STONEMOR PARTNERS LP
Form 10-Q
November 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2010

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______.

Commission File Number: 000-50910

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

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

(215) 826-2800

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

The number of the registrant s outstanding common units at November 9, 2010 was 15,566,635.

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Part I Financial Information

Item 1. Financial Statements

StoneMor Partners L.P.

Condensed Consolidated Balance Sheets

(in thousands)

	September 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 17,958	$ 13,479
Accounts receivable, net of allowance	42,917	37,113
Prepaid expenses	3,998	3,531
Other current assets	8,499	4,502
Total current assets	73,372	58,625
Long-term accounts receivable net of allowance	56,667	48,015
Cemetery property	304,386	239,777
Property and equipment, net of accumulated depreciation	82,577	48,736
Merchandise trusts, restricted, at fair value	293,008	203,829
Perpetual care trusts, restricted, at fair value	241,923	196,276
Deferred financing costs net of accumulated amortization	10,324	12,020
Deferred selling and obtaining costs	57,537	49,782
Deferred tax assets	508	451
Fair value of interest rate swap	1,961	
Other assets	5,809	1,864
Total assets	$ 1,128,072	$ 859,375
Liabilities and partners capital		
Current liabilities		
Accounts payable and accrued liabilities	$ 19,628	$ 26,574
Accrued interest	5,444	1,829
Current portion, long-term debt	846	378
Total current liabilities	25,918	28,781
Other long-term liabilities	5,721	2,912
Fair value of interest rate swap		2,681
Long-term debt	206,452	182,821
Deferred cemetery revenues, net	343,855	258,978
Deferred tax liabilities	30,552	4,907
Merchandise liability	105,387	65,883
Perpetual care trust corpus	241,923	196,276

Total liabilities	959,808	743,239
Partners capital		
General partner	3,000	1,920
General partner incentive distribution rights	5,979	
Common partner	159,286	114,216
Total partners capital	168,264	116,136
Total liabilities and partners capital	$ 1,128,072	$ 859,375

See Accompanying Notes to the Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of Operations

(in thousands)

(unaudited)

	Three months ended September 30, 2010	Three months ended September 30, 2009 (as restated)	Nine months ended September 30, 2010	Nine months ended September 30, 2009 (as restated)
Revenues:				
Cemetery				
Merchandise	$ 25,750	$ 22,728	$ 68,576	$ 65,460
Services	11,537	10,187	29,562	28,959
Investment and other	8,336	8,291	25,241	25,156
Funeral home				
Merchandise	2,515	2,260	7,377	7,189
Services	3,992	3,121	10,781	10,223
Total revenues	52,130	46,587	141,537	136,987
Costs and Expenses:				
Cost of goods sold (exclusive of depreciation shown separately below):				
Perpetual care	1,370	1,230	3,727	3,658
Merchandise	5,150	4,486	12,572	13,017
Cemetery expense	13,507	10,599	34,840	30,450
Selling expense	10,298	8,733	27,381	25,177
General and administrative expense	6,327	5,797	18,086	16,687
Corporate overhead (including $190 and $381 in unit-based compensation for the three months ended September 30, 2010 and 2009 and $543 and $1,138 for the nine months ended September 30, 2010 and 2009)	5,368	5,440	16,062	16,303
Depreciation and amortization	2,261	1,700	5,918	4,718
Funeral home expense				
Merchandise	967	839	2,833	2,750
Services	2,549	2,193	6,884	6,895
Other	1,509	1,385	4,381	4,284
Acquisition related costs	2,167	(29)	4,823	2,099
Total cost and expenses	51,473	42,373	137,508	126,038
Operating profit	656	4,214	4,029	10,949
Other income and expense				
Gain on sale of funeral homes				475
Gain on acquisition	6,656	751	29,968	5,334
Increase in fair value of interest rate swap	1,398		4,637	
Interest expense	5,894	3,898	15,991	10,269

Income before income taxes	2,816	1,067	22,643	6,489
Income tax expense (benefit):				
State	(22)	195	33	396
Federal	(1,807)	(1,312)	(2,716)	(1,448)
Total income tax expense (benefit)	(1,829)	(1,117)	(2,683)	(1,052)
Net income (loss)	$ 4,645	$ 2,184	$ 25,326	$ 7,541
General partner s interest in net income for the period	$ 93	$ 44	$ 510	$ 151
General partner s IDR interest in net income for the period	$	$	$ 6,250	$
Limited partners interest in net income for the period				
Common	$ 4,552	$ 1,855	$ 18,565	$ 6,166
Subordinated	$	$ 285	$	$ 1,224
Net income per limited partner unit (basic and diluted)	$ .33	$ .18	$ 1.36	$ .62
Distributions per limited partner unit	$ 0.555	$ 0.555	$ 1.665	$ 1.665
Weighted average number of limited partners units outstanding (basic and diluted)	13,995	11,891	13,649	11,891

See Accompanying Notes to the Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of

StoneMor Partners L.P.

Partners Capital

(in thousands)

(unaudited)

	Partners Capital			
	Common Unit Holders	**General Partner**	**Incentive Distribution Rights**	**Total**
Balance, December 31, 2009	$ 114,216	$ 1,920	$	$ 116,136
Issuance of common units	9,610			9,610
Proceeds from public offering	39,503			39,503
General partner contribution		1,030		1,030
Net income	18,565	510	6,250	25,326
Cash distribution	(22,608)	(461)	(271)	(23,340)
Balance, September 30, 2010	$ 159,286	$ 3,000	$ 5,979	$ 168,264

See Accompanying Notes to the Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of Cash Flows

(in thousands)

(unaudited)

	For the nine months ended September 30, 2010	2009 (as restated)
Operating activities:		
Net income	$ 25,326	$ 7,541
Adjustments to reconcile net income to net cash provided by operating activity:		
Cost of lots sold	4,601	4,026
Depreciation and amortization	5,918	4,577
Unit-based compensation	543	1,138
Previously capitalized acquisition costs		1,365
Accretion of debt discount	252	
Previously capitalized financing fees		141
Gain on acquisitions	(29,968)	(5,334)
Increase in value of interest rate swap	(4,637)	
Gain on sale of funeral home		(475)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(11,552)	(6,163)
Allowance for doubtful accounts	2,693	316
Merchandise trust fund	(1,500)	(4,554)
Prepaid expenses	(467)	(736)
Other current assets	(2,041)	(179)
Other assets	273	(387)
Accounts payable and accrued and other liabilities	(224)	(1,402)
Deferred selling and obtaining costs	(7,755)	(6,314)
Deferred cemetery revenue	31,389	24,612
Deferred taxes (net)	(2,883)	(1,445)
Merchandise liability	(537)	(2,004)
Net cash provided by operating activities	9,433	14,723
Investing activities:		
Additions to cemetery property	(1,863)	(3,669)
Purchase of subsidiaries, net of common units issued	(38,462)	(4,189)
Divestiture of funeral home		475
Additions of property and equipment	(4,139)	(1,535)
Net cash used in investing activities	(44,464)	(8,918)
Financing activities:		
Cash distribution	(23,340)	(20,440)
Additional borrowings on long-term debt	63,635	109,082
Repayments of long-term debt	(40,927)	(86,716)
Proceeds from public offering	39,503	

Cost of financing activities		(391)		(5,430)
Sale of general partner units		1,030		
Net cash provided by (used in) financing activities		39,510		(3,504)
Net increase (decrease) in cash and cash equivalents		4,479		2,301
Cash and cash equivalents Beginning of period		13,479		7,068
Cash and cash equivalents End of period	$	17,958	$	9,369
Supplemental disclosure of cash flow information				
Cash paid during the period for interest	$	12,060	$	9,835
Cash paid during the period for income taxes	$	1,761	$	1,737
Non-cash investing and financing activities				
Issuance of note payable for acquisition	$	1,305	$	2,150
Issuance of limited partner units for cemetery acquisition	$	5,785	$	

See Accompanying Notes to the Condensed Consolidated Financial Statements.

