Agreement, as amended.

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The Original Credit Agreement initially provided that: (1) the Acquisition Credit Facility would have a maximum principal amount of $40.0 million (with an option to increase such facility by an additional $15.0 million on an uncommitted basis) and the term of 5 years, and (2) the Revolving Credit Facility would have a maximum principal amount of $25.0 million (with an option to increase such facility by up to $10.0 million on an uncommitted basis) and a term of 5 years. Amounts borrowed under the Acquisition Credit Facility and repaid or prepaid could not be reborrowed and amounts borrowed under the Revolving Credit Facility and repaid or prepaid during the term could be reborrowed. In addition, Bank of America agreed to provide to the borrowers swing line loans (Swing Line Loans) with a maximum limit of $5.0 million, which is a part of the Revolving Credit Facility. Loans outstanding under the Acquisition Credit Facility and the Revolving Credit Facility bore interest at rates set forth in the Credit Agreement, which were subsequently amended as described below.

The Original Credit Agreement was amended six times prior to September 22, 2010 to, among other things, amend borrowing levels, interest rates and covenants. On September 22, 2010, concurrently with the closing of the common units offering from which we used $22.5 million of net proceeds to prepay amounts on the Acquisition Credit Facility and used $14.5 million of net proceeds to pay down amounts on the Revolving Credit Facility, we entered into the Seventh Amendment to the Original Credit Agreement to, among other things, reinstate the amount available on the Acquisition Credit Facility to a total of $55.0 million and reinstate the amount available on the Revolving Credit Facility to $45.0 million.

On January 28, 2011, and in connection with our February 2011 follow-on public offering of common units, we entered into the Eighth Amendment to the Original Credit Agreement which, among other things, extended the Maturity Date from August 15, 2012 to January 29, 2016, changed the limit on Maintenance Capital Expenditures and reduced the applicable margins for each of: (i) Eurodollar Rate Loans and Letter of Credit Fees and (ii) Base Rate Loans by 50 basis points, resulting in Pricing Level 3 of the Applicable Rate (the currently applicable pricing level) of 3.75% and 2.75%, respectively. The Eighth Amendment to the Original Credit Agreement also increased the Lenders aggregate commitments by $10.0 million under each of the Acquisition Credit Facility and the Revolving Credit Facility, resulting in an Acquisition Credit Facility of $65.0 million and a Revolving Credit Facility of $55.0 million.

On April 29, 2011, we entered into the Second Amended and Restated Credit Agreement (the Credit Agreement) among the Operating Company as the Borrower, each of the subsidiaries of the Operating Company as additional Borrowers, the General Partner and the Company as Guarantors, the Lenders identified therein, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer. The terms of the Credit Agreement were substantially the same as the terms of the Original Credit Agreement. The primary purpose of entering into the Credit Agreement was to consolidate the amendments to the Original Credit Agreement and to update outdated references. The terms of the Credit Agreement are set forth below. Capitalized terms which are not defined in the following description shall have the meaning assigned to such terms in the Credit Agreement.

The Credit Agreement provided for both an Acquisition Credit Facility of $65.0 million and a Revolving Credit Facility of $55.0 million, (together, the Credit Facility). Amounts borrowed could be either Base Rate Loans or Eurodollar Rate Loans and once repaid or prepaid, amounts under the Acquisition Credit Facility could not be reborrowed. Depending on the type of loan, borrowings bore interest at the Base Rate or Eurodollar Rate, plus applicable margins ranging from 1.75% to 2.75% and 2.75% to 3.75%, respectively, depending on the Company s Consolidated Leverage Ratio. The Base Rate is the highest of the Prime Rate, the Federal Funds Rate plus 0.50%, or the Eurodollar Rate plus 1.0%.

The Eurodollar Rate is:

- with respect to a Eurodollar Rate Loan, the higher of the British Bankers Association LIBOR Rate or 2.0%; and
- with respect to a Base Rate Loan, the British Bankers Association LIBOR Rate.

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The maturity date of the Credit Facility was January 29, 2016. The Company s maximum Consolidated Leverage Ratio, which is the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA, was 3.65 to 1.0 for all Measurement Periods ending after December 31, 2010. In addition, we were not permitted to have Maintenance Capital Expenditures, as defined in the Credit Agreement, for any Measurement Period ending in 2011, 2012 and 2013 exceeding $4.6 million, $5.2 million and $5.8 million, respectively, or $6.5 million for any Measurement Period ending in 2014 or thereafter. We also could not permit Consolidated EBITDA for any Measurement Period to be less than the sum of (i) $52 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after February 9, 2011.

At the time of entering into the Credit Agreement, the Consolidated Fixed Charge Coverage Ratio was required to be not less than 1.15x for any Measurement Period ending in 2011, or 1.20x for any Measurement Period thereafter.

On August 4, 2011, we entered into the First Amendment to the Credit Agreement (the First Amendment) to provide that we could not permit the Consolidated Fixed Charge Coverage Ratio to be less than 1.08x for any Measurement Period ending in the second and third fiscal quarters of 2011, 1.15x for any Measurement Period ending in the fourth quarter of 2011, or 1.20x thereafter. This amendment was effective on a retrospective basis to June 30, 2011.

On October 28, 2011, we entered into the Second Amendment to the Credit Agreement (the Second Amendment) to provide that we could not permit the Consolidated Fixed Charge Coverage Ratio to be less than 1.05x for any Measurement Period ending in the third and fourth fiscal quarters of 2011, or 1.20x thereafter. This amendment was effective on a retrospective basis to August 31, 2011.

On January 19, 2012, we entered into the Third Amended and Restated Credit Agreement (the New Credit Agreement) which amended the Credit Agreement. The terms of the New Credit Agreement and the Credit Agreement are substantially similar, and amendments to the Credit Agreement mostly 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 New Credit Facility) and increasing the total borrowing limit to $130.0 million;

- eliminating the borrowing formula under the New Credit Facility;

- extending the maturity date to January 19, 2017;

- eliminating the LIBOR floor and amending the Applicable Rate, which effectively reduced the interest rate on the New Credit Facility; and

- amending certain financial covenants, as described below.

Amounts borrowed under the New Credit Facility and repaid or prepaid during the term may be reborrowed. Depending on the type of loan, borrowings bear interest at the Base Rate or Eurodollar Rate, plus applicable margins ranging from 1.25% to 2.75% and 2.25% to 3.75%, respectively, depending on our Consolidated Leverage Ratio. The Base Rate is the highest of the Prime Rate, the Federal Funds Rate plus 0.50%, or the Eurodollar Rate plus 1.0%. The Eurodollar rate, the British Bankers Association LIBOR Rate, was reduced by eliminating the LIBOR Floor of 2% per annum from the calculation of the Eurodollar Rate. The Commitment Fee under the New Credit Agreement ranges from 0.375% to 0.75% depending on our Consolidated Leverage Ratio.

Under the New Credit Agreement, certain financial covenants were amended as follows:

- Consolidated EBITDA for the most recently completed four fiscal quarters of the Partnership (the New Measurement Period) must not be less than the sum of (i) $53.5 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after September 30, 2011;

- Maintenance Capital Expenditures for any New Measurement Period ending in 2012, 2013, 2014 and thereafter must not exceed $6.7 million, $7.3 million, and $8.0 million, respectively; and

- the Consolidated Fixed Charge Coverage Ratio under the Credit Agreement was replaced with the Consolidated Debt Service Coverage Ratio, the calculation of which does not include distributions made by the Partnership and which must not be less than 2.50 to 1.0 for any New Measurement Period under the Credit Agreement.

The Borrowers under the Credit Agreement paid fees to Bank of America, as Administrative Agent, and BAS, as Arranger. In addition, the Credit Agreement required the Borrowers to pay an unused commitment fee, which was calculated based on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments. The Commitment Fee ranges from 0.375% to 0.75% depending on the Company s Consolidated Leverage Ratio.

The proceeds of the Acquisition Credit Facility could have been used by the Borrowers to finance (i) Permitted Acquisitions, and (ii) the purchase and construction of mausoleums. The proceeds of the Revolving Credit Facility and Swing Line Loans could have been utilized to finance working capital requirements, Capital Expenditures and for other general corporate purposes. The Borrowers obligations under the Credit Agreement were guaranteed by both the Partnership and StoneMor GP LLC.

The Borrowers obligations under the Credit Facility were secured by a first priority lien and security interest in substantially all of the Borrowers assets, whether then owned or thereafter acquired, excluding: (i) trust accounts, certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts; (ii) the General Partner s interest in the Partnership, the incentive distribution rights under the Partnership s partnership agreement and the deposit accounts of the General Partner into which distributions are received; (iii) Equipment subject to a purchase money security interest or equipment lease permitted under the Credit Agreement and certain other contract rights under which contractual, legal or other restrictions on assignment would prohibit the creation of a security interest or such creation of a security interest would result in a default thereunder.

Events of Default under the Credit Agreement included, but were not limited to, the following:

- non-payment of any principal, interest or other amounts due under the Credit Agreement or any other Credit Document;

- failure to observe or perform any covenants related to: (i) the delivery of financial statements, compliance certificates, reports and other information; (ii) providing prompt notice of Defaults and other events; (iii) the preservation of the legal existence and good standing of each Borrower and Guarantor; (iv) the ability of the Administrative Agent and each Lender to visit and inspect properties, examine books and records, and discuss financial and business affairs with directors, officers and independent public accountants of each Borrower and Guarantor; (v) restrictions on the use of proceeds; (vi) guarantees by new Subsidiaries; (vii) the maintenance of corporate formalities for each Borrower and Guarantor; (viii) the maintenance of Trust Accounts and Trust Funds; and (ix) any of the negative covenants contained in the Credit Agreement;

- failure to observe or perform any other covenant, if uncured 30 days after notice thereof is provided by the Administrative Agent or Lenders;

- any default under any other Indebtedness of the Borrowers or Guarantors;

- any insolvency proceedings by a Borrower or Guarantor;

- the insolvency of any Borrower or Guarantor, or a writ of attachment or execution or similar process issuing or being levied against any material part of the property of a Borrower or Guarantor; and any Change in Control.

On February 19, 2013, we entered into the First Amendment to our Third Amended and Restated Credit Agreement which increased the total availability under our New Credit Facility by $10.0 million to $140.0 million.

The Credit Agreement contains restrictive covenants that, among other things, prohibit distributions upon defined events of default, restrict investments and sales of assets and require us to maintain certain financial covenants, including specified financial ratios. A material decrease in revenues could cause us to breach certain of its financial covenants, such as the Consolidated Leverage Ratio, Consolidated Fixed Charge Coverage Ratio and the Consolidated EBITDA covenant, under the Credit Agreement. Any such breach could allow the Lenders to accelerate (or create cross-default under) our debt which would have a material adverse effect on our business, financial condition or results of operations. We complied with these covenants as of December 31, 2012.

Amounts outstanding under our credit facilities fluctuated during the years ended December 31, 2012 and 2011. At the beginning of 2011, we had $33.5 million outstanding on our credit facilities which we repaid in February of 2011. We did not have any additional borrowings on our credit facilities from this point through the end of May 2011, when we borrowed $8.0 million. During the third and fourth quarters of 2011, we borrowed an additional $35.8 million on our credit facilities, bringing the total outstanding borrowings on these facilities to $43.8 million at December 31, 2011. In 2012, we borrowed an additional $7.3 million, $10.9 million, $22.7 million and $17.0 million in the first, second, third and fourth quarters, respectively, and have outstanding borrowings of $101.7 million at December 31, 2012. The average amounts borrowed under our credit facilities were $80.7 million and $15.9 million for the years ended December 31, 2012 and 2011, respectively.

Green Lawn Note

In July of 2009, certain of our subsidiaries, entered into a $1.4 million note purchase agreement in connection with an operating agreement in which we became the exclusive operator of Green Lawn Cemetery (the Green Lawn Note). The Green Lawn Note bears interest at a rate of 6.5% per year on unpaid principal and is payable monthly, beginning on August 1, 2009. Principal on the note is due in 96 equal installments beginning on July 1, 2011. At December 31, 2012, the liability related to the note was stated on our consolidated balance sheet at approximately $1.2 million.

Nelms Note

In June of 2010, certain of our subsidiaries issued two installment notes in connection with our second quarter acquisition. The installment notes are to be paid over a 4 year period and mature April 1, 2014. The installment notes do not have a stated rate of interest. We recorded the installment notes at their fair market value of approximately $2.6 million. The face amounts of the installment notes were discounted approximately $0.7 million, and the discount will be amortized to interest expense over the life of the Installment Notes. At December 31, 2012, the liability related to the notes was stated on our consolidated balance sheet at approximately $0.3 million.

In June of 2010, certain of our subsidiaries also issued four notes in the aggregate principal amount of approximately $5.8 million in connection with the acquisition referenced above. These notes were paid at the closing of the acquisition by: (i) the issuance by us of 293,947 unregistered common units representing limited partnership interests in us valued at approximately $5.8 million and (ii) a cash payment of approximately $0.2 million.

Acquisition Non-Compete Notes

In connection with several of our 2012, 2011 and 2010 acquisitions, certain of our subsidiaries issued installment notes in consideration for non-compete agreements executed with the former owners of the acquired entities. The installment notes have varying payment terms and mature between April 1, 2014 and December 31,

2017. The installment notes do not have a stated rate of interest. At inception, we recorded the installment notes at their fair market value of approximately $4.8 million. The face amounts of the installment notes were discounted approximately $1.0 million, and the discount will be amortized to interest expense over the life of the installment notes. At December 31, 2012, the liability related to the installment notes was stated on our consolidated balance sheet at approximately $3.3 million.

Interest Rate Swaps

On November 24, 2009, we entered into an interest rate swap (the First Interest Rate Swap) wherein we agreed to pay the counterparty interest in the amount of three month LIBOR plus 888 basis points in consideration for the counterparties agreement to pay us a fixed rate of interest of 10.25% on a principal amount of $108.0 million. On December 4, 2009, we entered into an interest rate swap (the Second Interest Rate Swap , together with the First Interest Rate Swap, the Interest Rate Swaps) wherein we agreed to pay the counterparty interest in the amount of three month LIBOR plus 869 basis points in consideration for the counterparties agreement to pay us a fixed rate of interest of 10.25% on a principal amount of $27.0 million.

The Interest Rate Swaps did not qualify for hedge accounting. Accordingly, the fair value of the Interest Rate Swaps was reported on the consolidated balance sheet and periodic changes in the fair value of the Interest Rate Swaps were recorded in earnings. On October 20, 2010, we elected to terminate the Interest Rate Swaps early. Upon termination, we received a payment of approximately $2.0 million to settle the Interest Rate Swaps. For the year ended December 31, 2010, we recognized a gain of approximately $4.7 million related to the change in fair value and termination payment of the Interest Rate Swaps.

Cash Flow from Operating Activities

Cash flows provided by operating activities were $31.9 million during 2012, an increase of $26.4 million, compared to cash provided by operating activities of $5.5 million during the same period last year. The increase is caused in part by increased operating profit which was largely due to increased pre-need cemetery sales. In addition, we had increased cash flows of $2.8 million from our accounts receivable and net deposits into our merchandise trusts decreased by $12.1 million.

Cash flows provided by operating activities were $5.5 million during 2011, an increase of $2.4 million, compared to cash provided by operating activities of $3.1 million in 2010. The increase is primarily due to decreases of $3.3 million in cash paid for interest and $1.1 million in acquisition related costs combined with increased cash flows from our accounts receivable, which are being offset by increased cash flows into our merchandise trusts.

Cash flows from operations in 2012, 2011 and 2010 exceeded our net loss of $3.0 million, $9.7 million and $1.4 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.

Cash Flow from Investing Activities

Net cash used in investing activities was $39.9 million during 2012, an increase of $10.7 million, compared to $29.2 million during 2011. Cash flows used for investing activities during 2012 primarily were $28.0 million for the acquisition of 5 cemetery properties and 17 funeral homes and $11.9 million for other capital expenditures compared to $16.1 million utilized for the acquisition of 17 cemetery properties and 12 funeral homes and $13.2 million for other capital expenditures in 2011.

Net cash used in investing activities was $29.2 million during 2011, a decrease of $20.4 million, compared to $49.6 million during 2010. Cash flows used for investing activities during 2011 primarily were $16.1 million for the acquisition of 17 cemetery properties and 12 funeral homes and $13.2 million for other capital expenditures compared to $39.1 million utilized for the acquisition of 22 cemetery properties and 6 funeral homes and $10.1 million for other capital expenditures in 2010.

Cash Flow from Financing Activities

Net cash provided by financing activities was $3.9 million during 2012, a decrease of $24.3 million, compared to $28.2 million net cash provided by financing activities during 2011. Cash flows provided by financing activities during 2012 primarily were $54.0 million of net borrowing of long-term debt, offset by cash distributions to unit holders of $47.5 million and costs of financing activities of $2.4 million. Cash flows provided by financing activities during 2011 primarily were $103.2 million of proceeds from our public offering and a contribution from our general partner of $2.3 million offset by net repayments of long-term debt of $27.1 million, cash distributions to unit holders of $44.6 million and the payment of a $4.0 million make-whole premium related to the pay-off of $35.0 million in senior secured notes. Additionally, we borrow to fund working capital as a result of cash build-ups in our accounts receivable and merchandise trusts and to fund acquisitions related to pre-need sales growth.

Net cash provided by financing activities was $28.2 million during 2011, a decrease of $12.3 million, compared to $40.5 million during 2010. Cash flows provided by financing activities during 2011 primarily were $103.2 million of proceeds from our public offering and a contribution from our general partner of $2.3 million offset by net repayments of long-term debt of $27.1 million, cash distributions to unit holders of $44.6 million and the payment of a $4.0 million make-whole premium related to the pay-off of $35.0 million in senior secured notes. Cash flows provided by financing activities during 2010 primarily were $38.9 million of proceeds from our public offering and a contribution from our general partner of $1.0 million, and $33.7 million of net borrowings, which were in turn primarily used to fund our first, second, and third quarter 2010 acquisitions, offset by $32.4 million of cash distributions to unit holders.

Intercreditor and Collateral Agency Agreement

In connection with our credit facilities and the private placement of the notes we entered into, along with our general partner, certain of our subsidiaries, the lenders under the credit facility, the holders of the notes and Bank of America, N.A, as collateral agent, an intercreditor and collateral agency agreement setting forth the rights and obligations of the parties to the agreement as they relate to the collateral securing the Credit Facility and the Senior Secured Notes.

Capital Expenditures

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

	Year ended December 31,		
	2012	**2011**	**2010**
		(in thousands)	
Maintenance capital expenditures	$ 4,874	$ 6,040	$ 7,878
Expansion capital expenditures	35,074	23,268	41,327
Total capital expenditures	$ 39,948	$ 29,308	$ 49,205

Pursuant to our partnership agreement, in connection with determining operating cash flows available for distribution, costs to construct mausoleum crypts and lawn crypts may be considered to be a combination of maintenance capital expenditures and expansion capital expenditures depending on the purposes for construction.

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Our general partner, with the concurrence of its conflicts committee, has the discretion to determine how to allocate a capital expenditure for the construction of a mausoleum crypt or a lawn crypt between maintenance capital expenditures and expansion capital expenditures. In addition, maintenance capital expenditures for the construction of a mausoleum crypt or a lawn crypt are not subtracted from operating surplus in the quarter incurred but rather are subtracted from operating surplus ratably during the estimated number of years it will take to sell all of the available spaces in the mausoleum or lawn crypt. Estimated life is determined by our general partner, with the concurrence of its conflicts committee.

Off Balance Sheet Arrangements, Contractual Obligations and Contingencies

We have assumed various financial obligations and commitments in the ordinary course of conducting our business. We have contractual obligations requiring future cash payments related to debt maturities, interest on debt, operating lease agreements, and liabilities to purchase merchandise related to our in force pre-need sales contracts.

A summary of our total contractual obligations as of December 31, 2012 is presented in the table below:

	As of 12/31/2012				
	Total	Less than 1 year	1-3 years (in thousands)	3-5 years	More than 5 years
Debt (1)	$ 364,576	$ 21,409	$ 40,823	$ 137,913	$ 164,431
Operating leases	7,830	2,112	2,256	1,570	1,892
Merchandise liabilities (2)	125,869				
Total	$ 498,275	$ 23,521	$ 43,079	$ 139,483	$ 166,323

(1) Represents the interest payable and par value of debt due and does not include the unamortized debt discounts of $3,344 at December 31, 2012. Assumes that current amounts outstanding under our Credit Facility are not repaid until their due date of January 2017.

(2) Total cannot be separated into periods because we are unable to anticipate when the merchandise will be needed.

We had no off-balance sheet arrangements as of December 31, 2012 or 2011.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The information presented below should be read in conjunction with the notes to our audited consolidated financial statements included under Item 8 Financial Statements and Supplementary Data.

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

Interest-bearing Investments

Our fixed-income securities subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of December 31, 2012, the fair value of fixed-income securities in our merchandise

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trusts represented 3.5% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 8.6% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was $13.0 million and $24.2 million in merchandise trusts and perpetual care trusts, respectively, as of December 31, 2012. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately $130,310 and $241,740 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows. If these securities are held to maturity, no change in fair market value will be realized.

Our money market and other short-term investments subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of December 31, 2012, the fair value of money market and short-term investments in our merchandise trusts represented 7.4% of the fair value of total trust assets while the fair value of money market and short-term investments in our perpetual care trusts represented 7.6% of the fair value of total trust assets. The aggregate quoted fair value of these money market and short-term investments was $27.9 million and $21.4 million in merchandise trusts and perpetual care trusts, respectively, as of December 31, 2012. Each 1% change in interest rates on these money market and short-term investments would result in changes of approximately $278,900 and $214,190 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows.

