

STONEMOR PARTNERS LP  
Form 10-Q  
November 09, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2016**

**or**

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

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

**Commission File Number: 001-32270**

**STONEMOR PARTNERS L.P.**

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

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

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

**3600 Horizon Boulevard**

**Treose, Pennsylvania**  
**(Address of principal executive offices)**

**19053**  
**(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 No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

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**Explanatory Note**

The number of the registrant's outstanding common units at November 1, 2016 was 35,500,745.

On November 9, 2016, the Partnership amended its most recent Form 10-K for the year ended December 31, 2015 and its Form 10-Qs for the periods ended March 31, 2016 and June 30, 2016. The consolidated financial statements and related notes included in this Form 10-Q reflect the restatement for the same errors described in the Partnership's amended filings. Refer to the explanatory note and Note 2 to the audited consolidated financial statements to the Form 10-K/A for more information on the effects of the restatement on the Partnership's consolidated financial statements as of December 31, 2015.

The filing of this Form 10-Q for the period ended September 30, 2016 is inclusive of a restatement of the Partnership's consolidated financial statements as of December 31, 2015 and for the three and nine months ended September 30, 2015 as well as the related notes included in the Original Filing ( "Restatement" ).

The Restatement of the consolidated financial statements for the three and nine months ended corrects accounting errors related to:

- 1) The allocation of net loss to the General Partner and the limited partners for the purposes of determining the general partner's and limited partners' capital accounts presented within Partners' capital, and the corresponding effect on net loss per limited partner unit (basic and diluted) for each of the three and nine months ended September 30, 2015;
- 2) The presentation of Cemetery merchandise revenues, Cemetery service revenues, and Cost of goods sold related to assumed performance obligations from acquisitions for the three and nine months ended September 30, 2015;
- 3) The recording of incorrect amounts of investment revenues and expenses related to merchandise and perpetual care trusts on the consolidated statement of operations and the incorrect tracking of perpetual care-trusting obligations on the consolidated balance sheets;
- 4) The recognition of incorrect amounts of revenue from deferred pre-acquisition contracts in the consolidated statements of operations based on inaccurate system inputs;
- 5) Other adjustments principally relating to the recognition, accuracy and/or classification of certain amounts in Deferred cemetery revenues, net, Merchandise liabilities, and Other current assets; and
- 6) The corresponding effect of the foregoing accounting errors on the Partnership's income tax accounts, consolidated statement of partners' capital, consolidated statement of cash flows, and the related notes thereto, disclosed in the Partnership's consolidated financial statements as of December 31, 2015 and for each of the three and nine months ended September 30, 2015 included in Item 1 Financial Statements (unaudited)

to this Form 10-Q.

Unless the context otherwise requires, references to we, us, our, StoneMor, the Company, or the Partnership : StoneMor Partners L.P. and its subsidiaries.

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**Table of Contents****Part I Financial Information****ITEM 1. FINANCIAL STATEMENTS****STONEMOR PARTNERS L.P.****CONSOLIDATED BALANCE SHEETS****(in thousands)****(unaudited)**

|   | <b>September 30, 2016</b> |                  | <b>December 31, 2015</b> |                  |
|---|---------------------------|------------------|--------------------------|------------------|
|   | <b>(See Note 1)</b>       |                  |                          |                  |
| <b>Assets</b>   |                           |                  |                          |                  |
| Current assets:   |                           |                  |                          |                  |
| Cash and cash equivalents                               | \$                        | 15,610           | \$                       | 15,153           |
| Accounts receivable, net of allowance                   |                           | 75,324           |                          | 68,415           |
| Prepaid expenses  |                           | 7,048            |                          | 5,367            |
| Other current assets                                    |                           | 26,531           |                          | 22,241           |
| <b>Total current assets</b>                             |                           | <b>124,513</b>   |                          | <b>111,176</b>   |
| Long-term accounts receivable, net of allowance         |                           | 97,982           |                          | 95,167           |
| Cemetery property                                       |                           | 337,245          |                          | 334,457          |
| Property and equipment, net of accumulated depreciation |                           | 118,158          |                          | 116,127          |
| Merchandise trusts, restricted, at fair value           |                           | 504,604          |                          | 464,676          |
| Perpetual care trusts, restricted, at fair value        |                           | 334,923          |                          | 307,804          |
| Deferred selling and obtaining costs                    |                           | 122,249          |                          | 111,542          |
| Deferred tax assets                                     |                           | 181              |                          | 181              |
| Goodwill  |                           | 70,572           |                          | 69,851           |
| Intangible assets                                       |                           | 66,028           |                          | 67,209           |
| Other assets  |                           | 17,684           |                          | 16,167           |
| <b>Total assets</b>                                     | <b>\$</b>                 | <b>1,794,139</b> | <b>\$</b>                | <b>1,694,357</b> |
| <b>Liabilities and Partners Capital</b>                 |                           |                  |                          |                  |
| Current liabilities:                                    |                           |                  |                          |                  |
| Accounts payable and accrued liabilities                | \$                        | 35,920           | \$                       | 29,989           |
| Accrued interest  |                           | 4,990            |                          | 1,503            |
| Current portion, long-term debt                         |                           | 2,144            |                          | 2,440            |
| <b>Total current liabilities</b>                        |                           | <b>43,054</b>    |                          | <b>33,932</b>    |
| Long-term debt, net of deferred financing costs         |                           | 314,032          |                          | 316,399          |
| Deferred revenues                                       |                           | 896,752          |                          | 815,421          |

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|   |              |              |
|---|--------------|--------------|
| Deferred tax liabilities                | 17,876       | 17,747       |
| Perpetual care trust corpus             | 334,923      | 307,804      |
| Other long-term liabilities             | 25,955       | 21,508       |
| Total liabilities                       | 1,632,592    | 1,512,811    |
| <b>Commitments and contingencies</b>    |              |              |
| <b>Partners' Capital</b>                |              |              |
| General partner interest                | (2,220)      | 15           |
| Common limited partners' interests      | 163,767      | 181,531      |
| Total partners' capital                 | 161,547      | 181,546      |
| Total liabilities and partners' capital | \$ 1,794,139 | \$ 1,694,357 |

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

Table of Contents**STONEMOR PARTNERS L.P.****CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per unit data)****(unaudited)**

|                                    | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |             |
|------------------------------------|-------------------------------------|------------|------------------------------------|-------------|
|                                    | 2016                                | 2015       | 2016                               | 2015        |
|                                    | (As restated - See Note 1)          |            | (As restated - See Note 1)         |             |
| <b>Revenues:</b>                   |                                     |            |                                    |             |
| Cemetery:                          |                                     |            |                                    |             |
| Merchandise                        | \$ 36,314                           | \$ 37,570  | \$ 106,937                         | \$ 105,972  |
| Services                           | 13,928                              | 14,945     | 41,067                             | 44,869      |
| Investment and other               | 14,302                              | 15,011     | 40,689                             | 42,937      |
| Funeral home:                      |                                     |            |                                    |             |
| Merchandise                        | 6,656                               | 6,588      | 20,681                             | 19,913      |
| Services                           | 7,336                               | 7,654      | 24,373                             | 23,083      |
| Total revenues                     | 78,536                              | 81,768     | 233,747                            | 236,774     |
| <b>Costs and Expenses:</b>         |                                     |            |                                    |             |
| Cost of goods sold                 | 11,721                              | 12,195     | 34,483                             | 35,357      |
| Cemetery expense                   | 19,926                              | 18,245     | 53,267                             | 53,789      |
| Selling expense                    | 15,931                              | 14,647     | 46,898                             | 44,326      |
| General and administrative expense | 9,522                               | 8,819      | 27,719                             | 27,340      |
| Corporate overhead                 | 10,058                              | 9,115      | 30,106                             | 28,627      |
| Depreciation and amortization      | 2,927                               | 3,311      | 9,147                              | 9,207       |
| Funeral home expenses:             |                                     |            |                                    |             |
| Merchandise                        | 2,322                               | 1,002      | 6,306                              | 5,444       |
| Services                           | 6,070                               | 5,432      | 18,672                             | 16,728      |
| Other                              | 5,433                               | 4,774      | 15,319                             | 13,335      |
| Total cost and expenses            | 83,910                              | 77,540     | 241,917                            | 234,153     |
| Operating income (loss)            | (5,374)                             | 4,228      | (8,170)                            | 2,621       |
| Other gains (losses), net          | (506)                               | (1,460)    | (1,579)                            | (1,460)     |
| Interest expense                   | (5,934)                             | (5,669)    | (17,431)                           | (16,902)    |
| Loss before income taxes           | (11,814)                            | (2,901)    | (27,180)                           | (15,741)    |
| Income tax benefit (expense)       | 170                                 | (357)      | (590)                              | (671)       |
| Net loss                           | \$ (11,644)                         | \$ (3,258) | \$ (27,770)                        | \$ (16,412) |



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|  |    |          |    |         |    |          |    |          |
|--|----|----------|----|---------|----|----------|----|----------|
| General partner's interest   | \$ | (130)    | \$ | 1,021   | \$ | 2,043    | \$ | 2,605    |
| Limited partners' interest   | \$ | (11,514) | \$ | (4,279) | \$ | (29,813) | \$ | (19,017) |
| Net loss per limited partner unit (basic and diluted)                              | \$ | (0.32)   | \$ | (0.14)  | \$ | (0.87)   | \$ | (0.63)   |
| Weighted average number of limited partners' units outstanding (basic and diluted) |    | 35,470   |    | 31,491  |    | 34,287   |    | 30,011   |

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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**STONEMOR PARTNERS L.P.**  
**CONSOLIDATED STATEMENT OF PARTNERS CAPITAL**

(dollars in thousands)

(unaudited)

|  | Outstanding<br>Common Units | Partners<br>Common<br>Limited Partners | Capital<br>General<br>Partner | Total      |
|--|-----------------------------|--|-------------------------------|------------|
| December 31, 2015 (See Note 1)           | 32,108,782                  | \$ 181,531                             | \$ 15                         | \$ 181,546 |
| Issuance of common units                 | 3,203,682                   | 78,832                                 |                               | 78,832     |
| Common unit awards under incentive plans | 12,067                      | 1,468                                  |                               | 1,468      |
| Net loss                                 |                             | (29,813)                               | 2,043                         | (27,770)   |
| Cash distributions                       |                             | (63,784)                               | (4,278)                       | (68,062)   |
| Unit distributions paid in kind          | 176,214                     | (4,467)                                |                               | (4,467)    |
| September 30, 2016                       | 35,500,745                  | \$ 163,767                             | \$ (2,220)                    | \$ 161,547 |

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

Table of Contents**STONEMOR PARTNERS L.P.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

|   | <b>Nine months ended September 30,</b> |             |
|---|--|-------------|
|   | <b>2016</b>                            | <b>2015</b> |
|   | <b>(As restated - See Note 1)</b>      |             |
| <b>Cash Flows From Operating Activities:</b>                                    |  |             |
| Net loss  | \$ (27,770)                            | \$ (16,412) |
| Adjustments to reconcile net loss to net cash provided by operating activities: |  |             |
| Cost of lots sold   | 6,773                                  | 7,506       |
| Depreciation and amortization   | 9,147                                  | 9,207       |
| Non-cash compensation expense   | 1,468                                  | 824         |
| Non-cash interest expense   | 2,510                                  | 2,207       |
| Other gains (losses), net   | 975                                    | (1,540)     |
| Changes in assets and liabilities:  |  |             |
| Accounts receivable, net of allowance   | (9,167)                                | (4,838)     |
| Merchandise trust fund  | (13,248)                               | (33,403)    |
| Other assets  | (6,270)                                | (6,740)     |
| Deferred selling and obtaining costs  | (10,716)                               | (10,959)    |
| Deferred revenue  | 53,996                                 | 60,516      |
| Deferred taxes (net)  | (245)                                  | (40)        |
| Payables and other liabilities  | 11,034                                 | 5,702       |
| Net cash provided by operating activities                                       | 18,487                                 | 12,030      |
| <b>Cash Flows From Investing Activities:</b>                                    |  |             |
| Cash paid for capital expenditures  | (9,655)                                | (11,033)    |
| Cash paid for acquisitions  | (10,550)                               | (13,100)    |
| Proceeds from asset sales   | 1,896                                  |             |
| Net cash used in investing activities   | (18,309)                               | (24,133)    |
| <b>Cash Flows From Financing Activities:</b>                                    |  |             |
| Cash distributions  | (68,062)                               | (56,689)    |
| Proceeds from borrowings  | 207,868                                | 102,323     |
| Repayments of debt  | (207,700)                              | (99,945)    |
| Proceeds from issuance of common units  | 74,535                                 | 67,871      |
| Cost of financing activities  | (6,362)                                | (66)        |

|   |           |    |        |
|---|-----------|----|--------|
| Net cash provided by financing activities                         | 279       |    | 13,494 |
| <b>Net increase (decrease) in cash and cash equivalents</b>       | 457       |    | 1,391  |
| <b>Cash and cash equivalents - Beginning of period</b>            | 15,153    |    | 10,401 |
| <b>Cash and cash equivalents - End of period</b>                  | \$ 15,610 | \$ | 11,792 |
| <b>Supplemental disclosure of cash flow information:</b>          |           |    |        |
| Cash paid during the period for interest                          | \$ 11,434 | \$ | 10,918 |
| Cash paid during the period for income taxes                      | \$ 3,114  | \$ | 4,167  |
| <b>Non-cash investing and financing activities:</b>               |           |    |        |
| Acquisition of assets by financing                                | \$ 505    | \$ | 593    |
| Acquisition of assets by assumption of directly related liability | \$        | \$ | 876    |

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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**STONEMOR PARTNERS L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2016**

**(Unaudited)**

**1. GENERAL**

***Nature of Operations***

StoneMor Partners L.P. (the Partnership) is a provider of funeral and cemetery products and services in the death care industry in the United States. As of September 30, 2016, the Partnership operated 317 cemeteries in 28 states and Puerto Rico, of which 286 are owned and 31 are operated under lease, management or operating agreements. The Partnership also owned and operated 105 funeral homes in 18 states and Puerto Rico.

***Basis of Presentation***

The accompanying consolidated financial statements, which are unaudited except for the balance sheet at December 31, 2015, which is derived from audited financial statements, are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States (GAAP) for interim reporting. They do not include all disclosures normally made in financial statements contained in Form 10-K. In management's opinion, all adjustments necessary for a fair presentation of the Partnership's financial position, results of operations and cash flows for the periods disclosed have been made. These interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto presented in the Partnership's Annual Report on Form 10-K/A for the year ended December 31, 2015. Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation. The results of operations for the three and nine months ended September 30, 2016 may not necessarily be indicative of the results of operations for the full year ending December 31, 2016.

On November 9, 2016, the Partnership amended its most recent Form 10-K for the year ended December 31, 2015 and its Form 10-Qs for the periods ended March 31, 2016 and June 30, 2016. The consolidated financial statements and related notes included in this Form 10-Q reflect the restatement for the same errors described in the Partnership's amended filings. Refer to the explanatory note and Note 2 to the audited consolidated financial statements to the Form 10-K/A for more information on the effects of the restatement on the Partnership's consolidated financial statements as of December 31, 2015.

The effect of the adjustments on the Partnership's consolidated statements of operations for each of the three and nine months ended September 30, 2015 is summarized below for each affected caption:

- A. The Partnership allocates net loss to the General Partner and its limited partners for the purposes of determining the General Partner's and limited partners' capital accounts within Partners' capital, and to calculate net loss per limited partner unit (basic and diluted). However, the historical allocation of the Partnership's net losses did not appropriately consider available cash that had been (or will be) distributed to

the separate class of nonvoting limited partner interest (the incentive distribution rights) held by the General Partner. While this misallocation had no impact on the Partnership's consolidated net loss for both the three and nine months ended September 30, 2015, the revised calculation to correctly allocate net losses increased the limited partners' historical share of allocated net loss and decreased the General Partner's historical share of allocated net loss. As a result, the accompanying consolidated statements of operations have been restated to increase the limited partners' share of allocated net loss and decrease the General Partner's share of allocated net loss by approximately \$1.1 million and \$2.8 million for the three and nine months ended September 30, 2015, respectively.

- B. The Partnership had historically presented revenue related to assumed obligations from acquisitions on a net basis in the Partnership's consolidated statement of operations. However, the Partnership determined that revenue recognition on such pre-acquisition revenue was understated. Accordingly, the accompanying consolidated financial statements for the three and nine months ended September 30, 2015 have been restated to present this revenue on a gross basis. This classification resulted in an increase in Cemetery merchandise revenues of approximately \$1.3 million and \$3.8 million, an increase in Cemetery services revenue of approximately \$0.2 million and \$0.4 million and an increase Cost of goods sold of approximately \$1.5 million and \$4.2 million for the respective three and nine months ended September 30, 2015.
- C. The Partnership had historically recognized incorrect amounts of investment revenues and expenses related to its merchandise and perpetual care trusts on its consolidated statement of operations and was incorrectly tracking its perpetual care-trusting obligations on its consolidated balance sheets. Accordingly, the accompanying consolidated statements of operations for the three and nine months ended September 30, 2015 have been restated for these adjustments. The adjustments resulted in an increase in Cost of goods sold of \$0.4 million and \$1.1 million for the three and nine months ended September 30, 2015, respectively.
- D. The Partnership had historically recognized incorrect amounts of revenue from deferred pre-acquisition contracts in its consolidated statement of operations based on inaccurate system inputs. Accordingly,

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the accompanying consolidated financial statements for the three and nine months ended September 30, 2015 have been restated to reflect the correction of the system inputs. The adjustments resulted in an increase in Cemetery merchandise revenues of \$0.4 million and \$1.2 million for the respective three and nine months ended September 30, 2015 and an increase in Cemetery services revenues of \$0.1 million for the three and nine months ended September 30, 2015.

- E. Remaining adjustments principally relate to the recognition, accuracy and/or classification of certain amounts in deferred cemetery revenues, net, merchandise liabilities, and Other current assets. Accordingly, the accompanying consolidated financial statements for the three and nine months ended September 30, 2015 have been restated for these adjustments. The adjustments resulted in an increase in Cemetery merchandise revenues of \$1.1 million and \$3.3 million, an increase in Cemetery services revenues of \$0.5 million and \$1.6 million, and an increase in Cost of goods sold of \$1.6 million and \$4.4 million in the three and nine months ended September 30, 2015, respectively.
- F. The Partnership calculated the effect on income taxes associated with the foregoing accounting errors and, as such, the accompanying statement of operations has been restated to recognize Income tax benefit (expense) of approximately \$0.1 million for the three and nine months ended September 30, 2015.