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

Nature of Operations

StoneMor Partners L.P. is a provider of funeral and cemetery products and services in the death care industry in the United States. The words we, us, our, StoneMor, the Partnership, and the Company refer to StoneMor Partners L.P. and its subsidiaries. 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 September 30, 2010, StoneMor operates 256 cemeteries. The Company owns 237 of these cemeteries and operates the remaining 19 under long-term agreements. As a result of the agreements and other control arrangements, we consolidate the results of the 19 managed cemeteries in our consolidated financial statements.

As of September 30, 2010, StoneMor owned and operated 63 funeral homes. Twenty six of these funeral homes are located on the grounds of the cemeteries we own.

Basis of Presentation

The unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All interim financial data is unaudited. However, in the opinion of management, the interim financial data as of September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009, respectively, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim period. The results of operations for interim periods are not necessarily indicative of the results of operations to be expected for a full year.

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 operations of the 19 managed cemeteries that the Company operates under long-term agreements are also consolidated as a result of the agreement and other control provisions. Total revenues derived from the cemeteries under long-term agreements totaled approximately $8.8 million and $24.7 million for the three and nine months ended September 30, 2010, as compared to $7.6 million and $21.6 million during the same periods last year.

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 a maturity of three months or less from the time they are acquired to be cash equivalents.

Cemetery Property

Cemetery property consists of developed and undeveloped cemetery property and constructed mausoleum crypts and lawn crypts and 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	5 to 10 years
Leasehold improvements	over the term of the lease

Depreciation expense was $1.6 million and $3.8 million during the three and nine months ended September 30, 2010 as compared to $1.1 million and $3.2 million during the same periods last year.

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Inventories

Inventories, classified as other current assets on the Company s condensed consolidated balance sheets, include cemetery and funeral home merchandise and are 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 $5.2 million and $3.5 million at September 30, 2010 and December 31, 2009, respectively.

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 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 of the account receivable 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 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 September 30, 2010 and December 31, 2009, respectively.

Revenue recognition related to sales of cemetery merchandise and services is governed by Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* (SAB No. 104), and the retail land sales provisions of Accounting Standards Codification (ASC) 976-605-25-6. Per this guidance, revenue from the sale of burial lots and constructed mausoleum crypts are 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 944-720-25-1, 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.

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. The fair value of the funds held in merchandise trusts at September 30, 2010 and December 31, 2009 was approximately $293.0 million and $203.9 million, respectively (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. 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. Earnings from the perpetual care trusts are recognized in current cemetery revenues. The fair value of funds held in perpetual care trusts at September 30, 2010 and December 31, 2009 was approximately $241.9 million and $196.3 million, respectively (see Note 6).

Sales of Funeral Home Services

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

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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.

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 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.

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 three or nine months ended September 30, 2010 and 2009.

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 trust have other-than-temporary impairments based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer.

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

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

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

The trust footnotes (Notes 5 and 6) disclose the adjusted cost basis of the assets in the 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.

Two Class Method of Accounting for Earnings per Share

The Company utilizes the two class method of accounting for earnings per share as required by Accounting Topic 260.

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Under this method:

1. Periodic net income is reduced by the amount of dividends declared for each class of participating security in order to determine undistributed earnings.

2. Undistributed earnings are allocated to each participating security as if all earnings had been distributed in accordance with the distribution schedule per the partnership agreement.

3. Total periodic earnings (TPE) for each class is the sum of their share of dividends plus undistributed earnings.

If the Company s general partner s agreement contains incentive distribution rights (IDR s) and such IDR s are detachable from the general partner units (i.e. can be sold on a stand alone basis), companies must consider IDR s to be a separate class of ownership interest and allocate and disclose TPE to such class by itself.

Prior to 2010, the Company distributed dividends in excess of earnings. Total earnings were in an amount such that there was no allocation of TPE to the IDR s. In the three and nine months ended September 30, 2010, TPE exceeds dividends distributed and undistributed earnings are available for allocation to the IDR s. Additionally, such IDR s are detachable from the Company s general partner units. Accordingly, the Condensed Consolidated Statement of Changes in Partners Capital reflects three classes of units with amounts allocated to such units in accordance with this standard.

The table below reflects the allocation of earnings for the three and nine months ended September 30, 2010:

For the three months ended September 30, 2010:

	Common Units Holders	General Partner (In thousands)	Incentive Distrbution Rights	Total
Dividends declared tier 1	$ 6,402	$ 131	$	$ 6,532
Dividends declared tier 2	692	14		706
Dividends declared tier 3	588	12	92	692
Total	7,682	157	92	7,931
Total earnings				4,645
Undistributed loss tier 1	(3,130)	(64)	(92)	(3,286)
Total periodic earnings	$ 4,552	$ 93	$	$ 4,645

The undistributed loss represents the excess of distributions made over net income. This amount is allocated based upon what the allocation of distributions would have been had we distributed an amount equal to net income. In such case, distributions would have been approximately $0.34 per unit, which in turn would have been allocated 98% to common unit holders and 2% to the general partner.

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For the nine months ended September 30, 2010:

	Common Units Holders	General Partner (In thousands)	Incentive Distrbution Rights	Total
Dividends declared tier 1	$ 18,841	$ 385	$	$ 19,226
Dividends declared tier 2	2,037	41		2,078
Dividends declared tier 3	1,731	35	270	2,036
Total	22,609	461	270	23,340
Total earnings				25,326
Undistributed earnings				1,986
Undistributed loss tiers 1and 2	(11,968)	(244)	(182)	(12,394)
Undistributed earnings tier 3	434	10	66	510
Undistributed earnings tier 4	1,670	45	511	2,226
Undistributed earnings tier 5	5,822	239	5,585	11,646
Total periodic earnings	$ 18,565	$ 510	$ 6,250	$ 25,326

The undistributed loss represents the excess of distributions made over net income during the second and third quarter of the year.

Retrospective Adjustment for Third Quarter 2009 Acquisitions

During the third quarter of 2009, the Company made a provisional assessment of the fair value of net assets acquired via an acquisition. The result of this assessment was that there was neither goodwill nor a gain on a bargain purchase related to this transaction. During the fourth quarter of 2009, the Company completed an additional provisional assessment, wherein the fair value of net assets acquired was increased and a gain on a bargain purchase was recorded of approximately $3.9 million.

During the third quarter of 2010, the Company received independent appraisals on the fair value of the cemetery land and property and equipment acquired in this transaction. These appraisals decreased the fair value of total net assets acquired by approximately $3.1 million from the provisional amount recorded at December 31, 2009, resulting in a final gain on a bargain purchase of approximately $0.8 million. There was no impact on cash flows due to this adjustment.

In accordance with Accounting Standards Codification Section 805-10-25-13, the financial statements included in this Quarterly report filed on Form 10 Q have been retrospectively adjusted to reflect the impact of this change. The result of these retrospective adjustments is an increase in net income of approximately $0.8 million for the three and nine months ended September 30, 2009 as reflected in the comparative column in the Condensed Consolidated Statement of operations and a decrease in partners capital of approximately $3.1 million at December 31, 2010 as reflected in the comparative column in the Condensed Consolidated Balance Sheet included in this Quarterly Report on Form 10 Q.

Recent Accounting Pronouncements

Beginning July 1, 2009, the Financial Accounting Standards Board (FASB) began communicating changes to the source of authoritative U.S. GAAP, the *FASB Accounting Standards Codification* (FASB Codification), through Accounting Standards Update (Updates). Updates are published for all authoritative U.S. GAAP promulgated by the FASB, regardless of the form in which such guidance may have been issued prior to release of the FASB Codification (e.g., FASB Statements, EITF Abstracts, FASB Staff Positions, etc.). Updates are also issued for amendments to the SEC content in the FASB Codification as well as for editorial changes.

