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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

or

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

Commission File Number: 000-50910

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

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

(215) 826-2800

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if 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 x

The number of the registrant s outstanding common units at August 9, 2010 was 13,841,135.

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Part I Financial Information

Item 1. Financial Statements

StoneMor Partners L.P.

Condensed Consolidated Balance Sheets

(in thousands)

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 13,450	$ 13,479
Accounts receivable, net of allowance	43,102	37,113
Prepaid expenses	3,477	3,531
Other current assets	9,815	4,502
Total current assets	69,844	58,625
Long-term accounts receivable net of allowance	59,685	48,015
Cemetery property	294,120	235,357
Property and equipment, net of accumulated depreciation	85,448	52,265
Merchandise trusts, restricted, at fair value	266,909	203,885
Perpetual care trusts, restricted, at fair value	215,429	196,295
Deferred financing costs net of accumulated amortization	10,697	12,020
Deferred selling and obtaining costs	55,759	49,782
Deferred tax assets	519	451
Fair value of interest rate swap	559	
Other assets	5,847	2,194
Total assets	$ 1,064,816	$ 858,889
Liabilities and partners capital		
Current liabilities		
Accounts payable and accrued liabilities	$ 24,190	$ 26,574
Accrued interest	1,546	1,829
Current portion, long-term debt	523	378
Total current liabilities	26,259	28,781
Other long-term liabilities	5,731	2,912
Fair value of interest rate swap		2,681
Long-term debt	237,186	182,821
Deferred cemetery revenues, net	313,301	258,978
Deferred tax liabilities	28,348	5,290
Merchandise liability	104,076	65,883
Perpetual care trust corpus	215,429	196,295
Total liabilities	930,330	743,641

Partners capital		
General partner	2,155	1,904
General partner incentive distribution rights	6,199	
Common partner	126,132	113,344
Total partners capital	134,486	115,248
Total liabilities and partners capital	$ 1,064,816	$ 858,889

See Accompanying Notes to the Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of Operations

(in thousands)

(unaudited)

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Revenues:				
Cemetery				
Merchandise	$ 24,031	$ 23,456	$ 42,826	$ 42,732
Services	10,034	9,534	18,025	18,772
Investment and other	8,898	9,049	16,905	16,865
Funeral home				
Merchandise	2,363	2,320	4,862	4,929
Services	3,411	3,443	6,789	7,102
Total revenues	48,737	47,802	89,407	90,400
Costs and Expenses:				
Cost of goods sold (exclusive of depreciation shown separately below):				
Perpetual care	1,270	1,423	2,357	2,428
Merchandise	4,077	4,736	7,422	8,531
Cemetery expense	12,086	10,412	21,333	19,851
Selling expense	9,467	8,618	17,083	16,444
General and administrative expense	6,161	5,411	11,759	10,890
Corporate overhead (including $177 and $383 in unit-based compensation for the three months ended June 30, 2010 and 2009 and $353 and $757 for the six months ended June 30, 2010 and June 30, 2009)	5,605	5,497	10,694	10,863
Depreciation and amortization	1,799	1,708	3,657	3,018
Funeral home expense				
Merchandise	953	944	1,866	1,911
Services	2,247	2,296	4,335	4,702
Other	1,442	1,471	2,872	2,899
Acquisition related costs	1,666	542	2,656	2,128
Total cost and expenses	46,773	43,058	86,034	83,665
Operating profit (loss)	1,964	4,744	3,373	6,735
Other income and expense				
Gain on sale of funeral homes				475
Gain on acquisition	4,173		27,485	
Increase in fair value of interest rate swap	1,568		3,239	
Interest expense	5,238	3,202	10,097	6,371
Income (loss) before income taxes	2,467	1,542	24,000	839
Income taxes:				

State	27	39	55	201
Federal	(381)	(136)	(909)	(136)
Total income taxes	(354)	(97)	(854)	65
Net income (loss)	$ 2,821	$ 1,639	$ 24,854	$ 774
General partner s interest in net income for the period	$ 56	$ 33	$ 369	$ 15
General partner s IDR interest in net income for the period	$	$	$ 6,382	$
Limited partners interest in net income for the period				
Common	$ 2,765	$ 1,320	$ 18,103	$ 623
Subordinated	$	$ 286	$	$ 136
Net income per limited partner unit (basic and diluted)	$ .23	$ .14	$ 1.35	$ .06
Weighted average number of limited partners units outstanding (basic and diluted)	13,537	11,891	13,448	11,891

See Accompanying Notes to the Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of

StoneMor Partners L.P.