The effect of these adjustments on the Partnership's consolidated statements of operations and cash flows for the three and nine months ended September 30, 2015 is summarized below for each affected caption:

|   | Reference     | September 30, 2015 |                         |             |                   |                         |             |
|---|---------------|--------------------|-------------------------|-------------|-------------------|-------------------------|-------------|
|   |               | Three months ended |                         |             | Nine months ended |                         |             |
|   |               | As Filed           | Restatement Adjustments | As Restated | As Filed          | Restatement Adjustments | As Restated |
| (in thousands, except per unit data)                  |               |                    |                         |             |                   |                         |             |
| Cemetery revenues:                                    |               |                    |                         |             |                   |                         |             |
| Merchandise   | B, D, E       | \$ 34,709          | \$ 2,861                | \$ 37,570   | \$ 97,688         | \$ 8,284                | \$ 105,972  |
| Services  | B, D, E       | 14,195             | 750                     | 14,945      | 42,696            | 2,173                   | 44,869      |
| Investment and other                                  | C             | 15,054             | (43)                    | 15,011      | 43,062            | (125)                   | 42,937      |
| Total revenues  |               | 78,200             | 3,568                   | 81,768      | 226,442           | 10,332                  | 236,774     |
| Cost of goods sold                                    | B, C, E       | 8,728              | 3,467                   | 12,195      | 25,618            | 9,739                   | 35,357      |
| Total cost and expenses                               |               | 74,073             | 3,467                   | 77,540      | 224,414           | 9,739                   | 234,153     |
| Operating income (loss)                               |               | 4,127              | 101                     | 4,228       | 2,028             | 593                     | 2,621       |
| Loss before income taxes                              |               | (3,002)            | 101                     | (2,901)     | (16,334)          | 593                     | (15,741)    |
| Income tax benefit (expense)                          | F             | (400)              | 43                      | (357)       | (799)             | 128                     | (671)       |
| Net loss  |               | (3,402)            | 144                     | (3,258)     | (17,133)          | 721                     | (16,412)    |
| General partner's interest for the period             | A, C, D, E, F | (42)               | 1,063                   | 1,021       | (227)             | 2,832                   | 2,605       |
| Limited partners' interest for the period             | A, C, D, E, F | (3,360)            | (919)                   | (4,279)     | (16,906)          | (2,111)                 | (19,017)    |
| Net loss per limited partner unit (basic and diluted) | A, C, D, E, F | \$ (0.11)          | \$ (0.03)               | \$ (0.14)   | \$ (0.56)         | \$ (0.07)               | \$ (0.63)   |

|   |                  | <b>Nine months ended September 30,<br/>2015</b> |                                    |                        |
|---|------------------|---|------------------------------------|------------------------|
|   | <b>Reference</b> | <b>As<br/>Filed</b>                             | <b>Restatement<br/>Adjustments</b> | <b>As<br/>Restated</b> |
| Net loss                                  | C, D, E, F       | \$ (17,133)                                     | \$ 721                             | \$ (16,412)            |
| Changes in assets and liabilities:        |                  |   |                                    |                        |
| Other assets                              | E                | (11,551)  | 4,811                              | (6,740)                |
| Deferred revenues                         | D, E             | 60,572  | (56)                               | 60,516                 |
| Deferred taxes (net)                      | F                | 106   | (146)                              | (40)                   |
| Payables and other liabilities            | C                | 11,032  | (5,330)                            | 5,702                  |
| Net cash provided by operating activities |                  | \$ 12,030                                       | \$                                 | \$ 12,030              |

The Restatement adjustments affecting the consolidated statement of cash flows for the periods noted are included in the Partnership's net loss from operations and offset by changes in operating assets and liabilities. There were no adjustments related to cash provided by (used in) investing and financing activities.

#### Principles of Consolidation

The unaudited consolidated financial statements include the accounts of each of the Partnership's wholly-owned subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the



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Partnership has a variable interest and is the primary beneficiary. The Partnership operates 31 cemeteries under long-term lease, operating or management contracts. The operations of 16 of these managed cemeteries have been consolidated.

The Partnership operates 15 cemeteries under long-term leases and other agreements that do not qualify as acquisitions for accounting purposes. As a result, the Partnership did not consolidate all of the existing assets and liabilities related to these cemeteries. The Partnership has consolidated the existing assets and liabilities of the merchandise and perpetual care trusts associated with these cemeteries as variable interest entities since the Partnership controls and receives the benefits and absorbs any losses from operating these trusts. Under the long-term leases, and other agreements associated with these properties, which are subject to certain termination provisions, the Partnership is the exclusive operator of these cemeteries and earns revenues related to sales of merchandise, services, and interment rights, and incurs expenses related to such sales, including the maintenance and upkeep of these cemeteries. Upon termination of these contracts, the Partnership will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. The Partnership has also recognized the existing performance obligations that it assumed as part of these agreements.

**New Accounting Pronouncements**

In the second quarter of 2014, the Financial Accounting Standards Board ( FASB ) issued Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ( ASU 2014-09 ), which supersedes the revenue recognition requirements in Topic 605 - Revenue Recognition and most industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. During the third quarter of 2015, Update No. 2015-14, Revenue from Contracts with Customers (Topic 606) was released, deferring the effective date of the amendments to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted, only as of an annual reporting period beginning after December 15, 2016. During the first quarter of 2016, Update No. 2016-08, Revenue from Contracts with Customers (Topic 606) was released, which clarifies the implementation guidance on principal versus agent considerations. During the second quarter of 2016, Update No. 2016-10, Revenue from Contracts with Customers (Topic 606) was released, which clarifies the implementation guidance on identifying performance obligations. The FASB also issued Update No. 2016-12, Revenue from Contracts with Customers (Topic 606) ( ASU 2016-12 ), which clarifies the guidance on assessing collectability, presenting sales taxes, measuring non-cash consideration, and certain transition matters. The Partnership will adopt the requirements of these updates upon the effective date of January 1, 2018, and is evaluating the potential impact of the adoption on its financial position, results of operations or related disclosures.

In the first quarter of 2016, the FASB issued Update No. 2016-01, Financial Instruments (Subtopic 825-10) ( ASU 2016-01 ). The core principle of ASU 2016-01 is that equity investments should be measured at fair value with changes in the fair value recognized through net income. The amendment is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted for the key aspects of the amendment. The Partnership will adopt the requirements of ASU 2016-01 upon its effective date of January 1, 2018, and is evaluating the potential impact of the adoption on its financial position, results of operations and related disclosures.

In the first quarter of 2016, the FASB issued Update No. 2016-02, Leases (Topic 842) ( ASU 2016-02 ). The core principle of ASU 2016-02 is that all leases create an asset and a liability for lessees and recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The amendment is effective for annual reporting periods beginning

after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Partnership plans to adopt the requirements of ASU 2016-02 upon its effective date of January 1, 2019, and is evaluating the potential impact of the adoption on its financial position, results of operations and related disclosures.

In the second quarter of 2016, the FASB issued Update No. 2016-13, Credit Losses (Topic 326) ( ASU 2016-13 ). The core principle of ASU 2016-13 is that all assets measured at amortized cost basis should be presented at the net amount expected to be collected using historical experience, current conditions, and reasonable and supportable forecasts as a basis for credit loss estimates, instead of the probable initial recognition threshold used under current GAAP. The amendment is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years. Early application is permitted. The Partnership plans to adopt the requirements of ASU 2016-13 upon its effective date of January 1, 2020, and is evaluating the potential impact of the adoption on its financial position, results of operations and related disclosures.

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In 2015, the FASB issued Update No. 2015-07, Fair Value Measurement (Topic 820). The amendments in this update removed the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value per share practical expedient. The entity adopted this guidance in the current period pertaining to its new investment funds (see Notes 6, 7 and 14).

In the third quarter of 2016, the FASB issued Update No. 2016-15, Statement of Cash flows (Topic 230) ( ASU 2016-15 ). The core principle of ASU 2016-15 is to provide cash flow statement classification guidance. The amendment is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. Early application is permitted. The Partnership plans to adopt the requirements of ASU 2016-15 upon its effective date of January 1, 2018, and is evaluating the potential impact of the adoption on its financial position, results of operations and related disclosures.

## **Summary of Significant Accounting Policies**

Refer to Note 1 of the December 31, 2015 10K/A for the complete summary of significant accounting policies, including those pertaining to cemetery merchandise and services sales, which has been expanded in the subsequent paragraph.

The cost of goods sold related to merchandise and services reflects the actual cost of purchasing products and performing services, and the value of cemetery property depleted through the recognized sales of interment rights. The costs related to the sales of lots and crypts are determined systematically using a specific identification method under which the total value of the underlying cemetery property and the spaces available to be sold at the location are used to determine the cost per space.

## **Use of Estimates**

The preparation of the Partnership's unaudited consolidated financial statements in conformity with GAAP 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 consolidated financial statements, as well as the reported amounts of revenue and expense during the reporting periods. The Partnership's unaudited consolidated financial statements are based on a number of significant estimates, including revenue and expense accruals, depreciation and amortization, merchandise trusts and perpetual care trusts asset valuation, allowance for cancellations, unit-based compensation, deferred revenues, deferred merchandise trust investment earnings, deferred selling and obtaining costs, assets and liabilities obtained via business combinations and income taxes. As a result, actual results could differ from those estimates.

## **Net Income (Loss) per Common Unit**

Basic net income (loss) attributable to common limited partners per unit is computed by dividing net income (loss) attributable to common limited partners, which is determined after the deduction of the general partner's interest, by the weighted average number of common limited partner units outstanding during the period. Net income (loss) attributable to common limited partners is determined by deducting net income attributable to participating securities, if applicable and net income (loss) attributable to the general partner's units. The general partner's interest in net income (loss) is calculated on a quarterly basis based upon its ownership interest and incentive distributions to be distributed for the quarter, with a priority allocation of net income to the general partner's incentive distributions, if any, in accordance with the partnership agreement, and the remaining net income (loss) allocated with respect to the general partner's and limited partners' ownership interests.

The Partnership presents net income (loss) per unit under the two-class method for master limited partnerships, which considers whether the incentive distributions of a master limited partnership represent a participating security when considered in the calculation of earnings per unit under the two-class method. The two-class method considers whether the partnership agreement contains any contractual limitations concerning distributions to the incentive distribution rights that would impact the amount of earnings to allocate to the incentive distribution rights for each reporting period. If distributions are contractually limited to the incentive distribution rights' share of currently designated available cash for distributions as defined under the partnership agreement, undistributed earnings in excess of available cash should not be allocated to the incentive distribution rights. Under the two-class method, management of the Partnership believes the partnership agreement contractually limits cash distributions to available cash; therefore, undistributed earnings in excess of available cash are not allocated to the incentive distribution rights.

The following is a reconciliation of net income (loss) allocated to the common limited partners for purposes of calculating net income (loss) attributable to common limited partners per unit (in thousands, except unit data):

|  | Three months ended September 30, 2016 |            | Three months ended September 30, 2015 |             |
|--|---------------------------------------|------------|---------------------------------------|-------------|
|  | 2016                                  | 2015       | 2016                                  | 2015        |
| Net loss   | \$ (11,644)                           | \$ (3,258) | \$ (27,770)                           | \$ (16,412) |
| Less: Incentive distribution right ( IDR ) payments to general partner |                                       | 1,074      | 2,387                                 | 2,860       |
| Net loss to allocate to general and limited partners                   | (11,644)                              | (4,332)    | (30,157)                              | (19,272)    |
| General partner's interest excluding IDRs                              | (130)                                 | (53)       | (344)                                 | (255)       |
| Net loss attributable to common limited partners                       | \$ (11,514)                           | \$ (4,279) | \$ (29,813)                           | \$ (19,017) |

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Diluted net income (loss) attributable to common limited partners per unit is calculated by dividing net income (loss) attributable to common limited partners, less income allocable to participating securities, by the sum of the weighted average number of common limited partner units outstanding and the dilutive effect of unit appreciation rights and other awards, as calculated by the treasury stock or if converted methods, as applicable. These awards consist of common units issuable upon payment of an exercise price by the participant under the terms of the Partnership's long-term incentive plan (see Note 12).

The following table sets forth the reconciliation of the Partnership's weighted average number of common limited partner units used to compute basic net income (loss) attributable to common limited partners per unit with those used to compute diluted net income (loss) attributable to common limited partners per unit (in thousands):

|   | Three months ended September 30, |        | Nine months ended September 30, |        |
|---|----------------------------------|--------|---------------------------------|--------|
|   | 2016                             | 2015   | 2016                            | 2015   |
| Weighted average number of common limited partner units - basic   | 35,470                           | 31,491 | 34,287                          | 30,011 |
| Add effect of dilutive incentive awards (1)                       |                                  |        |                                 |        |
| Weighted average number of common limited partner units - diluted | 35,470                           | 31,491 | 34,287                          | 30,011 |

- (1) The diluted weighted average number of limited partners' units outstanding presented on the consolidated statement of operations does not include 383,091 units and 192,482 units for the three months ended September 30, 2016 and 2015, respectively and 374,649 units and 187,640 units for the nine months ended September 30, 2016 and 2015, as their effects would be anti-dilutive.

**2. ACQUISITIONS****2016 Acquisition**

During the second quarter of 2016, the Partnership acquired the assets, net of certain assumed liabilities of three direct service cremation businesses for \$1.5 million. During the third quarter of 2016, the Partnership acquired the assets, net of certain assumed liabilities of ten cemeteries and one granite company for \$9.0 million. The Partnership accounted for these transactions under the acquisition method of accounting. Accordingly, the Partnership evaluated the identifiable assets acquired and liabilities assumed at the acquisition date fair values. All other costs associated with the acquisition of the assets noted were expensed as incurred. The following table presents the Partnership's values assigned to the assets acquired and liabilities assumed in the acquisitions, based on their estimated fair values at the date of the acquisition, which may be prospectively adjusted as additional information is received (in thousands):

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|                                   |          |
|-----------------------------------|----------|
| <b>Assets:</b>                    |          |
| Accounts receivable               | \$ 791   |
| Cemetery property                 | 4,612    |
| Property and equipment            | 4,527    |
| Inventory                         | 1,900    |
| Merchandise trusts, restricted    | 4,424    |
| Perpetual care trusts, restricted | 5,631    |
| Intangible assets                 | 508      |
| Other assets                      | 13       |
| <br>                              |          |
| Total assets                      | 22,406   |
| <br>                              |          |
| <b>Liabilities:</b>               |          |
| Deferred revenues                 | 4,204    |
| Perpetual care trust corpus       | 5,631    |
| Deferred taxes                    | 375      |
| <br>                              |          |
| Total liabilities                 | 10,210   |
| <br>                              |          |
| Fair value of net assets acquired | 12,196   |
| <br>                              |          |
| Consideration paid - cash         | 10,550   |
| <br>                              |          |
| Total consideration paid          | 10,550   |
| <br>                              |          |
| Gain on bargain purchase          | \$ 2,704 |
| <br>                              |          |
| Goodwill from purchase            | \$ 1,058 |

The Partnership recorded goodwill of \$1.1 million in the Funeral Home reporting unit for the properties acquired in 2016. The third quarter acquisition resulted in the recognition of a gain of \$2.7 million based on provisional amounts. This gain was recorded within Other gains (losses), net in the consolidated statement of operations.

**2015 Acquisitions**

During the year ended December 31, 2015, the Partnership acquired the following properties assets, net of certain assumed liabilities:

One funeral home for cash consideration of \$0.9 million on July 21, 2015;

Three funeral homes and one cemetery for cash consideration of \$5.7 million on August 6, 2015;

Two cemeteries for cash consideration of \$1.5 million on August 20, 2015;

One funeral home for cash consideration of \$5.0 million on August 31, 2015, and an additional \$1.0 million paid in five annual installments beginning on the 1<sup>st</sup> anniversary of the closing date; and

One cemetery and two funeral homes for cash consideration of \$5.7 million on December 1, 2015. The Partnership accounted for these transactions under the acquisition method of accounting. Accordingly, the Partnership evaluated the identifiable assets acquired and liabilities assumed at their respective acquisition date fair values. All other costs incurred associated with the acquisition of the assets noted were expensed as incurred. The following table presents the Partnership's values assigned to the assets acquired and liabilities assumed in the acquisitions, based on their estimated and revised fair values, as applicable, which may be prospectively adjusted as additional information is received (in thousands):

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|  |                  |
|--|------------------|
| Assets:                                  |                  |
| Accounts receivable                      | \$ 2,690         |
| Cemetery property                        | 5,249            |
| Property and equipment                   | 7,710            |
| Inventory                                | 53               |
| Merchandise trusts, restricted           | 15,075           |
| Perpetual care trusts, restricted        | 4,134            |
| Intangible assets                        | 406              |
| <b>Total assets</b>                      | <b>35,317</b>    |
| Liabilities:                             |                  |
| Deferred revenues                        | 21,243           |
| Perpetual care trust corpus              | 4,134            |
| Other liabilities                        | 21               |
| <b>Total liabilities</b>                 | <b>25,398</b>    |
| <b>Fair value of net assets acquired</b> | <b>9,919</b>     |
| Consideration paid - cash                | 18,800           |
| Deferred cash consideration              | 876              |
| <b>Total consideration paid</b>          | <b>19,676</b>    |
| <b>Gain on bargain purchase</b>          | <b>\$ 921</b>    |
| <b>Goodwill from purchase</b>            | <b>\$ 10,678</b> |

Certain provisional amounts pertaining to the 2015 acquisitions were adjusted in the second and third quarters of 2016 as the Company obtained additional information related to three of the acquisitions. The changes resulted in an adjustment to the gains on acquisition recognized during the year ended December 31, 2015, reducing the gain by \$0.6 million via a loss recognized in the current period in accordance with GAAP. The amounts shown may be adjusted as additional information is received. The Partnership recorded goodwill of \$1.1 million and \$9.6 million in the Cemetery and Funeral Home reporting units, respectively, with regard to the properties acquired during the year ended December 31, 2015. The original gains and related adjustments pertaining to the 2015 acquisitions were recorded within Other gains (losses), net in the consolidated statement of operations.

The following data presents pro forma revenues, net income (loss) and basic and diluted net income (loss) per unit for the Partnership as if the acquisitions consummated during the nine months ended September 30, 2016 and the year ended December 31, 2015 had occurred as of January 1, 2015. The Partnership prepared these pro forma unaudited financial results for comparative purposes only. The results may not be indicative of the results that would have occurred if the acquisitions consummated during the nine months ended September 30, 2016 and 2015 had occurred as of January 1, 2015 or the results that will be attained in future periods (in thousands, except per unit data):



|   | <b>Three months ended September 30,</b> |             | <b>Nine months ended September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2016</b>                             | <b>2015</b> | <b>2016</b>                            | <b>2015</b> |
| Revenue   | \$ 78,713                               | \$ 82,209   | \$ 234,731                             | \$ 238,135  |
| Net loss  | (15,085)                                | (4,449)     | (33,544)                               | (17,061)    |
| Net loss per limited partner unit (basic and diluted) | \$ (0.42)                               | \$ (0.17)   | \$ (1.04)                              | \$ (0.66)   |

The properties acquired in 2016 have contributed \$0.3 million and \$0.4 million of revenue for the three and nine months ended September 30, 2016, respectively and \$0.6 million of operating losses for both the three and nine months ended September 30, 2016. The properties acquired in 2015 have contributed \$1.7 million and \$6.5 million of revenue and \$0.6 million of operating loss and \$0.3 million of operating profit for the three and nine months ended September 30, 2016 respectively.

**Table of Contents****3. ACCOUNTS RECEIVABLE, NET OF ALLOWANCE**

Accounts receivable, net of allowance, consists of the following at the dates indicated (in thousands):

|   | <b>September 30, 2016</b> | <b>December 31, 2015</b> |
|---|---------------------------|--------------------------|
| Customer receivables                    | \$ 222,238                | \$ 207,645               |
| Unearned finance income                 | (20,730)                  | (20,078)                 |
| Allowance for contract cancellations    | (28,202)                  | (23,985)                 |
| Accounts receivable, net of allowance   | 173,306                   | 163,582                  |
| Less: current portion, net of allowance | 75,324                    | 68,415                   |
| Long-term portion, net of allowance     | \$ 97,982                 | \$ 95,167                |

Activity in the allowance for contract cancellations is as follows (in thousands):

|                              | <b>Nine months ended September 30,</b> |             |
|------------------------------|--|-------------|
|                              | <b>2016</b>                            | <b>2015</b> |
| Balance, beginning of period | \$ 23,985                              | \$ 22,138   |
| Provision for cancellations  | 20,301                                 | 19,054      |
| Charge-offs, net             | (16,084)                               | (17,489)    |
| Balance, end of period       | \$ 28,202                              | \$ 23,703   |

**4. CEMETERY PROPERTY**

Cemetery property consists of the following at the dates indicated (in thousands):

|                                  | <b>September 30, 2016</b> | <b>December 31, 2015</b> |
|----------------------------------|---------------------------|--------------------------|
| Cemetery land                    | \$ 256,627                | \$ 253,955               |
| Mausoleum crypts and lawn crypts | 80,618                    | 80,502                   |
| Cemetery property                | \$ 337,245                | \$ 334,457               |

**5. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at the dates indicated (in thousands):

|   | <b>September 30, 2016</b> | <b>December 31, 2015</b> |
|---|---------------------------|--------------------------|
| Building and improvements                               | \$ 123,670                | \$ 117,034               |
| Furniture and equipment                                 | 55,184                    | 54,346                   |
| Funeral home land                                       | 11,707                    | 11,797                   |
| Property and equipment, gross                           | 190,561                   | 183,177                  |
| Less: accumulated depreciation                          | (72,403)                  | (67,050)                 |
| Property and equipment, net of accumulated depreciation | \$ 118,158                | \$ 116,127               |

Depreciation expense was \$2.3 million and \$2.8 million for three months ended September 30, 2016 and 2015, respectively, and \$7.4 million and \$7.5 million for nine months ended September 30, 2016 and 2015, respectively.