Updates issued in 2010 that are applicable to the Company include:

In the third quarter of 2010, the FASB issued Update No. 2010-20 Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (Update 2010-20). Update 2010-20 is a disclosure only update that requires entities to disaggregate their financing receivable portfolio between portfolio segments and classes of financing receivables within each segment. Certain disclosures then must be made at both the portfolio segment and class level.

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Update 2010-20 is effective beginning in periods ending after December 15, 2010. The Company will adopt Update 2010-20 beginning in the fourth quarter of 2010. As this is a disclosure only update, the adoption of Update 2010-20 will have no impact on the Company s financial position, results of operations or cash flows.

In the first quarter of 2010, the FASB issued Update No. 2010-06 Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (Update 2010-06). Update 2010 -06 requires each of the following new disclosures:

1. Entities must disclose separately significant transfers into and out of Level 1 and Level 2.

2. Reconciliations of Level 3 measurements must provide gross information related to purchases, sales, issuances and settlements as opposed to netting such number.

Update 2010-06 provided each of the following amendments to existing disclosures:

3. Entities must provide fair value measurement for each class of asset and liability. A class is often a subset of a line item asset or liability.

4. Entities should provide disclosures about the valuation techniques used to measure fair value on Level 2 and Level 3 assets and liabilities in interim periods.

Disclosure requirements 1, 3 and 4 are applicable for all periods beginning after December 15, 2009. Disclosure requirement 2 is applicable for all periods beginning after December 15, 2010. The Company has adopted disclosure requirements 1, 3 and 4 as of January 1, 2010. As this is a disclosure only requirement, there is no impact on the financial position of the Company related to this adoption. See Note 15 to this Quarterly Report on Form 10-Q.

Additional accounting pronouncements issued during the reporting period include:

In June 2009, the FASB adopted ASC Topic 810, Subtopic 10, Sections 30 and 65 (ASC 810-10-30/65), the purpose of which is to amend certain requirements of ASC Topic 810, Subtopic 10, Section 5, to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. Amongst other things, ASC 810-10-30/65 requires a change in the determination of which entity s qualify as variable interest entities (VIE s), changes in an entity that is involved in VIE s method of determining whether they are the primary beneficiary of such VIE, and changes to disclosures required by all entities involved with VIE. ASC 810-10-30/65 is effective for each reporting period beginning after November 15, 2009. Early adoption was prohibited. The Company adopted the provisions of ASC 810-10-30/65 effective on January 1, 2010. The Company has reviewed the requirements of ASC 810-10-30/65 and determined that there are no changes to its current determination of those entities with which it is involved as to their status of being VIE s nor to its determination of the Company s status with regards to its position as the primary beneficiary of such VIE s. The Company has modified certain disclosures with regards to those VIE s with which it is involved. Such modifications are included in Note 5 of this Quarterly Report on Form 10-Q.

In June 2009, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*. This statement modifies the GAAP hierarchy by establishing only two levels of GAAP, authoritative and non-authoritative accounting literature. Effective July 2009, the FASB ASC, also known collectively as the Codification, is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. The Codification is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. SFAS 168 applies to financial statements beginning in the third quarter 2009. Accordingly, all accounting references contained herein have been updated to reflect the Codification and all SFAS references have been replaced with ASC references. In those cases when previous GAAP references related to specific paragraphs, we have referred specifically to that paragraph in the ASC reference. Broader references have been referenced to the most detailed level (topic, subtopic or section) applicable.

In April of 2009, the FASB issued ASC 320-10-65-1, which relates to investments in both debt and equity securities. ASC 320-10-65-1 amended previous guidance related to the determination of whether impairments in debt securities were other-than-temporary, and provides guidance as to which other-than-temporary impairments should be reflected in the income statement and which other-than-temporary impairments should be reflected in other comprehensive income. ASC 320-10-65-1 also modifies the presentation and disclosures related to both debt and equity securities. ASC 320-10-65-1 is effective for interim periods ending after June 15, 2009, and the Company adopted it for second quarter of 2009. ASC 320-10-65-1 did not have a significant impact on the Company s financial position or results of operations.

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In April of 2009, the FASB issued ASC 825-10-65-1, which relates to financial instruments. ASC 825-10-65-1amends ASC 825-10-50-10 to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. ASC 825-10-65-1 is effective for interim periods ending after June 15, 2009 and the Company adopted it for second quarter of 2009. ASC 825-10-65-1 did not have a significant impact on the Company s financial statements.

In April of 2009, the FASB issued ASC 820-10-65-4, which relates to fair value measurements and disclosures. ASC 820-10-65-4 provides additional guidance in estimating fair value under ASC 820-10-5-1 when the volume and level of transaction activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. ASC 820-10-65-4 also provides additional guidance on circumstances that may indicate a transaction is not orderly. ASC 820-10-65-4 is effective for interim periods ending after June 15, 2009, and the Company adopted it for the second quarter of 2009. ASC 820-10-65-4 did not have a significant impact on the Company s financial position or results of operations.

Use of Estimates

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

2. LONG-TERM ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

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

	As of September 30, 2010	As of December 31, 2009
	(in thousands)	
Customer receivables	$ 132,503	$ 112,995
Unearned finance income	(14,916)	(14,002)
Allowance for contract cancellations	(18,003)	(13,865)
	99,584	85,128
Less: current portion net of allowance	42,917	37,113
Long-term portion net of allowance	$ 56,667	$ 48,015

Activity in the allowance for contract cancellations is as follows:

	For the nine months ended September 30, 2010	2009
	(in thousands)	
Balance Beginning of period	$ 13,865	$ 13,763

Provision for cancellations	10,164	9,479
Charge-offs net	(6,026)	(9,164)
Balance End of period	$ 18,003	$ 14,078

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3. CEMETERY PROPERTY

Cemetery property consists of the following:

	As of September 30, 2010	As of December 31, 2009
	(in thousands)	
Developed land	$ 46,532	$ 27,922
Undeveloped land	211,545	164,400
Mausoleum crypts and lawn crypts	46,309	47,455
Total	$ 304,386	$ 239,777

The significant increases during the nine months ended September 30, 2010 was primarily related to the acquisitions made by the Company discussed in Note 13 of this Quarterly Report filed on Form 10 Q.

4. PROPERTY AND EQUIPMENT

Major classes of property and equipment follow:

	As of September 30, 2010	As of December 31, 2009
	(in thousands)	
Building and improvements	$ 81,384	$ 47,276
Furniture and equipment	33,264	29,721
	114,648	76,997
Less: accumulated depreciation	(32,071)	(28,261)
Property and equipment net	$ 82,577	$ 48,736

The significant increases during the nine months ended September 30, 2010 were primarily related to the acquisitions made by the Company discussed in Note 13 of this Quarterly Report filed on Form 10 Q.

5. MERCHANDISE TRUST

At September 30, 2010, the Company s merchandise trust 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; 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 ASC 320-10-25-1. 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 GAAP. At September 30, 2010, approximately 91.7% of these assets were Level 1 investments while approximately 8.3% were Level 2 assets. There were no Level 3 assets.

The merchandise trust is a variable interest entity for which the Company is the primary beneficiary. The assets held in the merchandise trust 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 would be required to fund this shortfall.