Partners Capital

(in thousands)

(unaudited)

	Partners Capital			
	Common Unit Holders	General Partner	Incentive Distribution Rights	Total
Balance, December 31, 2009	$ 113,344	$ 1,904	$	$ 115,248
Issuance of executive management units	3,825			3,825
General partner contribution		69		69
Net income	15,340	313	6,382	22,035
Cash distribution	(7,413)	(151)	(89)	(7,653)
Balance, March 31, 2010	125,096	2,135	6,293	133,524
Issuance of common units	5,785			5,785
General partner contribution		117		117
Net income	2,765	56		2,821
Cash distribution	(7,513)	(153)	(90)	(7,757)
Balance, June 30, 2010	$ 126,132	$ 2,155	$ 6,199	$ 134,486

See Accompanying Notes to the Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of Cash Flows

(in thousands)

(unaudited)

	For the six months ended June 30, 2010	2009
Operating activities:		
Net income	$ 24,854	$ 774
Adjustments to reconcile net income to net cash provided by operating activity:		
Cost of lots sold	3,030	2,616
Depreciation and amortization	3,657	3,018
Unit-based compensation	353	757
Previously capitalized acquisition costs		1,365
Accretion of debt discount	166	
Previously capitalized financing fees		141
Gain on acquisitions	(27,485)	
Increase in value of interest rate swap	(3,239)	
Gain on sale of funeral home		(475)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(14,656)	(11,361)
Allowance for doubtful accounts	1,481	1,649
Merchandise trust fund	(3,981)	(2,119)
Prepaid expenses	54	(431)
Other current assets	(2,767)	320
Other assets	234	(414)
Accounts payable and accrued and other liabilities	640	460
Deferred selling and obtaining costs	(5,977)	(4,745)
Deferred cemetery revenue	26,101	17,626
Deferred taxes (net)	(996)	(207)
Merchandise liability	1,116	(870)
Net cash provided by operating activities	2,587	8,104
Investing activities:		
Additions to cemetery property	(903)	(2,240)
Purchase of subsidiaries, net of common units issued	(36,962)	(2,727)
Divestiture of funeral home		475
Additions of property and equipment	(2,657)	(1,061)
Net cash used in investing activities	(40,522)	(5,553)
Financing activities:		
Cash distribution	(15,410)	(13,626)
Additional borrowings on long-term debt	53,889	101,667
Repayments of long-term debt	(684)	(81,053)
Cost of financing activities	(75)	(5,332)
Sale of partner units	186	

Net cash provided by (used in) financing activities		37,906		1,656
Net increase (decrease) in cash and cash equivalents		(29)		4,207
Cash and cash equivalents Beginning of period		13,479		7,068
Cash and cash equivalents End of period	$	13,450	$	11,275
Supplemental disclosure of cash flow information				
Cash paid during the period for interest	$	10,380	$	5,587
Cash paid during the period for income taxes	$	1,530	$	1,520
Non-cash investing and financing activities				
Issuance of note payable for acquisition	$	1,305	$	
Issuance of limited partner units for cemetery acquisition	$	5,785	$	

See Accompanying Notes to the Condensed Consolidated Financial Statements.

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

Nature of Operations

StoneMor Partners L.P. is a provider of funeral and cemetery products and services in the death care industry in the United States. The words we, us, our, StoneMor, the Partnership, and the Company refer to StoneMor Partners L.P. Through its subsidiaries, StoneMor offers a co range of funeral merchandise and services, along with cemetery property, merchandise and services, both at the time of need and on a pre-need basis. As of June 30, 2010, StoneMor operates 252 cemeteries. The Company owns 236 of these cemeteries and operates the remaining 16 under long-term agreements. As a result of the agreements and other control arrangements, we consolidate the results of the 16 managed cemeteries in our consolidated financial statements.

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

Basis of Presentation

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

Principles of Consolidation

The consolidated financial statements include the accounts of each of the Company s subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the Company has a variable interest and is the primary beneficiary. The operations of the 16 managed cemeteries that the Company operates under long-term agreements are also consolidated as a result of the agreement and other control provisions. Total revenues derived from the cemeteries under long-term agreements totaled approximately $8.2 million and $15.2 million for the three and six months ended June 30, 2010, as compared to $7.9 million and $14.0 million during the same periods last year.