**Table of Contents****6. MERCHANDISE TRUSTS**

At September 30, 2016 and December 31, 2015, the Partnership's merchandise trusts consisted of investments in debt and equity marketable securities and cash equivalents, both directly as well as through mutual and investment funds. Certain assets acquired in connection with the Partnership's 2015 and 2016 acquisitions (see Note 2) are based upon preliminary estimated values assigned to the assets by the Partnership at the date of acquisition, and will be adjusted when additional information is received.

All of these investments are classified as Available for Sale and accordingly, all of the assets are carried at fair value. All of the investments subject to the fair value hierarchy (see Note 1) are considered either Level 1 or Level 2 assets pursuant to the three-level hierarchy described in Note 14. There were no Level 3 assets.

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

The Partnership included \$8.5 million and \$8.2 million of investments held in trust by the West Virginia Funeral Directors Association at September 30, 2016 and December 31, 2015, respectively, in its merchandise trust assets. As required by law, the Partnership deposits a portion of certain funeral merchandise sales in West Virginia into a trust that is held by the West Virginia Funeral Directors Association. These trusts are recognized at their account value, which approximates fair value.

A reconciliation of the Partnership's merchandise trust activities for the nine months ended September 30, 2016 and 2015 is presented below (in thousands):

|                                 | <b>Nine months ended September 30,</b> |             |
|---------------------------------|--|-------------|
|                                 | <b>2016</b>                            | <b>2015</b> |
| Balance, beginning of period    | \$ 464,676                             | \$ 484,820  |
| Contributions                   | 49,841                                 | 60,875      |
| Distributions                   | (49,168)                               | (34,477)    |
| Interest and dividends          | 17,657                                 | 13,642      |
| Capital gain distributions      | 264                                    | (738)       |
| Realized gains and losses       | 3,727                                  | 14,190      |
| Other than temporary impairment | (7,278)                                |             |
| Taxes                           | (1,721)                                | (3,441)     |
| Fees                            | (2,234)                                | (2,474)     |
| Unrealized change in fair value | 28,840                                 | (73,077)    |
| Balance, end of period          | \$ 504,604                             | \$ 459,320  |

During the nine months ended September 30, 2016, purchases of available for sale securities were \$82.6 million, while sales, maturities and paydowns of available for sale securities were \$65.9 million.



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The cost and market value associated with the assets held in the merchandise trusts as of September 30, 2016 and December 31, 2015 were as follows (in thousands):

| <b>September 30, 2016</b>        | <b>Fair Value<br/>Hierarchy Level</b> | <b>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|----------------------------------|---------------------------------------|-------------|---------------------------------------|--|-----------------------|
| Short-term investments           | 1                                     | \$ 29,928   | \$                                    | \$                                     | \$ 29,928             |
| Fixed maturities:                |                                       |             |                                       |  |                       |
| U.S. governmental securities     | 2                                     | 41          | 2                                     |  | 43                    |
| Corporate debt securities        | 2                                     | 7,017       | 347                                   | (323)                                  | 7,041                 |
| Other debt securities            | 2                                     |             |                                       |  |                       |
| Total fixed maturities           |                                       | 7,058       | 349                                   | (323)                                  | 7,084                 |
| Mutual funds - debt securities   | 1                                     | 241,048     | 2,885                                 | (4,156)                                | 239,777               |
| Mutual funds - equity securities | 1                                     | 131,331     | 5,813                                 | (2,079)                                | 135,065               |
| Other investment funds (1)       |                                       | 41,447      | 892                                   |  | 42,339                |
| Equity securities                | 1                                     | 38,711      | 2,782                                 | (1,753)                                | 39,740                |
| Other invested assets            | 2                                     | 2,457       | (255)                                 |  | 2,202                 |
| Total managed investments        |                                       | \$ 491,980  | \$ 12,466                             | \$ (8,311)                             | \$ 496,135            |
| Assets acquired via acquisition  |                                       |             |                                       |  |                       |
| West Virginia Trust Receivable   |                                       | 8,469       |                                       |  | 8,469                 |
| Total                            |                                       | \$ 500,449  | \$ 12,466                             | \$ (8,311)                             | \$ 504,604            |

- (1) Other investment funds are measured at fair value using the net asset value per share practical expedient and have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheet. This asset class is composed of fixed income funds and equity funds which have redemption periods ranging from 30 to 90 days.

| <b>December 31, 2015</b>     | <b>Fair Value<br/>Hierarchy Level</b> | <b>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|------------------------------|---------------------------------------|-------------|---------------------------------------|--|-----------------------|
| Short-term investments       | 1                                     | \$ 35,150   | \$                                    | \$                                     | \$ 35,150             |
| Fixed maturities:            |                                       |             |                                       |  |                       |
| U.S. governmental securities | 2                                     | 98          | 6                                     | (3)                                    | 101                   |
| Corporate debt securities    | 2                                     | 11,922      | 8                                     | (546)                                  | 11,384                |
| Other debt securities        | 2                                     | 7,150       | 11                                    | (7)                                    | 7,154                 |

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|                                  |   |            |          |             |            |
|----------------------------------|---|------------|----------|-------------|------------|
| Total fixed maturities           |   | 19,170     | 25       | (556)       | 18,639     |
| Mutual funds - debt securities   | 1 | 232,096    | 86       | (10,713)    | 221,469    |
| Mutual funds - equity securities | 1 | 139,341    | 69       | (12,249)    | 127,161    |
| Equity securities                | 1 | 49,563     | 1,127    | (2,474)     | 48,216     |
| Other invested assets            | 2 | 1,681      |          |             | 1,681      |
| Total managed investments        |   | \$ 477,001 | \$ 1,307 | \$ (25,992) | \$ 452,316 |
| Assets acquired via acquisition  |   | 4,185      |          |             | 4,185      |
| West Virginia Trust Receivable   |   | 8,175      |          |             | 8,175      |
| Total                            |   | \$ 489,361 | \$ 1,307 | \$ (25,992) | \$ 464,676 |

The contractual maturities of debt securities as of September 30, 2016 were as follows below:

|                              | Less than<br>1 year | 1 year through<br>5 years | 6 years through<br>10 years | More than<br>10 years |
|------------------------------|---------------------|---------------------------|-----------------------------|-----------------------|
| U.S. governmental securities | \$ 5                | \$ 23                     | \$ 15                       | \$                    |
| Corporate debt securities    |                     | 6,261                     | 780                         |                       |
| Other debt securities        |                     |                           |                             |                       |
| Total fixed maturities       | \$ 5                | \$ 6,284                  | \$ 795                      | \$                    |

Temporary Declines in Fair Value

The Partnership evaluates declines in fair value below cost for each asset held in the merchandise trusts on a quarterly basis.

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An aging of unrealized losses on the Partnership's investments in debt and equity securities within the merchandise trusts as of September 30, 2016 and December 31, 2015 is presented below (in thousands):

| <b>September 30, 2016</b>        | <b>Less than 12 months</b> |                          | <b>12 Months or more</b> |                          | <b>Total</b>      |                          |
|----------------------------------|----------------------------|--------------------------|--------------------------|--------------------------|-------------------|--------------------------|
|                                  | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>        | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| <b>Fixed maturities:</b>         |                            |                          |                          |                          |                   |                          |
| U.S. governmental securities     | \$ 4                       | \$                       | \$ 2                     | \$                       | \$ 6              | \$                       |
| Corporate debt securities        | 2,275                      | 175                      | 2,724                    | 148                      | 4,999             | 323                      |
| <b>Total fixed maturities</b>    | <b>2,279</b>               | <b>175</b>               | <b>2,726</b>             | <b>148</b>               | <b>5,005</b>      | <b>323</b>               |
| Mutual funds - debt securities   | 15,642                     | 312                      | 131,966                  | 3,844                    | 147,608           | 4,156                    |
| Mutual funds - equity securities | 2,204                      | 33                       | 27,098                   | 2,046                    | 29,302            | 2,079                    |
| Equity securities                | 10,304                     | 869                      | 4,763                    | 884                      | 15,067            | 1,753                    |
| Other invested assets            |                            |                          |                          |                          |                   |                          |
| <b>Total</b>                     | <b>\$ 30,429</b>           | <b>\$ 1,389</b>          | <b>\$ 166,553</b>        | <b>\$ 6,922</b>          | <b>\$ 196,982</b> | <b>\$ 8,311</b>          |

| <b>December 31, 2015</b>         | <b>Less than 12 months</b> |                          | <b>12 Months or more</b> |                          | <b>Total</b>      |                          |
|----------------------------------|----------------------------|--------------------------|--------------------------|--------------------------|-------------------|--------------------------|
|                                  | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>        | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| <b>Fixed maturities:</b>         |                            |                          |                          |                          |                   |                          |
| U.S. governmental securities     | \$                         | \$                       | \$ 33                    | \$ 3                     | \$ 33             | \$ 3                     |
| Corporate debt securities        | 7,247                      | 411                      | 1,513                    | 135                      | 8,760             | 546                      |
| Other debt securities            | 2,883                      | 7                        |                          |                          | 2,883             | 7                        |
| <b>Total fixed maturities</b>    | <b>10,130</b>              | <b>418</b>               | <b>1,546</b>             | <b>138</b>               | <b>11,676</b>     | <b>556</b>               |
| Mutual funds - debt securities   | 121,777                    | 6,938                    | 36,682                   | 3,775                    | 158,459           | 10,713                   |
| Mutual funds - equity securities | 58,467                     | 10,994                   | 5,465                    | 1,255                    | 63,932            | 12,249                   |
| Equity securities                | 21,480                     | 2,275                    | 649                      | 199                      | 22,129            | 2,474                    |
| <b>Total</b>                     | <b>\$ 211,854</b>          | <b>\$ 20,625</b>         | <b>\$ 44,342</b>         | <b>\$ 5,367</b>          | <b>\$ 256,196</b> | <b>\$ 25,992</b>         |

For all securities in an unrealized loss position, the Partnership evaluated the severity of the impairment and length of time that a security has been in a loss position and concluded the decline in fair value below the asset's cost was temporary in nature. In addition, the Partnership is not aware of any circumstances that would prevent the future market value recovery for these securities.

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

The Partnership assesses its merchandise trust assets for other-than-temporary declines in fair value on a quarterly basis. During the nine months ended September 30, 2016, the Partnership determined that there were forty-eight



securities with an aggregate cost basis of approximately \$50.0 million and an aggregate fair value of approximately \$42.7 million, resulting in an impairment of \$7.3 million, with such impairment considered to be other-than-temporary. During the nine months ended September 30, 2015, the Company determined that there were two securities with an aggregate cost basis of approximately \$0.6 million and an aggregate fair value of approximately \$0.4 million, resulting in an impairment of \$0.2 million, wherein such impairment was considered to be other-than-temporary. Accordingly, the Partnership adjusted the cost basis of these assets to their current value and offset this change against deferred revenue. This reduction in deferred revenue is reflected in earnings in periods after the impairment date as the underlying merchandise is delivered or the underlying services are performed.

## **7. PERPETUAL CARE TRUSTS**

At September 30, 2016 and December 31, 2015, the Partnership's perpetual care trusts consisted of investments in debt and equity marketable securities and cash equivalents, both directly as well as through mutual and investment funds. Certain assets acquired in connection with the Partnership's 2015 acquisitions (see Note 2) are based upon preliminary estimated values assigned to the assets by the Partnership at the date of acquisition, and will be adjusted when additional information is received.

All of these investments are classified as Available for Sale and accordingly, all of the assets are carried at fair value. All of the investments subject to the fair value hierarchy (see Note 1) are considered either Level 1 or Level 2 assets pursuant to the three-level hierarchy described in Note 14. There were no Level 3 assets. The perpetual care trusts are VIEs for which the Partnership is the primary beneficiary.

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A reconciliation of the Partnership's perpetual care trust activities for the nine months ended September 30, 2016 and 2015 is presented below (in thousands):

|                                 | <b>Nine months ended September 30,</b> |             |
|---------------------------------|--|-------------|
|                                 | <b>2016</b>                            | <b>2015</b> |
| Balance, beginning of period    | \$ 307,804                             | \$ 345,105  |
| Contributions                   | 13,111                                 | 12,058      |
| Distributions                   | (10,923)                               | (10,254)    |
| Interest and dividends          | 13,609                                 | 13,236      |
| Capital gain distributions      | 477                                    | 41          |
| Realized gains and losses       | (413)                                  | 13,942      |
| Other than temporary impairment | (466)                                  |             |
| Taxes                           | (566)                                  | (637)       |
| Fees                            | (2,189)                                | (1,654)     |
| Unrealized change in fair value | 14,479                                 | (60,056)    |
| Balance, end of period          | \$ 334,923                             | \$ 311,781  |

During the nine months ended September 30, 2016, purchases of available for sale securities were \$256.1 million, while sales, maturities and paydowns of available for sale securities were \$223.3 million.

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The cost and market value associated with the assets held in the perpetual care trusts as of September 30, 2016 and December 31, 2015 were as follows (in thousands):

| <b>September 30, 2016</b>        | <b>Fair Value<br/>Hierarchy Level</b> | <b>Cost</b>       | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|----------------------------------|---------------------------------------|-------------------|---------------------------------------|--|-----------------------|
| Short-term investments           | 1                                     | \$ 16,470         | \$                                    | \$                                     | \$ 16,470             |
| Fixed maturities:                |                                       |                   |                                       |  |                       |
| U.S. governmental securities     | 2                                     | 183               | 17                                    | (1)                                    | 199                   |
| Corporate debt securities        | 2                                     | 12,504            | 468                                   | (370)                                  | 12,602                |
| <b>Total fixed maturities</b>    |                                       | <b>12,687</b>     | <b>485</b>                            | <b>(371)</b>                           | <b>12,801</b>         |
| Mutual funds - debt securities   | 1                                     | 130,598           | 1,604                                 | (1,722)                                | 130,480               |
| Mutual funds - equity securities | 1                                     | 30,788            | 3,070                                 | (237)                                  | 33,621                |
| Other investment funds (1)       |                                       | 116,466           | 2,238                                 |  | 118,704               |
| Equity securities                | 1                                     | 21,473            | 1,487                                 | (186)                                  | 22,774                |
| Other invested assets            | 2                                     | 73                |                                       |  | 73                    |
| <b>Total managed investments</b> |                                       | <b>\$ 328,555</b> | <b>\$ 8,884</b>                       | <b>\$ (2,516)</b>                      | <b>\$ 334,923</b>     |
| Assets acquired via acquisition  |                                       |                   |                                       |  |                       |
| <b>Total</b>                     |                                       | <b>\$ 328,555</b> | <b>\$ 8,884</b>                       | <b>\$ (2,516)</b>                      | <b>\$ 334,923</b>     |

(1) Other investment funds are measured at fair value using the net asset value per share practical expedient and have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheet. This asset class is composed of fixed income funds and equity funds, which have a redemption period ranging from 30 to 90 days, and private credit funds, which have lockup periods ranging from six to ten years with three potential one year extensions at the discretion of the funds' general partners. As of September 30, 2016 there are \$46.1 million in unfunded commitments to the private credit funds, which are callable at any time.

| <b>December 31, 2015</b>     | <b>Fair Value<br/>Hierarchy Level</b> | <b>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|------------------------------|---------------------------------------|-------------|---------------------------------------|--|-----------------------|
| Short-term investments       | 1                                     | \$ 36,618   | \$                                    | \$                                     | \$ 36,618             |
| Fixed maturities:            |                                       |             |                                       |  |                       |
| U.S. governmental securities | 2                                     | 126         | 14                                    |  | 140                   |
| Corporate debt securities    | 2                                     | 22,837      | 57                                    | (845)                                  | 22,049                |
| Other debt securities        | 2                                     | 36          |                                       | (1)                                    | 35                    |

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|                                  |   |            |          |            |            |
|----------------------------------|---|------------|----------|------------|------------|
| Total fixed maturities           |   | 22,999     | 71       | (846)      | 22,224     |
| Mutual funds - debt securities   | 1 | 184,866    | 35       | (7,180)    | 177,721    |
| Mutual funds - equity securities | 1 | 68,079     | 1,054    | (1,713)    | 67,420     |
| Equity securities                | 1 | 2,319      | 636      | (7)        | 2,948      |
| Other invested assets            | 2 | 473        | 1        | (162)      | 312        |
| Total managed investments        |   | \$ 315,354 | \$ 1,797 | \$ (9,908) | \$ 307,243 |
| Assets acquired via acquisition  |   | 561        |          |            | 561        |
| Total                            |   | \$ 315,915 | \$ 1,797 | \$ (9,908) | \$ 307,804 |

The contractual maturities of debt securities as of September 30, 2016 were as follows below:

|                              | Less than<br>1 year | 1 year through<br>5 years | 6 years through<br>10 years | More than<br>10 years |
|------------------------------|---------------------|---------------------------|-----------------------------|-----------------------|
| U.S. governmental securities | \$ 111              | \$                        | \$ 37                       | \$ 51                 |
| Corporate debt securities    | 121                 | 11,162                    | 1,319                       |                       |
| Total fixed maturities       | \$ 232              | \$ 11,162                 | \$ 1,356                    | \$ 51                 |

Temporary Declines in Fair Value

The Partnership evaluates declines in fair value below cost of each individual asset held in the perpetual care trusts on a quarterly basis.

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An aging of unrealized losses on the Partnership's investments in debt and equity securities within the perpetual care trusts as of September 30, 2016 and December 31, 2015 is presented below (in thousands):

| <b>September 30, 2016</b>        | <b>Less than 12 months</b> |                          | <b>12 Months or more</b> |                          | <b>Total</b>      |                          |
|----------------------------------|----------------------------|--------------------------|--------------------------|--------------------------|-------------------|--------------------------|
|                                  | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>        | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| <b>Fixed maturities:</b>         |                            |                          |                          |                          |                   |                          |
| U.S. governmental securities     | \$                         | \$                       | \$ 24                    | \$ 1                     | \$ 24             | \$ 1                     |
| Corporate debt securities        | 2,787                      | 190                      | 2,972                    | 180                      | 5,759             | 370                      |
| <b>Total fixed maturities</b>    | <b>2,787</b>               | <b>190</b>               | <b>2,996</b>             | <b>181</b>               | <b>5,783</b>      | <b>371</b>               |
| Mutual funds - debt securities   | 11,485                     | 93                       | 50,053                   | 1,629                    | 61,538            | 1,722                    |
| Mutual funds - equity securities | 977                        | 47                       | 2,874                    | 190                      | 3,851             | 237                      |
| Equity securities                | 4,991                      | 186                      | 3                        |                          | 4,994             | 186                      |
| Other invested assets            |                            |                          | 73                       |                          | 73                |                          |
| <b>Total</b>                     | <b>\$ 20,240</b>           | <b>\$ 516</b>            | <b>\$ 55,999</b>         | <b>\$ 2,000</b>          | <b>\$ 76,239</b>  | <b>\$ 2,516</b>          |

| <b>December 31, 2015</b>         | <b>Less than 12 months</b> |                          | <b>12 Months or more</b> |                          | <b>Total</b>      |                          |
|----------------------------------|----------------------------|--------------------------|--------------------------|--------------------------|-------------------|--------------------------|
|                                  | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>        | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| <b>Fixed maturities:</b>         |                            |                          |                          |                          |                   |                          |
| U.S. governmental securities     | \$                         | \$                       | \$ 112                   | \$                       | \$ 112            | \$                       |
| Corporate debt securities        | 12,482                     | 535                      | 4,505                    | 310                      | 16,987            | 845                      |
| Other debt securities            | 35                         | 1                        |                          |                          | 35                | 1                        |
| <b>Total fixed maturities</b>    | <b>12,517</b>              | <b>536</b>               | <b>4,617</b>             | <b>310</b>               | <b>17,134</b>     | <b>846</b>               |
| Mutual funds - debt securities   | 81,215                     | 4,263                    | 50,774                   | 2,917                    | 131,989           | 7,180                    |
| Mutual funds - equity securities | 16,514                     | 1,363                    | 4,308                    | 350                      | 20,822            | 1,713                    |
| Equity securities                | 488                        | 6                        | 1,137                    | 1                        | 1,625             | 7                        |
| Other invested assets            |                            |                          | 315                      | 162                      | 315               | 162                      |
| <b>Total</b>                     | <b>\$ 110,734</b>          | <b>\$ 6,168</b>          | <b>\$ 61,151</b>         | <b>\$ 3,740</b>          | <b>\$ 171,885</b> | <b>\$ 9,908</b>          |

For all securities in an unrealized loss position, the Partnership evaluated the severity of the impairment and length of time that a security has been in a loss position and concluded the decline in fair value below the asset's cost was temporary in nature. In addition, the Partnership is not aware of any circumstances that would prevent the future market value recovery for these securities.