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The cost and market value associated with the assets held in the merchandise trust at September 30, 2010 and December 31, 2009 is as follows:

As of September 30, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(in thousands)		
Short-term investments	$ 33,932	$	$	$ 33,932
Fixed maturities:				
U.S. State and local government agency	23			23
Corporate debt securities	6,376	30	(102)	6,304
Other debt securities	14,168	2,846		17,014
Total fixed maturities	20,567	2,876	(102)	23,341
Mutual funds debt securities	48,378	1,050	(252)	49,176
Mutual funds equity securities	121,522	18	(4,578)	116,962
Equity securities	66,272	3,851	(1,449)	68,674
Other invested assets	924			924
Total	$ 291,595	$ 7,794	$ (6,381)	$ 293,008

As of December 31, 2009	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(in thousands)		
Short-term investments	$ 47,451	$	$	$ 47,451
Fixed maturities:				
U.S. State and local government agency	33		(10)	23
Corporate debt securities	3,204	90	(48)	3,246
Other debt securities	10,337	448		10,785
Total fixed maturities	13,574	538	(58)	14,054
Mutual funds debt securities	39,545	8	(840)	38,713
Mutual funds equity securities	93,472		(23,034)	70,438
Equity securities	34,818	1,249	(4,304)	31,763
Other invested assets	1,385	26		1,411
Total	$ 230,245	$ 1,821	$ (28,236)	$ 203,829

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The contractual maturities of debt securities as of September 30, 2010 and December 31, 2009 are as follows:

As of September 30, 2010	Less than 1 year	1 year through 5 years	5 years through 10 years	More than 10 years
		(in thousands)		
U.S. State and local government agency	23			
Corporate debt securities		2,274	3,274	756
Other debt securities	15,653	1,361		
Total fixed maturities	$ 15,676	$ 3,635	$ 3,274	$ 756

As of December 31, 2009	Less than 1 year	1 year through 5 years	5 years through 10 years	More than 10 years
		(in thousands)		
U.S. State and local government agency	23			
Corporate debt securities		1,408	1,683	155
Other debt securities	10,785			
Total fixed maturities	$ 10,808	$ 1,408	$ 1,683	$ 155

An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at September 30, 2010 and December 31, 2009 is presented below:

At September 30, 2010

	Less than 12 months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Fixed maturities:						
Corporate debt securities	3,131	77	308	25	3,439	102
Other debt securities						
Total fixed maturities	3,131	77	308	25	3,439	102
Mutual funds debt securities	11,590	50	2,008	202	13,598	252
Mutual funds equity securities			80,425	4,578	80,425	4,578
Equity securities	1,484	131	13,022	1,318	14,506	1,449
Total	$ 16,205	$ 258	$ 95,763	$ 6,123	$ 111,968	$ 6,381

At December 31, 2009

	Less than 12 months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$	$	$	$	$	$
U.S. State and local government agency	23	10			23	10
Corporate debt securities	1,554	18	263	30	1,817	48
Other debt securities						
Total fixed maturities	1,577	28	263	30	1,840	58
Mutual funds debt securities	9,456	118	15,086	722	24,542	840
Mutual funds equity securities			70,439	23,034	70,439	23,034
Equity securities	2,307	191	25,686	4,113	27,993	4,304
Total	$ 13,340	$ 337	$ 111,474	$ 27,899	$ 124,814	$ 28,236

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A reconciliation of the Company s merchandise trust activities for the nine months ended September 30, 2010 is presented below:

Nine months ended September 30, 2010

Fair Value @ 12/31/2009	Net Contributions (Distributions)	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss (in thousands)	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 9/30/2010
$ 203,829	$ 65,594	$ 6,193	$ 224	$ (8,763)	$ (873)	$ (1,024)	$ 27,828	$ 293,008

The Company made net deposits into the trusts of approximately $65.6 million during the nine months ended September 30, 2010. Purchases and sales of securities available for sale included in trust investments were approximately $404.6 million and $339.0 million, respectively during the nine months ended September 30, 2010.

Other-than-temporary Impairments

In the second quarter of 2009, the Company adopted Section 10-65-1 of ASC 320, which amended the other-than-temporary impairment guidance for debt securities and changed the disclosure requirements for other-than-temporary impairments on both debt and equity securities.

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 the 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 length of time that a security has been in a loss position.

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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 three and nine months ended September 30, 2010, the Company determined that there were no other than temporary impairments to the fixed maturity investment portfolio in the Merchandise Trust due to credit losses.

During the three months ended September 30, 2010, the Company determined that there were 17 securities, with an aggregate cost basis of approximately $40.6 million, an aggregate fair value of approximately $27.5 million and a resulting impairment of approximately $13.1 million, wherein such impairment is considered to be other-than-temporary. Accordingly, the Company has adjusted the cost basis of this asset to its current value.

During the nine months ended September 30, 2010, the Company determined that there were 17 securities, with an aggregate cost basis of approximately $40.9 million, an aggregate fair value of approximately $27.6 million and a resulting impairment of approximately $13.3 million, wherein such impairment is considered to be other-than-temporary. Accordingly, the Company has adjusted the cost basis of this asset to its current value and recorded a realized loss on the security. This loss has been deferred and is included on the balance sheet in Deferred cemetery revenues, net. The loss will be recognized in income as we deliver the underlying merchandise to which these securities are related.

6. PERPETUAL CARE TRUSTS

At September 30, 2010, the Company s perpetual care trust 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 and Master Limited Partnerships;

Fixed maturity debt securities issued by various corporate entities; 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 ASC 320-10-25-1. 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 ASC 820-10-35-(39 through 51H). At September 30, 2010, approximately 86.8% of these assets were Level 1 investments while approximately 13.2% were Level 2 assets. There were no Level 3 assets.

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The cost and market value associated with the assets held in perpetual care trusts at September 30, 2010 and December 31, 2009 were as follows:

As of September 30, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(in thousands)		
Short-term investments	$ 18,549	$	$	$ 18,549
Fixed maturities:				
U.S. State and local government agency	61	81		142
Corporate debt securities	20,742	812	(213)	21,341
Other debt securities	10,516		(352)	10,164
Total fixed maturities	31,319	893	(565)	31,647
Mutual funds debt securities	49,493	1,690	(287)	50,896
Mutual funds equity securities	86,540	3,120	(3,662)	85,998
Equity Securities	47,084	7,800	(53)	54,831
Other invested assets				
Total	$ 232,985	$ 13,503	$ (4,567)	$ 241,923

As of December 31, 2009	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(in thousands)		
Short-term investments	$ 46,615	$	$	$ 46,615
Fixed maturities:				
U.S. Government and federal agency	4,747	66	(48)	4,765
U.S. State and local government agency	1,497	14	(74)	1,437
Corporate debt securities	13,722	369	(199)	13,892
Other debt securities	4,821	8		4,829
Total fixed maturities	24,787	457	(321)	24,923
Mutual funds debt securities	36,774	24	(465)	36,333
Mutual funds equity securities	74,831	1	(22,275)	52,557
Equity Securities	33,514	3,385	(1,486)	35,413
Other invested assets	434	2		436
Total	$ 216,954	$ 3,868	$ (24,547)	$ 196,276

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The market value of contractual maturities of debt securities as of September 30, 2010 and December 31, 2009 are as follows:

As of September 30, 2010	Less than 1 year	1 year through 5 years	5 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$	$	$	$
U.S. State and local government agency	142			
Corporate debt securities		7,127	12,314	1,900
Other debt securities	9,793	371		
Total fixed maturities	$ 9,935	$ 7,498	$ 12,314	$ 1,900

As of December 31, 2009	Less than 1 year	1 year through 5 years	5 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$ 806	$ 3,230	$ 438	$ 291
U.S. State and local government agency	560	296	520	61
Corporate debt securities		6,166	7,104	622
Other debt securities	4,829			
Total fixed maturities	$ 6,195	$ 9,692	$ 8,062	$ 974

An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at September 30, 2010 and December 31, 2009 held in perpetual care trusts is presented below:

At September 30, 2010

	Less than 12 months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Fixed maturities:						
Corporate debt securities	4,469	124	1,019	89	5,488	213
Other debt securities	832	352			832	352
Total fixed maturities	5,301	476	1,019	89	6,320	565
Mutual funds debt securities	347	30	2,843	257	3,190	287
Mutual funds equity securities			44,069	3,662	44,069	3,662
Equity securities	253	3	3,126	50	3,379	53
Total	$ 5,901	$ 509	$ 51,057	$ 4,058	$ 56,958	$ 4,567