Marketable Equity Securities

Our marketable equity securities subject to market risk consist primarily of investments held in our merchandise trusts and perpetual care trusts. These assets consist of investments in both individual equity securities as well as closed and open ended mutual funds. As of December 31, 2012, the fair value of marketable equity securities in our merchandise trusts represented 17.9% of the fair value of total trust assets while the fair value of marketable equity securities in our perpetual care trusts represented 10.6% of total trust assets. The aggregate quoted fair market value of these marketable equity securities was $67.4 million and $29.9 million in merchandise trusts and perpetual care trusts, respectively, as of December 31, 2012, based on final quoted sales prices. Each 10% change in the average market prices of the equity securities would result in a change of approximately $6.7 million and $3.0 million in the fair market value of securities held in merchandise trusts and perpetual care trusts, respectively. As of December 31, 2012, the fair value of marketable closed and open ended mutual funds in our merchandise trusts represented 67.3% of the fair value of total trust assets while the fair value of closed and open ended mutual funds in our perpetual care trusts represented 73.1% of total trust assets. The aggregate quoted fair market value of these closed and open ended mutual funds was $253.0 million and $206.4 million in merchandise trusts and perpetual care trusts, respectively, as of December 31, 2012, based on final quoted sales prices. Each 10% change in the average market prices of the closed and open ended mutual funds would result in a change of approximately $25.3 million and $20.6 million in the fair market value of securities held in merchandise trusts and perpetual care trusts, respectively.

Investment Strategies and Objectives

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

- State in a written document our expectations, objectives, tolerances for risk and guidelines in the investment of our assets;

- Set forth a disciplined and consistent structure for managing all trust assets. This structure is based on a long-term asset allocation strategy, which is diversified across asset classes, investment styles and strategies. We believe this structure is likely to meet our stated objectives within our tolerances for risk and variability. This structure also includes ranges around the target allocations allowing for adjustments when appropriate to reduce risk or enhance returns. It further includes guidelines for the selection of investment managers and vehicles through which to implement the investment strategy;

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- Provide specific guidelines for each investment manager. These guidelines control the level of overall risk and liquidity assumed in each portfolio;

- Appoint third-party investment advisors to oversee the specific investment managers and advise our Trust and Compliance Committee; and

- Establish criteria to monitor, evaluate and compare the performance results achieved by the overall trust portfolios and by our investment managers. This allows us to compare the performance results of the trusts to our objectives and other benchmarks, including peer performance, on a regular basis.

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

We recognize the challenges we face in achieving our investment objectives in light of the uncertainties and complexities of contemporary investment markets. Furthermore, we recognize that, in order to achieve the stated long-term objectives, we may have short-term declines in market value. Given the need to maintain consistent values in the portfolio, we have attempted to develop a strategy which is likely to maximize returns and earnings without experiencing overall declines in value in excess of 3% over any 12-month period. We were able to achieve this objective in 2010. However in the third quarter of 2011, the markets took a downturn over fears of a European debt crisis and did not fully recover by year end. As a result, we did not achieve this objective in 2011. A recovery in the financial markets enabled us to achieve our investment objective in 2012.

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

Debt Instruments

Our New Credit Facility bears interest at a floating rate, based on LIBOR, which is adjusted quarterly. This subjects us to increases in interest expense resulting from movements in interest rates. As of December 31, 2012, we had $101.7 million of borrowings outstanding under our New Credit Facility. After these borrowings, our unused line of credit under the New Credit Facility is $28.3 million. The interest rates on amounts outstanding under the New Credit Facility ranged from approximately 3.6% to 4.1% at December 31, 2012. A 1% increase in our interest rates would increase our annual interest expense by $1.0 million, based on our borrowings outstanding under the New Credit Facility as of December 31. 2012.

In the fourth quarter of 2009, we entered into two interest rate swaps wherein we swapped a fixed rate of interest for a floating rate of interest on $135.0 million of debt. These interest rate swaps subjected us to changes in interest expense resulting from movements in interest rates. We reduced cash paid for interest by approximately $1.0 million for the year ended December 31, 2010 as a result of these interest rate swaps. On October 20, 2010, we elected to terminate the Interest Rate Swaps early and we received a payment of approximately $2.0 million to settle the Interest Rate Swaps. For the year ended December 31, 2010, we recognized a gain of approximately $4.7 million related to the change in fair value and termination payment of the Interest Rate Swaps.

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of StoneMor Partners GP LLC and Unitholders of StoneMor Partners L.P.

Levittown, Pennsylvania

We have audited the accompanying consolidated balance sheets of StoneMor Partners L.P. and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations, partners capital, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of StoneMor Partners L.P. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2013 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania

March 15, 2013

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StoneMor Partners L.P.

Consolidated Balance Sheet

(in thousands)

	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 7,946	$ 12,058
Accounts receivable, net of allowance	51,895	48,837
Prepaid expenses	3,832	4,266
Other current assets	17,418	16,670
Total current assets	81,091	81,831
Long-term accounts receivable, net of allowance	71,521	68,419
Cemetery property	309,980	298,938
Property and equipment, net of accumulated depreciation	79,740	73,777
Merchandise trusts, restricted, at fair value	375,973	344,515
Perpetual care trusts, restricted, at fair value	282,313	254,679
Deferred financing costs, net of accumulated amortization	9,238	8,817
Deferred selling and obtaining costs	76,317	68,542
Deferred tax assets	381	415
Goodwill	42,392	32,145
Other assets	14,779	16,680
Total assets	$ 1,343,725	$ 1,248,758
Liabilities and partners capital		
Current liabilities:		
Accounts payable and accrued liabilities	$ 28,973	$ 26,428
Accrued interest	1,833	1,632
Current portion, long-term debt	2,175	1,487
Total current liabilities	32,981	29,547
Other long-term liabilities	1,835	2,830
Long-term debt	252,774	193,835
Deferred cemetery revenues, net	497,861	441,678
Deferred tax liabilities	14,910	16,968
Merchandise liability	125,869	128,942
Perpetual care trust corpus	282,313	254,679
Total liabilities	1,208,543	1,068,479
Commitments and Contingencies		
Partners capital		
General partner	386	2,192
Common partners	134,796	178,087
Total partners capital	135,182	180,279
Total liabilities and partners capital	$ 1,343,725	$ 1,248,758

See Accompanying Notes to the Consolidated Financial Statements.

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StoneMor Partners L.P.

Consolidated Statement of Operations

(in thousands, except unit data)

	2012	2011	2010
Revenues:			
Cemetery			
Merchandise	$ 114,025	$ 108,088	$ 94,898
Services	46,094	46,995	40,951
Investment and other	46,808	42,901	35,897
Funeral home			
Merchandise	15,551	12,810	10,435
Services	20,128	17,594	15,111
Total revenues	242,606	228,388	197,292
Costs and Expenses:			
Cost of goods sold (exclusive of depreciation shown separately below):			
Perpetual care	5,715	5,727	5,094
Merchandise	22,386	20,388	18,435
Cemetery expense	55,410	57,145	48,784
Selling expense	46,878	45,291	38,245
General and administrative expense	28,928	29,544	24,591
Corporate overhead (including $916, $773, and $711 in unit-based compensation for 2012, 2011 and 2010 respectively)	28,169	23,766	24,379
Depreciation and amortization	9,431	8,534	8,845
Funeral home expense			
Merchandise	5,200	4,473	4,001
Services	14,574	11,717	9,752
Other	8,951	7,364	6,184
Acquisition related costs	3,123	4,604	5,715
Total cost and expenses	228,765	218,553	194,025
Operating profit	13,841	9,835	3,267
Gain on sale of funeral home		92	
Gain on acquisitions	122		7,152
Gain on termination of operating agreement	1,737		
Early extinguishment of debt		4,010	
Increase in fair value of interest rate swaps			4,724
Expenses related to refinancing		453	
Interest expense	20,503	19,198	21,973
Loss before income taxes	(4,803)	(13,734)	(6,830)
Income tax expense (benefit)			
State	420	(701)	(245)
Federal	(2,210)	(3,318)	(5,138)
Total income tax expense (benefit)	(1,790)	(4,019)	(5,383)
Net loss	$ (3,013)	$ (9,715)	$ (1,447)

General partner s interest in net loss for the period	$ (60)	$ (194)	$ (29)
Limited partners interest in net loss for the period	$ (2,953)	$ (9,521)	$ (1,418)
Net loss per limited partner unit (basic and diluted)	$ (0.15)	$ (0.50)	$ (0.10)
Weighted average number of limited partners units outstanding (basic and diluted)	19,445	18,947	14,133
Distributions declared per unit	$ 2.35	$ 2.34	$ 2.25

See Accompanying Notes to the Consolidated Financial Statements.

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StoneMor Partners L.P.

Consolidated Statement of Partners Capital

(in thousands)

	Partners Capital Common Unit Holders	General Partner	Total
Balance, December 31, 2009	$ 110,098	$ 1,839	$ 111,937
Proceeds from public offering	38,891		38,891
Issuance of common units	9,727		9,727
Compensation related to UARs	488		488
General partner contribution		1,038	1,038
Net loss	(1,418)	(29)	(1,447)
Cash distribution	(31,404)	(1,039)	(32,443)
Balance, December 31, 2010	126,382	1,809	128,191
Issuance of common units	264		264
Proceeds from public offering	103,207		103,207
General partner contribution		2,262	2,262
Compensation related to UARs	675		675
Net loss	(9,521)	(194)	(9,715)
Cash distribution	(42,920)	(1,685)	(44,605)
Balance, December 31, 2011	178,087	2,192	180,279
Issuance of common units	4,754		4,754
General partner contribution		89	89
Compensation related to UARs	527		527
Net loss	(2,953)	(60)	(3,013)
Cash distribution	(45,619)	(1,835)	(47,454)
Balance, December 31, 2012	$ 134,796	$ 386	$ 135,182

See Accompanying Notes to the Consolidated Financial Statements.

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StoneMor Partners L.P.

Consolidated Statement of Cash Flows

(in thousands)

	2012	2011	2010
Operating activities:			
Net loss	$ (3,013)	$ (9,715)	$ (1,447)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Cost of lots sold	7,818	6,664	7,124
Depreciation and amortization	9,431	8,534	8,845
Unit-based compensation	916	773	711
Accretion of debt discounts	1,739	1,354	340
Change in fair value of interest rate swaps			(2,681)
Write-off of deferred financing fees		453	
Gain on sale of funeral home		(92)	
Gain on acquisitions	(122)		(7,152)
Gain on termination of operating agreement	(1,737)		
Fees paid related to early extinguishment of debt		4,010	
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable	(5,475)	(9,241)	(15,357)
Allowance for doubtful accounts	1,210	2,217	951
Merchandise trust fund	(11,806)	(23,889)	(13,517)
Prepaid expenses	527	1,273	(252)
Other current assets	(2,165)	(7,355)	(3,836)
Other assets	128	291	143
Accounts payable and accrued and other liabilities	4,330	868	516
Deferred selling and obtaining costs	(7,775)	(9,120)	(9,640)
Deferred cemetery revenue	47,548	47,598	46,060
Deferred taxes (net)	(2,398)	(3,488)	(5,301)
Merchandise liability	(7,260)	(5,669)	(2,401)
Net cash provided by operating activities	31,896	5,466	3,106
Investing activities:			
Cash paid for cemetery property	(7,098)	(7,126)	(2,200)
Purchase of subsidiaries	(27,976)	(16,142)	(39,127)
Proceeds from divestiture of funeral home		122	
Cash paid for management agreements			(346)
Cash paid for property and equipment	(4,874)	(6,040)	(7,878)
Net cash used in investing activities	(39,948)	(29,186)	(49,551)
Financing activities:			
Cash distribution	(47,454)	(44,605)	(32,443)
Additional borrowings on long-term debt	84,000	48,050	75,400
Repayments of long-term debt	(30,271)	(75,184)	(41,712)
Proceeds from public offering		103,207	38,891
Proceeds from general partner contribution	89	2,262	1,038
Fees paid related to early extinguishment of debt		(4,010)	
Cost of financing activities	(2,424)	(1,477)	(673)
Net cash provided by financing activities	3,940	28,243	40,501

Net increase (decrease) in cash and cash equivalents	(4,112)	4,523	(5,944)
Cash and cash equivalents Beginning of period	12,058	7,535	13,479
Cash and cash equivalents End of period	$ 7,946	$ 12,058	$ 7,535
Supplemental disclosure of cash flow information			
Cash paid during the period for interest	$ 18,481	$ 18,130	$ 21,433
Cash paid during the period for income taxes	$ 4,101	$ 2,452	$ 1,411
Non-cash investing and financing activities			
Acquisition of assets by financing	$ 287	$ 294	$
Issuance of limited partner units for cemetery acquisition	$ 4,753	$ 264	$ 5,785
Acquisition of assets by assumption of directly related liability	$ 2,469	$	$ 2,532

See Accompanying Notes to the Consolidated Financial Statements.

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1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Nature of Operations

StoneMor Partners L.P. (StoneMor , the Company or the Partnership) is a provider of funeral and cemetery products and services in the death care industry in the United States. Through its subsidiaries, StoneMor offers a complete range of funeral merchandise and services, along with cemetery property, merchandise and services, both at the time of need and on a pre-need basis. As of December 31, 2012, the Partnership owned 258 and operated 276 cemeteries in 27 states and Puerto Rico and owned and operated 86 funeral homes in 18 states and Puerto Rico.

Basis of Presentation

The consolidated financial statements included in this Form 10-K have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Principles of Consolidation

The consolidated financial statements include the accounts of each of the Company s subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the Company has a variable interest and is the primary beneficiary. The Company operates 18 cemeteries under long-term operating or management contracts. The operations of 16 of these managed cemeteries have been consolidated in accordance with the provisions of Accounting Standards Codification (ASC) 810. The financial statements also include the effects of retrospective adjustments, resulting from the Company s 2012 and 2011 acquisitions (see Note 14).

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

Total revenues derived from the cemeteries under long-term management or operating contracts totaled approximately $39.2 million, $39.5 million and $33.9 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Summary of Significant Accounting Policies

The significant accounting policies followed by the Company are summarized below:

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less from the time they are acquired to be cash equivalents.

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Cemetery Property

Cemetery property consists of developed and undeveloped cemetery property, constructed mausoleum crypts and lawn crypts and other cemetery property. Cemetery property is valued at cost, which is not in excess of market value.

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 depreciation is recorded over their estimated useful lives as follows:

Buildings and improvements	10 to 40 years
Furniture and equipment	3 to 10 years
Leasehold improvements	over the shorter of the term of the lease or the life of the asset

Merchandise Trusts

Pursuant to state law, a portion of the proceeds from pre-need sales of merchandise and services is put into trust (the merchandise trust) until such time that the Company meets the requirements for releasing trust principal, which is generally delivery of merchandise or performance of services. All investment earnings generated by the assets in the merchandise trusts (including realized gains and losses) are deferred until the associated merchandise is delivered or the services are performed (see Note 5).

Perpetual Care Trusts

Pursuant to state law, a portion of the proceeds from the sale of cemetery property is required to be paid into perpetual care trusts. The perpetual care trust principal does not belong to the Company and 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. The Company consolidates the trust into the Company s financial statements in accordance with ASC 810-10-15-(13 through 22) because the trust is considered a variable interest entity for which the Company is the primary beneficiary. Earnings from the perpetual care trusts are recognized in current cemetery revenues (see Note 6).

Inventories

Inventories are classified within other current assets on the Company s consolidated balance sheet and include cemetery and funeral home merchandise valued at the lower of cost or net realizable value. Cost is determined primarily on a specific identification basis on a first-in, first-out basis. Inventories were approximately $4.7 million and $6.4 million at December 31, 2012 and 2011, respectively.

Impairment of Long-Lived Assets

The Company monitors the recoverability of long-lived assets, including cemetery property, property and equipment 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. The Company s policy is to evaluate an asset for impairment when events or circumstances indicate that a long-lived asset s carrying value may not be recovered. An impairment charge is recorded to write-down the asset to its fair value if the sum of future undiscounted cash flows is less than the carrying value of the asset. No impairment charges were recorded during the years ended December 31, 2012, 2011 and 2010, respectively.

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Other-Than-Temporary Impairment of Trust Assets

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

- Whether it is the Company s 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, the Company evaluates if it is not more likely than not that the Company will be required to sell the debt security before its anticipated recovery. If the Company determines 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.

The Company has further evaluated whether or not all assets in the merchandise trusts have other-than-temporary impairments based upon a number of criteria including the severity of the impairment, 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.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. The Company tests goodwill for impairment using a two-step test. In the first step of the test, the Company compares the fair value of the reporting unit to its carrying amount, including goodwill. The Company determines the fair value of each reporting unit using the income approach. The Company does 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, the Company records 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.

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, and 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 the Company, including entities that were acquired by Cornerstone Family Services, Inc. upon its formation in 1999. The Company provides 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 the Company acquired through acquisition. Deferred margin amounts are deferred until the merchandise is delivered or services are performed.

Sales of Cemetery Merchandise and Services

The Company sells its merchandise and services on both a pre-need and at-need basis. Sales of at-need cemetery services and merchandise are recognized as revenue when the service is performed or merchandise is delivered.

Pre-need sales are usually made on an installment contract basis. Contracts are usually for a period not to exceed 60 months with payments of principal and interest required. For those contracts that do not bear a market rate of interest, the Company imputes such interest based upon the prime rate plus 150 basis points (this resulted in a rate of 4.75% for contracts entered into during the years ended December 31, 2012, 2011, and 2010) in order to segregate the principal and interest component of the total contract value.

At the time of a pre-need sale, the Company records an account receivable in an amount equal to the total contract value less any cash deposit paid net of an estimated allowance for customer cancellations. The revenue from both the sales and interest component is deferred. Interest revenue is recognized utilizing the effective interest method. Sales revenue is recognized in accordance with the rules discussed below.

The allowance for customer cancellations is established based on management s estimates of expected cancellations and historical experiences and is currently averaging approximately 10% of total contract values. Future cancellation rates may differ from this current estimate. Management 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, 2012 and December 31, 2011, respectively.

Revenue recognition related to sales of cemetery merchandise and services is governed by Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements (SAB No. 104), and the retail land sales provisions of ASC 976. Per this guidance, revenue from the sale of burial lots and constructed mausoleum crypts is deferred until such time that 10% of the sales price has been collected, at which time it is fully earned; revenues from the sale of unconstructed mausoleums are recognized using the percentage-of-completion method of accounting while revenues from merchandise and services are recognized once such merchandise is delivered (title has transferred to the customer and the merchandise is either installed or stored, at the direction of the customer, at the vendor s warehouse or a third-party warehouse at no additional cost to us) or services are performed.

In order to appropriately match revenue and expenses, the Company defers 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. Such costs are accounted for under the provisions of ASC 944, and are expensed as revenues are recognized.

The Company records a merchandise liability equal to the estimated cost to provide services and purchase merchandise for all outstanding and unfulfilled pre-need contracts. The merchandise liability is established and recorded at the time of the sale but is not recognized as an expense until such time that the associated revenue for the underlying contract is also recognized. The merchandise liability is established based on actual costs incurred or an estimate of future costs, which may include a provision for inflation. The merchandise liability is reduced when services are performed or when payment for merchandise is made by the Company and title is transferred to the customer.

Sales of Funeral Home Services

Revenue from funeral home services is recognized as services are performed and merchandise is delivered.

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

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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.

Net Income per Unit

Basic net income per unit is determined by dividing net income, after deducting the amount of net income allocated to the general partner interest from its issuance date of September 20, 2004, by the weighted average number of units outstanding during the period. Diluted net income per unit is calculated in the same manner as basic net income per unit, except that the weighted average number of outstanding units is increased to include the dilutive effect of outstanding unit options or phantom unit options. All outstanding unit appreciation rights (See Note 12) that would have a dilutive effect were assumed to be exercised and converted to common units using the average fair market value of a common unit for the period presented. The diluted weighted average number of limited partners units outstanding presented on the consolidated statement of operations does not include 253,384 units, 322,866 units and 213,261 units for the years ended December 31, 2012, 2011, and 2010, respectively, as their effects would be anti-dilutive.

Reclassifications

Certain amounts in the prior year presentation of long-term debt have been reclassified to conform to the current year presentation.

Use of Estimates

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

2. LONG-TERM ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

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

	As of December 31,	
	2012	**2011**
	(in thousands)	
Customer receivables	$ 159,726	$ 151,517
Unearned finance income	(18,377)	(16,679)
Allowance for contract cancellations	(17,933)	(17,582)
	123,416	117,256
Less: current portion net of allowance	51,895	48,837
Long-term portion net of allowance	$ 71,521	$ 68,419

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Activity in the allowance for contract cancellations is as follows:

	For the Year Ended December 31,		
	2012	2011	2010
		(in thousands)	
Balance Beginning of period	$ 17,582	$ 15,832	$ 13,350
Provision for cancellations	16,768	18,649	16,529
Charge-offs net	(16,417)	(16,899)	(14,047)
Balance End of period	$ 17,933	$ 17,582	$ 15,832

The Company s customer receivables are considered financing receivables as they primarily relate to pre-need sales which are usually made on an installment contract basis. Contracts are usually for a period not to exceed 60 months with payments of principal and interest required. The Company has a standard contractual agreement that it executes related to these receivables and therefore the Company only has one portfolio segment of receivables with no separate classes of receivables within that segment.

Management evaluates customer receivables for impairment on an individual contract basis based upon the age of the receivable and a customer s payment history. The Company s receivables primarily relate to pre-need sales and therefore the Company has not performed the service or fulfilled all of its obligations for the merchandise to which the receivable relates. As a result, the Company has some leverage with its customers in terms of collecting its receivables. Further, the Company will be flexible with customers who have difficulty making payments and will try to create revised or alternative payment agreements with the customer. As a result, the Company does not write-off a receivable until all possible collection efforts have been exhausted. As of December 31, 2012 and 2011, approximately 9% of the Company s gross accounts receivable balance was 90 days past due.

3. CEMETERY PROPERTY

Cemetery property consists of the following:

	As of December 31,	
	2012	2011
	(in thousands)	
Developed land	$ 71,318	$ 64,266
Undeveloped land	162,275	160,151
Mausoleum crypts and lawn crypts	69,525	69,949
Other land	6,862	4,572
Total	$ 309,980	$ 298,938

4. PROPERTY AND EQUIPMENT

Major classes of property and equipment follow:

	As of December 31,	
	2012	2011
	(in thousands)	
Building and improvements	$ 82,056	$ 75,076
Furniture and equipment	42,353	36,863
	124,409	111,939

Less: accumulated depreciation	(44,669)	(38,162)
Property and equipment net	$ 79,740	$ 73,777

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Depreciation expense was $7.2 million, $5.9 million and $5.8 million for the years ended December 31, 2012, 2011 and 2010, respectively.