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

The Partnership assesses its perpetual care trust assets for other-than-temporary declines in fair value on a quarterly basis. During the nine months ended September 30, 2016, the Partnership determined that there were eighteen securities with an aggregate cost basis of approximately \$3.4 million and an aggregate fair value of approximately \$2.9 million, resulting in an impairment of \$0.5 million, with such impairment considered to be other-than-temporary. During the nine months ended September 30, 2015, the Company determined that there were no other than temporary impairments to the investment portfolio in the perpetual care trusts. Accordingly, the Partnership adjusted the cost basis of these assets to their current value and offset this change against the liability for perpetual care trust corpus. This reduction in deferred revenue is reflected in earnings in periods after the impairment date as the underlying merchandise is delivered or the underlying services are performed.

## 8. GOODWILL AND INTANGIBLE ASSETS

### Goodwill

The Partnership has recorded goodwill of approximately \$70.6 million as of September 30, 2016 and \$69.9 million as of December 31, 2015. This amount represents the excess of the purchase price over the fair value of identifiable net assets acquired.

A rollforward of goodwill by reporting unit is as follows (in thousands):

|  | <b>Cemeteries</b> | <b>Funeral Homes</b> | <b>Total</b> |
|--|-------------------|----------------------|--------------|
| Balance at December 31, 2015           | \$ 25,320         | \$ 44,531            | \$ 69,851    |
| Goodwill from acquisitions during 2015 |                   | (337)                | (337)        |
| Goodwill from acquisitions during 2016 |                   | 1,058                | 1,058        |
| Balance at September 30, 2016          | \$ 25,320         | \$ 45,252            | \$ 70,572    |

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The Partnership adjusted preliminary amounts relating to 2015 acquisitions during the second quarter of 2016 as the Company obtained additional information. These updates resulted in a decrease in goodwill acquired from 2015 acquisitions.

The Partnership tests goodwill for impairment at each year end by comparing its reporting units' estimated fair values to carrying values. There were no goodwill impairments recognized by the Partnership during the periods presented. Management will continue to evaluate goodwill at least annually or when impairment indicators arise.

**Intangible Assets**

The Partnership has intangible assets with finite lives recognized in connection with acquisitions and long-term lease, management and operating agreements. The Partnership amortizes these intangible assets over their estimated useful lives.

The following table reflects the components of intangible assets as of September 30, 2016 and December 31, 2015 (in thousands):

|                                 | September 30, 2016    |                          |                      | December 31, 2015     |                          |                      |
|---------------------------------|-----------------------|--------------------------|----------------------|-----------------------|--------------------------|----------------------|
|                                 | Gross Carrying Amount | Accumulated Amortization | Net Intangible Asset | Gross Carrying Amount | Accumulated Amortization | Net Intangible Asset |
| Lease and management agreements | \$ 59,758             | \$ (2,324)               | \$ 57,434            | \$ 59,758             | \$ (1,577)               | \$ 58,181            |
| Underlying contract value       | 6,239                 | (1,131)                  | 5,108                | 6,239                 | (1,014)                  | 5,225                |
| Non-compete agreements          | 5,656                 | (3,705)                  | 1,951                | 5,656                 | (3,112)                  | 2,544                |
| Other intangible assets         | 1,777                 | (242)                    | 1,535                | 1,439                 | (180)                    | 1,259                |
| <b>Total intangible assets</b>  | <b>\$ 73,430</b>      | <b>\$ (7,402)</b>        | <b>\$ 66,028</b>     | <b>\$ 73,092</b>      | <b>\$ (5,883)</b>        | <b>\$ 67,209</b>     |

Amortization expense for intangible assets was \$0.6 million for both the three months ended September 30, 2016 and 2015 and \$1.7 million for both the nine months ended September 30, 2016 and 2015. The following is estimated amortization expense related to intangible assets with finite lives for the periods noted below (in thousands):

|                  |          |
|------------------|----------|
| 2016 (remainder) | \$ 590   |
| 2017             | \$ 2,194 |
| 2018             | \$ 1,769 |
| 2019             | \$ 1,451 |
| 2020             | \$ 1,278 |

**9. LONG-TERM DEBT**

Total debt consists of the following at the dates indicated (in thousands):

|  | <b>September 30, 2016</b> | <b>December 31, 2015</b> |
|--|---------------------------|--------------------------|
| Credit facility  | \$ 151,125                | \$ 149,500               |
| 7.875% Senior Notes, due June 2021                             | 172,510                   | 172,186                  |
| Notes payable - acquisition debt                               | 549                       | 687                      |
| Notes payable - acquisition non-competes                       | 937                       | 1,629                    |
| Insurance and vehicle financing                                | 2,291                     | 2,336                    |
| Less deferred financing costs, net of accumulated amortization | (11,236)                  | (7,499)                  |
| <b>Total debt</b>  | <b>316,176</b>            | <b>318,839</b>           |
| Less current maturities  | (2,144)                   | (2,440)                  |
| <b>Total long-term debt</b>                                    | <b>\$ 314,032</b>         | <b>\$ 316,399</b>        |



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On August 4, 2016, StoneMor Operating LLC (the Operating Company), a wholly-owned subsidiary of the Partnership, entered into the Credit Agreement (the Credit Agreement) among each of the Subsidiaries of the Operating Company (together with the Operating Company, Borrowers), the Lenders identified therein, Capital One, National Association (Capital One), as Administrative Agent, Issuing Bank and Swingline Lender, Citizens Bank of Pennsylvania, as Syndication Agent, and TD Bank, N.A. and Raymond James Bank, N.A., as Co-Documentation Agents. In addition, on the same date, the Partnership, the Borrowers and Capital One, as Administrative Agent, entered into the Guaranty and Collateral Agreement (the Guaranty Agreement, and together with the Credit Agreement, New Agreements). Capitalized terms which are not defined in the following description of the New Agreements shall have the meaning assigned to such terms in the New Agreements.

The New Agreements replaced the Partnership's Fourth Amended and Restated Credit Agreement, as amended with Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer and other lenders party thereto (the Prior Credit Agreement), Second Amended and Restated Security Agreement, and Second Amended and Restated Pledge Agreement, each dated as of December 19, 2014. The Prior Credit Agreement provided for a revolving credit facility of \$180.0 million, with borrowings classified as either acquisition draws or working capital draws, maturing on December 19, 2019. In connection with entering into the Credit Agreement, the Partnership incurred an extinguishment of debt charge of approximately \$1.2 million recorded in other gains and losses, net.

The Credit Agreement provides for up to \$210.0 million initial aggregate amount of Revolving Commitments, which may be increased, from time to time, in minimum increments of \$5.0 million so long as the aggregate amount of such increases does not exceed \$100.0 million. The Operating Company may also request the issuance of Letters of Credit for up to \$15.0 million in the aggregate, of which there were \$6.5 million outstanding at September 30, 2016 and none outstanding at December 31, 2015. The Maturity Date under the Credit Agreement is the earlier of (i) August 4, 2021 and (ii) the date that is six months prior to the earliest scheduled maturity date of any outstanding Permitted Unsecured Indebtedness (at present, such date is December 1, 2020, which is six months prior to June 1, 2021 maturity date of outstanding 7.875% senior notes).

As of September 30, 2016, the outstanding amount of borrowings under the Credit Agreement was \$151.1 million, which was used to pay down outstanding obligations under the Prior Credit Agreement, to pay fees, costs and expenses related to the New Agreements and to fund working capital needs. Generally, proceeds of the Loans under the Credit Agreement can be used to finance the working capital needs and for other general corporate purposes of the Borrowers and Guarantors, including acquisitions and distributions permitted under the Credit Agreement. At September 30, 2016, the amount available under the credit facility was \$42.4 million.

Each Borrowing under the Credit Agreement is comprised of Base Rate Loans or Eurodollar Loans. The Loans comprising each Base Rate Borrowing (including each Swingline Loan) bear interest at the Base Rate plus the Applicable Rate, and the Loans comprising each Eurodollar Borrowing bear interest at the Eurodollar Rate plus the Applicable Rate.

The Applicable Rate is determined based on the Consolidated Leverage Ratio of the Partnership and its Subsidiaries and ranges from 1.75% to 3.25% for Eurodollar Rate Loans and 0.75% to 2.25% for Base Rate Loans. As of September 30, 2016, the Applicable Rate for Eurodollar Rate Loans was 2.75% and for Base Rate Loans was 1.75%. The Credit Agreement also requires the Borrowers to pay a quarterly unused commitment fee, which accrues at the Applicable Rate on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments, and which is included within interest expense on the Partnership's consolidated statements of operations. On September 30, 2016, the weighted average interest rate on outstanding borrowings under the Credit

Agreement was 3.2%.

The Credit Agreement contains financial covenants, pursuant to which the Partnership will not permit:

the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA, or the Consolidated Leverage Ratio, as of the last day of any fiscal quarter, commencing on September 30, 2016, determined for the period of four consecutive fiscal quarters ending on such date (the Measurement Period), to be greater than 4.00 to 1.0, which may be increased to 4.25 to 1.0 (in case of a Designated Acquisition made subsequent to the last day of the immediately preceding fiscal quarter) as of the last day of the fiscal quarter in which such Designated Acquisition occurs and as of the last day of the immediately succeeding fiscal quarter; and

the ratio of Consolidated EBITDA to Consolidated Debt Service, or the Consolidated Debt Service Coverage Ratio, as of the last day of any fiscal quarter, commencing on September 30, 2016 to be less than 2.50 to 1.0 for any Measurement Period.

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On September 30, 2016, the Partnership's Consolidated Leverage Ratio and the Consolidated Debt Service Coverage Ratio were 3.62 and 4.19, respectively.

Additional covenants include customary limitations, subject to certain exceptions, on, among others: (i) the incurrence of Indebtedness; (ii) granting of Liens; (iii) fundamental changes and dispositions; (iv) investments, loans, advances, guarantees and acquisitions; (v) swap agreements; (vi) transactions with Affiliates; (vii) Restricted Payments; and (viii) Sale and Leaseback Transactions. The Partnership was in compliance with the Credit Agreement covenants as of September 30, 2016.

The Borrowers' obligations under the Credit Agreement are guaranteed by the Partnership and the Borrowers. Pursuant to the Guaranty Agreement, the Borrowers' obligations under the Credit Agreement are secured by a first priority lien and security interest (subject to permitted liens and security interests) in substantially all of the Partnership's and Borrowers' assets, whether then owned or thereafter acquired, excluding certain excluded assets, which include, among others: (i) Trust Accounts, certain proceeds required by law to be placed into such Trust Accounts and funds held in such Trust Accounts; and (ii) Excluded Real Property, including owned and leased real property that may not be pledged as a matter of law.

**Senior Notes**

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

At any time on or after June 1, 2016, we 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 June 1 of the years indicated:

| <b>Year</b>         | <b>Percentage</b> |
|---------------------|-------------------|
| 2016                | 105.906%          |
| 2017                | 103.938%          |
| 2018                | 101.969%          |
| 2019 and thereafter | 100.000%          |

Subject to certain exceptions, upon the occurrence of a Change of Control (as defined in the Indenture), each holder of the Senior Notes will have the right to require the Partnership 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.

The Senior Notes are jointly and severally guaranteed by certain of the Partnership's subsidiaries. The Indenture governing the Senior Notes contains covenants, including limitations of the Partnership's ability to incur certain additional indebtedness and liens, make certain dividends, distributions, redemptions or investments, enter into certain transactions with affiliates, make certain asset sales, and engage in certain mergers, consolidations or sales of all or

substantially all of our assets, among other items. As of September 30, 2016, the Partnership was in compliance with these covenants.

## **10. INCOME TAXES**

The Partnership is not subject to U.S. federal and most state income taxes. The partners of the Partnership are liable for income tax in regard to their distributive share of the Partnership's taxable income. Such taxable income may vary substantially from net income reported in the accompanying unaudited consolidated financial statements. Certain corporate subsidiaries are subject to federal and state income tax. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and tax carryforwards. Deferred tax assets and liabilities are measured using

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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 Partnership records a valuation allowance against its deferred tax assets if it deems that it is more likely than not that some portion or all of the recorded deferred tax assets will not be realizable in future periods.

As of September 30, 2016, the Partnership had available approximately less than \$0.1 million of alternative minimum tax credit carryforwards, which are available indefinitely, and \$264.5 million of federal net operating loss carryforwards, which will begin to expire in 2017 and \$321.8 million in state net operating loss carryforwards, a portion of which expires annually.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. As of September 30, 2016, based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Partnership will realize a partial benefit of these deductible differences. The amount of deferred tax assets considered realizable could be reduced in the future if estimates of future taxable income during the carryforward period are reduced.

In accordance with applicable accounting standards, the Partnership recognizes only the impact of income tax positions that, based upon their merits, are more likely than not to be sustained upon audit by a taxing authority. To evaluate its current tax positions in order to identify any material uncertain tax positions, the Partnership developed a policy of identifying and evaluating uncertain tax positions that considers support for each tax position, industry standards, tax return disclosures and schedules and the significance of each position. It is the Partnership's policy to recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense. At September 30, 2016 and December 31, 2015, the Partnership had no material uncertain tax positions.

The Partnership is not currently under examination by any federal or state jurisdictions. The federal statute of limitations and certain state statutes of limitations are open from 2012 forward.

**11. DEFERRED REVENUES**

The Partnership defers revenues and all direct costs associated with the sale of pre-need cemetery merchandise and services until the merchandise is delivered or the services are performed. The Partnership recognizes deferred merchandise and service revenues as deferred revenues within long-term liabilities on its consolidated balance sheet. The Partnership recognizes deferred direct costs associated with pre-need cemetery merchandise and service revenues as deferred selling and obtaining costs within long-term assets on its consolidated balance sheet. The Partnership also defers the costs to obtain new pre-need cemetery and new prearranged funeral business as well as the investment earnings on the prearranged services and merchandise trusts.

At September 30, 2016 and December 31, 2015, deferred revenues consisted of the following (in thousands):

|   | <b>September 30, 2016</b> | <b>December 31, 2015</b> |
|---|---------------------------|--------------------------|
| Deferred contract revenues                              | \$ 806,322                | \$ 759,812               |
| Deferred merchandise trust revenue                      | 86,275                    | 80,294                   |
| Deferred merchandise trust unrealized gains<br>(losses) | 4,155                     | (24,685)                 |
| Deferred revenues                                       | \$ 896,752                | \$ 815,421               |
| Deferred selling and obtaining costs                    | \$ 122,249                | \$ 111,542               |

**Table of Contents****12. LONG-TERM INCENTIVE PLANS*****2014 Long-Term Incentive Plan***

During the year ended December 31, 2014, the General Partner's Board of Directors (the Board) and the Partnership's unitholders approved a 2014 Long-Term Incentive Plan (2014 LTIP). The Compensation, Nominating and Governance, and Compliance Committee of the Board (the Compensation Committee) administers the 2014 LTIP. The 2014 LTIP permits the grant of awards, which may be in the form of phantom units, restricted units, unit appreciation rights (UAR), or unit options, including performance factors for each, covering an aggregate of 1,500,000 common units, a number that the Board may increase by up to 100,000 common units per year. At September 30, 2016, the estimated number of common units to be issued upon vesting and exercise of outstanding rights under this plan, assuming the satisfaction of the maximum conditions for performance factors, was 186,845. A cumulative number of 17,229 common units have been issued, leaving 1,295,926 common units available for future grants under the plan, assuming no increases by the Board.

**Phantom Unit Awards**

Phantom units represent rights to receive a common unit or an amount of cash, or a combination of either, based upon the value of a common unit. Phantom units become payable, in cash or common units, at the Partnership's election, upon the separation of directors and executives from service or upon the occurrence of certain other events specified in the underlying agreements. Phantom units are subject to terms and conditions determined by the Compensation Committee. In tandem with phantom unit grants, the compensation committee may grant distribution equivalent rights (DERs), which are the right to receive an amount in cash or common units equal to the cash distributions made by the Partnership with respect to common unit during the period that the underlying phantom unit is outstanding. All phantom units outstanding under the 2014 LTIP at September 30, 2016 contain tandem DERs.

The following table sets forth the 2014 LTIP phantom unit award activity for the three and nine months ended September 30, 2016 and 2015, respectively:

|                                     | Three months ended September 30, |       | Nine months ended September 30, |       |
|-------------------------------------|----------------------------------|-------|---------------------------------|-------|
|                                     | 2016                             | 2015  | 2016                            | 2015  |
| Outstanding, beginning of period    | 110,090                          | 6,281 | 102,661                         | 2,189 |
| Granted (1)                         | 102,715                          | 2,566 | 110,144                         | 6,658 |
| Settled in common units or cash (1) | (2,774)                          |       | (2,774)                         |       |
| Forfeiture                          | (23,185)                         |       | (23,185)                        |       |
| Outstanding, end of period (2)      | 186,846                          | 8,847 | 186,846                         | 8,847 |

(1) The weighted-average grant date fair value for the unit awards on the date of grant was \$25.16 and \$24.00 for three months ended September 30, 2016 and 2015, respectively, and \$25.12 and \$27.14 for nine months ended September 30, 2016 and 2015, respectively. The intrinsic value of vested unit awards was \$0.1 million for both the three months ended September 30, 2016 and 2015 and \$0.3 million for the nine months ended September 30, 2016 and \$0.2 million for the nine months ended 2015.

(2)

Based on the closing price of the common units on September 30, 2016, the estimated intrinsic value of the outstanding unit awards was \$4.7 million at September 30, 2016.

2004 Long-Term Incentive Plan

The Compensation Committee administers the Partnership's 2004 Long-Term Incentive Plan ( 2004 LTIP ). The 2004 LTIP permitted the grant of awards, which may be in the form of phantom units, restricted units, or unit appreciation rights ( UAR ). At September 30, 2016, the estimated number of common units to be issued upon vesting and exercise of outstanding rights under this plan was 199,919, based upon the closing price of our common units at September 30, 2016. A cumulative number of 626,188 common units have been issued under the 2004 LTIP. There were no awards available for grant under the 2004 LTIP at September 30, 2016 because the plan expired in 2014.