Summary of Significant Accounting Policies

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

Cash and Cash Equivalents

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

Cemetery Property

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

Property and Equipment

Property and equipment is recorded at cost and depreciated on a straight-line basis. Maintenance and repairs are charged to expense as incurred, whereas additions and major replacements are capitalized and depreciation is recorded over their estimated useful lives as follows:

Buildings and improvements	10 to 40 years
Furniture and equipment	5 to 10 years
Leasehold improvements	over the term of the lease

Depreciation expense was $1.1 million and $2.3 million during the three and six months ended June 30, 2010 as compared to $1.0 million and $2.1 million during the same periods last year.

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Inventories

Inventories, classified as other current assets on the Company s condensed consolidated balance sheets, include cemetery and funeral home merchandise and are valued at the lower of cost or net realizable value. Cost is determined primarily on a specific identification basis on a first-in, first-out basis. Inventories were approximately $5.2 million and $3.5 million at June 30, 2010 and December 31, 2009, respectively.

Sales of Cemetery Merchandise and Services

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

Pre-need sales are usually made on an installment contract basis. Contracts are usually for a period not to exceed 60 months with payments of principal and interest required. For those contracts that do not bear a market rate of interest, the Company imputes such interest in order to segregate the principal and interest component of the total contract value.

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

The allowance for customer cancellations is established based on management s estimates of expected cancellations and historical experiences and is currently approximately 10% of total contract values. Future cancellation rates may differ from this current estimate. Management will continue to evaluate cancellation rates and will make changes to the estimate should the need arise. Actual cancellations did not vary significantly from the estimates of expected cancellations at June 30, 2010 and December 31, 2009, respectively.

Revenue recognition related to sales of cemetery merchandise and services is governed by Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* (SAB No. 104), and the retail land sales provisions of Accounting Standards Codification (ASC) 976-605-25-6. Per this guidance, revenue from the sale of burial lots and constructed mausoleum crypts are deferred until such time that 10% of the sales price has been collected, at which time it is fully earned; revenues from the sale of unconstructed mausoleums are recognized using the percentage-of-completion method of accounting while revenues from merchandise and services are recognized once such merchandise is delivered (title has transferred to the customer and the merchandise is either installed or stored, at the direction of the customer, at the vendor s warehouse or a third-party warehouse at no additional cost to us) or services are performed.

In order to appropriately match revenue and expenses, the Company defers certain pre-need cemetery and prearranged funeral direct obtaining costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral business. Such costs are accounted for under the provisions of ASC 944-720-25-1, and are expensed as revenues are recognized.

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

Merchandise Trusts

Pursuant to state law, a portion of the proceeds from pre-need sales of merchandise and services is put into trust (the merchandise trust) until such time that the Company meets the requirements for releasing trust principal, which is generally delivery of merchandise or performance of services. All investment earnings generated by the assets in the merchandise trusts (including realized gains and losses) are deferred until the associated merchandise is delivered or the services are performed. The fair value of the funds held in merchandise trusts at June 30, 2010 and December 31, 2009 was approximately $267.0 million and $203.9 million, respectively (see Note 5).

Perpetual Care Trusts

Pursuant to state law, a portion of the proceeds from the sale of cemetery property is required to be paid into perpetual care trusts. All principal must remain in this trust into perpetuity while interest and dividends may be released and used to defray cemetery maintenance costs, which are expensed as incurred. Earnings from the perpetual care trusts are recognized in current cemetery revenues. The fair value of funds held in perpetual care trusts at June 30, 2010 and December 31, 2009 was approximately $215.4 million and $196.3 million, respectively (see Note 6).

Sales of Funeral Home Services

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

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

Deferred Cemetery Revenues, Net

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

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

Impairment of Long-Lived Assets

The Company monitors the recoverability of long-lived assets, including cemetery property, property and equipment and other assets, based on estimates using factors such as current market value, future asset utilization, business and regulatory climate and future undiscounted cash flows expected to result from the use of the related assets. The Company s policy is to evaluate an asset for impairment when events or circumstances indicate that a long-lived asset s carrying value may not be recovered. An impairment charge is recorded to write-down the asset to its fair value if the sum of future undiscounted cash flows is less than the carrying value of the asset. No impairment charges were recorded during the three or six months ended June 30, 2010 and 2009.