5. MERCHANDISE TRUSTS

At December 31, 2012 and December 31, 2011, the Company s merchandise trusts consisted of the following types of assets:

- Money Market Funds that invest in low risk short term securities;
- Publicly traded mutual funds that invest in underlying debt securities;
- Publicly traded mutual funds that invest in underlying equity securities;
- Equity investments that are currently paying dividends or distributions. These investments include Real Estate Investment Trusts (REIT s), Master Limited Partnerships and global equity securities;
- Fixed maturity debt securities issued by various corporate entities;
- Fixed maturity debt securities issued by the U.S. Government and U.S. Government agencies; and
- Fixed maturity debt securities issued by U.S. states and local government agencies.

All of these investments are classified as Available for Sale as defined by the Investments in Debt and Equity topic of the ASC. Accordingly, all of the assets are carried at fair value. All of these investments are considered to be either Level 1 or Level 2 assets as defined by the Fair Value Measurements and Disclosures topic of the ASC. See Note 16 for further details. There were no Level 3 assets.

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

The Company has included $7.6 million and $6.9 million of investments held in trust by the West Virginia Funeral Directors Association at December 31, 2012 and December 31, 2011, respectively, in its merchandise trust assets. As required by law, the Company deposits a portion of certain funeral merchandise sales in West Virginia into a trust that is held by the West Virginia Funeral Directors Association. These trusts are recorded at their account value, which approximates fair value.

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The cost and market value associated with the assets held in the merchandise trusts at December 31, 2012 and December 31, 2011 is presented below:

As of December 31, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 27,890	$	$	$ 27,890
Fixed maturities:				
U.S. Government and federal agency				
U.S. State and local government agency				
Corporate debt securities	8,590	165	(41)	8,714
Other debt securities	4,320		(3)	4,317
Total fixed maturities	12,910	165	(44)	13,031
Mutual funds debt securities	105,388	3,425	(892)	107,921
Mutual funds equity securities	145,538	6,229	(6,697)	145,070
Equity securities	68,714	3,448	(4,755)	67,407
Other invested assets	7,376	165	(444)	7,097
Total managed investments	$ 367,816	$ 13,432	$ (12,832)	$ 368,416
West Virginia Trust Receivable	7,557			7,557
Total	$ 375,373	$ 13,432	$ (12,832)	$ 375,973

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

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The contractual maturities of debt securities as of December 31, 2012 and December 31, 2011 are presented below:

As of December 31, 2012	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$	$	$	$
U.S. State and local government agency				
Corporate debt securities		3,861	4,853	
Other debt securities	4,317			
Total fixed maturities	$ 4,317	$ 3,861	$ 4,853	$

As of December 31, 2011	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$	$	$	$
U.S. State and local government agency	23			
Corporate debt securities		8,984	781	
Other debt securities	1,100			
Total fixed maturities	$ 1,123	$ 8,984	$ 781	$

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

As of December 31, 2012	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$	$	$	$	$	$
U.S. State and local government agency						
Corporate debt securities	2,140	20	297	21	2,437	41
Other debt securities	4,317	3			4,317	3
Total fixed maturities	6,457	23	297	21	6,754	44
Mutual funds debt securities	6,388	463	4,198	429	10,586	892
Mutual funds equity securities	48,255	5,500	19,655	1,197	67,910	6,697
Equity securities	17,932	1,527	15,538	3,228	33,470	4,755
Other invested assets	2,558	444			2,558	444
Total	$ 81,590	$ 7,957	$ 39,688	$ 4,875	$ 121,278	$ 12,832

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As of December 31, 2011	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$	$	$	$	$	$
U.S. State and local government agency						
Corporate debt securities	4,007	351	4,459	440	8,466	791
Other debt securities						
Total fixed maturities	4,007	351	4,459	440	8,466	791
Mutual funds debt securities	19,691	1,109	31,916	1,472	51,607	2,581
Mutual funds equity securities	32,631	970	59,010	7,890	91,641	8,860
Equity securities	20,349	1,941	5,775	1,190	26,124	3,131
Other invested assets						
Total	$ 76,678	$ 4,371	$ 101,160	$ 10,992	$ 177,838	$ 15,363

A reconciliation of the Company s merchandise trust activities for the years ended December 31, 2012 and December 31, 2011 is presented below:

Year ended December 31, 2012

Fair Value @ 12/31/2011	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 12/31/2012
				(in thousands)					
$344,515	55,754	(52,618)	16,045	788	8,862	(3,486)	(2,424)	8,537	$ 375,973

Year ended December 31, 2011

Fair Value @ 12/31/2010	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 12/31/2011
				(in thousands)					
$318,318	61,851	(39,455)	13,597	9,706	3,723	(1,592)	(2,389)	(19,244)	$ 344,515

The Company made net deposits into the trusts of approximately $3.1 million and $22.4 million during the years ended December 31, 2012 and 2011, respectively. During the year ended December 31, 2012 purchases and sales of securities available for sale included in trust investments were approximately $464.7 million and $461.0 million, respectively. During the year ended December 31, 2011 purchases and sales of securities available for sale included in trust investments were approximately $279.3 million and $262.6 million, respectively. Contributions include $12.0 million and $15.5 million of assets that were acquired through acquisitions during the years ended December 31, 2012 and 2011, respectively. Distributions include $5.8 million of assets that were divested as a result of the termination of an operating agreement during the year ended December 31, 2012.

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Other-Than-Temporary Impairment of Trust Assets

In accordance with ASC 320-10-65-1, the Company assesses whether an impairment is other-than-temporary by performing each of the following:

Fixed Maturity Debt Securities

- The Company assesses whether it has the intent to sell any impaired debt security; or
- The Company assesses whether it is more likely than not it will be required to sell any impaired debt security before its anticipated recovery;
- If either of these conditions exists, the impairment is considered to be other than temporary;
- The Company assesses whether or not there is a credit loss on an impaired security. A credit loss is the excess of the amortized cost of the security over the present value of future expected cash flows. If there is a credit loss, the Company recognizes an other-than-temporary impairment in earnings in an amount equal to the credit loss. This amount becomes the new cost basis of the asset and will not be adjusted for subsequent changes in the fair value of the asset;
- The Company assesses the overall credit quality of each issue by evaluating its credit rating as reported by any credit rating agency. The Company also determines if there has been any downgrade in its creditworthiness as reported by such credit rating agency;
- The Company determines if there has been any suspension of interest payments or any announcements of any intention to do so;
- The Company evaluates the length of time until the principal becomes due and whether the ability to satisfy this payment has been impaired.

Equity Securities

- The Company compares the proportional decline in value to the overall sector decline as measured via certain specific indices;
- The Company determines whether there has been further periodic decline from prior periods or whether there has been a recovery in value.

For all securities

- The Company evaluates the severity of the impairment and length of time that a security has been in a loss position;
- The Company determines if there is any publicly available information that would cause us to believe that impairment is other than temporary in nature.

During the year ended December 31, 2012, the Company determined that there were 8 securities with an aggregate cost basis of approximately $2.0 million and an aggregate fair value of approximately $1.0 million, resulting in an impairment of $1.0 million, wherein such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of these assets to their current value and offset this change against deferred revenue. This reduction in deferred revenue will be reflected in earnings in future periods as the underlying merchandise is delivered or the underlying service is performed.

During the year ended December 31, 2011, the Company determined that there were 4 securities with an aggregate cost basis of approximately $1.5 million and an aggregate fair value of approximately $1.0 million, resulting in an impairment of $0.5 million, wherein such impairment was considered to be other-than-temporary.

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Accordingly, the Company adjusted the cost basis of these assets to their current value and offset this change against deferred revenue. This reduction in deferred revenue will be reflected in earnings in future periods as the underlying merchandise is delivered or the underlying service is performed.

6. PERPETUAL CARE TRUSTS

At December 31, 2012 and December 31, 2011, the Company s perpetual care trusts consisted of the following types of assets:

- Money Market Funds that invest in low risk short term securities;
- Publicly traded mutual funds that invest in underlying debt securities;
- Publicly traded mutual funds that invest in underlying equity securities;
- Equity investments that are currently paying dividends or distributions. These investments include REIT s, Master Limited Partnerships and global equity securities;
- Fixed maturity debt securities issued by various corporate entities;
- Fixed maturity debt securities issued by the U.S. Government and U.S. Government agencies; and
- Fixed maturity debt securities issued by U.S. states and local government agencies.

All of these investments are classified as Available for Sale as defined by the Investments in Debt and Equity topic of the ASC. Accordingly, all of the assets are carried at fair value. All of these investments are considered to be either Level 1 or Level 2 assets as defined by the Fair Value Measurements and Disclosures topic of the ASC. See Note 16 for further details. There were no Level 3 assets.

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

As of December 31, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 21,419	$	$	$ 21,419
Fixed maturities:				
U.S. Government and federal agency	408	104		512
U.S. State and local government agency				
Corporate debt securities	22,690	702	(101)	23,291
Other debt securities	371			371
Total fixed maturities	23,469	806	(101)	24,174
Mutual funds debt securities	103,909	3,429	(150)	107,188

Mutual funds equity securities	94,239	5,222	(249)	99,212
Equity securities	23,797	6,563	(455)	29,905
Other invested assets	113	302		415
Total	$ 266,946	$ 16,322	$ (955)	$ 282,313

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

The contractual maturities of debt securities as of December 31, 2012 and December 31, 2011 are as follows:

As of December 31, 2012	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$ 128	$ 384	$	$
U.S. State and local government agency				
Corporate debt securities	78	10,847	12,366	
Other debt securities	371			
Total fixed maturities	$ 577	$ 11,231	$ 12,366	$

As of December 31, 2011	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$	$ 388	$ 125	$
U.S. State and local government agency	147			
Corporate debt securities	128	19,762	2,264	
Other debt securities	371			
Total fixed maturities	$ 646	$ 20,150	$ 2,389	$

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

As of December 31, 2012	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$	$	$	$	$	$
U.S. State and local government agency						
Corporate debt securities	4,630	48	711	53	5,341	101
Other debt securities						
Total fixed maturities	4,630	48	711	53	5,341	101
Mutual funds debt securities	859	35	870	115	1,729	150
Mutual funds equity securities	34,805	249			34,805	249
Equity securities	4,269	238	545	217	4,814	455
Other invested assets						
Total	$ 44,563	$ 570	$ 2,126	$ 385	$ 46,689	$ 955

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

A reconciliation of the Company s perpetual care trust activities for the years ended December 31, 2012 and 2011 is presented below:

Year ended December 31, 2012

Fair Value @ 12/31/2011	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 12/31/2012
				(in thousands)					

$254,679	12,535	(15,025)	16,740	123	2,208	(659)	(1,837)	13,549	$ 282,313

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Year ended December 31, 2011

Fair Value @ 12/31/2010	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 12/31/2011
			(in thousands)						
$249,690	15,307	(13,720)	15,819	1,076	2,408	(910)	(1,461)	(13,530)	$ 254,679

The Company made net withdrawals out of the trust of approximately $2.5 million and net deposits into the trust of approximately $1.6 million during the years ended December 31, 2012 and 2011, respectively. During the year ended December 31, 2012 purchases and sales of securities available for sale included in trust investments were approximately $299.9 million and $297.8 million, respectively. During the year ended December 31, 2011 purchases and sales of securities available for sale included in trust investments were approximately $139.9 million and $127.2 million, respectively. Contributions include $5.0 million and $8.3 million of assets that were acquired through acquisitions during the years ended December 31, 2012 and 2011, respectively.

Other-Than-Temporary Impairment of Trust Assets

Refer to Note 5 for a detailed discussion of the accounting rules related to other-than-temporarily impaired assets and the Company s procedures for evaluating whether impairment to assets are other than temporary.

During the year ended December 31, 2012, the Company determined that there were 2 securities with an aggregate cost basis of approximately $10.6 million and an aggregate fair value of approximately $7.8 million, resulting in an impairment of $2.8 million, wherein such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of these assets to their current value and offset this change against the liability for perpetual care trusts corpus.

During the year ended December 31, 2011, the Company determined that there was a single security with an aggregate cost basis of less than $0.1 million which was substantially impaired, and such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of this asset to its current value and offset this change against the liability for perpetual care trusts corpus.

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company has recorded goodwill of approximately $42.4 million and $32.1 million as of December 31, 2012 and 2011, respectively. This amount represents the excess of the purchase price over the fair value of identifiable net assets acquired in acquisitions. Goodwill acquired during 2011 has been retrospectively adjusted for purchase accounting adjustments related to certain 2011 acquisitions. See Note 14 for further details.

A rollforward of goodwill by reportable segment is as follows:

	Cemeteries				
	Southeast	Northeast	West	Funeral Homes	Total
			(in thousands)		
Balance as of January 1, 2011	$ 456	$	$ 11,801	$ 5,896	$ 18,153
Goodwill acquired from acquisitions during 2011	5,278		147	8,567	13,992
Balance as of December 31, 2011	5,734		11,948	14,463	32,145
Goodwill acquired from acquisitions during 2012	440			9,807	10,247

Balance as of December 31, 2012	$ 6,174	$	$ 11,948	$ 24,270	$ 42,392

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The Company evaluates the carrying value of goodwill during the fourth quarter of each year or more frequently if events and circumstances indicate that the asset may have been impaired. No impairment of the Company s goodwill has been identified during the years ended December 31, 2012, 2011 or 2010.

Other Acquired Intangible Assets

The Company has other acquired intangible assets, most of which have been recognized as a result of acquisitions and long-term operating agreements. These amounts are included within other assets on the consolidated balance sheet. All of the intangible assets are subject to amortization. The major classes of intangible assets are as follows:

	As of December 31, 2012			As of December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Asset	Gross Carrying Amount	Accumulated Amortization	Net Intangible Asset
	(in thousands)					
Amortized Intangible Assets:						
Underlying contract value	$ 6,239	$ (555)	$ 5,684	$ 8,484	$ (546)	$ 7,938
Non-compete agreements	6,023	(2,553)	3,470	3,820	(1,413)	2,407
Other intangible assets	269	(81)	188	205	(67)	138
Total Intangible Assets	$ 12,531	$ (3,189)	$ 9,342	$ 12,509	$ (2,026)	$ 10,483

Underlying Contract Value of Long-Term Operating Agreements

The Company entered into three long-term operating agreements during 2009, wherein it became the exclusive operator of cemetery properties. These long-term operating agreements did not qualify for acquisition accounting. Further, the Company s agreement with Kingwood Memorial Park Association was amended in the first quarter of 2012, and subsequently qualified for acquisition accounting as discussed in Note 14. This change caused the entire decrease in the gross carrying amount of the underlying contract value as of December 31, 2012. The fair value of the consideration paid and liabilities assumed to enter into the remaining agreements exceeded the fair value of assets acquired by approximately $6.2 million. This amount, which represents the underlying contract values, has been recorded as an intangible asset and is being amortized on the straight-line basis over the expected life of the contracts, which is 40 years. The amortization expense is included as a component of depreciation and amortization in the consolidated statement of operations.

Non-Compete Agreements

In connection with certain acquisitions entered into in 2010, 2011 and 2012, the Company entered into non-compete agreements with the former owners of the acquired entities (See Note 14 for further details). The non-compete agreements were valued in purchase accounting at a fair value of approximately $6.0 million. The fair value was determined by comparing the discounted cash flows of the acquired business with and without competition. The non-compete agreements are being amortized on the straight-line basis over the life of the agreements, which is 4 to 6 years. The amortization expense is included as a component of depreciation and amortization in the consolidated statement of operations.

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At December 31, 2012, amortization expense related to intangible assets with definite lives is estimated to be the following for each of the next five years:

For the Year Ending December 31,	Amortization Expense (in thousands)
2013	$ 1,355
2014	1,194
2015	717
2016	646
2017	$ 421

8. DERIVATIVE INSTRUMENTS

On November 24, 2009, the Company entered into an interest rate swap (the First Interest Rate Swap) wherein the Company agreed to pay the counterparty interest in the amount of three month LIBOR plus 888 basis points in consideration for the counterparties agreement to pay the Company a fixed rate of interest of 10.25% on a principal amount of $108.0 million. On December 4, 2009, the Company entered into an interest rate swap (the Second Interest Rate Swap , together with the First Interest Rate Swap, the Interest Rate Swaps) wherein the Company agreed to pay the counterparty interest in the amount of three month LIBOR plus 869 basis points in consideration for the counterparties agreement to pay the Company a fixed rate of interest of 10.25% on a principal amount of $27.0 million.

The Interest Rate Swaps did not qualify for hedge accounting. Accordingly, the fair value of the Interest Rate Swaps was reported on the Company s consolidated balance sheet and periodic changes in the fair value of the Interest Rate Swaps were recorded in earnings. On October 20, 2010, the Company elected to terminate the Interest Rate Swaps early. Upon termination, the Company received a payment of approximately $2.0 million to settle the Interest Rate Swaps. For the year ended December 31, 2010, the Company recognized a gain of approximately $4.7 million related to the change in fair value and termination payment of the Interest Rate Swaps.

9. LONG-TERM DEBT

The Company had the following outstanding debt:

	As of December 31, 2012 (in thousands)	2011
10.25% senior notes, due 2017	$ 150,000	$ 150,000
Revolving Credit Facility, due January 2017	101,700	33,000
Acquisition Credit Facility, due January 2017		10,750
Notes payable acquisition debt	1,465	2,001
Notes payable acquisition non-competes	3,830	1,725
Insurance and vehicle financing	1,298	1,358
Total	258,293	198,834
Less current portion	2,175	1,487
Less unamortized bond and note payable discounts	3,344	3,512
Long-term portion	$ 252,774	$ 193,835

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10.25% Senior Notes due 2017

Purchase Agreement

On November 18, 2009, the Company entered into a Purchase Agreement (the Purchase Agreement) by and among StoneMor Operating LLC (the Operating Company), Cornerstone Family Services of West Virginia Subsidiary, Inc. (CFS West Virginia), Osiris Holding of Maryland Subsidiary, Inc. (Osiris), the Partnership, the subsidiary guarantors named in the Purchase Agreement (together with the Company, the Note Guarantors) and Bank of America Securities LLC (BAS), acting on behalf of itself and as the representative for the other initial purchasers named in the Purchase Agreement (collectively, the Initial Purchasers). Pursuant to the Purchase Agreement, the Operating Company, CFS West Virginia and Osiris (collectively, the Issuers), each the Company s wholly-owned subsidiary, as joint and several obligors, agreed to sell to the Initial Purchasers $150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 (the Senior Notes), with an original issue discount of approximately $4.0 million, in a private placement exempt from the registration requirements under the Securities Act, for resale by the Initial Purchasers (i) to qualified institutional buyers pursuant to Rule 144A under the Securities Act or (ii) outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act (the Notes Offering). The Notes Offering closed on November 24, 2009.

The Purchase Agreement contains customary representations and warranties of the parties and indemnification and contribution provisions under which the Company, the Issuers, and other Note Guarantors, on one hand, and the Initial Purchasers, on the other, have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act. The Company s Senior Notes are valued using Level 2 inputs as defined by the Fair Value Measurements and Disclosures topic of the ASC. Based on trades made at the end of the year, the Company has estimated the fair value of its Senior Notes to be in excess of par and trading at a premium of 4.17%, which would imply a fair value of $156.3 million at December 31, 2012.

Indenture

On November 24, 2009, the Issuers, the Company and the other Note Guarantors, entered into an indenture (the Indenture), among the Issuers, the Company, the other Note Guarantors and Wilmington Trust FSB, as trustee (the Trustee) governing the Senior Notes.

The Issuers will pay 10.25% interest per annum on the principal amount of the Senior Notes, payable in cash semi-annually in arrears on June 1 and December 1 of each year, starting on June 1, 2010. The Senior Notes mature on December 1, 2017.

The Senior Notes are senior unsecured obligations of the Issuers and:

- rank equally in right of payment with all existing and future senior unsecured debt of the Issuers;
- rank senior in right of payment to all existing and future senior subordinated and subordinated debt of the Issuers;
- are effectively subordinated in right of payment to existing and future secured debt of the Issuers, to the extent of the value of the assets securing such debt; and
- are structurally subordinated to all of the existing and future liabilities of each subsidiary of the Issuers that does not guarantee the Senior Notes.

The Issuers obligations under the Senior Notes and the Indenture are jointly and severally guaranteed (the Note Guarantees) by the Company and each subsidiary, other than the Issuers, that is a guarantor of any indebtedness under the Credit Agreement (as defined below), or is a borrower under the Credit Agreement and each other subsidiary that the Issuers shall otherwise cause to become a Note Guarantor pursuant to the terms of the Indenture (each, a Restricted Subsidiary).

At any time on or after December 1, 2013, the Issuers, at their option, may redeem the Senior Notes, in whole or in part, at the redemption prices (expressed as percentages of the principal amount) set forth below, together with accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period beginning December 1 of the years indicated:

Year	Optional Redemption Price
2013	105.125%
2014	102.563%
2015 and thereafter	100%

At any time prior to December 1, 2013, the Issuers may, on one or more occasions, redeem all or any portion of the Senior Notes, upon not less than 30 nor more than 60 days notice, at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed, plus the Applicable Premium (as defined in the Indenture) as of the date of redemption, including accrued and unpaid interest to the redemption date.

Subject to certain exceptions, upon the occurrence of a Change of Control (as defined in the Indenture), each holder of Senior Notes will have the right to require the Issuers to purchase that holder s Senior Notes for a cash price equal to 101% of the principal amounts to be purchased, plus accrued and unpaid interest to the date of purchase.