**Phantom Unit Awards**

Phantom units were credited to participants' mandatory deferred compensation accounts in connection with DERs accruing on phantom units received under the 2004 LTIP. These DERs continue to accrue until the underlying securities are issued. The following table sets forth the 2004 LTIP activity related to DERs credited as phantom units to the participant's accounts for the three and nine months ended September 30, 2016 and 2015, respectively:



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|                                  | Three months ended September 30, |         | Nine months ended September 30, |         |
|----------------------------------|----------------------------------|---------|---------------------------------|---------|
|                                  | 2016                             | 2015    | 2016                            | 2015    |
| Outstanding, beginning of period | 194,085                          | 176,349 | 184,457                         | 169,122 |
| Granted (1)                      | 5,108                            | 4,188   | 14,736                          | 11,415  |
| Outstanding, end of period (2)   | 199,193                          | 180,537 | 199,193                         | 180,537 |

- (1) The weighted-average fair value for the phantom units credited was \$24.32 and \$26.46 for the three months ended September 30, 2016 and 2015, respectively, and \$24.63 and \$28.08 for the nine months ended September 30, 2016 and 2015, respectively. The intrinsic value of vested phantom unit awards was \$0.1 million for both of the three months ended September 30, 2016 and 2015 and \$0.4 million and \$0.3 million for the nine months ended September 30, 2016 and 2015, respectively.
- (2) Based on the closing price of the common units on September 30, 2016, the estimated intrinsic value of the outstanding unit awards was \$5.0 million at September 30, 2016.

Total compensation expense for phantom units credited under both the 2004 and 2014 plans was approximately \$0.2 million and \$0.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$0.6 million and \$0.8 million for the nine months ended September 30, 2016 and 2015, respectively.

**Unit Appreciation Rights Awards**

UAR awards represent a right to receive an amount equal to the closing price of the Partnership's common units on the date preceding the exercise date less the exercise price of the UARs, to the extent the closing price of the Partnership's common units on the date preceding the exercise date is in excess of the exercise price. This amount is then divided by the closing price of the Partnership's common units on the date preceding the exercise date to determine the number of common units to be issued to the participant. UAR awards granted through September 30, 2016 have a five-year contractual term beginning on the grant date and vest ratably over a period of 48 months beginning on the grant date. Of the UARs outstanding at September 30, 2016, 14,583 UARs will vest within the following twelve months. The following table sets forth the UAR award activity for the three and nine months ended September 30, 2016 and 2015, respectively:

|                                  | Three months ended September 30, |          | Nine months ended September 30, |          |
|----------------------------------|----------------------------------|----------|---------------------------------|----------|
|                                  | 2016                             | 2015     | 2016                            | 2015     |
| Outstanding, beginning of period | 66,793                           | 87,021   | 66,793                          | 123,000  |
| Exercised                        |                                  | (19,791) |                                 | (50,040) |
| Forfeited                        | (438)                            |          | (438)                           | (5,730)  |
| Outstanding, end of period (1)   | 66,355                           | 67,230   | 66,355                          | 67,230   |
| Exercisable, end of period       | 48,750                           | 27,562   | 48,750                          | 27,562   |

(1)

Based on the closing price of the common units on September 30, 2016, the estimated intrinsic value of the outstanding unit awards was less than \$0.1 million at September 30, 2016. The weighted average remaining contractual life for outstanding UAR awards at September 30, 2016 was 1.8 years.

At September 30, 2016, the Partnership had approximately \$0.1 million of unrecognized compensation expense related to unvested UAR awards that will be recognized through the year ended December 31, 2018. The Partnership recognized total compensation expense for UAR awards of less than \$0.1 million for the three and nine months ended September 30, 2016 and 2015. The Partnership issued 3,067 common units for the three months ended September 30, 2015 and 7,631 common units for the nine months ended September 30, 2015 due to exercised UAR awards. There were no UAR exercises during the three and nine months ended September 30, 2016.

### **13. COMMITMENTS AND CONTINGENCIES**

#### Legal

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

**Table of Contents****Other**

During the first quarter of 2016, the Partnership moved its corporate headquarters to Trevese, Pennsylvania. Due to the relocation, a cease-use expense of \$2.4 million, of which \$0.5 million was incurred in the first quarter of 2016, was recorded in Other gains and losses, net on the unaudited consolidated statement of operations. This charge represents the net recognition of the discounted liability for future rent payments due under the lease on the previous headquarters, net of estimated sublease collections and deferred rent and lease incentives pertaining to the previous corporate office location.

In connection with the Partnership's 2014 lease and management agreements with the Archdiocese of Philadelphia, it has committed to pay aggregate fixed rent of \$36.0 million in the following amounts:

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

The fixed rent for lease years 6 through 11 shall be deferred. If the Archdiocese terminates the agreements pursuant to a lease year 11 termination or the Partnership terminates the agreements as a result of a default by the Archdiocese, prior to the end of lease year 11, the deferred fixed rent shall be retained by the Partnership. If the agreements are not terminated, the deferred fixed rent shall become due and payable 30 days after the end of lease year 11.

**14. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Management has established a hierarchy to measure the Partnership's financial instruments at fair value, which requires it to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs represent market data obtained from independent sources; whereas, unobservable inputs reflect the Partnership's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. The hierarchy defines three levels of inputs that may be used to measure fair value:

Level 1 Unadjusted quoted market prices in active markets for identical, unrestricted assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the same contractual term of the asset or liability.

Level 3 Unobservable inputs that the entity's own assumptions about the assumptions market participants would use in the pricing of the asset or liability and are consequently not based on market activity but rather through particular valuation techniques.

The Partnership's current assets and liabilities on its consolidated balance sheets are considered to be financial instruments, and their estimated fair values approximate their carrying values due to their short-term nature and thus are categorized as Level 1. The Partnership's merchandise and perpetual care trusts consist of investments in debt and equity marketable securities and cash equivalents, are carried at fair value, and are considered either Level 1 or Level 2 (see Notes 6 and 7). Certain investments in the merchandise and perpetual care trusts are excluded from the fair

value leveling hierarchy in accordance with GAAP.

The Partnership's other financial instruments as of September 30, 2016 and December 31, 2015 consist of its Senior Notes and outstanding borrowings under its revolving credit facility (see Note 9). The estimated fair values of the Partnership's Senior Notes as of September 30, 2016 and December 31, 2015 were \$178.5 million and \$179.9 million, respectively, based on trades made on those dates, compared with the carrying amounts of \$172.5 million and \$172.2 million, respectively. As of September 30, 2016 and December 31, 2015, the carrying values of outstanding borrowings under the Partnership's revolving credit facility (see Note 9), which bears interest at variable interest rates with maturities of 90 days or less, approximated their estimated fair values. The Senior Notes and the credit facility are valued using Level 2 inputs.

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**15. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

The Partnership's Senior Notes are guaranteed by StoneMor Operating LLC and its wholly-owned subsidiaries, other than the co-issuer, as described below. The guarantees are full, unconditional, joint and several. The Partnership, or the Parent, and its wholly-owned subsidiary Cornerstone Family Services of West Virginia Subsidiary Inc., are the co-issuers of the Senior Notes. The Partnership's unaudited consolidated financial statements as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015 include the accounts of cemeteries operated under long-term lease, operating or management agreements. For the purposes of this note, these entities are deemed non-guarantor subsidiaries, as they are not wholly-owned by the Partnership. The Partnership's unaudited consolidated financial statements also contain merchandise and perpetual care trusts that are also deemed non-guarantor subsidiaries for the purposes of this note.

The following unaudited supplemental condensed consolidating financial information reflects the Partnership's standalone accounts, the combined accounts of the subsidiary co-issuer, the combined accounts of the guarantor subsidiaries, the combined accounts of the non-guarantor subsidiaries, the consolidating adjustments and eliminations and the Partnership's consolidated accounts as of and for the three and nine months ended September 30, 2016 and 2015. For the purpose of the following financial information, the Partnership's investments in its subsidiaries and the guarantor subsidiaries' investments in their respective subsidiaries are presented in accordance with the equity method of accounting (in thousands):

**Table of Contents****CONDENSED CONSOLIDATING BALANCE SHEETS**

| <b>September 30, 2016</b>  | <b>Parent</b>     | <b>Subsidiary<br/>Issuer</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|-------------------|------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| <b>Assets</b>  |                   |                              |                                   |                                       |                     |                     |
| Current assets:  |                   |                              |                                   |                                       |                     |                     |
| Cash and cash equivalents  | \$                | \$                           | \$ 13,165                         | \$ 2,445                              | \$                  | \$ 15,610           |
| Other current assets   |                   | 4,336                        | 87,620                            | 16,947                                |                     | 108,903             |
| <b>Total current assets</b>  |                   | <b>4,336</b>                 | <b>100,785</b>                    | <b>19,392</b>                         |                     | <b>124,513</b>      |
| Long-term accounts receivable  |                   | 1,564                        | 84,767                            | 11,651                                |                     | 97,982              |
| Cemetery property and equipment  |                   | 940                          | 422,761                           | 31,702                                |                     | 455,403             |
| Merchandise trusts   |                   |                              |                                   | 504,604                               |                     | 504,604             |
| Perpetual care trusts  |                   |                              |                                   | 334,923                               |                     | 334,923             |
| Deferred selling and obtaining costs   |                   | 6,240                        | 97,414                            | 18,595                                |                     | 122,249             |
| Goodwill and intangible assets   |                   |                              | 78,510                            | 58,090                                |                     | 136,600             |
| Other assets   |                   |                              | 15,505                            | 2,360                                 |                     | 17,865              |
| Investments in and amounts due from affiliates eliminated upon consolidation | 229,565           | 138,604                      | 485,550                           |                                       | (853,719)           |                     |
| <b>Total assets</b>  | <b>\$ 229,565</b> | <b>\$ 151,684</b>            | <b>\$ 1,285,292</b>               | <b>\$ 981,317</b>                     | <b>\$ (853,719)</b> | <b>\$ 1,794,139</b> |
| <b>Liabilities and Equity</b>  |                   |                              |                                   |                                       |                     |                     |
| Current liabilities  | \$                | \$ 27                        | \$ 42,070                         | \$ 957                                | \$                  | \$ 43,054           |
| Long-term debt, net of deferred financing costs                              | 68,018            | 104,492                      | 141,522                           |                                       |                     | 314,032             |
| Deferred revenues  |                   | 37,489                       | 769,930                           | 89,333                                |                     | 896,752             |
| Perpetual care trust corpus  |                   |                              |                                   | 334,923                               |                     | 334,923             |
| Other long-term liabilities  |                   |                              | 33,758                            | 10,073                                |                     | 43,831              |
| Due to affiliates  |                   |                              | 172,510                           | 492,234                               | (664,744)           |                     |
| <b>Total liabilities</b>   | <b>68,018</b>     | <b>142,008</b>               | <b>1,159,790</b>                  | <b>927,520</b>                        | <b>(664,744)</b>    | <b>1,632,592</b>    |
| <b>Partners' capital</b>   | <b>161,547</b>    | <b>9,676</b>                 | <b>125,502</b>                    | <b>53,797</b>                         | <b>(188,975)</b>    | <b>161,547</b>      |
| <b>Total liabilities and partners' capital</b>                               | <b>\$ 229,565</b> | <b>\$ 151,684</b>            | <b>\$ 1,285,292</b>               | <b>\$ 981,317</b>                     | <b>\$ (853,719)</b> | <b>\$ 1,794,139</b> |

| <b>December 31, 2015</b> | <b>Parent</b> | <b>Subsidiary<br/>Issuer</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--------------------------|---------------|------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| <b>Assets</b>            |               |                              |                                   |                                       |                     |                     |
| Current assets:          |               |                              |                                   |                                       |                     |                     |

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|  |                   |                   |                     |                   |                     |                     |
|--|-------------------|-------------------|---------------------|-------------------|---------------------|---------------------|
| Cash and cash equivalents  | \$                | \$                | \$ 11,869           | \$ 3,284          | \$                  | \$ 15,153           |
| Other current assets   |                   | 4,858             | 78,464              | 12,701            |                     | 96,023              |
| <b>Total current assets</b>  |                   | <b>4,858</b>      | <b>90,333</b>       | <b>15,985</b>     |                     | <b>111,176</b>      |
| Long-term accounts receivable  |                   | 2,888             | 80,969              | 11,310            |                     | 95,167              |
| Cemetery property and equipment  |                   | 1,084             | 418,400             | 31,100            |                     | 450,584             |
| Merchandise trusts   |                   |                   |                     | 464,676           |                     | 464,676             |
| Perpetual care trusts  |                   |                   |                     | 307,804           |                     | 307,804             |
| Deferred selling and obtaining costs   |                   | 5,967             | 91,275              | 14,300            |                     | 111,542             |
| Goodwill and intangible assets   |                   |                   | 78,223              | 58,837            |                     | 137,060             |
| Other assets   |                   |                   | 14,153              | 2,195             |                     | 16,348              |
| Investments in and amounts due from affiliates eliminated upon consolidation | 249,436           | 165,639           | 436,811             |                   | (851,886)           |                     |
| <b>Total assets</b>  | <b>\$ 249,436</b> | <b>\$ 180,436</b> | <b>\$ 1,210,164</b> | <b>\$ 906,207</b> | <b>\$ (851,886)</b> | <b>\$ 1,694,357</b> |
| <b>Liabilities and Equity</b>  |                   |                   |                     |                   |                     |                     |
| Current liabilities  | \$                | \$ 12             | \$ 33,083           | \$ 837            | \$                  | \$ 33,932           |
| Long-term debt, net of deferred financing costs                              | 67,890            | 104,295           | 144,214             |                   |                     | 316,399             |
| Deferred revenues  |                   | 40,467            | 697,516             | 77,438            |                     | 815,421             |
| Perpetual care trust corpus  |                   |                   |                     | 307,804           |                     | 307,804             |
| Other long-term liabilities  |                   |                   | 29,761              | 9,494             |                     | 39,255              |
| Due to affiliates  |                   |                   | 172,185             | 454,605           | (626,790)           |                     |
| <b>Total liabilities</b>   | <b>67,890</b>     | <b>144,774</b>    | <b>1,076,759</b>    | <b>850,178</b>    | <b>(626,790)</b>    | <b>1,512,811</b>    |
| <b>Partners capital</b>  | <b>181,546</b>    | <b>35,662</b>     | <b>133,405</b>      | <b>56,029</b>     | <b>(225,096)</b>    | <b>181,546</b>      |
| <b>Total liabilities and partners capital</b>                                | <b>\$ 249,436</b> | <b>\$ 180,436</b> | <b>\$ 1,210,164</b> | <b>\$ 906,207</b> | <b>\$ (851,886)</b> | <b>\$ 1,694,357</b> |

**Table of Contents****CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**

| <b>Three months ended September 30,<br/>2016</b> | <b>Subsidiary GuarantorNon-Guarantor</b> |               |                     |                     |                     | <b>Consolidated</b> |
|--|--|---------------|---------------------|---------------------|---------------------|---------------------|
|  | <b>Parent</b>                            | <b>Issuer</b> | <b>Subsidiaries</b> | <b>Subsidiaries</b> | <b>Eliminations</b> |                     |
| Total revenues                                   | \$                                       | \$ 2,198      | \$ 68,936           | \$ 11,858           | \$ (4,456)          | \$ 78,536           |
| Total cost and expenses                          |  | (3,069)       | (70,790)            | (14,507)            | 4,456               | (83,910)            |
| Other income (loss)                              |  |               | (506)               |                     |                     | (506)               |
| Net loss from equity investment in subsidiaries  | (10,286)                                 | (8,418)       |                     |                     | 18,704              |                     |
| Interest expense                                 | (1,358)                                  | (2,087)       | (2,296)             | (193)               |                     | (5,934)             |
| Net income (loss) before income taxes            | (11,644)                                 | (11,376)      | (4,656)             | (2,842)             | 18,704              | (11,814)            |
| Income tax benefit (expense)                     |  |               | 170                 |                     |                     | 170                 |
| Net income (loss)                                | \$ (11,644)                              | \$ (11,376)   | \$ (4,486)          | \$ (2,842)          | \$ 18,704           | \$ (11,644)         |

| <b>Three months ended September 30,<br/>2015</b> | <b>Subsidiary GuarantorNon-Guarantor</b> |               |                     |                     |                     | <b>Consolidated</b> |
|--|--|---------------|---------------------|---------------------|---------------------|---------------------|
|  | <b>Parent</b>                            | <b>Issuer</b> | <b>Subsidiaries</b> | <b>Subsidiaries</b> | <b>Eliminations</b> |                     |
| Total revenues                                   | \$                                       | \$ 1,333      | \$ 71,344           | \$ 12,628           | \$ (3,537)          | \$ 81,768           |
| Total cost and expenses                          |  | (2,883)       | (65,285)            | (12,909)            | 3,537               | (77,540)            |
| Other income (loss)                              |  |               | (1,460)             |                     |                     | (1,460)             |
| Net loss from equity investment in subsidiaries  | (1,900)                                  | (1,877)       |                     |                     | 3,777               |                     |
| Interest expense                                 | (1,358)                                  | (2,087)       | (2,041)             | (183)               |                     | (5,669)             |
| Net income (loss) before income taxes            | (3,258)                                  | (5,514)       | 2,558               | (464)               | 3,777               | (2,901)             |
| Income tax benefit (expense)                     |  |               | (357)               |                     |                     | (357)               |
| Net income (loss)                                | \$ (3,258)                               | \$ (5,514)    | \$ 2,201            | \$ (464)            | \$ 3,777            | \$ (3,258)          |

| <b>Nine months ended September 30,<br/>2016</b> | <b>Subsidiary GuarantorNon-Guarantor</b> |               |                     |                     |                     | <b>Consolidated</b> |
|---|--|---------------|---------------------|---------------------|---------------------|---------------------|
|   | <b>Parent</b>                            | <b>Issuer</b> | <b>Subsidiaries</b> | <b>Subsidiaries</b> | <b>Eliminations</b> |                     |
| Total revenues                                  | \$                                       | \$ 5,084      | \$ 199,637          | \$ 38,214           | \$ (9,188)          | \$ 233,747          |
| Total cost and expenses                         |  | (8,161)       | (204,438)           | (38,506)            | 9,188               | (241,917)           |
| Other income (loss)                             |  |               | (1,579)             |                     |                     | (1,579)             |
|   | (23,695)                                 | (24,873)      |                     |                     | 48,568              |                     |



|   |             |             |             |          |           |             |
|---|-------------|-------------|-------------|----------|-----------|-------------|
| Net loss from equity investment in subsidiaries |             |             |             |          |           |             |
| Interest expense                                | (4,075)     | (6,261)     | (6,516)     | (579)    |           | (17,431)    |
| Net income (loss) before income taxes           | (27,770)    | (34,211)    | (12,896)    | (871)    | 48,568    | (27,180)    |
| Income tax benefit (expense)                    |             |             | (590)       |          |           | (590)       |
| Net income (loss)                               | \$ (27,770) | \$ (34,211) | \$ (13,486) | \$ (871) | \$ 48,568 | \$ (27,770) |

| Nine months ended September 30, 2015            | Subsidiary  |             |              |               |              | Eliminations | Consolidated |
|---|-------------|-------------|--------------|---------------|--------------|--------------|--------------|
|   | Parent      | Issuer      | Subsidiaries | Non-Guarantor | Subsidiaries |              |              |
| Total revenues                                  | \$          | \$ 4,118    | \$ 206,289   | \$ 36,298     | \$ (9,931)   | \$           | \$ 236,774   |
| Total cost and expenses                         |             | (8,159)     | (198,399)    | (37,526)      | 9,931        |              | (234,153)    |
| Other income (loss)                             |             |             | (1,460)      |               |              |              | (1,460)      |
| Net loss from equity investment in subsidiaries | (12,337)    | (13,262)    |              |               | 25,599       |              |              |
| Interest expense                                | (4,075)     | (6,261)     | (6,026)      | (540)         |              |              | (16,902)     |
| Net income (loss) before income taxes           | (16,412)    | (23,564)    | 404          | (1,768)       | 25,599       |              | (15,741)     |
| Income tax benefit (expense)                    |             |             | (671)        |               |              |              | (671)        |
| Net income (loss)                               | \$ (16,412) | \$ (23,564) | \$ (267)     | \$ (1,768)    | \$ 25,599    | \$           | \$ (16,412)  |