Other-Than-Temporary Impairment of Trust Assets

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

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

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

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

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

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

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

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

Two Class Method of Accounting for Earnings per Share

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

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Under this method:

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

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

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

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

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

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

For the three months ended June 30, 2010:

	Common Units Holders	General Partner	Incentive Distribution Rights	Total
		(In thousands)		
Dividends declared tier 1	$ 6,261	$ 128	$	$ 6,389
Dividends declared tier 2	677	14		691
Dividends declared tier 3	575	12	90	677
Total	7,513	153	90	7,756
Total earnings				2,821
Undistributed loss				(4,935)
Undistributed loss tier 1	(4,749)	(97)	(90)	(4,935)
Total periodic earnings	$ 2,765	$ 57	$	$ 2,821

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For the six months ended June 30, 2010:

	Common Units Holders	General Partner	Incentive Distribution Rights	Total
		(In thousands)		
Dividends declared tier 1	$ 12,439	$ 254	$	$ 12,693
Dividends declared tier 2	1,345	27		1,372
Dividends declared tier 3	1,143	23	178	1,345
Total	14,927	305	178	15,410
Total earnings				24,854
Undistributed earnings				9,444
Undistributed loss tiers 1and 2	(4,749)	(97)	(90)	(4,935)
Undistributed earnings tier 3	434	9	68	511
Undistributed earnings tier 4	1,670	34	522	2,226
Undistributed earnings tier 5	5,822	119	5,704	11,645
Total periodic earnings	$ 18,104	$ 370	$ 6,382	$ 24,854

Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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Additional accounting pronouncements issued during the reporting period include:

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

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

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

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

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

Use of Estimates

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

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2. LONG-TERM ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

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

	As of June 30, 2010	As of December 31, 2009
	(in thousands)	
Customer receivables	$ 134,188	$ 112,995
Unearned finance income	(14,810)	(14,002)
Allowance for contract cancellations	(16,591)	(13,865)
	102,787	85,128
Less: current portion net of allowance	43,102	37,113
Long-term portion net of allowance	$ 59,685	$ 48,015

Activity in the allowance for contract cancellations is as follows:

	For the six months ended June 30, 2010	2009
	(in thousands)	
Balance Beginning of period	$ 13,865	$ 13,763
Provision for cancellations	7,455	6,719
Charge-offs net	(4,729)	(5,070)
Balance End of period	$ 16,591	$ 15,412

3. CEMETERY PROPERTY

Cemetery property consists of the following:

	As of June 30, 2010	As of December 31, 2009
	(in thousands)	
Developed land	$ 35,490	$ 26,099
Undeveloped land	211,997	161,802
Mausoleum crypts and lawn crypts	46,633	47,456
Total	$ 294,120	$ 235,357

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

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4. PROPERTY AND EQUIPMENT

Major classes of property and equipment follow:

	As of June 30, 2010	As of December 31, 2009
	(in thousands)	
Building and improvements	$ 83,239	$ 46,376
Furniture and equipment	32,712	34,151
	115,951	80,527
Less: accumulated depreciation	(30,503)	(28,262)
Property and equipment net	$ 85,448	$ 52,265

5. MERCHANDISE TRUST

At June 30, 2010, the Company s merchandise trust consisted of the following types of assets:

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

All of these investments are classified as Available for Sale as defined by ASC 320-10-25-1. Accordingly, all of the assets are carried at fair value. All of these investments are considered to be either Level 1 or Level 2 assets as defined by ASC 820-10-35-(39 through 51H). At June 30, 2010, approximately 89.3% of these assets were Level 1 investments while approximately 10.7% were Level 2 assets. There were no Level 3 assets.

The merchandise trust is a variable interest entity for which the Company is the primary beneficiary. The assets held in the merchandise trust are required to be used to purchase the merchandise to which they relate. If the value of these assets falls below the cost of purchasing such merchandise, the Company would be required to fund this shortfall.

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

As of June 30, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(in thousands)		
Short-term investments	$ 41,201	$	$	$ 41,201
Fixed maturities:				
U.S. State and local government agency	33			33
Corporate debt securities	9,649	46	(283)	9,412
Other debt securities	18,183			18,183
Total fixed maturities	27,865	46	(283)	27,628
Mutual funds debt securities	49,047	1,094	(2,043)	48,098
Mutual funds equity securities	113,813		(23,307)	90,506
Equity securities	61,925	2,143	(5,545)	58,523
Other invested assets	954			954
Total	$ 294,805	$ 3,282	$ (31,178)	$ 266,909