The Indenture requires the Company, the Issuers and/or the Note Guarantors, as applicable, to comply with various covenants including, but not limited to, covenants that, subject to certain exceptions, limit the Company s and its subsidiaries ability to (i) incur additional indebtedness; (ii) make certain dividends, distributions, redemptions or investments; (iii) enter into certain transactions with affiliates; (iv) create, incur, assume or permit to exist certain liens against their assets; (v) make certain sales of their assets; and (vi) engage in certain mergers, consolidations or sales of all or substantially all of their assets. The Indenture also contains various affirmative covenants regarding, among other things, delivery of certain reports filed with the SEC and materials required pursuant to Rule 144A under the Securities Act to holders of the Senior Notes and joinder of future subsidiaries as Note Guarantors under the Indenture. The Company was in compliance with all financial covenants at December 31, 2012.

Events of default under the Indenture that could, subject to certain conditions, cause all amounts owing under the Senior Notes to become immediately due and payable include, but are not limited to, the following:

1. failure by the Issuers to pay interest on any of the Senior Notes when it becomes due and the continuance of any such failure for 30 days;

2. failure by the Issuers to pay the principal on any of the Senior Notes when it becomes due and payable, whether at stated maturity, upon redemption, upon purchase, upon acceleration or otherwise;

3. the Issuers failure to comply with the agreements and covenants relating to limitations on entering into certain mergers, consolidations or sales of all or substantially all of their assets or in respect of their obligations to purchase the Senior Notes in connection with a Change of Control;

4. failure by the Company or the Issuers to comply with any other agreement or covenant in the Indenture and the continuance of this failure for 60 days after notice of the failure has been given to the Company by the Trustee or holders of at least 25% of the aggregate principal amount of the Senior Notes then outstanding;

5. failure by the Company to comply with its covenant to deliver certain reports and the continuance of such failure to comply for a period of 120 days after written notice thereof has been given to the Company by the Trustee or by the holders of at least 25% in aggregate principal amount of the Senior Notes then outstanding;

6. certain defaults under mortgages, indentures or other instruments or agreements under which there may be issued or by which there may be secured or evidenced indebtedness of the Company or any Restricted Subsidiary, whether such indebtedness now exists or is incurred after the date of the Indenture;

7. certain judgments or orders that exceed $7.5 million for the payment of money have been entered by a court of competent jurisdiction against the Company or any Restricted Subsidiary and such judgments have not been satisfied, stayed, annulled or rescinded within 60 days of being entered;

8. certain events of bankruptcy of the Company, StoneMor GP LLC, the general partner of the Company (the General Partner), or any Restricted Subsidiary; or

9. other than in accordance with the terms of the Note Guarantee and the Indenture, any Note Guarantee ceasing to be in full force and effect, being declared null and void and unenforceable, found to be invalid or any Guarantor denying its liability under its Note Guarantee.

Note Purchase Agreement

On August 15, 2007, the Company entered into, along with the General Partner and certain of the Company s subsidiaries, (collectively, the Note Issuers) the Amended and Restated Note Purchase Agreement (the NPA). The NPA was amended seven times prior to January 28, 2011 to, among other things, amend borrowing levels, interest rates, maturity dates and covenants. On January 28, 2011, and in connection with the Company s February 2011 follow-on public offering of common units, the Company entered into an amendment to its credit agreement. This amendment included the lenders consent to the use of a portion of the proceeds from the public offering of common units to redeem in full the outstanding $17.5 million of 12.5% Series B and $17.5 million of 12.5% Series C Notes and to pay an aggregate make-whole premium of $4.0 million related thereto, which represented the Company s final obligations outstanding under the NPA. The make-whole premium has been classified as early extinguishment of debt on the consolidated statement of operations.

Credit Facility

On August 15, 2007, the Company, the General Partner, and the Operating Company and various subsidiaries of the Operating Company (collectively, the Borrowers), entered into an Amended and Restated Credit Agreement (the Original Credit Agreement) with Bank of America, N.A. (Bank of America), other lenders, and BAS (collectively, the Lenders). The Original Credit Agreement provided for both an acquisition credit facility (the Acquisition Credit Facility) and a revolving credit facility (the Revolving Credit Facility). Capitalized terms which are not defined in the following description shall have the same meaning assigned to such terms in the Original Credit Agreement, as amended.

The Original Credit Agreement initially provided that: (1) the Acquisition Credit Facility would have a maximum principal amount of $40.0 million (with an option to increase such facility by an additional $15.0 million on an uncommitted basis) and the term of 5 years, and (2) the Revolving Credit Facility would have a maximum principal amount of $25.0 million (with an option to increase such facility by up to $10.0 million on an uncommitted basis) and a term of 5 years. Amounts borrowed under the Acquisition Credit Facility and repaid or prepaid may not be reborrowed and amounts borrowed under the Revolving Credit Facility and repaid or prepaid during the term may be reborrowed. In addition, Bank of America agreed to provide to the borrowers swing line loans (Swing Line Loans) with a maximum limit of $5.0 million, which is a part of the Revolving Credit Facility. Loans outstanding under the Acquisition Credit Facility and the Revolving Credit Facility bear interest at rates set forth in the Credit Agreement, which has since been amended as described below.

The Original Credit Agreement was amended seven times prior to April 29, 2011, to, among other things, amend borrowing levels, interest rates and covenants. On April 29, 2011, the Company entered into the Second Amended and Restated Credit Agreement (the Revised Credit Agreement) among the Operating Company as

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the Borrower, each of the subsidiaries of the Operating Company as additional Borrowers, the General Partner and the Company as Guarantors, the Lenders identified therein, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer. The terms of the Revised Credit Agreement are substantially the same as the terms of the Original Credit Agreement. The primary purpose of entering into the Revised Credit Agreement was to consolidate the amendments to the Original Credit Agreement and to update outdated references. The Revised Credit Agreement provided for both an Acquisition Credit Facility of $65.0 million and a Revolving Credit Facility of $55.0 million, (together, the Credit Facility). This agreement was further amended two times prior to January 19, 2012.

On January 19, 2012, the Company entered into the Third Amended and Restated Credit Agreement (the Credit Agreement) which amended the Revised Credit Agreement. The terms of the Credit Agreement and the Revised Credit Agreement are substantially similar. The current terms of the Credit Agreement are set forth below. Capitalized terms which are not defined in the following description shall have the meaning assigned to such terms in the Credit Agreement. The Credit Agreement consolidates the Acquisition Credit Facility and the Revolving Credit Facility into a single Revolving Credit Facility with a borrowing limit of $130.0 million. The maturity date of the Credit Facility is January 19, 2017.

Amounts borrowed may be either Base Rate Loans or Eurodollar Rate Loans and amounts repaid or prepaid during the term may be reborrowed. Depending on the type of loan, borrowings bear interest at the Base Rate or Eurodollar Rate, plus applicable margins ranging from 1.25% to 2.75% and 2.25% to 3.75%, respectively, depending on the Company s Consolidated Leverage Ratio. The Base Rate is the highest of the Prime Rate, the Federal Funds Rate plus 0.50%, or the Eurodollar Rate plus 1.0%. The Eurodollar rate is the British Bankers Association LIBOR Rate.

On February 19, 2013, the Company entered into the First Amendment to the Third Amended and Restated Credit Agreement which increased the total availability under the Credit Facility by $10.0 million to a maximum total borrowing of $140.0 million.

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

The Company has financial covenants as follows, after considering amendments from the Credit Agreement. The Company will not permit Consolidated EBITDA for the most recently completed four fiscal quarters of the Partnership (the Measurement Period) must not be less than the sum of (i) $53.5 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after September 30, 2011.The Company s maximum Consolidated Leverage Ratio, which is the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA, is 3.65 to 1.0 for all Measurement Periods. The Consolidated Debt Service Coverage Ratio, which replaces the Consolidated Fixed Charge Coverage Ratio and whose calculation does not include distributions made by the Partnership, must not be less than 2.5 to 1.0 for any Measurement Period. In addition, the Company will not be permitted to have Maintenance Capital Expenditures, as defined in the Credit Agreement, for any Measurement Period ending in 2012, 2013, and 2014 and thereafter exceeding $6.7 million, $7.3 million and $8.0 million, respectively.

The Borrowers under the Credit Agreement paid fees to Bank of America, as Administrative Agent, and BAS, as Arranger. In addition, the Credit Agreement requires the Borrowers to pay an unused commitment fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments. The Commitment Fee ranges from 0.375% to 0.75% depending on the Company s Consolidated Leverage Ratio.

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The proceeds of the Credit Facility may be used by the Borrowers to finance working capital requirements, Permitted Acquisitions, and the purchase and construction of mausoleums. The Borrowers obligations under the Credit Agreement are guaranteed by both the Partnership and StoneMor GP LLC.

The Borrowers obligations under the Credit Facility are secured by a first priority lien and security interest in substantially all of the Borrowers assets, whether then owned or thereafter acquired, excluding: (i) trust accounts, certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts; (ii) the General Partner s interest in the Partnership, the incentive distribution rights under the Partnership s partnership agreement and the deposit accounts of the General Partner into which distributions are received; (iii) Equipment subject to a purchase money security interest or equipment lease permitted under the Credit Agreement and certain other contract rights under which contractual, legal or other restrictions on assignment would prohibit the creation of a security interest or such creation of a security interest would result in a default thereunder.

Events of Default under the Credit Agreement include, but are not limited to, the following:

- non-payment of any principal, interest or other amounts due under the Credit Agreement or any other Credit Document;
- failure to observe or perform any covenants related to: (i) the delivery of financial statements, compliance certificates, reports and other information; (ii) providing prompt notice of Defaults and other events; (iii) the preservation of the legal existence and good standing of each Borrower and Guarantor; (iv) the ability of the Administrative Agent and each Lender to visit and inspect properties, examine books and records, and discuss financial and business affairs with directors, officers and independent public accountants of each Borrower and Guarantor; (v) restrictions on the use of proceeds; (vi) guarantees by new Subsidiaries; (vii) the maintenance of corporate formalities for each Borrower and Guarantor; (viii) the maintenance of Trust Accounts and Trust Funds; and (ix) any of the negative covenants contained in the Credit Agreement;
- failure to observe or perform any other covenant, if uncured 30 days after notice thereof is provided by the Administrative Agent or Lenders;
- any default under any other Indebtedness of the Borrowers or Guarantors;
- any insolvency proceedings by a Borrower or Guarantor;
- the insolvency of any Borrower or Guarantor, or a writ of attachment or execution or similar process issuing or being levied against any material part of the property of a Borrower or Guarantor; and
- any Change in Control.

As of December 31, 2012, there were $101.7 million of outstanding borrowings under the Credit Facility, and the Company was in compliance with applicable financial covenants. The carrying amount of the debt approximates its fair value. The Consolidated Leverage Ratio was 3.48 at December 31, 2012. The Consolidated Debt Service Coverage Ratio was 3.48 at December 31, 2012. At December 31, 2012, amounts outstanding under the Credit Facility bear interest at rates that range from 3.6% to 4.1%.

Notes Payable Acquisitions

In July of 2009, certain of the Company s subsidiaries entered into a $1.4 million note purchase agreement in connection with an operating agreement in which the Company became the exclusive operator of Green Lawn Cemetery (the Green Lawn Note). The Green Lawn Note bears interest at a rate of 6.5% per year on unpaid principal and is payable monthly, beginning on August 1, 2009. Principal on the note is due in 96 equal installments beginning on July 1, 2011. At December 31, 2012 and 2011, the liability related to the installment note was stated on the

Company s consolidated balance sheet at approximately $1.2 million and $1.3 million, respectively.

In June of 2010, certain of the Company s subsidiaries issued two installment notes in connection with the second quarter acquisition discussed in Note 14. The installment notes are to be paid over a 4 year period and mature April 1, 2014. The installment notes do not have a stated rate of interest. The Company has recorded the installment notes at their fair market value of approximately $2.6 million. The face amounts of the installment notes were discounted approximately $0.7 million, and the discount will be amortized to interest expense over the life of the installment notes. The installment notes bear 10.25% interest per annum on the portion of the outstanding balance after the maturity date or while there exists any uncured event of default or the exercise by lender of any remedies following the occurrence and during the continuance of any event of default. In addition, if StoneMor voluntarily files for bankruptcy or is involved in an involuntary bankruptcy proceeding, the entire principal balance of the installment notes will automatically become due and payable. At December 31, 2012 and 2011, the liability related to the installment notes was stated on the Company s consolidated balance sheet at approximately $0.3 million and $0.6 million, respectively.

In June of 2010, certain of the Company s subsidiaries also issued four notes in the aggregate principal amount of approximately $5.8 million in connection with the acquisition referenced above. These notes were paid at the closing of the acquisition referenced above by: (i) the issuance by the Company of 293,947 unregistered common units representing limited partnership interests of the Company valued at approximately $5.8 million and (ii) a cash payment of approximately $0.2 million.

The carrying amounts of the notes payable approximate their fair value.

Acquisition Non-Compete Notes

In connection with several of the Company s 2012, 2011 and 2010 acquisitions, certain of the Company s subsidiaries issued installment notes in consideration for non-compete agreements executed with the former owners of the acquired entities. The installment notes have varying payment terms and mature between April 1, 2014 and December 31, 2017. The installment notes do not have a stated rate of interest. At inception, the Company recorded the installment notes at their fair market value of approximately $4.8 million. The face amounts of the installment notes were discounted approximately $1.0 million, and the discount will be amortized to interest expense over the life of the installment notes. At December 31, 2012 and 2011, the liability related to the installment notes, net of discounts, was stated on the Company s consolidated balance sheet at approximately $3.3 million and $1.5 million, respectively. The carrying amounts of the installment notes approximate their fair value.

10. INCOME TAXES

Effective with the closing of the Partnership s initial public offering on September 20, 2004 (see Note 1), the Company was no longer a taxable entity for federal and state income tax purposes; rather, the Partnership s tax attributes, except for those of its corporate subsidiaries, are to be included in the individual tax returns of its partners.

The tax on the Company s net income is borne by its general and limited partners. Net income for financial statement purposes may differ significantly from the taxable income of such partners as a result of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the partnership agreement. The aggregate difference in the basis of the Company s net assets for financial and tax reporting purposes cannot be readily determined because information regarding each partner s tax attributes is not available to the Company.

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

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

The tax returns of the Partnership are subject to examination by state and federal tax authorities. If such examinations result in changes to taxable income, the tax liability of the partners could be changed accordingly.

Components of the income tax provision (benefit) applicable to continuing operations for federal and state taxes are as follows:

	Years ended December 31,		
	2012	2011	2010
		(in thousands)	
Current provision:			
Federal	$ (8)	$ 6	$
State	616	(538)	306
Total	608	(532)	306
Deferred provision:			
Federal	(2,202)	(3,324)	(5,138)
State	(196)	(163)	(551)
Total	(2,398)	(3,487)	(5,689)
Total income tax provision (benefit)	$ (1,790)	$ (4,019)	$ (5,383)

The difference between the statutory federal income tax and the Company s effective income tax is summarized as follows:

	Years ended December 31,		
	2012	2011	2010
		(in thousands)	
Computed tax provision (benefit) at the applicable statutory tax rate	$ (1,681)	$ (4,806)	$ (2,322)
State and local taxes net of federal income tax benefit	400	(350)	202
Tax exempt (income) loss	697	300	238
Change in valuation allowance	3,857	3,930	3,210
Partnership earnings not subject to tax	(5,088)	(3,192)	(6,882)
Permanent differences	25	99	171
Income taxes	$ (1,790)	$ (4,019)	$ (5,383)

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Deferred tax assets and liabilities result from the following:

	As of December 31, 2012	As of December 31, 2011
	(in thousands)	
Deferred tax assets		
Prepaid expenses	$ 3,628	$ 3,354
State net operating loss	9,978	9,299
Federal net operating loss	57,269	53,464
Alternative minimum tax credit	73	67
Unrealized losses (gains)	(240)	3,175
Valuation allowance	(36,489)	(35,815)
Total deferred tax assets	34,219	33,544
Deferred tax liabilities		
Property, plant and equipment	5,908	6,063
Deferred revenue related to future revenues and accounts receivable	33,525	34,819
Deferred revenue related to cemetery property	9,315	9,215
Total deferred tax liabilities	48,748	50,097
Net deferred tax liabilities	$ 14,529	$ 16,553

At December 31, 2012, the Company had available approximately less than $0.2 million of alternative minimum tax credit carryforwards, which are available indefinitely, and $163.6 million of federal net operating loss carryforwards, which will begin to expire in 2019 and $201.8 million in state net operating losses, a portion of which expires annually.

Management periodically evaluates all evidence, both positive and negative, in determining whether a valuation allowance to reduce the carrying value of deferred tax assets is required. In 2012, the Company concluded, based on the projected allocations of taxable income, that a deferred tax asset of approximately $0.4 million will more likely than not be realized on several subsidiaries. In addition, several separate taxable subsidiaries were in a deferred tax liability position at December 31, 2012 and recognized those liabilities. The vast majority of the taxable subsidiaries continue to accumulate deferred tax assets that will not more likely than not be realized. A full valuation allowance continues to be maintained on these taxable subsidiaries. Ultimate realization of the deferred tax asset is dependent upon, among other factors, the Partnership s corporate subsidiaries ability to generate sufficient taxable income within the carryforward periods and is subject to change depending on the tax laws in effect in the years in which the carryforwards are used.

The Company follows the provisions of ASC Topic 740 (ASC 740) which requires that the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. During the year ended December 31, 2011, the Company recorded an income tax benefit of $0.9 million reversing an unrecognized tax benefit related to uncertain tax positions as the statute of limitations for this item expired. As of December 31, 2012 and December 31, 2011, the Company does not have any unrecognized tax benefits related to uncertain tax positions.

The Company and its subsidiaries are subject to US federal income tax as well as income taxes of multiple state jurisdictions. The Company s effective tax rate fluctuates over time based on income tax rates in the various tax jurisdictions in which the Company operates and based on the level of earnings in those jurisdictions. The Company is currently under audit by the Internal Revenue Service. The scope of this audit includes an audit of the Company s qualifying income. In order to be treated as a partnership for federal income tax purposes, at least 90% of the Company s gross income must be qualifying income.

If the Company were treated as a corporation for federal income tax purposes for any taxable year for which the statute of limitations remains open, including the tax year currently under audit, or for any future taxable year, the Company would pay federal income tax on its 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 would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to unitholders. Because a tax would be imposed upon the Company as a corporation, including taxes with respect to prior periods, the Company s cash available for distribution would be substantially reduced.

In connection with each public offering of the Company s common units, including its initial public offering of common units, outside counsel reviewed the various categories of the Company s gross income and opined that it would be classified as a partnership for federal income tax purposes. The Company is fully cooperating with the IRS in the audit process. Although no assurance can be given, the Company does not anticipate any change in its status as a partnership for federal income tax purposes or any change in prior period taxable income.

The Company is not currently under examination by any other federal or state jurisdictions. The federal statute of limitations and certain state statutes of limitations are opened from 2009 forward. Management believes that the accrual for tax liabilities is adequate for all open years. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. On the basis of present information, it is the opinion of the Company s management that there are no pending assessments that will result in a material effect on the Company s consolidated financial statements over the next twelve months.

The Company recognizes any interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses for all periods presented. The Company has not recorded any material interest or penalties during any of the years presented.

The net change in the valuation allowance for 2012 was an increase of $674. This change in the valuation allowance is the result of the change in unrealized gains and losses of the Company s investment portfolio, which is recorded within deferred revenues, net; the results of acquisition accounting; net operating losses that are more likely than not to be realized and net operating losses that do not meet the more likely than not standard.

11. DEFERRED CEMETERY REVENUES NET / DEFERRED SELLING AND OBTAINING COSTS

In accordance with SAB No. 104, the Company defers the revenues and all direct costs associated with the sale of pre-need cemetery merchandise and services until the merchandise is delivered or the services are performed. The Company also defers the costs to obtain new pre-need cemetery and new prearranged funeral business as well as the investment earnings on the prearranged services and merchandise trusts (see Note 1).

At December 31, 2012 and 2011, deferred cemetery revenues, net, consisted of the following:

	As of December 31,	
	2012	2011
	(in thousands)	
Deferred cemetery revenue	$ 346,621	$ 306,488
Deferred merchandise trust revenue	65,728	50,419
Deferred merchandise trust unrealized gains (losses)	600	(7,937)
Deferred pre-acquisition margin	132,221	135,043
Deferred cost of goods sold	(47,309)	(42,335)
Deferred cemetery revenues, net	$ 497,861	$ 441,678
Deferred selling and obtaining costs	$ 76,317	$ 68,542

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

12. LONG-TERM INCENTIVE AND RETIREMENT PLANS
Long Term Incentive Plan

Overview

On November 8, 2006, the General Partner s board of directors adopted the StoneMor Partners L.P. Long-Term Incentive Plan, as amended (LTIP) for its employees, consultants and directors, who perform services for the Company. The LTIP permits the grant of awards covering an aggregate of 1,124,000 common units in the form of unit options, unit appreciation rights (UARs), restricted units and phantom units. The compensation committee of the Company s General Partner s board of directors administers the plan. The plan will continue in effect until the earliest of (i) the date determined by the General Partner s board of directors; (ii) the date that common units are no longer available for payment of awards under the plan; or (iii) the tenth anniversary of the plan.

The General Partner s board of directors or compensation committee may, in their discretion, terminate, suspend or discontinue the LTIP at any time with respect to any units for which a grant has not yet been made. The General Partner s board of directors also has the right to alter or amend the LTIP or any part of the plan from time to time, including increasing the number of units that may be delivered in accordance with awards under the plan, subject to any approvals if required by the exchange upon which the common units are listed at that time. No change in any outstanding grant may be made, however, that would materially impair the rights of the participant without the consent of the participant.

Awards Made Under the LTIP

Phantom Unit Awards

On November 8, 2006, the General Partner, acting on behalf of the Company, entered into a Key Employee Restricted Phantom Unit Agreement (the Key Employee Agreement) with certain of its employees (Key Employees).