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| Nine months ended September 30,<br>2016              | Subsidiary GuarantorNon-Guarantor |        |              |              |              | Consolidated |
|--|-----------------------------------|--------|--------------|--------------|--------------|--------------|
|  | Parent                            | Issuer | Subsidiaries | Subsidiaries | Eliminations |              |
| Net cash provided by (used in) operating activities  | \$ 2,624                          | \$ 86  | \$ 27,172    | \$ 1,565     | \$ (12,960)  | \$ 18,487    |
| Cash Flows From Investing Activities:                |                                   |        |              |              |              |              |
| Cash paid for acquisitions and capital expenditures  |                                   | (86)   | (15,819)     | (2,404)      |              | (18,309)     |
| Payments to affiliates                               | (9,097)                           |        |              |              | 9,097        |              |
| Net cash used in investing activities                | (9,097)                           | (86)   | (15,819)     | (2,404)      | 9,097        | (18,309)     |
| Cash Flows From Financing Activities:                |                                   |        |              |              |              |              |
| Cash distributions                                   | (68,062)                          |        |              |              |              | (68,062)     |
| Payments from affiliates                             |                                   |        | (3,863)      |              | 3,863        |              |
| Net borrowings and repayments of debt                |                                   |        | 168          |              |              | 168          |
| Proceeds from issuance of common units               | 74,535                            |        |              |              |              | 74,535       |
| Other financing activities                           |                                   |        | (6,362)      |              |              | (6,362)      |
| Net cash provided by (used in) financing activities  | 6,473                             |        | (10,057)     |              | 3,863        | 279          |
| Net increase (decrease) in cash and cash equivalents |                                   |        | 1,296        | (839)        |              | 457          |
| Cash and cash equivalents - Beginning of period      |                                   |        | 11,869       | 3,284        |              | 15,153       |
| Cash and cash equivalents - End of period            | \$                                | \$     | \$ 13,165    | \$ 2,445     | \$           | \$ 15,610    |

| Nine months ended September 30,<br>2015             | Subsidiary GuarantorNon-Guarantor |        |              |              |              | Consolidated |
|---|-----------------------------------|--------|--------------|--------------|--------------|--------------|
|   | Parent                            | Issuer | Subsidiaries | Subsidiaries | Eliminations |              |
| Net cash provided by (used in) operating activities | \$ 36,297                         | \$ 225 | \$ 18,725    | \$ 3,416     | \$ (46,633)  | \$ 12,030    |
| Cash Flows From Investing Activities:               |                                   |        |              |              |              |              |
| Cash paid for acquisitions and capital expenditures |                                   | (225)  | (21,385)     | (2,523)      |              | (24,133)     |
| Payments to affiliates                              | (47,479)                          |        |              |              | 47,479       |              |
| Net cash used in investing activities               | (47,479)                          | (225)  | (21,385)     | (2,523)      | 47,479       | (24,133)     |
| Cash Flows From Financing Activities:               |                                   |        |              |              |              |              |
| Cash distributions                                  | (56,689)                          |        |              |              |              | (56,689)     |

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|  |        |       |          |          |           |
|--|--------|-------|----------|----------|-----------|
| Payments to affiliates                               |        | 846   |          | (846)    |           |
| Net borrowings and repayments of debt                |        | 2,378 |          |          | 2,378     |
| Proceeds from issuance of common units               | 67,871 |       |          |          | 67,871    |
| Other financing activities                           |        | (66)  |          |          | (66)      |
| Net cash provided by (used in) financing activities  | 11,182 | 3,158 |          | (846)    | 13,494    |
| Net increase (decrease) in cash and cash equivalents |        | 498   | 893      |          | 1,391     |
| Cash and cash equivalents - Beginning of period      |        | 7,059 | 3,342    |          | 10,401    |
| Cash and cash equivalents - End of period            | \$     | \$    | \$ 7,557 | \$ 4,235 | \$ 11,792 |

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**16. ISSUANCES OF LIMITED PARTNER UNITS**

On November 19, 2015, the Partnership entered into an equity distribution agreement ( ATM Equity Program ) with a group of banks (the Agents ) whereby it may sell, from time to time, common units representing limited partner interests having an aggregate offering price of up to \$100,000,000. During the three months ended September 30, 2016, the Partnership did not issue common units under the ATM Equity Program. During the nine months ended September 30, 2016, the Partnership issued 903,682 common units under the ATM Equity Program for net proceeds of \$23.0 million.

Pursuant to a Common Unit Purchase Agreement, dated May 19, 2014, by and between the Partnership and American Cemeteries Infrastructure Investors, LLC, a Delaware limited liability company ( ACII ), the Partnership issued 58,924 paid-in-kind units to ACII in lieu of cash distributions of \$1.5 million during the three months ended September 30, 2016 and 176,214 paid-in-kind Units to ACII in lieu of cash distributions of \$4.5 million for the nine months ended September 30, 2016.

On April 20, 2016, the Partnership completed a follow-on public offering of 2,000,000 common units at a public offering price of \$23.65 per unit. Additionally, the underwriters exercised their option to purchase an additional 300,000 common units. The offering resulted in net proceeds, after deducting underwriting discounts and offering expenses, of \$51.5 million. The proceeds from the offering were used to pay down outstanding indebtedness under the Credit Facility.

**17. SEGMENT INFORMATION**

The Partnership s operations include two reportable operating segments, Cemetery Operations and Funeral Homes. These operating segments reflect the way the Partnership manages its operations and makes business decisions as of September 30, 2016 and represent a change from the comparable period presented. Prior period information was revised to the current year presentation. Operating segment data for the periods indicated were as follows (in thousands):

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|  | Three months ended September 30, |            | Nine months ended September 30, |             |
|--|----------------------------------|------------|---------------------------------|-------------|
|  | 2016                             | 2015       | 2016                            | 2015        |
| <b>Cemetery Operations:</b>                          |                                  |            |                                 |             |
| Revenues   | \$ 64,544                        | \$ 67,526  | \$ 188,693                      | \$ 193,778  |
| Operating costs and expenses                         | (57,100)                         | (53,906)   | (162,367)                       | (160,812)   |
| Depreciation and amortization                        | (2,058)                          | (1,933)    | (6,042)                         | (5,743)     |
| Segment income                                       | \$ 5,386                         | \$ 11,687  | \$ 20,284                       | \$ 27,223   |
| <b>Funeral Homes:</b>                                |                                  |            |                                 |             |
| Revenues   | \$ 13,992                        | \$ 14,242  | \$ 45,054                       | \$ 42,996   |
| Operating costs and expenses                         | (13,825)                         | (11,208)   | (40,297)                        | (35,507)    |
| Depreciation and amortization                        | (692)                            | (780)      | (2,427)                         | (2,381)     |
| Segment income                                       | \$ (525)                         | \$ 2,254   | \$ 2,330                        | \$ 5,108    |
| <b>Reconciliation of segment income to net loss:</b> |                                  |            |                                 |             |
| Cemeteries   | \$ 5,386                         | \$ 11,687  | \$ 20,284                       | \$ 27,223   |
| Funeral homes  | (525)                            | 2,254      | 2,330                           | 5,108       |
| Total segment income                                 | 4,861                            | 13,941     | 22,614                          | 32,331      |
| Corporate overhead                                   | (10,058)                         | (9,115)    | (30,106)                        | (28,627)    |
| Corporate depreciation and amortization              | (177)                            | (598)      | (678)                           | (1,083)     |
| Other gains (losses), net                            | (506)                            | (1,460)    | (1,579)                         | (1,460)     |
| Interest expense                                     | (5,934)                          | (5,669)    | (17,431)                        | (16,902)    |
| Income tax benefit (expense)                         | 170                              | (357)      | (590)                           | (671)       |
| Net loss   | \$ (11,644)                      | \$ (3,258) | \$ (27,770)                     | \$ (16,412) |
| <b>Capital expenditures:</b>                         |                                  |            |                                 |             |
| Cemeteries   | \$ 1,696                         | \$ 3,225   | \$ 6,328                        | \$ 9,918    |
| Funeral homes  | 305                              | 79         | 800                             | 461         |
| Corporate  | 150                              | 479        | 2,527                           | 654         |
| Total capital expenditures                           | \$ 2,151                         | \$ 3,783   | \$ 9,655                        | \$ 11,033   |

**September 30, 2016**

| <b>Balance sheet information:</b> |              | <b>December 31, 2015</b> |  |
|-----------------------------------|--------------|--------------------------|--|
| <b>Assets:</b>                    |              |                          |  |
| Cemetery Operations               | \$ 1,568,829 | \$ 1,481,926             |  |
| Funeral Homes                     | 200,073      | 190,443                  |  |
| Corporate                         | 25,237       | 21,988                   |  |

|                     |    |           |    |           |
|---------------------|----|-----------|----|-----------|
| Total assets        | \$ | 1,794,139 | \$ | 1,694,357 |
| <b>Goodwill:</b>    |    |           |    |           |
| Cemetery Operations | \$ | 25,320    | \$ | 25,320    |
| Funeral Homes       |    | 45,252    |    | 44,531    |
| Total goodwill      | \$ | 70,572    | \$ | 69,851    |

## 18. SUBSEQUENT EVENTS

On October 27, 2016, we announced a quarterly cash distribution of \$0.33 per common unit pertaining to the results for the third quarter of 2016. The distribution is scheduled to be paid November 14, 2016 to common unit holders of record as of the close of business on November 7, 2016. A part of or all of this quarterly cash distribution may be deemed to be a return of capital for our limited partners if such quarterly cash distribution, when combined with all other cash distributions made during the calendar year, exceeds the partner's share of taxable income for the corresponding period, depending upon the individual limited partner's specific tax position. Because the Partnership's general and limited partner interests have cumulative net losses as of the end of the period, the distribution represented a return of capital to those interests in accordance with US GAAP.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

As discussed in the Explanatory Note to this Form 10-Q and Note 1 to the Partnership's consolidated financial statements included in Item 1 of this Form 10-Q, such financial statements reflect the Restatement of the Partnership's consolidated financial statements as of December 31, 2015 and for the three and nine months ended September 30, 2015. The management's discussion and analysis presented below provides information to assist in understanding the Partnership's financial condition and results of operations and should be read in conjunction with the Partnership's consolidated financial statements included in Item 1 of this Form 10-Q.

Certain statements contained in this Form 10-Q, including, but not limited to, information regarding our operating activities, the plans and objectives of our management, and assumptions regarding our future performance and plans are forward-looking statements. When used in this Form 10-Q, the words believes, anticipates, expects and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on management's expectations and estimates. These statements are neither promises nor guarantees and are made subject to certain risks and uncertainties that could cause actual results to differ materially from the results stated or implied in this Form 10-Q.

Our major risks are related to uncertainties associated with the cash flow from pre-need and at-need sales, trusts and financings, which may impact StoneMor's ability to meet its financial projections, service its debt and pay distributions, and increase its distributions, as well as with its ability to maintain an effective system of internal control over financial reporting and disclosure controls and procedures.

Our additional risks and uncertainties include, but are not limited to, the following: uncertainties associated with future revenue and revenue growth; uncertainties associated with the integration or anticipated benefits of recent acquisitions or any future acquisitions; our ability to complete and fund additional acquisitions; the effect of economic downturns; the impact of our significant leverage on our operating plans; the decline in the fair value of certain equity and debt securities held in trusts; our ability to attract, train and retain an adequate number of sales people; uncertainties associated with the volume and timing of pre-need sales of cemetery services and products; increased use of cremation; changes in the death rate; changes in the political or regulatory environments, including potential changes in tax accounting and trusting policies; our ability to successfully implement a strategic plan relating to achieving operating improvements, strong cash flows and further deleveraging; our ability to successfully compete in the cemetery and funeral home industry; litigation or legal proceedings that could expose us to significant liabilities and damage our reputation; the effects of cyber security attacks due to our significant reliance on information technology; uncertainties relating to the financial condition of third-party insurance companies that fund our pre-need funeral contracts; and various other uncertainties associated with the death care industry and our operations in particular.

Our risks and uncertainties are more particularly described in Item 1A. Risk Factors of our Annual Report on Form 10-K/A for the year ended December 31, 2015. Readers are cautioned not to place undue reliance on forward looking statements included in this Form 10-Q, which speak only as of the date hereof. Except as required by applicable laws, we undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

**BUSINESS OVERVIEW**

We are a publicly-traded Delaware master-limited partnership (MLP) and provider of funeral and cemetery products and services in the death care industry in the United States. As of September 30, 2016, we operated 317 cemeteries in 28 states and Puerto Rico, of which 286 are owned and 31 are operated under lease, management or operating

agreements. We also owned and operated 105 funeral homes in 18 states and Puerto Rico.

## **FINANCIAL PRESENTATION**

Our consolidated balance sheets at September 30, 2016 and December 31, 2015, and the consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 include our accounts and our wholly-owned subsidiaries. Accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in the consolidated balance sheets and related consolidated statements of operations. Actual balances and results could be different from those estimates. All intercompany transactions and balances have been eliminated in the consolidation of the financial statements.

## **SUBSEQUENT EVENTS**

On October 27, 2016, we announced a quarterly cash distribution of \$0.33 per common unit pertaining to the results for the third quarter of 2016. The distribution is scheduled to be paid November 14, 2016 to common unit holders of record as of the close of business on November 7, 2016. A part of or all of this quarterly cash distribution may be deemed to be a return of capital for our limited partners if such quarterly cash distribution, when combined with all other cash distributions made during the calendar year, exceeds the partner's share of taxable income for the corresponding period, depending upon the individual limited partner's specific tax position. Because the Partnership's general and limited partner interests have cumulative net losses as of the end of the period, the distribution represented a return of capital to those interests in accordance with US GAAP.



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**REVENUE RECOGNITION**

***Cemetery Operations***

Our cemetery revenues are principally derived from sales of interment rights, merchandise and services. These sales occur both at the time of death, which we refer to as at-need, and prior to the time of death, which we refer to as pre-need. Pre-need sales are typically sold on an installment plan. At-need cemetery sales and pre-need merchandise and services sales are recognized as revenue when the merchandise is delivered or the service is performed. For pre-need sales of interment rights, we recognize the associated revenue when we have collected 10% of the sales price from the customer. We consider our cemetery merchandise delivered to our customer when it is either installed or ready to be installed and delivered to a third-party storage facility until it is needed, with ownership transferred to the customer at that time. Pre-need sales that have not yet been recognized as revenue are recognized as deferred revenues, a liability on our consolidated balance sheet. Direct costs associated with pre-need sales that are recognized as deferred revenues, such as sales commissions, are recognized as deferred selling and obtaining costs, an asset on our consolidated balance sheet, until the merchandise is delivered or the services are performed.

***Funeral Home Operations***

Our funeral home revenues are principally derived from at-need and pre-need sales of merchandise and services. Pre-need sales are typically sold on an installment plan. Both at-need and pre-need funeral home sales are recognized as revenue when the merchandise is delivered or the service is performed. Pre-need sales that have not yet been recognized as revenue are recognized as deferred revenues, a liability on our consolidated balance sheet. Direct costs associated with pre-need sales that are recognized as deferred revenues, such as sales commissions, are recognized as deferred selling and obtaining costs, an asset on our consolidated balance sheet, until the merchandise is delivered or the services are performed. Our funeral home operations also include revenues related to the sale of term and final expense whole life insurance. As an agent for these insurance sales, we earn and recognize commission-related revenue streams from the sales of these policies.

***Trust Investment Income***

Sales of cemetery and funeral home merchandise and services are subject to state law. Under these laws, which vary by state, a portion of the cash proceeds received from the sale of interment rights and pre-need sales of cemetery and funeral home merchandise and services are required to be deposited into trusts. For sales of interment rights, a portion of the cash proceeds received are required to be deposited into a perpetual care trust. While the principal balance of the perpetual care trust must remain in the trust in perpetuity, we recognize investment income on such assets as revenue, excluding realized gains and losses from the sale of trust assets. For sales of cemetery and funeral home merchandise and services, a portion of the cash proceeds received are required to be deposited into a merchandise trust until the merchandise is delivered or the services are performed, at which time the funds deposited, along with the associated investment income, may be withdrawn. Investment income from assets held in the merchandise trust is recognized as revenues when withdrawn. Amounts deposited into trusts are invested as recommended by our wholly-owned registered investment adviser and approved by the Trust Committee of the board of directors of our general partner, including use of investment managers. These investment managers are required to invest our trust funds in accordance with applicable state law and internal investment guidelines adopted by the Trust Committee. Our investment managers are monitored by our wholly-owned registered investment advisor, who advises the Trust Committee of asset allocations, evaluates the investment managers and provides detailed monthly reports on the performance of each merchandise and perpetual care trust.

**GENERAL TRENDS AND OUTLOOK**

We expect our business to be affected by key trends in the deathcare industry, based upon assumptions made by us and information currently available. Deathcare industry factors affecting our financial position and results of operations include, but are not limited to, demographic trends in terms of population growth and average age, which impacts death rates and number of deaths, increasing cremation trends, and increasing memorialization trends. In addition, we are subject to fluctuations in the fair value of equity and fixed-maturity debt securities held in our trusts. These values can be negatively impacted by contractions in the credit market and overall downturns in economic activity. Our ability to make payments on our debt and our ability to make cash distributions to our unitholders depends on our success at managing these industry trends. To the extent our underlying assumptions about or interpretations of available information prove to be incorrect, our actual results may vary materially from our expected results.

Table of Contents**RESULTS OF OPERATIONS****Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015**Cemetery Operations**Overview**

We are currently the second largest owner and operator of cemeteries in the United States. At September 30, 2016, we operated 317 cemeteries in 28 states and Puerto Rico. We own 286 of these cemeteries and we manage or operate the remaining 31 under lease, operating or management agreements. Revenues from cemetery operations accounted for approximately 82.2% of our total revenues during the three months ended September 30, 2016.

**Operating Results**

The following table presents operating results for our cemetery operations for the respective reporting periods (in thousands):

|                                    | <b>Three months ended September 30,</b> |                  |
|------------------------------------|---|------------------|
|                                    | <b>2016</b>                             | <b>2015</b>      |
| Merchandise                        | \$ 36,314                               | \$ 37,570        |
| Services                           | 13,928                                  | 14,945           |
| Interest income                    | 2,197                                   | 2,233            |
| Investment and other               | 12,105                                  | 12,778           |
| <b>Total revenue</b>               | <b>64,544</b>                           | <b>67,526</b>    |
| Cost of goods sold                 | 11,721                                  | 12,195           |
| Cemetery expense                   | 19,926                                  | 18,245           |
| Selling expense                    | 15,931                                  | 14,647           |
| General and administrative expense | 9,522                                   | 8,819            |
| Depreciation and amortization      | 2,058                                   | 1,933            |
| <b>Total cost and expenses</b>     | <b>59,158</b>                           | <b>55,839</b>    |
| <b>Operating income</b>            | <b>\$ 5,386</b>                         | <b>\$ 11,687</b> |

Cemetery merchandise revenues were \$36.3 million for the three months ended September 30, 2016, a decrease of \$1.3 million from \$37.6 million for the three months ended September 30, 2015. This decrease was primarily due to a decrease in recognized sales of mausoleums, vaults, and niches. Cemetery services revenues were \$13.9 million for the three months ended September 30, 2016, a decrease of \$1.0 million from \$14.9 million for the three months ended September 30, 2015. This decrease was primarily due to a reduction in opening and closing service revenues. Investment and other income was \$12.1 million for the three months ended September 30, 2016, a decrease of \$0.7 million from \$12.8 million for the three months ended September 30, 2015. This decrease was primarily attributable to merchandise trust income, which was \$2.0 million for the three months ended September 30, 2016, representing a

\$2.1 million decrease from \$4.1 million earned during the three months ended September 30, 2015. This change is primarily attributable to a decrease in net income earned by the trust and a decrease in the recognition of deferred merchandise trust revenue resulting from impairment of trust assets. A portion of deferred trust income is recognized as underlying merchandise is delivered or underlying services are performed. The decrease in merchandise trust income was partially offset by perpetual care trust income, which was \$4.8 million for the three months ended September 30, 2016, representing a \$0.4 million increase from \$4.4 million earned during the three months ended September 30, 2015. The remaining \$1.0 million change in investment and other income is attributed to a net increase in records fee revenue, travel care insurance fee revenue, and other miscellaneous cemetery revenue. Interest income remained consistent for the three months ended September 30, 2016 and 2015.