At December 31, 2009

	Less than 12 months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$ 1,708	$ 42	$ 188	$ 6	$ 1,896	$ 48
U.S. State and local government agency	655	74			655	74
Corporate debt securities	6,796	76	1,246	123	8,042	199
Other debt securities						
Total fixed maturities	9,159	192	1,434	129	10,593	321
Mutual funds debt securities	1,969	347	900	118	2,869	465
Mutual funds equity securities			47,299	22,275	47,299	22,275
Equity securities	1,317	107	18,397	1,379	19,714	1,486
Total	$ 12,445	$ 646	$ 68,030	$ 23,901	$ 80,475	$ 24,547

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A reconciliation of the Company s perpetual care trust activities for the nine months ended September 30, 2010 is presented below:

Nine months ended September 30, 2010

Fair Value @ 12/31/2009	Net Contributions (Distributions)	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss (in thousands)	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 9/30/2010
$ 196,276	$ 24,778	$ 7,882	$ 7	$ (15,543)	$ (279)	$ (813)	$ 29,615	$ 241,923

The Company made net deposits into the trusts of approximately $24.8 million during the nine months ended September 30, 2010. Purchases and sales of securities available for sale included in trust investments were approximately $248.1 million and $223.3 million, respectively during the nine months ended September 30, 2010.

The Company recorded income from perpetual care trusts of $3.3 million and $10.2 million for the three and nine months ended September 30, 2010 as compared to $2.7 million and $9.4 million during the same periods last year. This income is classified as cemetery revenues in the condensed consolidated statements of operations.

Other-than-temporary Impairments

Refer to Note 5 for a detailed discussion of the Company s methodology of determining, accounting for and disclosing other than temporary impairments.

During the three and nine months ended September 30, 2010, the Company determined that there were 3 securities, with an aggregate cost basis of approximately $25.6 million, an aggregate fair value of approximately $10.8 million and a resulting impairment of approximately $14.8 million, wherein such impairment is considered to be other-than-temporary. Accordingly, the Company has adjusted the cost basis of this asset to its current value. This adjustment is solely a fair value adjustment between the cost basis and mark to market adjustment made to the assets in the perpetual care trust. It has no impact on the Company s financial position, results of operations or cash flows as of and for the nine months ended September 30, 2010.

7. 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 million. Settlements are to be made net on a quarterly basis in February, May, August and November of each year. The First Interest Rate Swap expires on December 1, 2012.

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 million. Settlements are to be made net on a quarterly basis in February, May, August and November of each year. The Second Interest Rate Swap expires on December 1, 2012.

The Interest Rate Swaps do not qualify for hedge accounting. Accordingly, the fair value of the Interest Rate Swaps is reported on the Company s balance sheet and periodic changes in the fair value of the Interest Rate Swaps are recorded in earnings. At September 30, 2010, the Company recorded an asset (the Fair value of interest rate swaps) of approximately $2.0 million, which represents the fair value of the Interest Rate Swaps at September 30, 2010. The Company recorded a gain on the fair value of interest rate swaps of approximately $1.4 million and $4.6 million during the three and nine months ended September 30, 2010.

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The Interest Rate Swaps do not contain any credit risk contingent features. No collateral is required to be posted by either counterparty.

8. LONG-TERM DEBT

The Company had the following outstanding debt at:

	September 30, 2010	December 31, 2009
	(in thousands)	
Insurance premium financing	$ 450	$ 190
Vehicle Financing	1,208	547
Acquisition Credit Facility, due September 2012	15,000	
Revolving Credit Facility, due September 2012	7,000	
Note payable Greenlawn Acquisition	1,400	1,400
Note payable Nelms acquisition (net of discount)	926	
10.25% senior notes, due 2017	150,000	150,000
Series B senior secured notes, due 2012	17,500	17,500
Series C senior secured notes, due 2012	17,500	17,500
Total	210,984	187,137
Less current portion	846	378
Less unamortized bond discount	3,686	3,938
Long-term portion	$ 206,452	$ 182,821

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 Banc 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 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 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 Issuers, the Company 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.

The net proceeds from the Notes Offering and Units Offering were used, in part, to:

repay approximately $30.7 million of borrowings under the Revolving Facility (as defined below);

repay approximately $104.7 million of borrowings under the Acquisition Credit Facility (as defined below); and

redeem $17.5 million of outstanding 11.00% Series B Senior Secured Notes due 2012 (the Series B Notes).

Indenture

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

In addition, at any time prior to December 1, 2012, the Issuers, at their option, may redeem up to 35% of the aggregate principal amount of the Senior Notes issued under the Indenture with the net cash proceeds of certain of the equity offerings of the Company described in the Indenture at a redemption price equal to 110.250% of the principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest to the redemption date provided, however, that (i) at least 65% of the aggregate principal amount of the Senior Notes issued under the Indenture remain outstanding immediately after the occurrence of such redemption and (ii) the redemption occurs within 90 days of the closing date of such offering.

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 September 30, 2010.

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 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 currently 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 entered by a court of competent jurisdiction against the Company or any Restricted Subsidiary if 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 Significant 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, the Company, 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, the Company 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, the Company and the other Note Guarantors agreed to use their commercially reasonable efforts to consummate such Exchange Offer on or before the 366th 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, the Company 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, the Company, along with its attorneys, determined that the Company was not required to file a registration statement, and that such non-filing would not result in any penalty or additional interest.

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) with Prudential Investment Management Inc., The Prudential Insurance Company of America, Prudential Retirement Insurance and

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Annuity Company, certain Affiliates of Prudential Investment Management Inc., iStar Financial Inc., SFT I, Inc., and certain Affiliates of iStar Financial Inc. (collectively, the Note Purchasers). Capitalized terms which are not defined in the following description shall have the same meaning assigned to such terms in the NPA, as amended.

Pursuant to the NPA, the Note Issuers and the Note Purchasers agreed to (a) exchange certain senior secured notes previously issued by the Note Issuers to the Note Purchasers on September 20, 2004, for new Series A Notes due September 20, 2009, in the amount of $80 million; and (b) issue Series B Notes, due August 15, 2012 in the aggregate amount of $35 million, subject to the option, on an uncommitted basis, to issue/purchase additional secured Shelf Notes in the aggregate amount of up to $35 million, and to issue/purchase additional secured Shelf Notes to refinance the Series A Notes.

On November 2, 2007, the Company entered into the First Amendment to Amended and Restated Note Purchase Agreement (the First Amendment to NPA) by and among the Company, the General Partner, certain of the Company s subsidiaries and the noteholders, to among other things, amend the negative covenants of the NPA.

On December 21, 2007, the Company entered into the Joinder to Amended and Restated Note Purchase Agreement and Finance Documents pursuant to which the Company added certain issuers to the NPA. Pursuant to the NPA, as amended, certain of the Company s subsidiaries issued Senior Secured Series C Notes (the Series C Notes and together with Series A Notes, Series B Notes and the Shelf Notes are referred to as the Notes) in the aggregate principal amount of $17.5 million, due December 21, 2012.

The Series A Notes bore an interest rate of 7.66% per annum, the Series B Notes bore an interest rate of 9.34% per annum and the Series C Notes bore an interest rate of 9.09% per annum.

On April 30, 2009, the Company entered into the Second Amendment to Amended and Restated Credit Agreement by and among the Company and certain of the Company s subsidiaries, the lenders, and Bank of America, N.A., as Administrative Agent (the Second Amendment to Credit Agreement), pursuant to which the Company borrowed $63.0 million under the new Acquisition Credit Facility commitments, which, together with the $17.0 million of the existing availability under the Acquisition Credit Facility, were used to repay the Series A Notes. In addition, the Company borrowed $5.4 million under the Revolving Credit Facility, which was used to pay the accrued interest on the Series A Notes, fees to Bank of America, N.A., amendment fees to noteholders under the Second Amendment to NPA described below as well as various other fees and costs incurred in connection with these transactions. In connection with the Second Amendment to Credit Agreement, on April 30, 2009, the Company also entered into the Second Amendment to Amended and Restated Note Purchase Agreement by and among the Company, the General Partner and certain of the Company s subsidiaries and the noteholders (the Second Amendment to NPA).