Under the terms of the Key Employee Agreement, Key Employees received Restricted Phantom Units (Employee Phantom Units). Employee Phantom Units are the economic equivalent of one common unit representing limited partner interests of the Company. Employee Phantom Units become payable, in cash or common units, at the Company s election, upon the full vesting of the Employee Phantom Units. Employee Phantom Units contained no distribution equivalent rights during the vesting period.

A total of 360,500 Employee Phantom Units were granted under the Key Employee Agreement. Half of these units were converted into common units prior to 2009 and half were converted into common units in 2010.

On November 8, 2006, the General Partner, acting on behalf of the Company, entered into a Director Restricted Phantom Unit Agreement (the Director Agreement) with certain of its outside directors (the Directors).

Under the terms of the Director Agreement, each of five directors was awarded 3,000 Restricted Phantom Units (Director Phantom Units). Director Phantom Units become payable, in cash or common units, at the Company s election, upon the separation of the Director from service as a director or upon the occurrence of certain other events specified in the Director Agreement. Each Director Phantom Unit contains a distribution equivalent right which entitles each Director to additional Director Phantom Units upon each distribution made to common unit holders. The calculation of additional Director Phantom Units granted upon each distribution to common unit holders is equal to a Directors total cumulative Director Phantom Units at the time of a distribution multiplied by the per unit monetary distribution divided by the fair value of a common unit at the time of the distribution. Each Director also receives a portion of their annual retainer in deferred restricted phantom units.

There were approximately 71,767, 60,395 and 51,662 Director Phantom Units outstanding at December 31, 2012, 2011 and 2010, respectively.

On December 16, 2009, the General Partner, acting on behalf of the Company, entered into an Executive Restricted Phantom Unit Agreement (the Executive Agreement) with certain of the Company s executives (the Executives). Under the terms of the Executive Agreement, 20,000 Restricted Phantom Units (Executive Phantom Units) were issued. These units were vested upon issuance.

On November 7, 2012, the General Partner, acting on behalf of the Company, entered into an Executive Restricted Phantom Unit Agreement (the 2012 Executive Agreement) with an executive of the Company (the Executive). Under the terms of the 2012 Executive Agreement, the Executive was awarded 45,000 Restricted Phantom Units (Executive Phantom Units) that vest over 3 years as follows; 15,000 Phantom Units vest one year after the Grant Date, 15,000 Phantom Units vest two years after the Grant Date, and 15,000 Phantom Units vest three years after the Grant Date.

Executive Phantom Units become payable, in cash or common units, at the Company s election, upon the separation of the Executive from service as an executive or upon the occurrence of certain other events specified in the Executive Agreement. The exercise of Executive Phantom Units may be subject to approval by the Company s limited partners as required by the NYSE listing rules. Each Executive Phantom Unit contains a distribution equivalent right which entitles each Executive to additional Executive Phantom Units upon each distribution made to common unit holders. The calculation of additional Executive Phantom Units granted upon each distribution to common unit holders is equal to an Executives total cumulative Executive Phantom Units at the time of a distribution multiplied by the per unit monetary distribution divided by the fair value of a common unit at the time of the distribution. There were approximately 71,446, 23,982 and 22,072 Executive Phantom Units outstanding at December 31, 2012, 2011 and 2010, respectively. Effective April 1, 2012, one of the Executives retired from the Company, and simultaneously entered into a two year consulting agreement where the Executive also agreed to become the Vice Chairman of the Company s Board of Directors. This individual owned approximately 13,223 of the Executive Phantom Units outstanding at December 31, 2012.

The table below reflects the LTIP activity for the years ended December 31, 2012, 2011 and 2010, respectively:

	Years ended December 31,		
	2012	2011	2010
	(in thousands)		
Outstanding, beginning of period	84,377	73,734	63,693
Granted (1)	58,836	10,643	10,041
Matured			
Forfeited			
Outstanding, end of period	143,213	84,377	73,734

(1) The weighted-average price for unit awards on the date of grant was $23.84, $27.79, and $22.52 for the years ended December 31 2012, 2011, and 2010, respectively.

As of December 31, 2012, there was approximately $1.0 million of unrecognized compensation cost related to the units issued in the 2012 Executive Agreement. Total compensation expense for unit awards was approximately $0.4 million, $0.3 million and $0.2 million for the years ended December 31, 2012, 2011 and 2010, respectively.

There were no modifications made to any existing unit awards in 2012. No unit awards were capitalized during the years ended December 31, 2012, 2011 or 2010.

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Unit Appreciation Rights Awards

On November 27, 2006, the General Partner, acting on behalf of the Company, entered into a Key Employee Unit Appreciation Rights Agreement (the 2006 UAR Agreement) with certain of the Company s key employees (the 2006 Key Employees). Under the terms of the 2006 UAR Agreement, 2006 Key Employees received Unit Appreciation Rights (UARs) wherein 2006 Key Employees became entitled to compensation in the form of units in an amount equal to the fair value of the Company s common units upon exercise less $24.14 per unit multiplied by the total number of UARs exercised. Units to be issued should be equal to this amount divided by the fair value of common units upon exercise. A total of 120,000 UARs were granted under the 2006 UAR Agreement, all of which had vested at December 31, 2009 and were exercised by December 31, 2011.

On December 16, 2009, the General Partner, acting on behalf of the Company, entered into a Key Employee Unit Appreciation Rights Agreement (the 2009 UAR Agreement) with certain of the Company s key employees (the 2009 Key Employees) and non-employee directors.

Under the terms of the 2009 UAR Agreement, 2009 Key Employees and non-employee directors received UARs and became entitled to compensation in the form of units, in an amount equal to the fair value of the Company s common units upon exercise less $18.80 per unit multiplied by the total number of UARs exercised. Units to be issued should be equal to this amount divided by the fair value of common units upon exercise.

UARs granted under the 2009 UAR Agreement vest at a percentage rate which is equal to a fraction the numerator of which is the number of calendar months which have elapsed since December 16, 2009 and the denominator of which is 48, subject to forfeiture upon certain conditions set forth in the UAR Agreement. The exercise of such UARs may be subject to approval by the Company s limited partners as required by the NYSE listing rules. A total of 814,000 UARs were granted under the 2009 UAR Agreement and 694,098 of these units remained outstanding at December 31, 2012.

In the second quarter of 2012, the General Partner, acting on behalf of the Company, entered into a Key Employee Unit Appreciation Rights Agreement (the 2012 UAR Agreement) with certain of the Company s key employees (the 2012 Key Employees).

Under the terms of the 2012 UAR Agreements, 2012 Key Employees received UARs wherein 2012 Key Employees became entitled to compensation in the form of units in an amount equal to the fair value of the Company s common units upon exercise less $24.36 per unit multiplied by the total number of UARs exercised. Units to be issued should be equal to this amount divided by the fair value of common units upon exercise.

UARs granted under the 2012 UAR Agreements vest at a percentage rate which is equal to a fraction the numerator of which is the number of calendar months which have elapsed since the date of issuance and the denominator of which is 48, subject to forfeiture upon certain conditions set forth in the UAR Agreement. The exercise of such UARs may be subject to approval by the Company s limited partners as required by the NYSE listing rules. A total of 80,500 UARs were granted under the 2012 UAR Agreements and 80,500 of these units remain outstanding at December 31, 2012.

The fair value of UARs granted under both the 2012 UAR Agreements and the 2009 UAR Agreements was estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

	2012 UAR Agreement	**2009 UAR Agreement**
Expected dividend yield	9.60%	10.70%
Risk-free interest rate	0.63%	2.73%
Expected volatility	42.60%	38.70%
Expected life (in years)	3.52	6.02

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The fair value of UARs granted under the 2009 UAR Agreements was $2.39 per UAR and approximately $1.9 million in aggregate.

The fair value of UARs granted under the 2012 UAR Agreements was approximately $3.70 per UAR and approximately $0.3 million in aggregate.

A summary of UAR activity for the years ended December 31, 2012, 2011 and 2010 follows:

	Years ended December 31,		
	2012	2011	2010
		(in thousands)	
Outstanding, beginning of period	759,857	874,835	934,000
Granted	80,500		
Exercised	(65,759)	(112,373)	(47,602)
Forfeited		(2,605)	(11,563)
Outstanding, end of period (1)	774,598	759,857	874,835
Exercisable, end of period	514,993	358,639	281,366

(1) 694,098 of UARs outstanding at December 31, 2012 were granted under 2009 UAR Agreements and 80,500 of the UARs outstanding at December 31, 2012 were granted under 2012 UAR Agreements.

As of December 31, 2012, there was approximately $0.7 million of unrecognized compensation cost related to non-vested UARs. $0.5 million of this cost is expected to be recognized within 1 year, with the remainder being recognized through 2016. Total compensation expense for UARs was approximately $0.5 million for the years ended December 31, 2012, 2011 and 2010. The Company issued 19,452, 24,682 and 10,936 common units as a result of exercised UARs in 2012, 2011 and 2010, respectively.

During the years ended December 31, 2012, 2011 and 2010, the Company:

- Made no modifications to any existing UAR awards;
- Did not capitalize any UAR awards;
- Did not receive any cash due to the exercise of UARs;
- Did not recognize any tax benefits due to exercised UARs.

Retirement Plan

The Company has a 401(k) retirement savings plan for employees who may defer up to 15% of their compensation. The Company does not currently match any of the employee contributions.

13. COMMITMENTS AND CONTINGENCIES

Legal

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

Leases

At December 31, 2012, 2011 and 2010, the Company was committed to operating lease payments for premises, automobiles and office equipment under various operating leases with initial terms ranging from one to

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ten years and options to renew at varying terms. Expenses under operating leases were $2.5 million, $2.3 million and $2.1 million for the years ended December 31, 2012, 2011 and 2010, respectively.

At December 31, 2012, operating leases will result in future payments in the following approximate amounts:

	(in thousands)
2013	$ 2,112
2014	1,375
2015	881
2016	811
2017	759
Thereafter	1,892
Total	$ 7,830

Employment Agreements

As of December 31, 2012, the Company has employment agreements with two of its senior executives which are annually renewable, unless the Company or the senior executives provide notice ninety days prior to the expiration of the employment period. The Company also has an employment agreement with the Vice Chairman of the Board of Directors which is effective for two years beginning April 1, 2012.

14. ACQUISITIONS

Acquisition related costs include legal fees and other third party costs incurred in acquisition related activities. In addition, for the years ended December 31, 2012, 2011 and 2010, acquisition related costs include legal fees, net of recoveries, of $0.3 million, $1.2 million and $0.4 million, respectively, related to amounts paid to pursue the recovery of misappropriation claims related to certain acquisitions.

First Quarter 2012 Acquisition

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

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

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The table below reflects the Company s final assessment of the fair value of net assets acquired, the elimination of debt and other assets, and the purchase price, which results in the recognition of goodwill recorded in the Company s Cemetery Operations Southeast segment.

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

Second Quarter 2012 Acquisitions

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

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

	Preliminary Assessment (in thousands)
Assets:	
Accounts receivable	$ 72
Cemetery property	842
Property and equipment	518
Perpetual care trusts, restricted, at fair value	2,780
Non-compete agreements	12
Total assets	4,224
Liabilities:	
Perpetual care trust corpus	2,780
Other liabilities	24
Deferred tax liability	374
Total liabilities	3,178

Fair value of net assets acquired		1,046
Consideration paid		924
Gain on bargain purchase	$	122

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

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

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

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

Third Quarter 2012 Acquisitions

On July 2, 2012, certain subsidiaries of the Company (collectively the Buyer) entered into an Asset Purchase and Sale Agreement (the Farnstrom Agreement) with Farnstrom Mortuary, LLC and Farnstrom Properties, LLC, both Oregon limited liability companies, Farnstrom Family, Inc. and Care Cremation Society, Inc., both Oregon corporations and two individuals (collectively the Seller). Pursuant to the Agreement, the Buyer acquired five funeral homes in Oregon, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid the Seller $2.3 million in cash. The Buyer will also pay an aggregate amount of $0.3 million in equal quarterly installments commencing on July 2, 2012 in exchange for non-compete agreements with the Seller.

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

	Preliminary Assessment (in thousands)
Assets:	
Property and equipment	$ 1,296
Non-compete agreements	170
Total assets	1,466
Total liabilities	
Fair value of net assets acquired	1,466
Consideration paid cash	2,300
Fair value of debt assumed for non-compete agreements	274
Total consideration paid	2,574
Goodwill from purchase	$ 1,108

In addition, on July 31, 2012, certain subsidiaries of the Company (collectively the Buyer) entered into an Asset Purchase and Sale Agreement (the Lohman Agreement) with certain Florida corporations, limited liability companies and four individuals (collectively the Seller). Pursuant to the Agreement, the Buyer acquired nine funeral homes and four cemeteries in Florida, including certain related assets, and assumed certain related liabilities.

In consideration for the net assets acquired, the Buyer paid the Seller $20.0 million in cash and issued 128,299 units, which equates to $3.5 million worth of units. The Buyer will also pay an aggregate amount of $1.5 million in five equal annual installments commencing on August 1, 2013 in exchange for a consulting and non-compete agreement with the Seller.

The table below reflects the Company s preliminary assessment of the fair value of net assets acquired. The resulting goodwill is recorded in both the Company s Cemetery Operations Southeast segment and Funeral Homes operating segment. These amounts were retrospectively adjusted in the fourth quarter of 2012 as the

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Company obtained additional information related to this acquisition. These amounts may be retrospectively adjusted further as additional information is received.

	Preliminary Assessment	Adjustments (in thousands)	Revised Assessment
Assets:			
Accounts receivable	$ 1,005	$	$ 1,005
Cemetery property	6,100		6,100
Property and equipment	5,864		5,864
Merchandise trusts, restricted, at fair value	11,884		11,884
Perpetual care trusts, restricted, at fair value	2,232		2,232
Other assets	122		122
Non-compete agreements	1,373	404	1,777
Total assets	28,580	404	28,984
Liabilities:			
Deferred margin	3,746		3,746
Merchandise liabilities	3,458		3,458
Perpetual care trust corpus	2,232		2,232
Total liabilities	9,436		9,436
Fair value of net assets acquired	19,144	404	19,548
Consideration paid cash	20,000		20,000
Consideration paid units	3,500		3,500
Fair value of debt assumed for non-compete agreements	1,230		1,230
Total consideration paid	24,730		24,730
Goodwill from purchase	$ 5,586	$ (404)	$ 5,182

Fourth Quarter 2012 Acquisition

On December 13, 2012, StoneMor Florida Subsidiary LLC, a subsidiary of the Company, (the Buyer) entered into an Asset Purchase and Sale Agreement (the Harden Agreement) with a Florida corporation and two individuals (collectively the Seller). Pursuant to the Agreement, the Buyer acquired one funeral home in Florida, including certain related assets, and assumed certain related liabilities.

In consideration for the net assets acquired, the Buyer paid the Seller $2.25 million in cash and issued 28,863 units, which equates to $0.7 million worth of units. The Buyer will also pay an aggregate amount of $0.5 million in twenty equal quarterly installments commencing on March 13, 2013 in exchange for a non-compete agreement with the Seller.

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

	Preliminary Assessment (in thousands)
Assets:	
Property and equipment	$ 952
Non-compete agreements	204
Total assets	1,156
Total liabilities	
Fair value of net assets acquired	1,156
Consideration paid-cash	2,250
Consideration paid-units	650
Fair value of debt assumed for non-compete agreements	421
Total consideration paid	3,321
Goodwill from purchase	$ 2,165

If the acquisitions from 2012 and the first and second quarters acquisitions of 2010 had been consummated on January 1, 2010, on a pro forma basis, for the years ended December 31, 2012, 2011 and 2010, consolidated revenues, consolidated net income (loss), and net income (loss) per limited partner unit (basic and diluted) would have been as follows:

	As of December 31,		
	2012	2011	2010
	(in thousands)		
Revenue	$ 247,199	$ 237,228	$ 213,612
Net loss	(3,090)	(9,705)	(2,255)
Net loss per limited partner unit (basic and diluted)	$ (.16)	$ (.50)	$ (.16)

These pro forma results are unaudited and have been prepared for comparative purposes only and include certain adjustments such as increased interest on the acquisition of debt. They do not purport to be indicative of the results of operations which actually would have resulted had the combination been in effect on January 1, 2010 or of future results of operations of the locations.

Since their respective dates of acquisition, our properties acquired in 2012 have contributed $4.2 million of revenue and $0.1 million of operating profit for the year ended December 31, 2012.

First Quarter 2011 Acquisition

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

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The table below reflects the Company s final assessment of the fair value of net assets acquired. The resulting goodwill is recorded in the Company s Cemetery Operations Southeast segment.

	Final Assessment (in thousands)
Assets:	
Accounts receivable	$ 97
Cemetery property	1,710
Merchandise trusts, restricted, at fair value	880
Perpetual care trusts, restricted, at fair value	344
Property and equipment	332
Other assets	100
Total assets	3,463
Liabilities:	
Deferred margin	795
Merchandise liabilities	734
Perpetual care trust corpus	344
Deferred tax liability	64
Total liabilities	1,937
Fair value of net assets acquired	1,526
Consideration paid	1,700
Goodwill from purchase	$ 174

Second Quarter 2011 Acquisition

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

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The table below reflects the Company s final assessment of the fair value of net assets acquired. The resulting goodwill is recorded in both the Company s Cemetery Operations West segment and Funeral Homes operating segment.

	Final Assessment (in thousands)
Assets:	
Accounts receivable	$ 94
Cemetery property	880
Merchandise trusts, restricted, at fair value	2,627
Perpetual care trusts, restricted, at fair value	1,190
Property and equipment	1,812
Total assets	6,603
Liabilities:	
Deferred margin	1,302
Merchandise liabilities	1,648
Perpetual care trust corpus	1,190
Deferred tax liability	461
Total liabilities	4,601
Fair value of net assets acquired	2,002
Consideration paid	2,150
Goodwill from purchase	$ 148

Third Quarter 2011 Acquisitions

On August 1, 2011, the Operating Company and CFS West Virginia, an affiliate of the Operating Company, (collectively the Buyer) entered into a Stock Purchase Agreement with three individuals (collectively the Seller) to purchase all of the stock of Prince George Cemetery Corporation, a Virginia corporation. Through the purchase of Prince George Cemetery Corporation, the Buyer acquired one cemetery in Virginia. In consideration for the stock acquired, the Buyer paid the Seller approximately $1.9 million in cash. The Buyer will also pay $0.3 million in cash in even quarterly installments over a five year period in exchange for non-compete agreements with the Seller.

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The table below reflects the Company s final assessment of the fair value of net assets acquired. The resulting goodwill is recorded in the Company s Cemetery Operations Southeast segment.

	Final Assessment (in thousands)
Assets:	
Accounts receivable	$ 20
Cemetery property	2,243
Merchandise trusts, restricted, at fair value	562
Perpetual care trusts, restricted, at fair value	904
Property and equipment	159
Other assets	160
Total assets	4,048
Liabilities:	
Deferred margin	360
Merchandise liabilities	337
Perpetual care trust corpus	904
Deferred tax liability	762
Total liabilities	2,363
Fair value of net assets acquired	1,685
Consideration paid	1,850
Fair value of debt assumed for non-compete agreements	280
Total consideration paid	2,130
Goodwill from purchase	$ 445

Also, on August 17, 2011, the Operating Company, StoneMor Puerto Rico LLC, a Puerto Rico limited liability company and StoneMor Puerto Rico Subsidiary LLC, a Puerto Rico limited liability company, each a wholly-owned subsidiary of the Company (collectively the Buyer), entered into a Stock Purchase Agreement with Alderwoods Group, LLC, a Delaware limited liability company (the Seller or SCI Puerto Rico) to purchase all of the stock of SCI Puerto Rico Funeral and Cemetery Services, Inc., a Puerto Rico corporation. Through the purchase of SCI Puerto Rico Funeral and Cemetery Services, Inc., the Buyer acquired five cemeteries and four funeral homes in Puerto Rico. In consideration for the stock acquired, the Buyer paid the Seller $4.6 million in cash.

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The table below reflects the Company s final assessment of the fair value of net assets acquired, the purchase price and the resulting goodwill, which is recorded in both the Company s Cemetery Operations Southeast segment and Funeral Homes operating segment, and displays the adjustments made to the revised values reported at December 31, 2011. The Company obtained additional information in the third quarter of 2012 and has retrospectively adjusted these values as noted below.

	Revised Assessment	Adjustments (in thousands)	Final Assessment
Assets:			
Accounts receivable	$ 4,575	$ 25	$ 4,600
Cemetery property	4,666		4,666
Perpetual care trusts, restricted, at fair value	981		981
Property and equipment	4,124		4,124
Total assets	14,346	25	14,371
Liabilities:			
Deferred margin	5,217	(200)	5,017
Merchandise liabilities	4,799	(167)	4,632
Deferred tax liability	766		766
Perpetual care trust corpus	981		981
Total liabilities	11,763	(367)	11,396
Fair value of net assets acquired	2,583	392	2,975
Consideration paid	4,600		4,600
Goodwill from purchase	$ 2,017	$ (392)	$ 1,625

Fourth Quarter 2011 Acquisitions

On October 4, 2011, the Operating Company and StoneMor Tennessee Subsidiary LLC, a Tennessee limited liability company, each a wholly-owned subsidiary of the Company (collectively the Buyer), entered into an Asset Purchase and Sale Agreement (the 4th Quarter Tennessee Purchase Agreement) with Forest Hill Funeral Home and Memorial Park-East, LLC, a Tennessee limited liability company (Seller) and a state court-appointed receiver (Receiver).

Pursuant to the 4th Quarter Tennessee Purchase Agreement, the Buyer acquired three cemeteries and three funeral homes in Tennessee out of a state court appointed receivership, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid $4.5 million, the components of which were $1.6 million in cash and $2.9 million in cash to lend monies to the merchandise trusts of these properties to fund their current underfunded status. In addition, the Buyer assumed a commitment to spend $0.5 million for capital improvements or deferred maintenance on the properties within 18 months of the closing date.

The table below reflects the Company s final assessment of the fair value of net assets acquired, the purchase price and the resulting goodwill, which is recorded in both the Company s Cemetery Operations Southeast segment and Funeral Homes operating segment, and displays the adjustments made to the preliminary values reported at December 31, 2011. The Company obtained additional information during the second quarter of 2012 and has retrospectively adjusted these values as noted below.