As of December 31, 2009	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(in thousands)		
Short-term investments	$ 47,451	$	$	$ 47,451
Fixed maturities:				
U.S. State and local government agency	33		(10)	23
Corporate debt securities	3,204	90	(48)	3,246
Other debt securities	10,393	448		10,841
Total fixed maturities	13,630	538	(58)	14,110
Mutual funds debt securities	39,545	8	(840)	38,713
Mutual funds equity securities	93,472		(23,034)	70,438
Equity securities	34,818	1,249	(4,304)	31,763
Other invested assets	1,385	26		1,411
Total	$ 230,301	$ 1,821	$ (28,236)	$ 203,885

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

As of June 30, 2010	Less than 1 year	1 year through 5 years	5 years through 10 years	More than 10 years
		(in thousands)		
U.S. State and local government agency	33			
Corporate debt securities		3,675	5,621	116

Other debt securities	16,822	1,361		
Total fixed maturities	$ 16,855	$ 5,036	$ 5,621	$ 116

As of December 31, 2009	Less than 1 year	1 year through 5 years (in thousands)	5 years through 10 years	More than 10 years
U.S. State and local government agency	23			
Corporate debt securities		1,408	1,683	155
Other debt securities	10,841			
Total fixed maturities	$ 10,864	$ 1,408	$ 1,683	$ 155

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

At June 30, 2010

	Less than 12 months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. State and local government agency						
Corporate debt securities	7,703	216	405	67	8,108	283
Other debt securities						
Total fixed maturities	7,703	216	405	67	8,108	283
Mutual funds debt securities	14,588	1,661	2,283	382	16,871	2,043
Mutual funds equity securities			90,506	23,307	90,506	23,307
Equity securities	8,850	1,467	29,646	4,078	38,496	5,545
Total	$ 31,141	$ 3,344	$ 122,840	$ 27,834	$ 153,981	$ 31,178

At December 31, 2009

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

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

Six months ended June 30, 2010

Fair Value @ 12/31/2009	Net Contributions (Distributions)	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 6/30/2010
				(in thousands)				
$ 203,885	$ 61,410	$ 2,543	$ 239	$ 1,631	$ (857)	$ (461)	$ (1,481)	$ 266,909

The Company made net deposits into the trusts of approximately $61.4 million during the six months ended June 30, 2010. Purchases and sales of securities available for sale included in trust investments were approximately $276.7 million and $220.9 million, respectively during the six months ended June 30, 2010.

Other-than-temporary Impairments

In the second quarter of 2009, the Company adopted Section 10-65-1 of ASC 320.

ASC 320-10-65-1 amended the other-than-temporary impairment guidance for debt securities. ASC 320-10-65-1 also changed the disclosure requirements for other-than-temporary impairments on both debt and equity securities.

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The fundamental accounting changes resulting from the issuance of ASC 320-10-65-1 are as follows:

Prior to the issuance of ASC 320-10-65-1, entities were required to assert that they had the intent and ability to hold debt securities for a period of time sufficient to allow for any anticipated recovery in fair value in order to conclude that an impairment was not other than temporary. ASC 320-10-65-1 amended this requirement so that an entity now must:

- Assess whether it has the intent to sell the debt security or;
- Assess whether it is more likely than not it will be required to sell the debt security before its anticipated recovery

If either of these conditions exists, the impairment is considered to be other than temporary. An other-than-temporary impairment in an amount equal to the difference between the fair value and amortized cost shall be recognized in earnings.

In situations wherein an entity:

- Does not have an intent to sell an impaired debt security and;
- Determines that it is more likely than not that it will not be required to sell an impaired debt security before its anticipated recovery;

ASC 320-10-65-1 requires that an entity determine whether or not there is a credit loss on the security.

A credit loss is the excess of the amortized cost of the security over the present value of future expected cash flows. If there is a credit loss, an entity must recognize an other-than-temporary impairment in earnings in an amount equal to the credit loss. This amount becomes the new cost basis of the asset and will not be adjusted for subsequent changes in the fair value of the asset.

There is likely to be a difference between this new cost basis and the current fair value of the security. If such fair value is less than the adjusted cost basis, an entity shall determine whether this loss is other-than-temporary or a normal unrealized loss. Normal unrealized losses shall be accounted for as they currently are. Any additional other-than-temporary impairment shall be recognized through other comprehensive income. The Company defers this amount and includes it in deferred cemetery revenue, net.