The Second Amendment to NPA amended the NPA to, among other matters, amend and restate the Series B Notes and the Series C Notes. The Series B Notes were amended to increase the interest rate to 11.00% (the Amended Series B Notes). The Series C Notes were amended not only to increase the interest rate to 11.00%, but also to change the maturity date from December 21, 2012 to August 15, 2012 (the Amended Series C Notes, and together with the Amended Series B Notes, the Amended NPA Notes).

On July 1, 2009, the Company entered into the Third Amendment to Amended and Restated Note Purchase Agreement by and among the Company, the General Partner, certain of the Company s subsidiaries and the noteholders, to among other things, amend certain negative covenants of the NPA.

In connection with the Fourth Amendment to Credit Agreement, as described below, on November 24, 2009, the Company entered into the Fourth Amendment to Amended and Restated Note Purchase Agreement by and among the Company, the General Partner, the Operating Company, certain of the Company s subsidiaries and the noteholders (the Fourth Amendment to NPA). The Fourth Amendment to NPA amended the NPA to, among other matters, amend certain restrictive covenants and other terms set forth in the NPA to permit the Company to incur the indebtedness evidenced by the Amended NPA Notes, enter into the restrictive covenants set forth in the Indenture, use the net proceeds of the Notes Offering as discussed above and amend the Consolidated Leverage Ratio in accordance with the Fourth Amendment to Credit Agreement.

Under the Fourth Amendment to NPA, the Company is permitted to incur indebtedness under the Credit Agreement not greater than $80.0 million (the Aggregate Credit Facility Cap), consisting of the Acquisition Credit Facility, as defined below, not to exceed $45.0 million and the Revolving Credit Facility, as defined below, not to exceed $35.0 million. The Aggregate Credit Facility Cap may be increased up to $100.0 million, with the Acquisition Credit Facility cap to be increased up to $55.0 million and the Revolving Credit Facility cap to be increased up to $45.0 million with the approval of the holders of at least a majority principal amount of the Shelf Notes, which shall not be unreasonably withheld.

The Note Issuers under the NPA paid fees to the holders of the Amended NPA Notes in connection with the Fourth Amendment to NPA.

The Amended NPA Notes bore an interest rate of 11.00% per annum, payable quarterly. Under the Fourth Amendment to NPA, the interest rate on the Amended NPA Notes was to be increased by 1.5% per annum during any period in which (i) any holder of the Amended NPA Notes is required to maintain reserves in excess of 3.4% of the principal amount of such Amended NPA Notes, as a result of a decision of an insurance regulatory authority having responsibility for valuation of insurance company assets (an IR Authority) or (ii) the Senior Notes issued pursuant to the Notes Offering are designated any rating below BB- (or its equivalent) by an IR Authority, provided that any Amended NPA Notes are not designated a separate rating of BB- or higher (or its equivalent) by such authority (each, a Reserve Event).

On January 15, 2010, the Company entered into the Fifth Amendment to the NPA, to provide for further changes to the Consolidated Leverage Ratio similar to the changes under the Fifth Amendment to Credit Agreement, as defined below, and to clarify that the interest rate applicable to the Amended NPA Notes increased from 11% per annum to 12.5% per annum effective November 24, 2009, which increase will continue until the termination of the Reserve Event period in accordance with the NPA.

On May 4, 2010, the Company entered into the Sixth Amendment to Amended and Restated Note Purchase Agreement (the Sixth Amendment to Credit Agreement)., to, among other matters, provide for (i) changes to the Consolidated Leverage Ratio similar to the changes under the Sixth Amendment to Credit Agreement as described below, and (ii) the payment by the Partnership to each holder of Amended Series B Notes and Amended Series C Notes of additional interest at a rate of 0.25% per annum (the Additional Interest) from May 4, 2010 until such time as each holder of Notes shall have received a Compliance Certificate for the most recently completed four fiscal quarters of the Partnership ending on or after December 31, 2010 evidencing that the Consolidated Leverage Ratio was less than 3.75 to 1.00 for such period. The Amended Series B Notes and Amended Series C Notes were amended and restated to provide for the payment of the Additional Interest as described in the Sixth Amendment to NPA.

The Sixth Amendment to NPA also included a consent by the Noteholders to an increase in the Aggregate Credit Facility Cap from $80 million to $100 million, an increase in the Acquisition Facility Cap from $45 million to $55 million and an increase in the Revolving Facility Cap from $35 million to $45 million.

On September 22, 2010, concurrently with the closing of a public offering of common units, the Company entered into the Seventh Amendment to Amended and Restated Note Purchase Agreement (the Seventh Amendment to NPA) to, among other things, permit the reinstatement of the Acquisition Credit Facility under the Credit Agreement, as amended, as described below.

The Amended NPA Notes are guaranteed by both the Company and the General Partner. The Amended NPA Notes rank pari passu with all other senior secured debt, including the Revolving Credit Facility and the Acquisition Credit Facility described below. Obligations under the Amended NPA Notes are secured by a first priority lien and security interest covering substantially all of the assets of the Note Issuers, whether then owned or thereafter acquired, other than specified receivable rights and a second priority lien and security interest covering those specified receivable rights of the Note Issuers, whether then owned or thereafter acquired. These assets secure the Amended NPA Notes and the Acquisition Credit Facility described below. The priority of the liens and security interests securing the Amended NPA Notes is pari passu with the liens and security interests securing the Acquisition Credit Facility described below.

The NPA (as amended) 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 sales could cause the Company to breach certain of its financial covenants, such as the leverage ratio and the interest coverage ratio, under the Company s NPA, as amended. 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 was in compliance with all covenants at September 30, 2010.

Acquisition Credit Facility and Revolving 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 the Amended and Restated Credit Agreement (the Credit Agreement) with Bank of America, N.A. (Bank of America), other lenders, and BAS (collectively, the Lenders). The Credit Agreement provides 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 Credit Agreement, as amended.

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The 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 have since been amended as described below.

On November 2, 2007, the Company, the General Partner and the Borrowers entered into the First Amendment to Amended and Restated Credit Agreement with certain lenders thereto and Bank of America, to among other things, amend certain negative covenants of the Credit Agreement.

On April 30, 2009, the Company, the General Partner and the Borrowers entered into the Second Amendment to Credit Agreement with the lenders and Bank of America. The Second Amendment to Credit Agreement amended the Credit Agreement to, among other matters, increase (i) the Revolving Credit Facility to a maximum aggregate principal amount of $35.0 million, with the ability to request further increases in a maximum aggregate principal amount of $10.0 million, and (ii) the Acquisition Credit Facility to a maximum aggregate principal amount of $102.85 million, with the ability to request further increases in a maximum aggregate principal amount of $57.0 million, subject to a minimum increase amount of $5.0 million. The maximum aggregate principal amount of the Acquisition Credit Facility was increased to $107.85 million, with the ability to request further increases in a maximum aggregate principal amount of $52.0 million, after giving effect to a $5.0 million increase in the Acquisition Credit Facility implemented through the Lender Joinder to Amended and Restated Credit Agreement, dated June 24, 2009, among the Company, the General Partner, the Borrowers and other parties thereto.

On July 6, 2009, the Company, the General Partner, the Borrowers and Bank of America entered into the Third Amendment to Amended and Restated Credit Agreement to among other things, amend certain covenants of the Credit Agreement.