	Preliminary Assessment	Adjustments (in thousands)	Final Assessment
Assets:			
Accounts receivable	$ 86	$ 40	$ 126
Cemetery property	1,096		1,096
Merchandise trusts, restricted, at fair value	10,122		10,122
Perpetual care trusts, restricted, at fair value	4,373		4,373
Property and equipment	2,257		2,257
Other assets		3,862	3,862
Total assets	17,934	3,902	21,836
Liabilities:			
Deferred margin	12,638		12,638
Merchandise liabilities	11,666		11,666
Perpetual care trust corpus	4,373		4,373
Total liabilities	28,677		28,677
Fair value of net liabilities acquired	(10,743)	3,902	(6,841)
Consideration paid	4,500		4,500
Goodwill from purchase	$ 15,243	$ (3,902)	$ 11,341

Also, on November 3, 2011, the Operating Company, StoneMor Mississippi LLC, a Mississippi limited liability company, and StoneMor Mississippi Subsidiary LLC, a Mississippi limited liability company, each a wholly-owned subsidiary of the Company (collectively the Buyer), entered into an Asset Purchase and Sale Agreement (the 4th Quarter Mississippi Purchase Agreement) with Serenity Cemeteries III, LLC, an Arizona limited liability company (Seller) and two individuals.

Pursuant to the 4th Quarter Mississippi Purchase Agreement, the Buyer acquired two cemeteries and one funeral home in Mississippi, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid the Seller $1.3 million in cash and made a deposit into trust of less than $0.1 million.

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The table below reflects the Company s final assessment of the fair value of net assets acquired, the purchase price and the resulting goodwill, which is recorded in both the Company s Cemetery Operations Southeast segment and Funeral Homes operating segment.

	Final Assessment (in thousands)
Assets:	
Accounts receivable	$ 66
Cemetery property	1,331
Merchandise trusts, restricted, at fair value	1,264
Perpetual care trusts, restricted, at fair value	524
Property and equipment	488
Total assets	3,673
Liabilities:	
Deferred margin	832
Merchandise liabilities	965
Deferred tax liability	268
Perpetual care trust corpus	524
Total liabilities	2,589
Fair value of net assets acquired	1,084
Consideration paid	1,342
Goodwill from purchase	$ 258

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

In the aggregate, for the acquisitions consummated during 2011, revenues and net income (loss) included in operations since the dates of acquisition are $15.7 million and $1.0 million, respectively, for the year ended December 31, 2012 and $4.3 million and $(0.3) million, respectively, for the year ended December 31, 2011.

First Quarter 2010 Acquisition

On March 30, 2010, the Operating Company, StoneMor Michigan LLC, a Michigan limited liability company (Buyer LLC) and StoneMor Michigan Subsidiary LLC, a Michigan limited liability company (Buyer NQ Sub and individually and collectively with StoneMor LLC and Buyer LLC, Buyer), each a wholly-owned subsidiary of StoneMor Partners L.P. (the Company), entered into an Asset Purchase and Sale Agreement (the Purchase Agreement) with SCI Funeral Services, LLC, an Iowa limited liability company (Parent), SCI Michigan Funeral Services, Inc., a Michigan corporation (SCI Michigan , and together with Parent, SCI), Hillcrest Memorial Company, a Delaware corporation (Hillcrest), Christian Memorial Cultural Center, Inc., a Michigan corporation (Christian), Sunrise Memorial Gardens Cemetery, Inc., a Michigan corporation (Sunrise), and Flint Memorial Park Association, a Michigan corporation (Flint and individually and collectively with Sunrise, Hillcrest and Christian, Seller).

In connection with the Purchase Agreement, on March 30, 2010, StoneMor LLC and Plymouth Warehouse Facilities LLC, a Delaware limited liability company and a wholly-owned subsidiary of the Company (Plymouth and individually and collectively with StoneMor LLC, Warehouse Buyer), entered into an Asset Purchase and Sale Agreement (the Warehouse Purchase Agreement) with SCI, Hillcrest, Sunrise, Flint, Buyer NQ Sub and Buyer LLC.

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Pursuant to the Purchase Agreement, Buyer acquired nine cemeteries in Michigan, including certain related assets (the Acquired Assets), and assumed certain related liabilities (the Assumed Liabilities). In consideration for the transfer of the Acquired Assets and in addition to the assumption of the Assumed Liabilities, Buyer paid Seller approximately $14.1 million (the Closing Purchase Price) in cash.

Pursuant to the Warehouse Purchase Agreement, Warehouse Buyer acquired one warehouse in Michigan from SCI, including certain related assets, and assumed certain related liabilities for $0.5 million in cash, which was deemed part of the $14.1 million consideration paid in connection with the Purchase Agreement.

The Purchase Agreement and Warehouse Purchase Agreement also include various representations, warranties, covenants, indemnification and other provisions which are customary for transactions of this nature.

The table below reflects the Company s final assessment of the fair value of net assets acquired, the purchase price and the resulting gain on bargain purchase.

		Final Assessment (in thousands)
Assets:		
Cemetery property	$	33,761
Accounts receivable		2,651
Merchandise trusts, restricted, at fair value		48,027
Perpetual care trusts, restricted, at fair value		15,084
Property and equipment		5,768
Total assets		105,291
Liabilities:		
Deferred margin		31,094
Merchandise liabilities		30,126
Deferred income tax liability, net		7,879
Perpetual care trust corpus		15,084
Total liabilities		84,183
Fair value of net assets acquired		21,108
Consideration paid		14,015
Gain on bargain purchase	$	7,093

Second Quarter 2010 Acquisition

On April 29, 2010, the Johnson County Circuit Court of Indiana entered the Order Approving Form of Amended and Restated Purchase Agreement and Authorizing Sale of Equity Interests and Assets (the Indiana Order). The Indiana Order, subject to certain conditions, permitted Lynette Gray, as receiver (the Receiver) of the business and assets of Ansure Mortuaries of Indiana, LLC (Ansure), Memory Gardens Management Corporation (MGMC), Forest Lawn Funeral Home Properties, LLC (Forest Lawn), Gardens of Memory Cemetery LLC (Gardens of Memory), Gill Funeral Home, LLC (Gill), Garden View Funeral Home, LLC (Garden View), Royal Oak Memorial Gardens of Ohio Ltd. (Royal Oak), Heritage Hills Memory Gardens of Ohio Ltd. (Heritage) and Robert E. Nelms (Nelms and collectively with Ansure, MGMC, Forest Lawn, Gardens of Memory, Gill, Garden View, Royal Oak and Heritage, the Original Sellers), to enter into and consummate an Amended and Restated Purchase Agreement (the 2nd Quarter Purchase Agreement) with StoneMor Operating LLC, a Delaware limited liability company (StoneMor LLC), StoneMor Indiana LLC, an Indiana limited liability company (StoneMor Indiana), StoneMor Indiana Subsidiary LLC, an Indiana limited liability company (StoneMor Subsidiary) and Ohio Cemetery Holdings, Inc., an Ohio nonprofit corporation

(Ohio Nonprofit, and collectively with StoneMor LLC, StoneMor Indiana and StoneMor Subsidiary, the Buyer), each a wholly-owned subsidiary of the Company. Subject to the receipt of the Indiana Order, the Purchase Agreement was executed by the Buyer and the Receiver on April 2, 2010.

Effective June 21, 2010, certain subsidiaries of the Company entered into Amendment No. 1 to the 2nd Quarter Purchase Agreement (Amendment No. 1) by and among the Buyer, the Original Sellers, Robert Nelms, LLC (Nelms LLC, and collectively with the Original Sellers, the Sellers) and the Receiver, which amended the Purchase Agreement executed by the Buyer and the Receiver. Amendment No. 1 amended the 2nd Quarter Purchase Agreement by: adding certain parties to the Purchase Agreement; modifying certain representations and warranties made by the Original Sellers in the 2nd Quarter Purchase Agreement; and providing that the Buyer will assume certain additional liabilities such as the obligation to pay for all claims incurred under the health benefit plans of the Original Sellers on or before the closing of the transactions contemplated by the Purchase Agreement and Amendment No. 1, but which had not been reported on or prior to the closing.

Effective June 21, 2010, pursuant to the 2nd Quarter Purchase Agreement and Amendment No. 1, the Buyer acquired the stock (the Stock) of certain companies owned by Ansure (the Acquired Companies) and certain assets (the Assets) owned by Nelms, Nelms LLC, Gill, Gardens of Memory, Garden View, Forest Lawn, Heritage, Royal Oak and MGMC, resulting in the acquisition of 8 cemeteries and 5 funeral homes in Indiana, Michigan and Ohio (the Acquisition). The Buyer acquired the Stock and Assets, advanced moneys to pay for trust shortfalls of the cemeteries, paid certain liabilities of the Sellers, which were offset by funds held in a Smith Barney Account acquired by the Buyer in the transaction, and paid certain legal fees of the parties to the transaction and other acquisition costs, for a total consideration, including the offset by the funds held in the Smith Barney Account, of approximately $32.5 million. The Acquisition was financed, in part, by borrowing $22.5 million from the Company s acquisition facility under the Amended and Restated Credit Agreement dated August 15, 2007 among StoneMor LLC, certain of its subsidiaries, the Company, StoneMor GP LLC, Bank of America, N.A., the other lenders party thereto, and Bank of America Securities LLC, as amended.

Settlement Agreement

In connection with the Acquisition, effective June 21, 2010, StoneMor LLC and StoneMor Indiana (collectively, StoneMor) and the Company entered into a Settlement Agreement (the Settlement Agreement) with Chapel Hill Associates, Inc., d/b/a Chapel Hill Memorial Gardens of Grand Rapids, Chapel Hill Funeral Home, Inc., Covington Memorial Funeral Home, Inc., Covington Memorial Gardens, Inc., Forest Lawn Memorial Chapel Inc., Forest Lawn Memory Gardens Inc., Fred W. Meyer, Jr. by James R. Meyer as Special Administrator to the Estate of Fred W. Meyer, Jr. (the F. Meyer Estate), James R. Meyer (J. Meyer), Thomas E. Meyer (T. Meyer), Nancy J. Cade (Cade, and collectively with the F. Meyer Estate, J. Meyer, and T. Meyer, the Meyer Family) and F.T.J. Meyer Associates, LLC (FTJ).

Pursuant to the Settlement Agreement, StoneMor agreed to assume, pay and discharge a portion of Ansure s and Forest Lawn s obligations under: (i) certain notes issued by Ansure in favor of Fred W. Meyer, Jr., J. Meyer, T. Meyer, and Cade (collectively, the Original Meyer Family); and (ii) a note issued by Forest Lawn to FTJ, which was later assigned to the Original Meyer Family.

StoneMor agreed to assume approximately $7.1 million of Ansure s and Forest Lawn s obligations under the notes they issued, with the remaining principal, interest and fees due under such notes forgiven by the Meyer Family. In connection with the assumption of these obligations, at Closing, StoneMor issued promissory notes to each member of the Meyer Family (the Closing Notes) and additional promissory notes payable in installments to certain members of the Meyer Family (the Installment Notes). The Closing Notes were issued effective June 21, 2010 in the aggregate principal amount of approximately $5.8 million, were unsecured subordinated obligations of StoneMor, bore no interest and were payable on demand at the Closing. The Closing Notes were paid at closing by: (i) the issuance by the Company of 293,947 unregistered common units representing limited partnership interests of the Company (the Units) valued at approximately $5.8 million pursuant to the terms of the Settlement Agreement; and (ii) a cash payment of approximately $0.2 million.

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The Installment Notes were issued effective June 21, 2010 and mature April 1, 2014. The Installment Notes are to be paid over a 4 year period and do not have a stated rate of interest. The Company has recorded the Installment Notes at their fair market value of approximately $2.6 million. The face amounts of the Installment Notes were discounted approximately $0.7 million, and the discount will be amortized to interest expense over the life of the Installment Notes. The Installment Notes bear 10.25% interest per annum on the portion of the outstanding balance after the maturity date or while there exists any uncured event of default or the exercise by the Company of any remedies following the occurrence and during the continuance of any event of default. In addition, if StoneMor voluntarily files for bankruptcy or is involved in an involuntary bankruptcy proceeding, the entire principal balance of the Installment Notes will automatically become due and payable.

J. Meyer, T. Meyer and Cade each entered into an Amended and Restated Agreement-Not-To-Compete with StoneMor, which amended the non-compete agreements each previously entered into with Ansure. In consideration for entering into an Amended and Restated Agreement-Not-To-Compete, StoneMor agreed to pay an aggregate of approximately $2.3 million to J. Meyer, T. Meyer, and Cade, with approximately $0.3 million paid at Closing, and the remainder to be paid in installments over 4 years.

The Settlement Agreement also provides that, if the annual distributions paid by the Company to its unitholders are less than $2.20, StoneMor will pay additional cash consideration to the Meyer Family annually for four years pursuant to a formula contained in the Settlement Agreement. StoneMor may also pay up to approximately $2.4 million to the Meyer Family from the proceeds of the Misappropriation Claims, subject to certain minimum thresholds before payments are required.

In addition, StoneMor provided an assignment from the Receiver to the Meyer Family of the Eminent Domain Claim, as defined in the Settlement Agreement, and the proceeds thereto, at closing. The Meyer Family agreed to assign its rights under the Fraud Claims, as defined in the Settlement Agreement, to StoneMor.

All obligations of StoneMor, the Company, and the Acquired Companies under the Settlement Agreement and other transaction documents are subordinate and junior to the obligations of StoneMor, the Company, and the Acquired Companies under any Senior Debt, as defined in the Settlement Agreement.

The Settlement Agreement also includes various representations, warranties, covenants, mutual releases, indemnification and other provisions, which are customary for a transaction of this nature.

Unregistered Sale of Securities

In connection with the Acquisition, StoneMor GP LLC, the general partner of the Company (StoneMor GP), entered into a Non-Competition Agreement (Non-Competition Agreement) dated as of June 21, 2010 with Ronald P. Robertson, pursuant to which Mr. Robertson agreed not to compete with StoneMor GP and the companies under its management and control. In consideration for Mr. Robertson s covenant not to compete and as a partial payment of the Closing Notes to the Meyer Family pursuant to the Settlement Agreement, effective June 21, 2010, the Company issued 303,800 Units.

Pursuant to the Non-Competition Agreement, the Company is 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, the Company issued 9,853 units in June of 2011 and June of 2012, and is also obligated to issue an additional 4,924 units in June of 2013.

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The table below reflects the Company s final assessment of the fair value of net assets acquired. The resulting goodwill is recorded in the Company s Cemetery Operations Southeast segment, Cemetery Operations West segment and Funeral Homes operating segment.

	Final Assessment (in thousands)
Assets:	
Cemetery land	$ 21,686
Cemetery and funeral home property	9,039
Accounts receivable	2,138
Merchandise trusts, restricted, at fair value	18,948
Perpetual care trusts, restricted, at fair value	4,082
Other assets	4,791
Total assets	60,684
Liabilities:	
Deferred margin	15,939
Merchandise liabilities	15,543
Deferred income tax liability, net	9,728
Perpetual care trust corpus	4,082
Total liabilities	45,292
Fair value of net assets acquired	15,392
Paid at closing purchase price	10,417
Paid at closing units	5,895
Paid at closing liabilities incurred	$ 3,648
Goodwill from purchase	$ 17,098
Total purchase price	19,960
Paid at closing trust underfunding	12,530
Total paid at closing	$ 32,490

Third Quarter 2010 Acquisition

During the third quarter of 2010, the Company purchased a single cemetery for $1.5 million, which included the payoff of an existing mortgage of $0.3 million. At September 30, 2010, the Company had made a provisional assessment of the fair value of net assets acquired for this transaction. The Company obtained additional information in the fourth quarter of 2010 and had retrospectively adjusted these preliminary values as of December 31, 2010.

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The table below reflects the Company s final assessment of the fair value of net assets received, the purchase price and the resulting gain on a bargain purchase.

	Final Assessment (in thousands)
Assets:	
Accounts receivable	$ 869
Cemetery property	2,831
Property and equipment	607
Merchandise trusts, restricted, at fair value	3,080
Perpetual care trusts, restricted, at fair value	1,089
Intangible assets	340
Total assets	8,816
Liabilities:	
Deferred margin	2,404
Other liabilities	318
Merchandise liabilities	2,342
Deferred tax liabilities	1,104
Perpetual care trust corpus	1,089
Total liabilities	7,257
Fair value of net assets acquired	1,559
Consideration paid	1,500
Gain on bargain purchase	$ 59

Fourth Quarter 2010 Acquisition

On October 12, 2010, StoneMor LLC, StoneMor Kansas LLC, a Kansas limited liability company and StoneMor Kansas Subsidiary LLC, a Kansas limited liability company, each a wholly-owned subsidiary of the Company, entered into an Asset Purchase and Sale Agreement (the 4th Quarter Purchase Agreement) with Fairlawn Burial Park Association and Heritage II Inc., collectively the Sellers, and Edward J. Nazar as the Receiver.

Pursuant to the 4th Quarter Purchase Agreement, Buyer acquired the assets of one cemetery and one funeral home in Kansas, purchased out of receivership. In consideration for the transfer, the Company paid approximately $0.7 million in cash, and posted a bond of approximately $0.3 million to fund permanent maintenance trust shortfalls and incurred approximately $0.6 million of liabilities in connection with this acquisition.

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The table below reflects the Company s final assessment of the fair value of net assets received, the purchase price and the resulting goodwill, which is recorded in both the Company s Cemetery Operations West segment and Funeral Homes operating segment.

	Final Assessment (in thousands)	
Assets:		
Accounts receivable	$	80
Cemetery property		986
Merchandise trusts, restricted, at fair value		535
Perpetual care trusts, restricted, at fair value		412
Property and equipment		520
Total assets		2,533
Liabilities:		
Deferred margin		1,010
Merchandise liabilities		932
Deferred tax liabilities		89
Perpetual care trust corpus		412
Total liabilities		2,443
Fair value of net assets acquired		90
Consideration paid		665
Goodwill from purchase	$	575

Since their respective dates of acquisition, our properties acquired in 2010 have contributed $26.0 million of revenue and $6.8 million of net income for the year ended December 31, 2012, $25.6 million and $7.2 million, respectively, for the year ended December 31, 2011 and $11.1 million and $1.1 million, respectively, for the year ended December 31, 2010.

The results of operations and pro forma results related to the third and fourth quarters acquisitions of 2010 are not material to the consolidated financial statements taken as a whole.

First Quarter 2012 Contract Termination

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

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

In the first and second quarters of 2012, the Company received payments of approximately $2.0 million from the Archdiocese as a result of the termination. Consequently, the Company recognized a gain of

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$1.7 million during the year ended December 31, 2012, which is the amount by which the payments from the Archdiocese exceeded the value of the net assets transferred to the Archdiocese.

Fourth Quarter 2011 Disposition

On December 30, 2011, we sold one funeral home in West Virginia for $0.1 million, resulting in a gain of $0.1 million.