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Cost of goods sold was \$11.7 million for the three months ended September 30, 2016, a decrease of \$0.5 million from \$12.2 million for the three months ended September 30, 2015. This decrease consisted principally of a \$0.5 million decrease in merchandise costs.

Cemetery expenses were \$19.9 million for the three months ended September 30, 2016, an increase of \$1.7 million from \$18.2 million for the three months ended September 30, 2015. This increase was principally due to a \$1.7 million increase in repair and maintenance expenses.

Selling expenses were \$15.9 million for the three months ended September 30, 2016, an increase of \$1.3 million from \$14.6 million for the three months ended September 30, 2015. This increase was primarily due to a \$1.3 million increase in personnel costs.

General and administrative expenses were \$9.5 million for the three months ended September 30, 2016, an increase of \$0.7 million from \$8.8 million for the three months ended September 30, 2015. This increase was primarily due to a \$0.7 million increase in professional fees.

Depreciation and amortization expense was relatively consistent with the prior period, with \$2.1 million for the three months ended September 30, 2016 compared to \$1.9 million for the three months ended September 30, 2015.

**Funeral Home Operations****Overview**

At September 30, 2016, we owned and operated 105 funeral homes. These properties are located in 18 states and Puerto Rico. Revenues from funeral home operations accounted for approximately 17.8% of our total revenues during three months ended September 30, 2016.

**Operating Results**

The following table presents operating results for our funeral home operations for the respective reporting periods (in thousands):

|                               | <b>Three months ended September 30,</b> |               |
|-------------------------------|---|---------------|
|                               | <b>2016</b>                             | <b>2015</b>   |
| Merchandise                   | \$ 6,656                                | \$ 6,588      |
| Services                      | 7,336                                   | 7,654         |
| <b>Total revenue</b>          | <b>13,992</b>                           | <b>14,242</b> |
| Merchandise                   | 2,322                                   | 1,002         |
| Service                       | 6,070                                   | 5,432         |
| Depreciation and amortization | 692                                     | 780           |
| Other                         | 5,433                                   | 4,774         |
| <b>Total expenses</b>         | <b>14,517</b>                           | <b>11,988</b> |

|                  |    |       |    |       |
|------------------|----|-------|----|-------|
| Operating income | \$ | (525) | \$ | 2,254 |
|------------------|----|-------|----|-------|

Funeral home merchandise revenues were consistent with the prior period with \$6.7 million for the three months ended September 30, 2016, an increase of \$0.1 million from \$6.6 million for the three months ended September 30, 2015. Funeral home service revenues were \$7.3 million for the three months ended September 30, 2016, a decrease of \$0.4 million from \$7.7 million for the three months ended September 30, 2015. The decrease is principally due to a decrease in cremations and other related service revenues.

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Funeral home expenses were \$14.5 million for the three months ended September 30, 2016, an increase of \$2.5 million from \$12.0 million for the three months ended September 30, 2015. This increase principally consists of a \$1.3 million increase in merchandise costs, primarily driven by higher merchandise procurement costs, \$0.6 million increase in personnel costs and a \$0.1 million increase in costs associated with insurance-related sales with the remaining increase in other funeral home related expenses.

### **Corporate Overhead**

Corporate overhead was \$10.1 million for the three months ended September 30, 2016, an increase of \$1.0 million from \$9.1 million for the three months ended September 30, 2015. This increase was principally due to a \$0.7 million increase in professional fees and a \$0.3 million increase in acquisition-related costs. Acquisition costs may vary from period to period depending on the amount of acquisition activity that takes place.

### **Corporate Depreciation and Amortization**

Depreciation and amortization expense was consistent with the prior period, with \$0.2 million for the three months ended September 30, 2016, a decrease of \$0.4 million from \$0.6 million for the three months ended September 30, 2015.

### **Other Gains and Losses**

During the third quarter of 2016, we obtained additional information related to one of the acquisitions that closed during 2015. The change resulted in an adjustment to the gain on acquisition recognized during the year ended December 31, 2015, increasing the gain by \$0.2 million via a gain recognized in the current period in accordance with GAAP. In addition, there was a \$2.7 million gain from our most recent acquisition as of September 30, 2016. We sold two funeral home buildings and related property during the period resulting in a loss on sale of \$0.2 million. Also, we incurred a charge related to deferred financing costs related to our prior line of credit in the amount of \$1.2 million and a loss of \$2.0 million related to the revision of our cease-use expense due to the relocation of corporate headquarters to Trevoze, Pennsylvania and other realignment charges.

### **Interest Expense**

Interest expense was \$5.9 million for the three months ended September 30, 2016, an increase of \$0.2 million from \$5.7 million for the three months ended September 30, 2015. This increase was principally due to an increase in interest expense on amounts outstanding under the credit facility, which had higher average amounts outstanding during the current period than the comparable period.

### **Income Tax Benefit (Expense)**

Income tax benefit was \$0.2 million for the three months ended September 30, 2016, as compared to an income tax expense of \$0.4 million for the three months ended September 30, 2015. Our effective tax rate differs from our statutory tax rate primarily because our legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

## **Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015**

### **Cemetery Operations**

## **Operating Results**

Revenues from cemetery operations accounted for approximately 80.7% of our total revenues during the nine months ended September 30, 2016. The following table presents operating results for our cemetery operations for the respective reporting periods (in thousands):



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|                                    | <b>Nine months ended September 30,</b> |                  |
|------------------------------------|--|------------------|
|                                    | <b>2016</b>                            | <b>2015</b>      |
| Merchandise                        | \$ 106,937                             | \$ 105,972       |
| Services                           | 41,067                                 | 44,869           |
| Interest income                    | 6,678                                  | 6,617            |
| Investment and other               | 34,011                                 | 36,320           |
| <b>Total revenue</b>               | <b>188,693</b>                         | <b>193,778</b>   |
| Cost of goods sold                 | 34,483                                 | 35,357           |
| Cemetery expense                   | 53,267                                 | 53,789           |
| Selling expense                    | 46,898                                 | 44,326           |
| General and administrative expense | 27,719                                 | 27,340           |
| Depreciation and amortization      | 6,042                                  | 5,743            |
| <b>Total cost and expenses</b>     | <b>168,409</b>                         | <b>166,555</b>   |
| <b>Operating income</b>            | <b>\$ 20,284</b>                       | <b>\$ 27,223</b> |

Cemetery merchandise revenues were \$106.9 million for the nine months ended September 30, 2016, an increase of \$0.9 million from \$106.0 million for the nine months ended September 30, 2015. The increase is principally due to a \$1.8 million increase in recognized sales of markers and mausoleums, partially offset by decreases in recognized sales of vaults, crypts and niches of approximately \$0.9 million. Cemetery services revenues were \$41.1 million for the nine months ended September 30, 2016, a decrease of \$3.8 million from \$44.9 million for the nine months ended September 30, 2015. This decrease was primarily due to a reduction in opening and closing service revenues. Investment and other income was \$34.0 million for the nine months ended September 30, 2016, a decrease of \$2.3 million from \$36.3 million for the nine months ended September 30, 2015. This decrease was primarily attributable to merchandise trust income, which was \$5.5 million for the nine months ended September 30, 2016, representing a \$5.1 million decrease from \$10.6 million earned during the nine months ended September 30, 2015. This change is primarily attributable to a decrease in net income earned by the trust and a decrease in the recognition of deferred merchandise trust revenue resulting from impairment of trust assets. A portion of deferred trust income is recognized as underlying merchandise is delivered or underlying services are performed. This decrease in merchandise trust income was partially offset by perpetual care trust income, which was \$11.9 million for the nine months ended September 30, 2016, representing a \$0.4 million increase from \$11.5 million earned during the nine months ended September 30, 2015. The remaining \$2.4 million change in investment and other income is attributed to a net increase in permanent record fee revenue, travel care insurance fee revenue, and other miscellaneous cemetery revenue. Interest income remained consistent for both the nine months ended September 30, 2016 and 2015.

Cost of goods sold was \$34.5 million for the nine months ended September 30, 2016, a decrease of \$0.9 million from \$35.4 million for the nine months ended September 30, 2015. This decrease consisted principally of a \$1.7 million decrease in merchandise costs partially offset by a \$0.8 million increase in perpetual care costs.

Cemetery expenses were \$53.3 million for the nine months ended September 30, 2016, a decrease of \$0.5 million from \$53.8 million for the nine months ended September 30, 2015. This decrease was principally due to a \$2.0 million decrease in personnel costs partially offset by a \$1.5 million increase in repair and maintenance expenses.

Selling expenses were \$46.9 million for the nine months ended September 30, 2016, an increase of \$2.6 million from \$44.3 million for the nine months ended September 30, 2015. This increase was primarily due to a \$1.3 million increase in personnel costs and a \$1.3 million increase in advertising and marketing costs.

General and administrative expenses were \$27.7 million for the nine months ended September 30, 2016, an increase of \$0.4 million from \$27.3 million for the nine months ended September 30, 2015. This increase was primarily due to a \$0.9 million increase in professional fees and a \$0.7 million increase in overhead expenses partially offset by a \$1.2 million decrease in personnel costs.

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Depreciation and amortization expense was relatively consistent with the prior period, with \$6.0 million for the nine months ended September 30, 2016 compared to \$5.7 million for the nine months ended September 30, 2015.

**Funeral Home Operations****Operating Results**

Revenues from funeral home operations accounted for approximately 19.3% of our total revenues during nine months ended September 30, 2016. The following table presents operating results for our funeral home operations for the respective reporting periods (in thousands):

|                               | <b>Nine months ended September 30,</b> |                 |
|-------------------------------|--|-----------------|
|                               | <b>2016</b>                            | <b>2015</b>     |
| Merchandise                   | \$ 20,681                              | \$ 19,913       |
| Services                      | 24,373                                 | 23,083          |
| <b>Total revenue</b>          | <b>45,054</b>                          | <b>42,996</b>   |
| Merchandise                   | 6,306                                  | 5,444           |
| Service                       | 18,672                                 | 16,728          |
| Depreciation and amortization | 2,427                                  | 2,381           |
| Other                         | 15,319                                 | 13,335          |
| <b>Total expenses</b>         | <b>42,724</b>                          | <b>37,888</b>   |
| <b>Operating income</b>       | <b>\$ 2,330</b>                        | <b>\$ 5,108</b> |

Funeral home merchandise revenues were \$20.7 million for the nine months ended September 30, 2016, an increase of \$0.8 million from \$19.9 million for the nine months ended September 30, 2015. Funeral home service revenues were \$24.4 million for the nine months ended September 30, 2016, an increase of \$1.3 million from \$23.1 million for the nine months ended September 30, 2015. The overall increase was largely due to the locations acquired in the last twelve months, specifically with increases in casket and at-need service revenue.

Funeral home expenses were \$42.7 million for the nine months ended September 30, 2016, an increase of \$4.8 million from \$37.9 million for the nine months ended September 30, 2015. This increase principally consists of a \$2.0 million increase in personnel costs, \$2.0 million increase in other costs and \$0.8 million in merchandise costs, all primarily due to the locations acquired in the last twelve months and an increase in costs associated with insurance and merchandise related sales.

**Corporate Overhead**

Corporate overhead was \$30.1 million for the nine months ended September 30, 2016, an increase of \$1.5 million from \$28.6 million for the nine months ended September 30, 2015. This increase was principally due to a \$2.9 million increase in acquisition-related costs, partially offset by a \$1.4 million decrease in personnel costs. Acquisition costs may vary from period to period depending on the amount of acquisition activity that takes place.

Corporate Depreciation and Amortization

Corporate depreciation and amortization expense was consistent with the prior period, with \$0.7 million for the nine months ended September 30, 2016 compared to \$1.1 million for nine months ended September 30, 2015.

Other Gains and Losses

We obtained additional information related to two of the acquisitions that closed during 2015. The changes resulted in an adjustment to the gain on acquisition recognized during the year ended December 31, 2015, reducing the gain by \$0.6 million via a loss recognized in the current period in accordance with GAAP. In addition, there was a \$2.7 million gain from our most recent acquisition as of September 30, 2016. We sold a warehouse and three funeral home businesses during the year for a net gain of \$0.1 million. Also, we wrote off deferred financing related to our prior line of credit in the amount of \$1.2 million and incurred a loss of \$2.4 million related to our cease-use expense due to the relocation of corporate headquarters to Trevose, Pennsylvania and other realignment charges.

**Table of Contents****Interest Expense**

Interest expense was \$17.4 million for the nine months ended September 30, 2016, an increase of \$0.5 million from \$16.9 million for the nine months ended September 30, 2015. This increase was principally due to an increase in interest expense on amounts outstanding under the credit facility, which had higher average amounts outstanding during the current period than the comparable period.

**Income Tax Expense**

Income tax expense was \$0.6 million for the nine months ended September 30, 2016, as compared to \$0.7 million for the nine months ended September 30, 2015. Our effective tax rate differs from our statutory tax rate primarily because our legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

**Supplemental Data**

The following table presents supplemental operating data for the periods presented (in thousands):

|   | <b>Three months ended September 30,</b> |             | <b>Nine months ended September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2016</b>                             | <b>2015</b> | <b>2016</b>                            | <b>2015</b> |
| Interments performed                          | 13,127                                  | 12,878      | 40,161                                 | 41,514      |
| Interment rights sold (1)                     |   |             |  |             |
| Lots  | 8,469                                   | 8,086       | 23,710                                 | 23,980      |
| Mausoleum crypts (including pre-construction) | 419                                     | 446         | 1,471                                  | 1,779       |
| Niches  | 426                                     | 441         | 1,181                                  | 1,285       |
| Net interment rights sold (1)                 | 9,314                                   | 8,973       | 26,362                                 | 27,044      |
| Number of cemetery contracts written          | 27,404                                  | 28,890      | 81,800                                 | 86,516      |
| Number of pre-need cemetery contracts written | 12,795                                  | 13,799      | 36,955                                 | 39,847      |
| Number of at-need cemetery contracts written  | 14,609                                  | 15,091      | 44,845                                 | 46,669      |

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

**LIQUIDITY AND CAPITAL RESOURCES****General**

Our primary sources of liquidity are cash generated from operations, borrowings under our revolving credit facility and capital raised through the issuance of additional limited partner units. As an MLP, our primary cash requirements, in addition to normal operating expenses, are for cash distributions, capital expenditures, net contributions to the merchandise trust funds and debt service. In general, we expect to fund:

cash distributions in accordance with our partnership agreement and maintenance capital expenditures through available cash and cash flows from operating activities;

working capital deficits through cash generated from operations and additional borrowings; and

expansion capital expenditures, net contributions to the merchandise trust funds and debt service obligations through additional borrowings, the issuance of additional limited partner units or assets sales. Amounts contributed to the merchandise trust funds will be withdrawn at the time of the delivery of the product or service sold that the contribution is associated with (see Revenue Recognition ), at which time it will reduce the amount of additional borrowings, issuance of additional limited partner units or assets sales needed.

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We rely on cash flow from operations, borrowings under our credit facility and the issuance of additional limited partner units to execute our growth strategy and meet our financial commitments and other short-term financial needs. We cannot be certain that additional capital will be available to us to the extent required and on acceptable terms.

We believe that we will have sufficient liquid assets, cash from operations and borrowing capacity to meet our financial commitments, debt service obligations, contingencies and anticipated capital expenditures for at least the next twelve-month period. However, we are subject to business, operational and other risks that could adversely affect our cash flow. We may supplement our cash generation with proceeds from financing activities, including borrowings under our credit facility and other borrowings, the issuance of additional limited partner units, and the sale of assets and other transactions.

**Cash Flows - Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015**

Net cash flows provided by operating activities were \$18.5 million during the nine months ended September 30, 2016, an increase of \$6.5 million from \$12.0 million during the nine months ended September 30, 2015. The \$6.5 million favorable movement in net cash provided by operating activities resulted from a \$15.1 million favorable movement in working capital and a \$8.6 million unfavorable movement in net income excluding non-cash items. The favorable movement in working capital was principally due to larger withdrawals from and smaller realized gains in our merchandise trusts. The unfavorable movement in net income excluding non-cash items was due principally to our cemetery operations.

Net cash used in investing activities was \$18.3 million during the nine months ended September 30, 2016, a decrease of \$5.8 million from \$24.1 million during the nine months ended September 30, 2015. Net cash used in investing activities during the nine months ended September 30, 2016 consisted of \$9.7 million for capital expenditures and \$10.5 million for acquisitions, partially offset by proceeds from asset sales of \$1.9 million. Net cash used in investing activities during the nine months ended September 30, 2015 principally consisted of \$11.0 million for capital expenditures and \$13.1 million for acquisitions.

Net cash flows provided by financing activities were \$0.3 million for the nine months ended September 30, 2016 compared to \$13.5 million for the nine months ended September 30, 2015. Cash flows provided by financing activities during the nine months ended September 30, 2016 consisted primarily of \$74.5 million of net proceeds from the issuance of common units and \$0.2 million of net borrowings, partially offset by \$68.1 million of cash distributions and \$6.4 million of financing costs. Cash flows provided by financing activities during the nine months ended September 30, 2015 consisted primarily of \$67.9 million of proceeds from the issuance of common units and \$2.4 million of net borrowings, partially offset by \$56.7 million of cash distributions.

**Capital Expenditures**

Our capital requirements consist primarily of:

Expansion capital expenditures we consider expansion capital expenditures to be capital expenditures that expand the capacity of our existing operations; and

Maintenance capital expenditures we consider maintenance capital expenditures to be any capital expenditures that are not expansion capital expenditures generally, this will include furniture, fixtures,

equipment and major facility improvements that are capitalized in accordance with generally accepted accounting principles.



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The following table summarizes maintenance and expansion capital expenditures, excluding amounts paid for acquisitions, for the periods presented (in thousands):

|                                   | Three months ended September 30, |                 | Nine months ended September 30, |                  |
|-----------------------------------|----------------------------------|-----------------|---------------------------------|------------------|
|                                   | 2016                             | 2015            | 2016                            | 2015             |
| Maintenance capital expenditures  | \$ 1,129                         | \$ 1,632        | \$ 5,422                        | \$ 5,011         |
| Expansion capital expenditures    | 1,022                            | 2,151           | 4,233                           | 6,022            |
| <b>Total capital expenditures</b> | <b>\$ 2,151</b>                  | <b>\$ 3,783</b> | <b>\$ 9,655</b>                 | <b>\$ 11,033</b> |

**Issuance of Common Units**

During the nine months ended September 30, 2016, we issued 903,682 common units under the ATM program for net proceeds of \$23.0 million.

On April 20, 2016, we completed a follow-on public offering of 2,000,000 common units at a public offering price of \$23.65 per unit. Additionally, the underwriters exercised their option to purchase an additional 300,000 common units. The offering resulted in net proceeds, after deducting underwriting discounts and offering expenses, of \$51.5 million. The proceeds from the offering were used to pay down outstanding indebtedness under the Credit Facility.