On November 24, 2009, concurrently with the closing of the Notes Offering and a common unit offering, the Company entered into the Fourth Amendment to Amended and Restated Credit Agreement (the Fourth Amendment to Credit Agreement) by and among the Company, its General Partner, the Borrowers, the lenders, and Bank of America, as Administrative Agent for the benefit of the lenders. The Fourth Amendment to Credit Agreement amended the Credit Agreement to, among other matters, (i) amend certain restrictive covenants and other terms set forth in the Credit Agreement to permit the Company to incur the indebtedness evidenced by the Senior Notes, enter into the Indenture and use the net proceeds of the Notes Offering and Units Offering as discussed above; (ii) decrease the Acquisition Credit Facility to a maximum aggregate principal amount of $45.0 million, with the ability to request further increases in a maximum aggregate principal amount of $10.0 million; and (iii) amend the Consolidated Leverage Ratio (as defined in the Credit Agreement, as amended).

On January 15, 2010, the Company entered into the Fifth Amendment to the Amended and Restated Credit Agreement which further amended the Consolidated Leverage Ratio. Loans outstanding under the Acquisition Credit Facility and the Revolving Credit Facility bear interest at a per annum rate based upon a base rate (the Base Rate) or a Eurodollar rate (the Eurodollar Rate) plus a margin ranging from 2.25% to 3.25% over the Base Rate and 3.25% to 4.25% over the Eurodollar Rate, as selected by the Borrowers. The Base Rate is the highest of (a) the Federal Funds Rate plus 0.5% or (b) the Prime Rate, as defined in the Credit Agreement, as amended. The Eurodollar Rate equals the greater of: (i) the British Bankers Association LIBOR Rate or (ii) if such rate is not available, the rate determined by Bank of America, N.A., as the Administrative Agent, subject to certain conditions. Margin is determined by the ratio of consolidated funded debt to consolidated EBITDA.

On May 4, 2010, the Company entered into the Sixth Amendment to Amended and Restated Credit Agreement (the Sixth Amendment to Credit Agreement) to, among other things, provide that the Company and the General Partner shall not permit the Consolidated Leverage Ratio to be greater than:

4.15 to 1.0, for the most recently completed four fiscal quarters ending prior to July 1, 2010;

4.00 to 1.0, for the most recently completed four fiscal quarters ending between July 1, 2010 and September 30, 2010;

3.75 to 1.0, for the most recently completed four fiscal quarters ending between October 1, 2010 and December 31, 2010; or

3.65 to 1.0, for the most recently completed four fiscal quarters ending after December 31, 2010.

The Consolidated Leverage Ratio was 3.22 at September 30, 2010.

Under the Credit Agreement, as amended, the interest rate on Base Rate Loans and Eurodollar Rate Loans is calculated based on the Base Rate or Eurodollar Rate, as applicable, plus the Applicable Rate. The Sixth Amendment to Credit Agreement amended the definition of Applicable Rate to provide that, commencing on May 4, 2010 until such time as the Agent shall have received a Compliance Certificate evidencing compliance with all financial covenants for the most recently completed four fiscal quarters of the Company ending on or after December 31, 2010, Pricing Level 3 of the Applicable Rate (the currently applicable pricing level) for (i) Eurodollar Rate Loans and Letter of Credit Fees shall be increased by 25 basis points to 4.50%, and (ii) Base Rate Loans shall be increased by 25 basis points to 3.50%.

The Sixth Amendment to Credit Agreement also amended the definition of Consolidated EBITDA to provide that Consolidated EBITDA shall not be adjusted for any changes resulting from the sale by the credit parties of all of their investments held, as of May 4, 2010, in one of more Merchandise Trusts in the Highland Floating Rate Advantage Fund.

Effective May 21, 2010, the Lenders increased each of the Revolving Credit Facility and the Acquisition Credit Facility by $9.125 million. After giving effect to such increases, the maximum aggregate principal amount available under the Revolving Credit Facility was $44.125 million and the maximum aggregate principal amount available under the Acquisition Credit Facility was $54.125 million.

On September 22, 2010, concurrently with the closing of the common units offering from which the Company 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, the Company entered into the Seventh Amendment to Amended and Restated 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.

The Borrowers under the Credit Agreement, as amended, paid fees to Bank of America, as Administrative Agent, and BAS, as Arranger. In addition, the Credit Agreement, as amended, requires the Borrowers to pay an unused commitment fee, which is calculated based on the amount by which the commitments under the Credit Agreement, as amended, exceed the usage of such commitments.

The proceeds of the Acquisition Credit Facility may be 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 may be utilized to finance working capital requirements, Capital Expenditures, as defined in the Credit Agreement, as amended, and for other general corporate purposes.

Borrowings under the Credit Agreement, as amended, rank pari passu with all other senior secured debt of the Borrowers including the senior secured notes discussed above. The Borrowers obligations under the Credit Agreement, as amended, are guaranteed by both the Company and its General Partner (collectively, the Guarantors).

The Borrowers obligations under the Revolving Credit Facility are secured by a first priority lien and security interest in specified receivable rights, whether then owned or thereafter acquired, of the Borrowers and the Guarantors, and by a second priority lien and security interest in substantially all assets other than those receivable rights of the Borrowers and Guarantors, excluding trust accounts and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, the General Partner s interest in the Company and the General Partner s incentive distribution rights under the Company s partnership agreement. The specified receivable rights include all accounts and other rights to payment arising under customer contracts or agreements or management agreements, and all inventory, general intangibles and other rights reasonably related to the collection and performance of these accounts and rights to payment.

The Borrowers obligations under the Acquisition Credit Facility are secured by a first priority lien and security interest in substantially all assets, whether then owned or thereafter acquired, other than specified receivable rights of the Borrowers and the Guarantors, excluding trust accounts and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, the General Partner s interest in the Company and the General Partner s incentive distribution rights under the Company s partnership agreement, and a secondary priority lien and security interest in those specified receivable rights. These assets secure the Acquisition Credit Facility and the senior secured notes described above. The priority of the liens and security interests securing the Acquisition Credit Facility is pari passu with the liens and security interests securing the senior secured notes described above.

The agreements governing the Revolving Credit Facility and the Acquisition Credit Facility contain 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 sales could cause the Company to breach certain of its financial covenants, such as the leverage ratio and the interest coverage ratio,

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under the Company s Credit Agreement and NPA, as amended. 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. As of September 30, 2010, the Company had $78.0 million available under the Credit Agreement, as amended, and the Company was in compliance with all applicable covenants.

Green Lawn Note

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. The note pays interest only from August 2009 through June 2011. Principal on the note is due in 96 equal installments beginning on July 1, 2011. The Company paid less than $0.1 million on the note during the third quarter of 2010.

Nelms Note

In June of 2010, certain of the Company s subsidiaries issued two installment notes in the aggregate, notional amount of approximately $1.3 million in connection with the second quarter acquisition discussed in Note 13 to the condensed consolidated financial statements included in the Quarterly Report on Form 10-Q. The notes are payable over four years. 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. As the notes do not currently bear interest, the Company recorded the note net of a discount of approximately $0.2 million. The Company paid approximately $0.2 million in principal on the note during the three months ended September 30, 2010. At September 30, 2010, the liability related to the note was stated on the Company s balance sheet at approximately $0.9 million.

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 $5.6 million and (ii) a cash payment of approximately $0.2 million.

9. INCOME TAXES

As of December 31, 2009, the Company s taxable corporate subsidiaries had a federal net operating loss carryover of approximately $90.7 million, which will begin to expire in 2019 and $140.7 million in state net operating losses which begin to expire this year.

Effective with the closing of the Partnership s initial public offering on September 20, 2004, the Company was no longer a taxable entity for federal and state income tax purposes; rather, the Partnership s tax attributes (except those of its corporate subsidiaries) are to be included in the individual tax returns of its partners. Neither the Partnership s financial reporting income, nor the cash distributions to unit-holders, can be used as a substitute for the detailed tax calculations that the Partnership must perform annually for its partners. Net income from the Partnership is not treated as passive income for federal income tax purposes. As a result, partners subject to the passive activity loss rules are not permitted to offset income from the Partnership with passive losses from other sources.