15. SEGMENT INFORMATION

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

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

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

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

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

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Segment information is as follows:

As of and for the year ended December 31, 2012:

	Cemeteries Southeast	Northeast	West	Funeral Homes	Corporate	Adjustment	Total
			(in thousands)				
Revenues							
Sales	$ 91,682	$ 34,807	$ 39,590	$	$	$ (36,096)	$ 129,983
Service and other	37,530	25,550	29,176			(15,312)	76,944
Funeral home				37,988		(2,309)	35,679
Total revenues	129,212	60,357	68,766	37,988		(53,717)	242,606
Costs and expenses							
Cost of sales	19,358	7,704	6,745			(5,706)	28,101
Cemetery	25,479	13,693	16,238				55,410
Selling	29,032	12,251	12,490		868	(7,763)	46,878
General and administrative	15,206	6,072	7,648		2		28,928
Corporate overhead					28,169		28,169
Depreciation and amortization	2,164	900	2,316	2,509	1,542		9,431
Funeral home				28,977		(252)	28,725
Acquisition related costs					3,123		3,123
Total costs and expenses	91,239	40,620	45,437	31,486	33,704	(13,721)	228,765
Operating profit	$ 37,973	$ 19,737	$ 23,329	$ 6,502	$ (33,704)	$ (39,996)	$ 13,841
Total assets	$ 519,918	$ 299,166	$ 394,685	$ 107,059	$ 22,897	$	$ 1,343,725
Amortization of cemetery property	$ 4,346	$ 2,394	$ 1,048	$	$	$ 92	$ 7,880
Long lived asset additions	$ 12,832	$ 3,594	$ 4,757	$ 9,415	$ 849	$	$ 31,447
Goodwill	$ 6,174	$	$ 11,948	$ 24,270	$	$	$ 42,392

As of and for the year ended December 31, 2011:

	Cemeteries Southeast	Northeast	West	Funeral Homes	Corporate	Adjustment	Total
			(in thousands)				
Revenues							
Sales	$ 80,485	$ 32,894	$ 46,961	$	$	$ (36,550)	$ 123,790
Service and other	33,271	24,369	31,497			(14,943)	74,194
Funeral home				31,163		(759)	30,404
Total revenues	113,756	57,263	78,458	31,163		(52,252)	228,388
Costs and expenses							
Cost of sales	16,653	7,140	7,361			(5,039)	26,115
Cemetery	23,090	14,033	20,022				57,145
Selling	27,457	11,468	14,029		830	(8,493)	45,291
General and administrative	13,820	6,411	9,314		2	(3)	29,544
Corporate overhead					23,766		23,766
Depreciation and amortization	1,653	891	2,266	1,597	2,127		8,534

Funeral home				23,554			23,554
Acquisition related costs					4,604		4,604
Total costs and expenses	82,673	39,943	52,992	25,151	31,329	(13,535)	218,553
Operating profit	$ 31,083	$ 17,320	$ 25,466	$ 6,012	$ (31,329)	$ (38,717)	$ 9,835
Total assets	$ 472,105	$ 284,765	$ 383,696	$ 78,763	$ 29,429	$	$ 1,248,758
Amortization of cemetery property	$ 3,483	$ 2,185	$ 1,005	$	$	$ (81)	$ 6,592
Long lived asset additions	$ 13,883	$ 1,823	$ 7,816	$ 10,214	$ 588	$	$ 34,324
Goodwill	$ 5,734	$	$ 11,948	$ 14,463	$	$	$ 32,145

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As of and for the year ended December 31, 2010:

	Cemeteries			Funeral			
	Southeast	Northeast	West	Homes	Corporate	Adjustment	Total
				(in thousands)			
Revenues							
Sales	$ 76,419	$ 34,314	$ 37,079	$	$ 10	$ (40,043)	$ 107,779
Service and other	28,157	22,430	23,445			(10,065)	63,967
Funeral home				25,546			25,546
Total revenues	104,576	56,744	60,524	25,546	10	(50,108)	197,292
Costs and expenses							
Cost of sales	15,477	8,455	5,927		6	(6,336)	23,529
Cemetery	20,518	13,490	14,776				48,784
Selling	24,486	11,176	11,142		596	(9,155)	38,245
General and administrative	11,835	6,108	6,631		17		24,591
Corporate overhead					24,379		24,379
Depreciation and amortization	1,448	782	1,157	1,654	3,804		8,845
Funeral home				19,937			19,937
Acquisition related costs					5,715		5,715
Total costs and expenses	73,764	40,011	39,633	21,591	34,517	(15,491)	194,025
Operating profit	$ 30,812	$ 16,733	$ 20,891	$ 3,955	$ (34,507)	$ (34,617)	$ 3,267
Total assets	$ 381,322	$ 266,745	$ 361,694	$ 49,461	$ 86,370	$	$ 1,145,592
Amortization of cemetery property	$ 3,036	$ 3,398	$ 719	$	$	$ (235)	$ 6,918
Long lived asset additions	$ 3,079	$ 3,703	$ 68,609	$ 8,441	$ 188	$	$ 84,020
Goodwill	$ 456	$	$ 11,801	$ 5,896	$	$	$ 18,153

Results of individual business units are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to accounting principles generally accepted in the United States of America; therefore, the financial results of individual business units are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the business units. Methodologies are refined from time to time as management accounting practices are enhanced and businesses change. Revenues and associated expenses are not deferred in accordance with SAB No. 104; therefore, the deferral of these revenues and expenses is provided in the adjustment column to reconcile the Company s managerial financial statements to those prepared in accordance with GAAP. Pre-need sales revenues included within the sales category consist primarily of the sale of burial lots, burial vaults, mausoleum crypts, grave markers and memorials, and caskets. Management accounting practices included in the Southeast, Northeast, and Western Regions reflect these pre-need sales when contracts are signed by the customer and accepted by the Company. Pre-need sales reflected in the consolidated financial statements, prepared in accordance with GAAP, recognize revenues for the sale of burial lots and mausoleum crypts when the product is constructed and at least 10% of the sales price is collected. With respect to the other products, the consolidated financial statements prepared under GAAP recognize sales revenues when the criteria for delivery under SAB No. 104 are met. These criteria include, among other things, purchase of the product, delivery and installation of the product in the ground, and transfer of title to the customer. In each case, costs are accrued in connection with the recognition of revenues; therefore, the consolidated financial statements reflect Deferred Cemetery Revenue, Net, and Deferred Selling and Obtaining Costs on the consolidated balance sheet, whereas the Company s management accounting practices exclude these items.

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16. FAIR VALUE MEASUREMENTS

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

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

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

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

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

As of December 31, 2012

Merchandise Trust

Description	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 27,890	$	$ 27,890
Fixed maturities:			
U.S. government and federal agency			
U.S. state and local government agency			
Corporate debt securities		8,714	8,714
Other debt securities		4,317	4,317
Total fixed maturity investments		13,031	13,031
Mutual funds debt securities	107,921		107,921
Mutual funds equity securities real estate sector	51,986		51,986
Mutual funds equity securities energy sector	5,666		5,666
Mutual funds equity securities MLP s	29,336		29,336
Mutual funds equity securities other	58,082		58,082
Equity securities:			
Preferred REIT s	563		563
Master limited partnerships	42,410		42,410
Global equity securities	24,434		24,434
Other invested assets		7,097	7,097
Total	$ 348,288	$ 20,128	$ 368,416

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Perpetual Care Trust

Description	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 21,419	$	$ 21,419
Fixed maturities:			
U.S. government and federal agency	512		512
U.S. state and local government agency			
Corporate debt securities		23,291	23,291
Other debt securities		371	371
Total fixed maturity investments	512	23,662	24,174
Mutual funds debt securities	107,188		107,188
Mutual funds equity securities real estate sector	42,365		42,365
Mutual funds equity securities energy sector	13,061		13,061
Mutual funds equity securities MLP s	34,805		34,805
Mutual funds equity securities other	8,981		8,981
Equity securities			
Preferred REIT s	486		486
Master limited partnerships	28,693		28,693
Global equity securities	726		726
Other invested assets		415	415
Total	$ 258,236	$ 24,077	$ 282,313

As of December 31, 2011

Merchandise Trust

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

Other invested assets		7,360	7,360
Total	$ 319,373	$ 18,248	$ 337,621

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Perpetual Care Trust

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

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

There were no level 3 assets.

17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following summarizes certain quarterly results of operations:

2012	March 31	June 30	September 30	December 31
	Three months ended (in thousands, except unit data)			
Revenues	$ 59,587	$ 61,508	$ 62,197	$ 59,314
Net income (loss)	2,030	(2,169)	1,061	(3,935)
General partner s interest in net income (loss) for the period	41	(43)	21	(79)
Limited partners interest in net income (loss) for the period	1,989	(2,126)	1,040	(3,856)
Net income (loss) per limited partner unit				

Basic	$	0.10	$	(0.11)	$	0.05	$	(0.20)
Diluted	$	0.10	$	(0.11)	$	0.05	$	(0.20)

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2011	March 31	June 30	September 30	December 31
	Three months ended			
	(in thousands, except unit data)			
Revenues	$ 49,231	$ 60,107	$ 60,325	$ 58,725
Net income (loss)	(7,214)	815	(223)	(3,093)
General partner s interest in net income (loss) for the period	(144)	16	(4)	(62)
Limited partners interest in net income (loss) for the period	(7,070)	799	(219)	(3,031)
Net income (loss) per Limited partner unit				
Basic	$ (0.40)	$ 0.04	$ (0.01)	$ (0.16)
Diluted	$ (0.40)	$ 0.04	$ (0.01)	$ (0.16)

Net income (loss) per limited partner unit is computed independently for each quarter and the full year based upon respective average units outstanding. Therefore, the sum of the quarterly per share amounts may not equal to the annual per share amounts.

18. PARTNER S CAPITAL

On February 9, 2011, the Company 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 the Company. 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 the General Partner, after deducting underwriting discounts and offering expenses, were approximately $105.6 million. As part of this transaction, selling unitholders also sold 1,849,366 common units. The Company did not receive any of the proceeds generated by the sale of any units held by the selling unitholders.

On September 22, 2010, the Company completed a follow-on public offering of 1,725,000 common units, including an option to purchase up to 225,000 common units to cover over-allotments which was exercised in full by the underwriters, at a price of $24.00 per unit, representing a 10.9% interest in the Company. Total gross proceeds from these transactions were approximately $41.4 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 $39.6 million.

19. SUBSEQUENT EVENTS

On February 19, 2013, the Company entered into the First Amendment to the Third Amended and Restated Credit Agreement which increased the total availability under the Credit Facility by $10.0 million to $140.0 million.

On February 19, 2013, StoneMor Florida Subsidiary LLC, an indirect subsidiary of the Company (the Buyer), entered into an Asset Purchase and Sale Agreement (the Seawinds Agreement) with certain Florida limited liability companies and one individual (collectively the Seller). Pursuant to the Agreement, the Buyer acquired six funeral homes in Florida, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid the Seller $9.0 million in cash and issued 159,635 common units, which equates to approximately $3.6 million worth of units. The buyer also issued an unsecured promissory note in the amount of $3.0 million that is payable on February 19, 2014 and bears interest at 5%. In addition, the Buyer will also pay an aggregate amount of $1.2 million in six equal annual installments commencing on February 19, 2014 in exchange for a non-compete agreement with the Seller. A preliminary allocation of the purchase price and fair value of net assets acquired has not been provided as more time is needed to accurately compile this information.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Disclosure Committee and management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon, and as of the date of this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in our reports under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria described in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that we maintained effective internal control over financial reporting as of December 31, 2012.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its report which appears herein.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of StoneMor Partners GP LLC and Unitholders of StoneMor Partners L.P.

Levittown, Pennsylvania

We have audited the internal control over financial reporting of Stonemor Partners L.P. and subsidiaries (the Company) as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012 of the Company and our report dated March 15, 2013 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania

March 15, 2013

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Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Partnership Structure and Management

StoneMor GP LLC, as our general partner, manages our operations and activities. Unitholders are not entitled to participate, directly or indirectly, in our management or operations.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business. Unitholders do not have the right to elect our general partner or its directors on an annual or other continuing basis. Our general partner may not be removed except by the vote of the holders of at least 66 2/3% of the outstanding common units, including units owned by our general partner and its affiliates. Because of their controlling ownership interest in our general partner, the MDC IV Liquidating Trusts, are able to control the election of a majority of the directors of our general partner.

Directors and Executive Officers of StoneMor GP LLC

The following table shows information regarding the directors and executive officers of our general partner. Each director is elected for one-year terms or until his successor is duly elected and qualified. Messrs. Miller and M. Stache serve as executive officers of our general partner pursuant to their respective employment agreements. Mr. Shane serves as Vice Chairman of the Board of Directors of our general partner and as an advisor available to management pursuant to his employment agreement.

Name	Age	Positions with StoneMor GP LLC
Lawrence Miller (1)	64	Chief Executive Officer, President and Chairman of the Board of Directors
Timothy K. Yost (2)	46	Chief Financial Officer and Secretary
Michael L. Stache	61	Senior Vice President and Chief Operating Officer
William R. Shane (2)	66	Vice Chairman of the Board of Directors
Allen R. Freedman	72	Director
Peter K. Grunebaum	79	Director
Robert B. Hellman, Jr.	53	Director
Martin R. Lautman, Ph.D.	66	Director
Fenton R. Talbott	71	Director
Howard L. Carver	68	Director

1. The Amended and Restated Limited Liability Company Agreement of our general partner, as amended, or the GP LLC Agreement, specifies that, so long as Mr. Miller serves as Chief Executive Officer of our general partner, he shall also serve as a director of our general partner.
2. Mr. Yost replaced Mr. Shane as our Chief Financial Officer and Secretary on April 1, 2012. At that time, Mr. Shane became the Vice Chairman of the Board of Directors.

Effective April 30, 2012, Mr. R. Stache retired from his position of Senior Vice President Sales of our general partner. Mr. Waimberg resigned from his position of Vice President Finance and Corporate Development and Treasurer of our general partner effective February 28, 2013. Duties and responsibilities of Messrs R. Stache and Waimberg are performed by senior employees of our general partner.

Executive Officer and Board Member

Lawrence Miller serves as both an executive officer and a member of the Board of Directors of our general partner.

Lawrence Miller has served as our Chief Executive Officer, President and Chairman of the Board of Directors of our general partner since our formation in April 2004 and had served as the Chief Executive Officer and

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President of Cornerstone, since March 1999 through April 2004. Prior to joining Cornerstone, Mr. Miller was employed by The Loewen Group, Inc. (now known as the Alderwoods Group, Inc.), where he served in various management positions, including Executive Vice President of Operations from January 1997 until June 1998, and President of the Cemetery Division from March of 1995 until December 1996. Prior to joining The Loewen Group, Mr. Miller served as President and Chief Executive Officer of Osiris Holding Corporation, a private consolidator of cemeteries and funeral homes of which Mr. Miller was a one-third owner, from November 1987 until March 1995, when Osiris was sold to The Loewen Group. Mr. Miller served as President and Chief Operating Officer of Morlan International, Inc., one of the first publicly traded cemetery and funeral home consolidators from 1982 until 1987, when Morlan was sold to Service Corporation International. Mr. Miller has been retained in this position due to his extensive experience in the death care industry, his expansive operations experience and acumen, his contacts within the death care community and his long tenure of service with us and our affiliates.

Additional Directors

A brief biography of all non-executive directors of our general partner is included below:

William R. Shane has served on the Board of Directors of our general partner since our formation in April 2004. Mr. Shane has served as Executive Vice President and Chief Financial Officer of our general partner since our formation in April 2004 until April 1, 2012, and had served as Executive Vice President and Chief Financial Officer of Cornerstone since March 1999 through April 2004. Effective April 1, 2012, Mr. Shane retired from his position as our Executive Vice President and Chief Financial Officer and became the Vice Chairman of the Board of Directors. Prior to joining Cornerstone, Mr. Shane was employed by The Loewen Group, Inc., where he served as Senior Vice President of Finance for the Cemetery Division from March 1995 until January 1998. Prior to joining The Loewen Group, Mr. Shane served as Senior Vice President of Finance and Chief Financial Officer of Osiris Holding Corporation, which he founded with Mr. Miller, and of which he was a one-third owner. Prior to founding Osiris, Mr. Shane served as the Chief Financial Officer of Morlan International, Inc. Mr. Shane has been retained in this position due to his extensive experience in financial services and capital raising activities, his contacts within the death care and financial communities and his long tenure of service with us and our affiliates.

Allen R. Freedman has served on the Board of Directors of our general partner since our formation in April 2004, and had served as a director of Cornerstone since October 2000 through April 2004. Mr. Freedman is a graduate of Tufts University and the University of Virginia School of Law. Mr. Freedman retired in July 2000 from his position as Chairman and Chief Executive Officer of Fortis, Inc., a specialty insurance company that he started in 1979. He continued to serve on the board of Assurant, Inc. (successor to Fortis, Inc.) until May of 2011. He was previously Chairman of the Board of Systems & Computer Technology Corporation until 2004 and Indus, Inc. until 2007. He currently serves as trustee of the Eaton Vance Mutual Funds Group where he serves on the Governance and Portfolio Management Committees. Mr. Freedman has served on the board of a number of charitable organizations including the Philadelphia Orchestra and the United Way of New York. He currently serves on the board of Opera America, the service organization for over 100 opera companies in the United States, Canada and Europe. He is also a founding director of the Association of Audit Committee Members, Inc. Mr. Freedman has been retained as a member of the Board of Directors of our general partner due to his extensive financial experience, his investment and general management experience in the field or related fields in which the company operates and his experience on other boards of public companies.

Peter Grunebaum has served on the Board of Directors of our general partner since December 2004. Mr. Grunebaum, currently an independent investment banker and corporate consultant, was the Managing Director of Fortrend International, an investment firm headquartered in New York, New York, a position he held from 1989 until the end of 2003. Mr. Grunebaum currently serves as a director and is a member of the Executive Committee and Chairman of the Audit Committee of Pre Paid Legal Services, Inc., a NYSE listed company that provides legal service plans. Mr. Grunebaum also served on the board of directors and as a member of the Audit Committee of Lucas Energy, Inc., a crude oil and gas company, until February 28, 2013. Mr. Grunebaum has been retained as a member of the Board of Directors of our general partner due to his extensive audit background, his experience with raising capital and his service with other public companies.

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Robert B. Hellman, Jr. has served on the Board of Directors of our general partner since our formation in April 2004 and had served as a director of Cornerstone since March 1999 through April 2004. Mr. Hellman is the Chief Executive Officer and a Managing Director of McCown De Leeuw & Co., LLC, which he joined in 1987. McCown De Leeuw & Co., LLC is the sponsor of numerous private equity investment funds. Mr. Hellman was named Managing Director in 1991 and Chief Executive Officer in 2001. Mr. Hellman also co-founded American Infrastructure MLP Funds in 2006. He has been a private equity investor for 25 years and responsible for inventing the pioneering idea of applying the MLP structure to the deathcare industry, which led to our IPO as a MLP. Mr. Hellman received an MBA from the Harvard Business School with Baker Scholar Honors, an MS in economics from the London School of Economics, and a BA in economics from Stanford University. He is a member of the board of the Stanford Institute for Economic Policy Research. Mr. Hellman has been retained as a member of the Board of Directors of our general partner due to his involvement in our initial public offering, his extensive investment experience and his prior experience with raising capital.

Martin R. Lautman, Ph.D., has served on the Board of Directors of our general partner since our formation in April 2004 and as a director of Cornerstone since its formation in March 1999 through April 2004. Dr. Lautman is currently the Managing Director of Marketing Channels, Inc., a company that provides marketing and marketing research consulting services to the information industry. Most recently, he served as the President and CEO of GfK Custom Research North America, a division of a public worldwide marketing services company headquartered in Nuremburg, Germany. Prior to that he was the Senior Managing Director of ARBOR a U.S.-based marketing research agency, where he held several positions including Senior Managing Director since 1974. He has also served with Numex Corporation, a public machine-tool manufacturing company, as President from 1987 to 1990 and as a director from 1991 to 1997. From 1986 to 2000, Dr. Lautman served on the Board of Advisors of Bachow Inc., a private equity firm specializing in high-tech companies and software and is now active in venture capital serving as a venture partner in three early stage funds. Dr. Lautman is currently a board member for two family-owned businesses, E.P. Henry, a hardscaping company and A. Duie Pyle, a trucking company. He has lectured on marketing at The Cornell Hotel School and at The Columbia University School of Business and currently teaches marketing strategy in the MBA program at The Wharton School of Business of the University of Pennsylvania. Dr. Lautman has been retained as a member of the Board of Directors of our general partner due to his involvement in numerous boards, his strategic planning experience and his capital raising background.

Fenton R. Pete Talbott has served on the Board of Directors of our general partner since our formation in April 2004 and had served as Chairman of the Board of Cornerstone since April 2000 through April 2004. Mr. Talbott served as the President of Talbott Advisors, Inc., a consulting firm, from January 2006 through January 2010. Mr. Talbott previously served as an operating affiliate of McCown De Leeuw & Co., LLC from November 1999 to December 2004. Additionally, he served as the Chairman of the Board of Telespectrum International, an international telemarketing and market-research company, from August 2000 to January 2001. Prior to 1999, Mr. Talbott held various executive positions with Comerica Bank, American Express Corporation, Bank of America, The First Boston Corp., CitiCorp., and other entities. He currently serves as a board member of the Preventative Medicine Research Institute, Kansas University Board of Trustees, Christus/St. Vincent Hospital Foundation, and Landmark Dividend, LLC and as the Chairman of Cornerstones Community Partnerships. Mr. Talbott has been retained as a member of the Board of Directors of our general partner due to his extensive operational experience, his private consulting experience and his extensive professional contact base.

Howard L. Carver has served on the Board of Directors of our general partner since August 2005. Mr. Carver retired in June 2002 from Ernst & Young. During his 35-year career with the firm, Mr. Carver held a variety of positions in six U.S. offices, culminating with the position of managing partner responsible for the operation of the Hartford, Connecticut office. Since June 2002, Mr. Carver has served on the boards of directors of Assurant, Inc. (formerly Fortis, Inc.) and Phoenix National Trust Company (until its sale in April 2004) and has been the chair of the Audit Committee for both boards. Since September 2004, Mr. Carver had served on the board of directors of Open Solutions, Inc. and was the chair of that company s Audit Committee (until January 23, 2007 when Open Solutions, Inc was sold). Effective January 2012, Mr. Carver was appointed to the Audit Committee of Pinnacol

Assurance, the workers compensation facility for the State of Colorado, and in January 2013 he was appointed to Pinnacol s board by the Governor of Colorado. Mr. Carver has been retained as a member of the Board of Directors of our general partner due to his extensive financial and audit experience, and his risk management background.

Executive Officers (Non-Board Members)

A brief biography of additional executive officers is included below:

Michael L. Stache has served as our Senior Vice President and Chief Operating Officer since our formation in April 2004 and had served as Senior Vice President and Chief Operating Officer of Cornerstone since March 1999 through April 2004. Prior to joining Cornerstone, Mr. Stache was with Loewen Group International, Inc., a wholly owned subsidiary of The Loewen Group, Inc., between March 1995 and March 1999. Mr. Stache also served as Vice President of Funeral Home Advanced Planning for the United States and Canada for The Loewen Group from January 1999 until he joined Cornerstone in March 1999. Mr. Stache previously served in several different capacities with The Loewen Group, including as Regional President of the North Central Region between 1996 and 1999 and Regional Vice President of Cemetery Operations in the Midwest between 1995 and 1996. Mr. Stache served as Vice President of Operations for Osiris Holding Corporation between 1994 and 1995 and as General Manager between 1988 and 1994.

Timothy K. Yost has served as our Chief Financial Officer and Secretary since April 1, 2012 and has served as our Vice President of Financial Reporting and Investor Relations from November 2004 until March 31, 2012 . Prior to joining us, Mr. Yost was the Chief Financial Officer of SpinCycle, Inc. a national chain of coin-operated laundromats. He began with that company in 1997. From October 1995 through May 1997, he was a controller for the Magellan Corporations, a real estate limited partnership syndicate specializing in the development and acquisition of multi-unit residential housing properties. From October 1991 through October 1995, Mr. Yost was the Head of Premium Accounting for Republic Western Insurance Company, a division of U-Haul International.

General Information

The GP LLC Agreement specifies that the directors of our general partner shall be elected by a plurality vote of the Class A units of our general partner, subject to the requirements described in footnote (1) to the table above. CFSI LLC holds all of the outstanding Class A units. CFSI LLC is controlled by the MDC IV Liquidating Trusts.

Mr. Hellman serves as the sole member of Gen4 Trust Advisor LLC, a Delaware limited liability company, which is a trust advisor to the MDC IV Liquidating Trusts, which together beneficially own 87.2% of CFSI LLC through their direct ownership of approximately 10.1% of the Class B units of CFSI LLC and indirectly through their ownership of approximately 90.8% of the membership interests in Cornerstone Family Services LLC, which owns 85% of the Class B units of CFSI LLC. CFSI LLC indirectly owns our 2% general partner interest.