**Long-Term Debt****Credit Facility**

On August 4, 2016, We (the Operating Company), a wholly-owned subsidiary of the Partnership entered into the Credit Agreement (the Credit Agreement) among each of the Subsidiaries of the Operating Company (together with the Operating Company, Borrowers), the Lenders identified therein, Capital One, National Association (Capital One), as Administrative Agent, Issuing Bank and Swingline Lender, Citizens Bank of Pennsylvania, as Syndication Agent, and TD Bank, N.A. and Raymond James Bank, N.A., as Co-Documentation Agents. In addition, on the same date, the Partnership, the Borrowers and Capital One, as Administrative Agent, entered into the Guaranty and Collateral Agreement (the Guaranty Agreement, and together with the Credit Agreement, New Agreements). Capitalized terms which are not defined in the following description of the New Agreements shall have the meaning assigned to such terms in the New Agreements.

The New Agreements replaced the Partnership's Fourth Amended and Restated Credit Agreement, as amended with Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer and other lenders party thereto (the Prior Credit Agreement), Second Amended and Restated Security Agreement, and Second Amended and Restated Pledge Agreement, each dated as of December 19, 2014. The Prior Credit Agreement provided for a revolving credit facility of \$180.0 million, with borrowings classified as either acquisition draws or working capital draws, maturing on December 19, 2019. In connection with entering into the Credit Agreement, the Partnership incurred an extinguishment of debt charge of approximately \$1.2 million.

The Credit Agreement provides for up to \$210.0 million initial aggregate amount of Revolving Commitments, which may be increased, from time to time, in minimum increments of \$5.0 million so long as the aggregate amount of such increases does not exceed \$100.0 million. The Operating Company may also request the issuance of Letters of Credit

for up to \$15.0 million in the aggregate, of which there were \$6.5 million outstanding at September 30, 2016 and none outstanding at December 31, 2015. The Maturity Date under the Credit Agreement is the earlier of (i) August 4, 2021 and (ii) the date that is six months prior to the earliest scheduled maturity date of any outstanding Permitted Unsecured Indebtedness (at present, such date is December 1, 2020, which is six months prior to June 1, 2021 maturity date of outstanding 7.875% senior notes).

As of September 30, 2016, the outstanding amount of borrowings under the Credit Agreement was \$151.1 million, which was used to pay down outstanding obligations under the Prior Credit Agreement, to pay fees, costs and expenses related to the New Agreements and to fund working capital needs. Generally, proceeds of the Loans under the Credit Agreement can be used to finance the working capital needs and for other general corporate purposes of the Borrowers and Guarantors, including acquisitions and distributions permitted under the Credit Agreement. At September 30, 2016, the amount available under the credit facility was \$42.4 million.

Each Borrowing under the Credit Agreement is comprised of Base Rate Loans or Eurodollar Loans. The Loans comprising each Base Rate Borrowing (including each Swingline Loan) bear interest at the Base Rate plus the Applicable Rate, and the Loans comprising each Eurodollar Borrowing bear interest at the Eurodollar Rate plus the Applicable Rate.

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The Applicable Rate is determined based on the Consolidated Leverage Ratio of the Partnership and its Subsidiaries and ranges from 1.75% to 3.25% for Eurodollar Rate Loans and 0.75% to 2.25% for Base Rate Loans. As of September 30, 2016, the Applicable Rate for Eurodollar Rate Loans was 2.75% and for Base Rate Loans 1.75%. The Credit Agreement also requires the Borrowers to pay a quarterly unused commitment fee, which accrues at the Applicable Rate on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments, and which is included within interest expense on the Partnership's consolidated statements of operations. On September 30, 2016, the weighted average interest rate on outstanding borrowings under the Credit Agreement was 3.2%.

The Credit Agreement contains financial covenants, pursuant to which the Partnership will not permit:

the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA, or the Consolidated Leverage Ratio, as of the last day of any fiscal quarter, commencing on September 30, 2016, determined for the period of four consecutive fiscal quarters ending on such date (the Measurement Period), to be greater than 4.00 to 1.0, which may be increased to 4.25 to 1.0 (in case of a Designated Acquisition made subsequent to the last day of the immediately preceding fiscal quarter) as of the last day of the fiscal quarter in which such Designated Acquisition occurs and as of the last day of the immediately succeeding fiscal quarter; and

the ratio of Consolidated EBITDA to Consolidated Debt Service, or the Consolidated Debt Service Coverage Ratio, as of the last day of any fiscal quarter, commencing on September 30, 2016 to be less than 2.50 to 1.0 for any Measurement Period.

On September 30, 2016, our Consolidated Leverage Ratio and the Consolidated Debt Service Coverage Ratio were 3.62 and 4.19, respectively.

Additional covenants include customary limitations, subject to certain exceptions, on, among others: (i) the incurrence of Indebtedness; (ii) granting of Liens; (iii) fundamental changes and dispositions; (iv) investments, loans, advances, guarantees and acquisitions; (v) swap agreements; (vi) transactions with Affiliates; (vii) Restricted Payments; and (viii) Sale and Leaseback Transactions. The Partnership was in compliance with the Credit Agreement covenants as of September 30, 2016.

The Borrowers' obligations under the Credit Agreement are guaranteed by the Partnership and the Borrowers. Pursuant to the Guaranty Agreement, the Borrowers' obligations under the Credit Agreement are secured by a first priority lien and security interest (subject to permitted liens and security interests) in substantially all of the Partnership's and Borrowers' assets, whether then owned or thereafter acquired, excluding certain excluded assets, which include, among others: (i) Trust Accounts, certain proceeds required by law to be placed into such Trust Accounts and funds held in such Trust Accounts; and (ii) Excluded Real Property, including owned and leased real property that may not be pledged as a matter of law.

**Senior Notes**

On May 28, 2013, we issued \$175.0 million aggregate principal amount of 7.875% Senior Notes due 2021 (the Senior Notes). We pay 7.875% interest per annum on the principal amount of the Senior Notes, payable in cash semi-annually in arrears on June 1 and December 1 of each year. The net proceeds from the offering were used to retire a \$150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 and the remaining proceeds were used for general corporate purposes. The Senior Notes were issued at 97.832% of par resulting in gross proceeds of

\$171.2 million with an original issue discount of approximately \$3.8 million. We incurred debt issuance costs and fees of approximately \$4.6 million. These costs and fees are deferred and are being amortized over the life of these notes. The Senior Notes mature on June 1, 2021.

At any time on or after June 1, 2016, we 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 June 1 of the years indicated:

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| <b>Year</b>         | <b>Percentage</b> |
|---------------------|-------------------|
| 2016                | 105.906%          |
| 2017                | 103.938%          |
| 2018                | 101.969%          |
| 2019 and thereafter | 100.000%          |

Subject to certain exceptions, upon the occurrence of a Change of Control (as defined in the Indenture), each holder of the Senior Notes will have the right to require us 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.

The Senior Notes are jointly and severally guaranteed by certain of our subsidiaries. The Indenture governing the Senior Notes contains covenants, including limitations of our ability to incur certain additional indebtedness and liens, make certain dividends, distributions, redemptions or investments, enter into certain transactions with affiliates, make certain asset sales, and engage in certain mergers, consolidations or sales of all or substantially all of our assets, among other items. As of September 30, 2016, we were in compliance with these covenants.

**Cash Distribution Policy**

Our partnership agreement requires that we distribute 100% of available cash to our common unitholders and general partner within 45 days following the end of each calendar quarter in accordance with their respective percentage interests. Available cash consists generally of all of our cash receipts, less cash disbursements. Our general partner is granted discretion under the partnership agreement to establish, maintain and adjust reserves for future operating expenses, debt service, maintenance capital expenditures and distributions for the next four quarters. These reserves are not restricted by magnitude, but only by type of future cash requirements with which they can be associated.

Available cash is distributed to the common limited partners and the general partner in accordance with their ownership interests, subject to the general partner's incentive distribution rights if quarterly cash distributions per limited partner unit exceed specified targets. Incentive distribution rights are generally defined as all cash distributions paid to our general partner that are in excess of its general partner ownership interest. The incentive distribution rights will entitle our general partner to receive the following increasing percentage of cash distributed by us as it reaches certain target distribution levels:

13.0% of all cash distributed in any quarter after each common unit has received \$0.5125 for that quarter;

23.0% of all cash distributed in any quarter after each common unit has received \$0.5875 for that quarter;  
and

48.0% of all cash distributed in any quarter after each common unit has received \$0.7125 for that quarter.

**Agreements with the Archdiocese of Philadelphia**

In accordance with the lease and management agreements with the Archdiocese of Philadelphia, we have agreed pay to the Archdiocese aggregate fixed rent of \$36.0 million in the following amounts:

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

The fixed rent for lease years 6 through 11 shall be deferred. If the Archdiocese terminates the agreements pursuant to a lease year 11 termination or we terminate the agreements as a result of a default by the Archdiocese, prior to the end of lease year 11, the deferred fixed rent shall be retained by us. If the agreements are not terminated, the deferred fixed rent shall become due and payable 30 days after the end of lease year 11.

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**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires making estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of actual revenue and expenses during the reporting period. Although we base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, actual results may differ from the estimates on which our financial statements are prepared at any given point of time. Changes in these estimates could materially affect our financial position, results of operations or cash flows. Significant items that are subject to such estimates and assumptions include revenue and expense accruals, fair value of merchandise and perpetual care trusts assets and the allocation of purchase price to the fair value of assets acquired. A discussion of our significant accounting policies we have adopted and followed in the preparation of our consolidated financial statements was included in our Annual Report on Form 10-K/A for the year ended December 31, 2015, and we summarize our significant accounting policies and any updates within our consolidated financial statements included in Note 1 under Item 1 of this Form 10-Q.

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**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risks. The term market risk refers to the risk of gains or losses arising from changes in interest rates and prices of marketable securities. The disclosures are not meant to be precise indicators of expected future gains or losses, but rather indicators of reasonably possible gains or losses. This forward-looking information provides indicators of how we view and manage our ongoing market risk exposures. All of our market risk-sensitive instruments were entered into for purposes other than trading.

**INTEREST-BEARING INVESTMENTS**

Our fixed-income securities subject to market risk consist primarily of certain investments in our merchandise trusts and perpetual care trusts. As of September 30, 2016, the fair value of fixed-income securities in our merchandise trusts and perpetual care trusts represented 1.4% and 3.8%, respectively, of the fair value of total trust assets. The aggregate of the quoted fair value of these fixed-income securities was \$7.1 million and \$12.8 million in the merchandise trusts and perpetual care trusts, respectively, as of September 30, 2016. Holding all other variables constant, a hypothetical 1% change in variable interest rates on these fixed-income securities would change the fair market value of the assets in our merchandise trusts and perpetual care trusts each by approximately \$0.1 million, based on discounted expected future cash flows. If these securities are held to maturity, no change in fair market value will be realized. Our money market and other short-term investments subject to market risk consist primarily of certain investments in our merchandise trusts and perpetual care trusts. As of September 30, 2016, the fair value of money market and short-term investments in our merchandise trusts and perpetual care trusts represented 5.9% and 4.9%, respectively, of the fair value of total trust assets. The aggregate of the quoted fair value of these money market and short-term investments was \$29.9 million and \$16.5 million in the merchandise trusts and perpetual care trusts, respectively, as of September 30, 2016. Holding all other variables constant, a hypothetical 1% change in variable interest rates on these money market and short-term investments would change the fair market value of the assets in our merchandise trusts and perpetual care trusts by approximately \$0.3 million and \$0.2 million respectively, based on discounted expected future cash flows.

**MARKETABLE EQUITY SECURITIES**

Our marketable equity securities subject to market risk consist primarily of certain investments held in our merchandise trusts and perpetual care trusts. These assets consist of investments in both individual equity securities as well as closed and open-ended mutual funds. As of September 30, 2016, the fair value of marketable equity securities in our merchandise trusts and perpetual care trusts represented 7.9% and 6.8%, respectively, of the fair value of total trust assets. The aggregate of the quoted fair market value of these marketable equity securities was \$39.7 million and \$22.8 million in our merchandise trusts and perpetual care trusts, respectively, as of September 30, 2016, based on final quoted sales prices. Holding all other variables constant, a hypothetical 10% change in average market prices of the equity securities would change the fair market value of the assets in our merchandise trusts and perpetual care trusts by approximately \$4.0 million and \$2.3 million, respectively. As of September 30, 2016, the fair value of marketable closed and open-ended mutual funds in our merchandise trusts represented 74.3% of the fair value of total trust assets, 64.0% of which pertained to fixed-income mutual funds. As of September 30, 2016, the fair value of closed and open-ended mutual funds in our perpetual care trusts represented 49.0% of total trust assets, 79.5% of which pertained to fixed-income mutual funds. The aggregate of the quoted fair market value of these closed and open-ended mutual funds was \$374.8 million and \$164.1 million, respectively, in the merchandise trusts and perpetual care trusts as of September 30, 2016, of which \$240.0 million and \$130.5 million, respectively, pertained to fixed-income mutual funds. Holding all other variables constant, a hypothetical 10% change in the average market prices of the closed and open-ended mutual funds would change the fair market value of the assets in our merchandise trusts and perpetual care trusts by approximately \$37.5 million and \$16.4 million, respectively. As of September 30,



2016, the fair value of other investment funds in our merchandise trusts and perpetual care trusts represented 8.4% and 35.4%, respectively, of the fair value of total trust assets. The fair market value of the holdings in these funds was \$42.3 million and \$118.7 million in our merchandise trusts and perpetual care trusts, respectively, as of September 30, 2016, based on net asset value quotes. Holding all other variables constant, a hypothetical 10% change in the average net asset value quotes would change the fair market value of the assets in our merchandise trusts and perpetual care trusts by approximately \$4.2 million and \$11.9 million, respectively.

## **DEBT INSTRUMENTS**

Our Credit Facility bears interest at a floating rate, based on LIBOR, which is adjusted quarterly. This subjects us to increases in interest expense resulting from movements in interest rates. As of September 30, 2016, we had \$151.1

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million of borrowings outstanding under our Credit Facility, which generally bears interest at a variable rate. Holding all other variables constant, a hypothetical 1% change in variable interest rates would change our consolidated interest expense for the nine-month period ending September 30, 2016 by approximately \$1.1 million.

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**ITEM 4. CONTROLS AND PROCEDURES**

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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Disclosure Committee and management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as to whether they provide reasonable assurance that information we are required to disclose in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as a result of management's identification of the material weaknesses described below, our failures related to disclosure controls and procedures were not yet remediated as of September 30, 2016.

As discussed in the Explanatory Note and Note 1, *General*, included in this Form 10-Q, we determined to restate our previously issued financial statements to correct for errors associated with the recognition and presentation of certain revenues, expenses, assets, and liabilities, both recognized and deferred, the allocation of income and loss to our partners, and errors in the processing of transactions. As a result of the restatement, management identified deficiencies in our processes and procedures that constitute material weaknesses in our internal control over financial reporting as follows:

- A. The Partnership did not design and maintain effective controls over establishing accounting policies nor did they periodically review them for appropriate application in the financial statements.
- B. The Partnership did not design and maintain effective controls over the review of certain recorded balances within Deferred cemetery revenues, net, Merchandise liability, Investment and other revenues, Cemetery property, and Partners Capital.
- C. The Partnership did not design and maintain effective controls over the reconciliation of amounts recorded in the general ledger to relevant supporting details.

In connection with the restatement of our consolidated financial statements, management re-evaluated the effectiveness of our internal control over financial reporting. Based on that re-assessment, management concluded that our internal control over financial reporting was not effective as of December 31, 2015, due to the material weaknesses described above.

Management is committed to the remediation of the material weaknesses, as well as the continued improvement of our internal control over financial reporting (ICFR). We are in the process of implementing measures to remediate the underlying causes of the control deficiencies that gave rise to the material weaknesses, which primarily include:

1. Reevaluating and establishing, on a periodic basis, accounting policies and the appropriate application thereof;
2. Enhancing control procedures related to the review of certain recorded balances affected by the material weaknesses to ensure the appropriateness of such balances; and
3. Enhancing the control procedures related to the reconciliation of amounts recorded in the general ledger to relevant supporting details.

We believe these measures will remediate the material weaknesses noted. While we have completed some of these measures as of the date of this report, we have not completed and tested all of the planned corrective processes, enhancements, procedures and related evaluation that we believe are necessary to determine whether the material weaknesses have been fully remediated. We believe the corrective actions and controls need to be in operation for a sufficient period of time for management to conclude that the control environment is operating effectively and has been adequately tested through audit procedures. Therefore, the material weaknesses have not been fully remediated as of the date of this report. As we continue to evaluate and work to remediate the control deficiencies that gave rise to the material weaknesses, we may determine that additional measures or time are required to address the control deficiencies or that we need to modify or otherwise adjust the remediation measures described above. We will continue to assess the effectiveness of our remediation efforts in connection with our evaluation of our ICFR.

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**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

Except as set fourth above, there have been no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Part II Other Information**

**Item 6. Exhibits**

Exhibits are listed in the Exhibit Index, which is incorporated herein by reference.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**STONEMOR PARTNERS L.P.**

By: StoneMor GP LLC

its general partner

November 9, 2016

/s/ Lawrence Miller

Lawrence Miller

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

November 9, 2016

/s/ Sean P. McGrath

Sean P. McGrath

Chief Financial Officer (Principal Financial Officer)

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| <b>Exhibit Number</b> | <b>Description</b>  |
|-----------------------|---|
| 4.1                   | Supplemental Indenture No. 2, dated as of September 1, 2016, by and among StoneMor Wisconsin LLC, StoneMor Wisconsin Subsidiary LLC, subsidiaries of StoneMor Partners L.P., and Cornerstone Family Services of West Virginia Subsidiary, Inc., the Guarantors under the Indenture, and Wilmington Trust, National Association, as trustee.   |
| 10.1                  | Key Employee Unit Agreement under the StoneMor Partners L.P. 2014 Long-Term Incentive Plan, entered into as of September 28, 2016, by and between StoneMor GP LLC and Sean McGrath.   |
| 10.2                  | Key Employee Unit Agreement under the StoneMor Partners L.P. 2014 Long-Term Incentive Plan, entered into as of July 5, 2016, by and between StoneMor GP LLC and Lawrence Miller.  |
| 10.3                  | Key Employee Unit Agreement under the StoneMor Partners L.P. 2014 Long-Term Incentive Plan, entered into as of July 5, 2016, by and between StoneMor GP LLC and Austin So.  |
| 10.4                  | Employment Separation Agreement, effective as of August 5, 2016, by and between StoneMor GP LLC and David Meyers (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed on August 10, 2016).   |
| 10.5                  | Credit Agreement, dated as of August 4, 2016, by and among StoneMor Operating LLC, the other Borrowers party thereto, the Lenders party thereto, Capital One, National Association, as Administrative Agent, Issuing Bank and Swingline Lender, Citizens Bank of Pennsylvania, as Syndication Agent, and TD Bank, N.A. and Raymond James Bank, N.A., as Co-Documentation Agents.  |
| 10.6                  | Guaranty and Collateral Agreement, dated as of August 4, 2016, by and among StoneMor Partners L.P., StoneMor Operating LLC, the other Grantors party thereto and Capital One, National Association, as Administrative Agent.  |
| 31.1                  | Certification pursuant to Exchange Act Rule 13a-14(a) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors.  |
| 31.2                  | Certification pursuant to Exchange Act Rule 13a-14(a) of Sean P. McGrath, Chief Financial Officer.  |
| 32.1                  | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors (furnished herewith).  |
| 32.2                  | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Sean P. McGrath, Chief Financial Officer (furnished herewith).  |
| 101                   | Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets as of September 30, 2016, and December 31, 2015; (ii) Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015; (iii) Unaudited Condensed Consolidated Statement of Partners' Capital (Deficit); (iv) Unaudited Condensed Consolidated Statement of Cash Flows for the three and nine months ended September 30, 2016 and 2015; and (v) Notes to the Unaudited Condensed Consolidated Financial Statements. Users of this data are advised that the information contained in the XBRL documents is unaudited and these are not the |



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official publicly filed financial statements of StoneMor Partners L.P.

Management contract, compensatory plan or arrangement

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