After the recognition of a credit loss, an entity shall continue to evaluate the difference between the new cost basis and expected future cash flows. For debt securities for which other-than-temporary impairments were recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted in accordance with existing guidance as interest income. If upon subsequent evaluation, there is a significant increase in the cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, such changes shall be accounted for as a prospective adjustment to the accretable yield

In addition to the aforementioned accounting changes, ASC 320-10-65-1 requires the following changes to disclosures relating to an entity s entire investment portfolio:

- Certain disclosures that were only required on an annual basis are now required for interim periods as well.
- For periods in which an other-than-temporary impairment of a debt security is recognized and only the amount related to a credit loss was recognized in earnings, an entity shall disclose, by major security type, the methodology and significant inputs used to measure the amount related to the credit loss.

For each interim and annual reporting period presented, an entity shall disclose a tabular rollforward of the amount related to credit losses recognized in earnings. This will include at a minimum:

1. The beginning balance of the amount related to credit losses on debt securities held by the entity at the beginning of the period for which a portion of an other-than-temporary impairment was recognized in other comprehensive income.

2. Additions for the amount related to the credit loss for which an other-than-temporary impairment was not previously recognized.

3. Reductions for securities sold during the period (realized).

4. Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

5. Additional increases to the amount related to the credit loss for which an other-than temporary impairment was previously recognized when the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis.

6. Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security.

7. The ending balance of the amount related to credit losses on debt securities held by the entity at the end of the period for which a portion of an other-than-temporary impairment was recognized in other comprehensive income.

The Company has applied the applicable guidance related to other-than-temporary impairments throughout the reporting period. In addition to the relative guidance stated above, the Company performs each of the following procedures:

Fixed Maturity Debt Securities

- The Company assesses the overall credit quality of each issue by evaluating its credit rating as reported by any credit rating agency. The Company also determines if there has been any downgrade in its creditworthiness as reported by such credit rating agency.

- The Company determines if there has been any suspension of interest payments or any announcements of any intention to do so.

- The Company evaluates the length of time until the principal becomes due and whether the ability to satisfy this payment has been impaired.

Equity Securities

- The Company compares the proportional decline in value to the overall sector decline as measured via certain specific indices.

- The Company determines whether there has been further periodic decline from prior periods or whether there has been a recovery in value.

For all securities

- The Company evaluates the length of time that a security has been in a loss position.

- The Company determines if there is any publicly available information that would cause us to believe that impairment is other than temporary in nature.

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

During the three and six months ended June 30, 2010, the Company determined that there was a single security, with an aggregate cost basis of approximately $0.3 million, an aggregate fair value of less than $0.1 million and a resulting impairment of value of approximately $0.2 million, wherein such impairment is considered to be other-than-temporary. Accordingly, the Company has adjusted the cost basis of this asset to its current value and offset this change against deferred revenue. This reduction in deferred revenue will be reflected in earnings in future periods as the underlying merchandise is delivered or the underlying service is performed.

6. PERPETUAL CARE TRUSTS

At June 30, 2010, the Company s perpetual care trust consisted of the following types of assets:

Money Market Funds that invest in low risk short term securities;

Publicly traded mutual funds that invest in underlying debt securities;

Publicly traded mutual funds that invest in underlying equity securities;

Equity investments that are currently paying dividends or distributions. These investments include REIT s and Master Limited Partnerships;

Fixed maturity debt securities issued by various corporate entities; and

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Fixed maturity debt securities issued by U.S. states and local government agencies.
All of these investments are classified as Available for Sale as defined by ASC 320-10-25-1. Accordingly, all of the assets are carried at fair value. All of these investments are considered to be either Level 1 or Level 2 assets as defined by ASC 820-10-35-(39 through 51H). At June 30, 2010, approximately 86.4% of these assets were Level 1 investments while approximately 13.6% were Level 2 assets. There were no Level 3 assets.

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

As of June 30, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(in thousands)		
Short-term investments	$ 12,866	$	$	$ 12,866
Fixed maturities:				
U.S. Government and federal agency				
U.S. State and local government agency	87	126		213
Corporate debt securities	20,947	474	(680)	20,741
Other debt securities	5,816			5,816
Total fixed maturities	26,850	600	(680)	26,770
Mutual funds debt securities	48,165	225	(511)	47,879
Mutual funds equity securities	99,807	2,369	(26,052)	76,124
Equity Securities	47,399	5,016	(1,057)	51,358
Other invested assets	431			431
Total	$ 235,518	$ 8,210	$ (28,300)	$ 215,429