Messrs. M. Stache and R. Stache are brothers.

Board Meetings and Executive Sessions, Communications with Directors and Board Committees

From January 1, 2012 to December 31, 2012, the Board of Directors of our general partner held four meetings. All directors then in office attended all of these meetings, either in person or by teleconference.

Our Board of Directors holds regular executive sessions, in which non-management board members meet without any members of management present. Mr. Hellman, our Lead Director, presides at regular sessions of the non-management members of our Board of Directors.

Interested parties, including unitholders, may contact one or more members of our Board of Directors, including non-management directors individually or as a group, by writing to the director or directors in care of the Secretary of our general partner at our principal executive offices. A communication received from an interested party or unitholder will be promptly forwarded to the director or directors to whom the communication is addressed. We will not, however, forward sales or marketing materials or correspondence primarily commercial in nature, materials that are abusive, threatening or otherwise inappropriate, or correspondence not clearly identified as interested party or unitholder correspondence.

We have standing Audit, Conflicts, Trust and Compliance, and Nominating, Compensation and Corporate Governance Committees of the Board of Directors of our general partner. The Board of Directors of our general partner appoints the members of such committees. The Audit Committee has a written charter approved by the board, which is posted on our website at www.stonemor.com under the Investor Relations section. Information on our website does not constitute a part of this Annual Report on Form 10-K. The current members of the committees, the number of meetings held by each committee from January 1, 2012 to December 31, 2012, and a brief description of the functions performed by each committee are set forth below.

Audit Committee (6 meetings)

The members of the Audit Committee are Messrs. Freedman (Chairman), Grunebaum and Carver. Messrs. Freedman, Carver and Grunebaum attended all meetings of the Audit Committee for the period noted above. The primary responsibilities of the Audit Committee are to assist the Board of Directors of our general partner in its general oversight of our financial reporting, internal controls and audit functions, and it is directly responsible for the appointment, retention, compensation and oversight of the work of our independent auditors. Messrs. Freedman, Carver and Grunebaum each qualify as independent under applicable standards established by the SEC and NYSE for members of audit committees.

In addition, the Audit Committee includes two members who are determined by the Board of Directors of our general partner to have accounting or related financial management expertise and to meet the qualifications of an audit committee financial expert in accordance with NYSE listing standards and SEC rules, as applicable, including that the persons meet the relevant definition of an independent director. Messrs. Freedman and Carver are the independent directors who have been determined to have accounting or related financial management expertise and to be audit committee financial experts. Unitholders should understand that this designation is a disclosure requirement of the SEC related to Messrs. Freedman and Carver s experience and understanding with respect to certain accounting and auditing matters. The designation does not impose on Messrs. Freedman and Carver any duties, obligations or liability that are greater than are generally imposed on them as members of the Audit Committee and the Board of Directors of our general partner, and their designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Audit Committee or Board of Directors.

Conflicts Committee (no meetings)

The members of the Conflicts Committee are Messrs. Freedman (Chairman), Carver and Grunebaum. The primary responsibility of the Conflicts Committee is to review matters that the directors believe may involve conflicts of interest. The Conflicts Committee determines if the resolution of the conflict of interest is fair and reasonable to us. The members of the Conflicts Committee may not be officers or employees of our general partner or directors, officers, or employees of its affiliates and must meet the independence standards to serve on an audit committee of a board of directors established by the NYSE and certain other requirements. Any matters approved by the Conflicts Committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners, and not a breach by our general partner of any duties it may owe us or our unitholders.

Conflicts of interest may arise between us and our unitholders, on the one hand, and our general partner and its affiliates, including the MDC IV Liquidating Trusts, on the other hand. These conflicts include decisions made by our general partner (such as the amount and timing of borrowings or whether to acquire additional cemeteries) that may result in our general partner receiving incentive distributions.

Nominating, Compensation and Corporate Governance Committee (4 meetings)

The members of the Nominating, Compensation and Corporate Governance Committee are Messrs. Talbott (Chairman), Hellman, and Lautman. All the members attended all meetings of the committee for the period noted above. The primary responsibility of the Nominating, Compensation and Corporate Governance Committee is to oversee compensation decisions for the outside directors of our general partner and executive officers of our general partner (in the event they are to be paid by our general partner) as well as our long-term incentive plan, and to select and recommend nominees for election to the Board of Directors of our general partner.

Trust and Compliance Committee (5 meetings)

The members of the Trust and Compliance Committee are Messrs. Talbott (Chairman), Freedman, Grunebaum and Carver. Funds that are held in merchandise trusts and perpetual care trusts are managed by third-party investment managers within specified investment guidelines adopted by the Trust and Compliance Committee of our board of directors and standards imposed by state law.

These investment managers are monitored by third-party investment advisors selected by our Trust and Compliance Committee who advise the Trust and Compliance 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. All the members attended all meetings of the committee for the period noted above.

Code of Ethical Conduct for Financial Managers, Code of Business Conduct and Ethics for Directors, the Code of Ethics Policy, and the Corporate Governance Guidelines

We adopted a Code of Ethical Conduct applicable to all of our financial managers, including our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. The Code of Ethical Conduct for Financial Managers incorporates guidelines designed to deter wrongdoing and to promote honest and ethical conduct and compliance with applicable laws and regulations. If any amendments are made to the Code of Ethical Conduct for Financial Managers or if we or our general partner grants any waiver, including any implicit waiver, from a provision of the code to any of its financial managers, we will disclose the nature of such amendment or waiver on our website (www.stonemor.com) or in a report on Form 8-K. We also adopted the Code of Business Conduct and Ethics for Directors, the Code of Ethics Policy applicable to our officers and other employees, and the Corporate Governance Guidelines, which constitute the framework for our corporate governance.

The Code of Ethical Conduct for Financial Managers, the Code of Business Conduct and Ethics for Directors, the Code of Ethics Policy, and the Corporate Governance Guidelines are publicly available on our website under the Investor Relations section at www.stonemor.com. Information on our website does not constitute a part of this Annual Report on Form 10-K.

Section 16(a) Beneficial Ownership Reporting Compliance

Our general partner s directors, officers and beneficial owners of more than 10 percent of common units are required to file reports of ownership and reports of changes in ownership with the SEC. Directors, officers and beneficial owners of more than 10% of our common units are also required to furnish us with copies of all such reports that are filed. Based on our review of copies of such forms and amendments, we believe that all of our directors, executive officers and greater than 10% beneficial owners complied with all filing requirements under Section 16(a) of the Exchange Act during the year ended December 31, 2012.

Item 11. Executive Compensation
Compensation Discussion and Analysis

Our Compensation Process

Our business is managed by the directors, officers and employees of StoneMor GP LLC, our general partner. We have no employees of our own. Accordingly, all decisions relating to compensation of the executive

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officers and directors of our general partner are made by the board of directors of our general partner, which we refer to as the board. The Nominating, Compensation and Corporate Governance Committee of the board, which we refer to as the compensation committee, is responsible for making recommendations to the board regarding the compensation of executive officers and outside directors and for overseeing all executive officer compensation programs, plans and policies, including those involving the issuance of equity securities.

Our general partner does not receive any management fee or other compensation for managing our business, but is reimbursed by us for all expenses incurred on our behalf. These expenses include all expenses necessary or appropriate to the conduct of our business and allocable to us. The partnership agreement provides that our general partner will determine in good faith the expenses that are allocable to us. All items of cash compensation reflected in the tables below were incurred on our behalf by our general partner and reimbursed by us.

Objectives and Overview of Our Compensation Programs

Our compensation programs are designed by the board and compensation committee to attract and retain high quality executive officers, to motivate them to achieve our business goals and to maximize the value of our unitholders investment by aligning the interests of our executive officers with the interests of our unitholders. Our business goals are to increase our revenues, profits and cash distributions from existing operations, facilitate our growth through acquisitions, promote a cohesive team effort and provide a workplace environment that fosters compliance with the laws and regulations applicable to our business. Our compensation programs include short-term elements, such as annual base salary and annual incentive cash bonus, as well as longer term elements such as equity based awards. Our executive officers also receive health, disability and life insurance benefits and automobile allowances, and are entitled to defer a portion of their compensation pursuant to our 401(k) retirement plan. We do not match any contributions under that plan.

Our general partner has entered into written employment agreements, as amended, with two of our executive officers, Messrs. Miller and M. Stache. Each agreement is for an initial term of one-year and automatically extends for successive one year terms unless either party gives a 90 day written notice of non-renewal. In addition, William Shane serves as Vice Chairman of the Board of Directors of our general partner pursuant to his employment agreement which is effective for two years beginning April 1, 2012.

How the Elements of Our Executive Compensation Program Further Our Business Goals

The primary elements of our executive compensation program are described below. We have no formula for allocating between long or short-term compensation, cash or non-cash compensation, or among different forms of non-cash compensation, all of which allocations are determined in the discretion of the board and compensation committee.

Base Salary

Base salary is the guaranteed element of our executive officers compensation. The amount of base salary reflects the subjective assessment of the compensation committee and board, taking into consideration, the experience of the executive, the competitive market for similarly skilled executives, the complexity of the executive s job, and our size, financial capabilities and business goals.

Effective April 1, 2012, base salaries of Messrs. Yost and Waimberg were increased to $225,000 and $200,000, respectively, in connection with their promotions to Chief Financial Officer and Secretary, and Treasurer, respectively.

Annual Cash Incentive Program

Our annual cash incentive program is designed to motivate our executives to achieve our short-term earnings growth and cash distribution goals by exceeding a pre-determined level of earnings before depreciation, interest, taxes and amortization, or EBITDA. The amount earned under this program by each of our executive officers named in the Summary Compensation Table is set forth in such table under the caption Non-Equity Incentive Plan Compensation . The aggregate cash incentive payments available for our executive officers are allocated in proportion to their base salaries. For 2012, our EBITDA goal was not achieved, and no payments were made. The minimum EBITDA goal, the other elements of our annual cash incentive program and the identity of the participants in the program are determined at the discretion of the board of directors and compensation committee, after considering the recommendations of our Chief Executive Officer related to other executive officers and employees.

Long- Term Incentive Plan

Awards under our long-term incentive plan are designed to motivate our executives to remain employed by us for a sufficient period of time to achieve our longer term business goals and increase unit-holder value. Unless otherwise specified in the award agreements, unvested awards under the long-term incentive plan are forfeited upon an executive s termination of employment. Pursuant to certain key employee restricted phantom unit agreements and unit appreciation rights agreements with our executives, unvested awards under our long-term incentive plan are forfeited if employment terminates for any reason other than a change of control, death, permanent disability or retirement at age 65 or other age approved by the compensation committee. The grant of awards under our long-term incentive plan is made at the discretion of the board of directors or the compensation committee, as applicable, after considering recommendations of our Chief Executive Officer related to other executive officers and employees.

In connection with Mr. R. Stache s retirement, the compensation committee approved his retirement age, and no forfeiture of his unit appreciation rights granted under the UAR Agreement applied in connection with his retirement effective April 30, 2012.

The 2012 awards made under our long-term incentive plan to our executive officers included a retention award of 45,000 phantom units that vest over a period of 3 years to Mr. Miller, 1,232 phantom units were credited to each of Messrs. Miller and Shane mandatory deferred compensation accounts, pursuant to their distribution equivalent rights. Phantom units become payable, in cash or common units, at our election, upon the separation of the executive from service or upon the occurrence of certain other events specified in the applicable agreement.

In addition, on April 1, 2012, Messrs. Yost and Waimberg were each granted 25,000 unit appreciation rights that vest over a period of 4 years in connection with their promotions to Chief Financial Officer and Secretary and Treasurer, respectively.

For additional information on 2012 awards made to our executive officers, see Note 12 to consolidated financial statements included in this Annual Report on Form 10-K.

The board does not have a program, plan or practice to time grants of awards in coordination with release of material non-public information.

Severance Payments

The employment agreements for each of Messrs. Miller and M. Stache which were entered into in 2004 and since amended, provide for severance payments in the amount of 2.5 times base salary in the event an executive s employment is terminated by our general partner without cause or by the executive for good reason. In that circumstance, all of the executive s unvested equity awards will vest and the executive will be entitled to the continuation of insurance benefits for an agreed period or a cash equivalent (see Employment Agreements). The amount of the severance payment and other benefits provided for in the employment agreements were determined by negotiation between the board and each of the executives and reflects the board s belief at the time such agreements were entered into that the amounts of such payments and benefits and the circumstances under which they would be paid or provided were reasonable. We do not provide cash payments to executives that are triggered by a change of control of our company or our general partner, but upon such a change of control all of our executives unvested equity awards will vest.

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The employment agreement for Mr. Shane, effective as of April 1, 2012, for a period of two years, provides for severance payments in the amount of the base salary remaining on the two-year employment period if he is terminated by our general partner without cause.

On February 28, 2013, we entered into an Employment Separation Agreement (the Separation Agreement) with Mr. Waimberg in connection with Mr. Waimberg s resignation as Vice President Finance and Corporate Development and Treasurer of our general partner. Pursuant to the Separation Agreement, Mr. Waimberg is entitled to receive a severance package consisting of: (i) twenty-six weeks base salary payable over the period of March 1, 2013 to August 30, 2013; (ii) a contribution to Mr. Waimberg s COBRA premium for the months of March 2013 through August 2013 on the same basis as StoneMor GP contributed to Mr. Waimberg s employee health insurance premium prior to the resignation; and (iii) continued vesting of Mr. Waimberg s unit appreciation rights during the period from March 1, 2013 to August 30, 2013 as approved by the compensation committee.

Perquisites

Our named executive officers participate in a wide array of benefit plans that are available to all of our salaried employees, including health, life and disability insurance plans. We generally do not offer our named executive officers any material compensation in the form of perquisites. Perquisites provided to our named executive officers described in Footnote 3 to the Summary Compensation Table below are linked to our compensation philosophy of encouraging the long-term retention of our executives.

Executive Pay Parity

In 2012, we provided each of Messrs. Miller (our CEO, President and Chairman) and Shane (our former Executive Vice President, Chief Financial Officer and current Vice Chairman of the Board of Directors) with salaries, bonuses, long-term incentives and perquisites, and we provide each of Messrs. M. Stache (our Senior Vice President and Chief Operating Officer) and R. Stache (our former Senior Vice President Sales who retired effective April 30, 2012) with identical salaries, bonuses and long-term incentives and perquisites. The board and compensation committee believe that pay parity among similar level executives fosters team work and minimizes internal dissension.

Other Matters

The compensation committee and board did not engage outside compensation consultants in 2012 but did consider available comparable company data in making compensation related decisions in 2012. The board has not established a policy for the adjustment of any compensation award or payment if the relevant performance measures on which they are based are restated or adjusted. The board has not established any security ownership guidelines for executive officers and considered the existing equity ownership levels of recipients of awards made during 2009. The board considered the impact of accounting and tax treatments to us and the recipients in granting awards in 2012 under our long-term incentive plan.

COMPENSATION COMMITTEE REPORT

The Compensation, Nominating and Corporate Governance Committee of the board of directors of our general partner has reviewed and discussed with management the Compensation Discussion and Analysis for the year ended December 31, 2012. Based on such review and discussions, the Compensation, Nominating and Corporate Governance Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

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This Compensation Committee Report shall not be deemed incorporated by reference in any document previously or subsequently filed with the SEC that incorporates by reference all or any portion of this Annual Report on Form 10-K, except to the extent that we specifically request that the report be incorporated by reference.

By the Compensation, Nominating and Corporate Governance Committee.

Fenton R. Talbott, Chairman

Robert B. Hellman, Jr.

Martin R. Lautman

SUMMARY COMPENSATION TABLE

The following table sets forth the compensation awarded to, earned by, or paid to our Chief Executive Officer, our Chief Financial Officer and our three other most highly compensated executive officers, referred to as named executive officers, for all services rendered in all capacities to us and our subsidiaries.

Name and Principal Position	Year	Salary ($)	Unit Awards (1) ($)	Unit Option Awards (1) ($)	Non-equity Incentive Plan Compensation (2) ($)	All Other Compensation (3) ($)	Total ($)
Lawrence Miller	2012	$ 500,000(4)	$ 1,102,388	$	$	$ 16,475	$ 1,618,863(5)
Chief Executive Officer, President	2011	$ 500,000(4)	$ 26,526	$	$	$ 18,947	$ 545,473(5)
and Chairman of the Board	2010	$ 392,308(4)	$ 23,245	$	$ 291,704	$ 33,656	$ 740,913(5)
Timothy K. Yost (6)	2012	$ 212,500	$	$ 92,000	$	$	$ 304,500(5)
Chief Financial Officer and							
Secretary							
Michael L. Stache	2012	$ 315,000(4)	$	$	$	$ 15,179	$ 330,179(5)
Senior Vice President and	2011	$ 315,000(4)	$	$	$	$ 17,803	$ 332,803(5)
Chief Operating Officer	2010	$ 279,519(4)	$	$	$ 152,479	$ 27,838	$ 459,836(5)
Paul Waimberg (7)	2012	$ 215,981	$	$ 92,000	$	$ 6,000	$ 313,981(5)
Vice-President Finance and	2011	$ 187,000	$	$	$	$ 6,000	$ 193,000(5)
Corporate Development, and	2010	$ 174,698	$	$	$ 43,063	$ 3,330	$ 221,091(5)
Treasurer							
William R. Shane (8)	2012	$ 440,000(4)	$ 29,138	$	$	$ 12,000	$ 481,138(5)
Vice Chairman of the Board	2011	$ 440,000(4)	$ 26,526	$	$	$ 19,925	$ 486,451(5)
of Directors	2010	$ 392,308(4)	$ 23,245	$	$ 291,704	$ 29,166	$ 736,423(5)
Robert Stache (9)	2012	$ 104,192(4)	$	$	$	$ 7,302	$ 111,494(5)
Formerly Senior Vice	2011	$ 315,000(4)	$	$	$	$ 12,000	$ 327,000(5)
President Sales	2010	$ 279,519(4)	$	$	$ 152,479	$ 27,838	$ 459,836(5)

(1) Represents the aggregate grant date fair value of awards made during the year in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 referred to as ASC Topic 718 based on the assumptions set forth in Note 12 to the consolidated financial statements included in our Annual Report on Form 10-K. In 2012, Mr. Miller received 46,231.82 Restricted Phantom Units with an aggregate fair value of $1,102,388 and Mr. Shane received 1,231.82 Restricted Phantom Units with an aggregate fair value of $29,138. Also, in 2012, Messrs. Yost and Waimberg each received 25,000 Unit Appreciation Rights (UARs) with

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an aggregate fair value of $92,000. In 2011, Messrs. Miller and Shane each received 955.27 Restricted Phantom Units with an aggregate fair value of $26,526. In 2010, Messrs. Miller and Shane each received 1,035.84 Restricted Phantom Units with an aggregate fair value of $23,245.

(2) Represents the amount distributed under our Annual Cash Incentive Program. Payments under the plan are based upon attaining an internally generated calculation of EBITDA.

(3) Other compensation for 2012 includes an auto allowance of $13,200 for Messrs. Miller and Shane, $12,000 for Mr. M. Stache, $4,000 for Mr. B. Stache and $6,000 for Mr. Waimberg, and $3,275 in expenses related to the travel of the spouse of Mr. Miller, $3,179 for the travel of the spouse of Mr. M. Stache and $3,302 for the travel of the spouse of Mr. B. Stache on business trips. Other compensation for 2011 includes an auto allowance of $13,200 for Messrs. Miller and Shane, $12,000 for Messrs. M. Stache and R. Stache, and $6,000 for Mr. Waimberg and $5,747 in expenses related to the travel of the spouse of Mr. Miller, $6,725 for the travel of the spouse of Mr. Shane and $5,803 for the travel of the spouse of Mr. M. Stache on business trips. Other compensation for 2010 includes an auto allowance of $12,100 for Messrs. Miller and Shane and $11,000 for Messrs. M. Stache and R. Stache, $4,490 in expenses related to the travel of the spouses of Messrs. Miller, M. Stache and R. Stache on business trips, and a payment of $17,066 for Messrs. Miller and Shane, $12,348 for Messrs. M. Stache and R. Stache and $3,330 for Mr. Waimburg representing a distribution on units that were set to be issued, but for administrative reasons, were not issued prior to the dividend declaration date.

(4) Base salary is payable pursuant to the terms of an employment agreement effective as of September 20, 2004 (See Employment Agreements). In addition, Mr. Shane entered into a new employment agreement effective April 1, 2012.

(5) For information regarding cash distributions that may be received by our named executive officers by reasons of their ownership interests in our general partner or its affiliates see Item 13. Certain Relationships and Related Transactions, and Director Independence .

(6) Mr. Yost, formerly Vice President Financial Reporting and Investor Relations, has been promoted to Chief Financial Officer and Secretary effective April 1, 2012.

(7) Mr. Waimberg served as our Vice President Finance and Corporate Development and Treasurer until February 28, 2013.

(8) Mr. Shane, formerly Executive Vice President and Chief Financial Officer, elected to retire from that position effective April 1,2012. In connection with such retirement, Mr. Shane entered into the Employment Agreement with our general partner, pursuant to which he serves as an advisor available to management and Vice Chairman of the Board of Directors of our general partner until April 1, 2014.

(9) Mr. R. Stache served as our Senior Vice President of Sales until April 30, 2012.

2012, 2011 and 2010 Annual Cash Incentive Program

Payments under our Annual Cash Incentive Program are based upon attaining an internally generated calculation of EBITDA.

The table below details the target EBITDA and bonus amounts granted to each named executive for the years ended December 31, 2012, 2011 and 2010.

	For the year ended December 31,								
	2012			2011			2010		
	Target EBITDA	Actual EBITDA	Bonus Paid	Target EBITDA	Actual EBITDA	Bonus Paid	Target EBITDA	Actual EBITDA	Bonus Paid
Lawrence Miller	$ 75,410,000	$ 75,297,000	$	$ 72,480,000	$ 68,936,000	$	$ 66,024,707	$ 71,892,109	$ 291,704
Timothy Yost	$ 75,410,000								