The 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.

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

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

The provision for income taxes for the three and nine months ended September 30, 2010 and 2009 respectively is based upon the estimated annual effective tax rates expected to be applicable to the Company for 2010 and 2009, respectively.

Certain of the Company s subsidiaries are subject to US federal income tax as well as multiple state jurisdictions. The effective tax rate fluctuates over time based on income tax rates in the various tax jurisdictions in which these subsidiaries operates and based on the level of earnings in those jurisdictions. Several entities of the Company were recently under

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examination by the Internal Revenue Service for its separate company US income tax returns for the year ended December 31, 2005. These audits were completed in the third quarter of 2009 with no impact to the financial statements. The Company is not currently under examination by any state jurisdictions. The federal statute of limitations and certain state statutes of limitations are open from 2005 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 adverse effect on the Company s condensed consolidated financial statements over the next twelve months.

The Company recognizes any interest accrued related to unrecognized tax benefits in interest expense and any penalties in operating expenses. The Company has not recorded any material interest or penalties during the three and nine months ended September 30, 2010 or 2009.

10. DEFERRED CEMETERY REVENUES NET

At September 30, 2010 and December 31, 2009, deferred cemetery revenues, net, consisted of the following:

	September 30, 2010	December 31, 2009
	(in thousands)	
Deferred cemetery revenue	$ 257,273	$ 222,749
Deferred merchandise trust revenue	26,232	29,142
Deferred merchandise trust unrealized losses	1,413	(27,278)
Deferred pre-acquisition margin	96,146	66,297
Deferred cost of goods sold	(37,208)	(31,931)
Deferred cemetery revenues, net	$ 343,855	$ 258,978
Deferred selling and obtaining costs	$ 57,537	$ 49,782

Deferred selling and obtaining costs are carried as an asset on the condensed consolidated balance sheet in accordance with ASC 944-30-55-1.

11. COMMITMENTS AND CONTINGENCIES

Legal

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

Leases

At September 30, 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 five years and options to renew at varying terms. Expenses under operating leases were $0.6 million and $1.6 million for the three and nine months ended September 30, 2010, compared to $0.6 million and $1.6 million during the same period last year.

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At September 30, 2010, operating leases will result in future payments in the following approximate amounts:

	(in thousands)
2011	1,786
2012	1,552
2013	1,402
2014	864
2015	653
Thereafter	2,516
Total	$ 8,773

Tax Indemnification

CFSI LLC (formerly Cornerstone Family Services, Inc., the Company s predecessor) has agreed to indemnify the Company for all federal, state and local income tax liabilities attributable to the operation of the assets contributed by CFSI LLC to the Company prior to the closing of the Company s public offering in 2004. CFSI LLC has also agreed to indemnify the Company against additional income tax liabilities, if any, that arise from the consummation of the transactions related to the Company s formation in excess of those believed to result at the time of the closing of the Company s initial public offering. The Company estimates that $600,000 of state income taxes and no federal income taxes will be due as a result of these formation transactions. CFSI LLC has also agreed to indemnify the Company against the increase in income tax liabilities of the Company s corporate subsidiaries resulting from any reduction or elimination of the Company s net operating losses to the extent those net operating losses are used to offset any income tax gain or income resulting from the prior operation of the assets of CFSI LLC contributed to the Company, or from the Company s formation transactions in excess of such gain or income believed to result at the time of the closing of the initial public offering. Until all of its indemnification obligations under the omnibus agreement have been satisfied in full, CFSI LLC is subject to limitations on its ability to dispose of or encumber its interest in the Company s general partner or the common units held by it (except upon a redemption of common units by the partnership upon any exercise of the underwriters over-allotment option) and will also be prohibited from incurring any indebtedness or other liability. CFSI LLC is also subject to certain limitations on its ability to transfer its interest in the Company s general partner or the common units held by it if the effect of the proposed transfer would trigger an ownership change under the Internal Revenue Code that would limit the Company s ability to use the Company s federal net operating loss carryovers.

12. PARTNERS CAPITAL

Unit-Based Compensation

The Company has issued to certain key employees and management unit-based compensation in the form of unit appreciation rights and phantom partnership units. Each of these awards qualifies as an equity award.

Compensation expense recognized related to unit appreciation rights and restricted phantom unit awards for the three and nine months ended September 30, 2010 and 2009 are summarized in the table below:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Unit appreciation rights	$ 121	$ 12	$ 364	$ 37
Restricted phantom units	69	369	179	1,101

Total unit-based compensation expense	$ 190	$ 381	$ 543	$ 1,138

As of September 30, 2010, there was approximately $1.6 million in non-vested unit appreciation rights outstanding. These unit appreciation rights will be recognized into income over the next three years.

During the second quarter of 2010, the Company issued 180,250 units to executives and key employees as part of its long-term incentive plan.

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13. ACQUISITIONS

First Quarter 2010 Acquisition

On March 30, 2010, StoneMor Operating LLC, a Delaware limited liability company (StoneMor LLC), 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 1st Quarter 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 1st Quarter 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.

Pursuant to the 1st Quarter 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 million (the Closing Purchase Price) in cash. The Closing Purchase Price can be increased or decreased post-closing for accounts receivable, merchandise trust amounts and endowment care trust amounts above or below agreed levels, as provided in the Purchase Agreement.

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 million consideration paid in connection with the Purchase Agreement.

The 1st Quarter 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 preliminary assessment of the fair value of net assets acquired, the purchase price and the resulting gain on a bargain purchase price that was made in the first quarter of the year. No subsequent adjustments were made during the second or third quarter of 2010. The Company expects to adjust these amounts as additional information is received.

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	As of September 30, 2010 (in thousands)
Assets:	
Cemetery land	$ 32,338
Cemetery property	5,360
Accounts receivable (net)	2,293
Merchandise trusts, restricted, at fair value	46,155
Perpetual care trusts, restricted, at fair value	14,572
Property and equipment	325
Total assets	101,043
Liabilities	
Deferred margin	18,287
Merchandise liabilities	22,619
Deferred income tax liability	8,238
Perpetual care trust corpus	14,572
Total liabilities	63,716
Fair value of net assets acquired	37,327
Consideration paid	14,015
Gain on bargain purchase	$ 23,312

The results of operations of the acquired properties have been included in the condensed consolidated financial statements since the date of acquisition and are not material to the condensed consolidated results of operations.

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 non-profit corporation (Ohio Non-profit, 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.

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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 $33.0 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 Banc 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 $5.6 million pursuant to the terms of the Settlement Agreement; and (ii) a cash payment of approximately $0.2 million.

The Installment Notes were issued effective June 21, 2010 in the aggregate principal amount of approximately $1.3 million to be paid in installments over 4 years. The Installment Notes were issued effective June 21, 2010 and mature April 1, 2014. 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.

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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 valued at $0.5 million over the next three years as follows: 9,853 Units, valued at $0.2 million, on each of the first anniversary and second anniversary of the closing of the Acquisition, subject to adjustments as a result of a Unit split, Unit combination or similar events occurring after the closing but prior to each of the first and second anniversaries; and 4,927 Units, valued at $0.1 million, on the third anniversary of the closing of the Acquisition, subject to adjustments as a result of a Unit split, Unit combination or similar events occurring after the closing but prior to the third anniversary of the closing.

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

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	As of September 30, 2010 (in thousands)
Assets:	
Cemetery land	$ 23,188
Cemetery and funeral home property	27,842
Accounts receivable (net)	2,191
Merchandise trusts, restricted, at fair value	5,866
Perpetual care trusts, restricted, at fair value	1,663
Other assets	4,225
Total assets	