As of December 31, 2009	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(in thousands)		
Short-term investments	$ 46,615	$	$	$ 46,615
Fixed maturities:				
U.S. Government and federal agency	4,747	66	(48)	4,765
U.S. State and local government agency	1,497	14	(74)	1,437
Corporate debt securities	13,722	369	(199)	13,892
Other debt securities	4,841	8		4,849
Total fixed maturities	24,807	457	(321)	24,943
Mutual funds debt securities	36,774	24	(465)	36,333
Mutual funds equity securities	74,831	1	(22,275)	52,557
Equity Securities	33,514	3,385	(1,486)	35,413
Other invested assets	434	2		436
Total	$ 216,974	$ 3,868	$ (24,547)	$ 196,295

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

As of June 30, 2010	Less than 1 year	1 year through 5 years	5 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$	$	$	$
U.S. State and local government agency	213			
Corporate debt securities		8,269	12,002	472
Other debt securities	5,445	371		
Total fixed maturities	$ 5,658	$ 8,640	$ 12,002	$ 472

As of December 31, 2009	Less than 1 year	1 year through 5 years	5 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$ 806	$ 3,230	$ 438	$ 291
U.S. State and local government agency	560	296	520	61
Corporate debt securities		6,166	7,104	622
Other debt securities	4,849			
Total fixed maturities	$ 6,215	$ 9,692	$ 8,062	$ 974

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

At June 30, 2010

	Less than 12 months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$	$	$	$	$	$
U.S. State and local government agency						
Corporate debt securities	14,610	453	938	227	15,548	680
Other debt securities						
Total fixed maturities	14,610	453	938	227	15,548	680
Mutual funds debt securities	2,983	314	17,179	197	20,162	511
Mutual funds equity securities	7,102	2,337	48,260	23,715	55,362	26,052
Equity securities	3,878	197	14,481	860	18,359	1,057
Total	$ 28,573	$ 3,301	$ 80,858	$ 24,999	$ 109,431	$ 28,300

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At December 31, 2009

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

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

Six months ended June 30, 2010

Fair Value @ 12/31/2009	Net Contributions (Distributions)	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 6/30/2010
				(in thousands)				
$196,295	$ 15,554	$ 4,168	$	$ (617)	$ (157)	$ (403)	$ 589	$ 215,429

The Company made net deposits into the trusts of approximately $15.6 million during the six months ended June 30, 2010. Purchases and sales of securities available for sale included in trust investments were approximately $233.3 million and $197.1 million, respectively during the six months ended June 30, 2010.

The Company recorded income from perpetual care trusts of $3.8 million and $6.8 million for the three and six months ended June 30, 2010 as compared to $3.3 million and $6.6 million during the same periods last year. This income is classified as cemetery revenues in the condensed consolidated statements of operations.

Other-than-temporary Impairments

Refer to Note 5 for a detailed discussion of the Company s methodology of determining, accounting for and disclosing other than temporary impairments. The Company determined that there were no other than temporary impairments to the assets in the perpetual care trust during the three and six months ended June 30, 2010.

7. DERIVATIVE INSTRUMENTS

On November 24, 2009, the Company entered into an interest rate swap (the First Interest Rate Swap) wherein the Company agreed to pay the counterparty interest in the amount of three month LIBOR plus 888 basis points in consideration for the counterparties agreement to pay the Company a fixed rate of interest of 10.25% on a principal amount of $108 million. Settlements are to be made net on a quarterly basis in February, May, August and November of each year. The First Interest Rate Swap expires on December 1, 2012.

On December 4, 2009, the Company entered into an interest rate swap (the Second Interest Rate Swap , together with the First Interest Rate Swap, the Interest Rate Swaps) wherein the Company agreed to pay the counterparty interest in the amount of three month LIBOR plus 869 basis points in consideration for the counterparties agreement to pay the Company a fixed rate of interest of 10.25% on a principal amount of $27 million. Settlements are to be made net on a quarterly basis in February, May, August and November of each year. The Second Interest Rate Swap expires on December 1, 2012.

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The Interest Rate Swaps do not qualify for hedge accounting. Accordingly, the fair value of the Interest Rate Swaps is reported on the Company s balance sheet and periodic changes in the fair value of the Interest Rate Swaps are recorded in earnings. At June 30, 2010, the Company recorded an asset (the Fair value of interest rate swaps) of approximately $0.5 million, which represents the fair value of the Interest Rate Swaps at June 30, 2010. The Company recorded a gain on the fair value of interest rate swaps of approximately $1.6 million and $3.2 million during the three and six months ended June 30, 2010.

The Company entered into the Interest Rate Swaps in an effort to manage their total interest expense. The Interest Rate Swaps reduced interest expense by approximately $0.4 million and $0.8 million during the three and six months ended June 30, 2010.

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

8. LONG-TERM DEBT

The Company had the following outstanding debt at:

	June 30, 2010	December 31, 2009
	(in thousands)	
Insurance premium financing	$ 217	$ 190
Vehicle Financing	939	547
Acquisition Credit Facility, due September 2012	37,500	
Revolving Credit Facility, due September 2012	15,500	
Note payable Greenlawn Acquisition	1,400	1,400
Note payable Nelms acquisition (net of discount)	926	
10.25% senior notes, due 2017	150,000	150,000
Series B senior secured notes, due 2012	17,500	17,500
Series C senior secured notes, due 2012	17,500	17,500
Total	241,482	187,137
Less current portion	523	378
Less unamortized bond discount	3,773	3,938
Long-term portion	$ 237,186	$ 182,821

10.25% Senior Notes due 2017

Purchase Agreement

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

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

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

- repay approximately $30.7 million of borrowings under the Revolving Facility (as defined below);
- repay approximately $104.7 million of borrowings under the Acquisition Credit Facility (as defined below); and
- redeem $17.5 million of outstanding 11.00% Series B Senior Secured Notes due 2012 (the Series B Notes).

Indenture

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

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

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

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

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

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

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

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

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

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

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The Indenture requires the Company, the Issuers and/or the Note Guarantors, as applicable, to comply with various covenants including, but not limited to, covenants that, subject to certain exceptions, limit the Company s and its subsidiaries ability to (i) incur additional indebtedness; (ii) make certain dividends, distributions, redemptions or investments; (iii) enter into certain transactions with affiliates; (iv) create, incur, assume or permit to exist certain liens against their assets; (v) make certain sales of their assets; and (vi) engage in certain mergers, consolidations or sales of all or substantially all of their assets. The Indenture also contains various affirmative covenants regarding, among other things, delivery of certain reports filed with the SEC and materials required pursuant to Rule 144A under the Securities Act to holders of the Senior Notes and joinder of future subsidiaries as Note Guarantors under the Indenture. The Company was in compliance with all covenants at June 30, 2010.

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

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

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

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

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

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

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

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

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

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

Registration Rights Agreement

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

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

The Issuers are required to pay additional interest to the holders of the Senior Notes under certain circumstances if they fail to comply with their obligations under the Registration Rights Agreement.

Note Purchase Agreement

On August 15, 2007, the Company entered into, along with the General Partner and certain of the Company s subsidiaries, (collectively, the Note Issuers) the Amended and Restated Note Purchase Agreement (the NPA) with Prudential Investment Management Inc., The Prudential Insurance Company of America, Prudential Retirement Insurance and Annuity Company, certain Affiliates of Prudential Investment Management Inc., iStar Financial Inc., SFT I, Inc., and certain Affiliates of iStar Financial Inc. (collectively, the Note Purchasers). Capitalized terms which are not defined in the following description shall have the same meaning assigned to such terms in the NPA, as amended.

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

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

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

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

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

On April 30, 2009, the Company entered into the Second Amendment to Amended and Restated Credit Agreement by and among the Company and certain of the Company s subsidiaries, the lenders, and Bank of America, N.A., as Administrative Agent (the Second Amendment to Credit Agreement), pursuant to which the Company borrowed $63,000,000 under the new Acquisition Credit Facility commitments, which, together with the $17,000,000 of the existing availability under the Acquisition Credit Facility, were used to repay the Series A Notes. In addition, the Company borrowed $5,400,000 under the Revolving Credit Facility, which was used to pay the accrued interest on the Series A Notes, fees to Bank of America, N.A., amendment fees to noteholders under the Second Amendment to NPA described below as well as various other fees and costs incurred in connection with these transactions. In connection with the Second Amendment to Credit Agreement, on April 30, 2009, the Company also entered into the Second Amendment to Amended and Restated Note Purchase Agreement by and among the Company, the General Partner and certain of the Company s subsidiaries and the noteholders (the Second Amendment to NPA).

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

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

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

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

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

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

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

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

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

The NPA (as amended) contains restrictive covenants that, among other things, prohibit distributions upon defined events of default, restrict investments and sales of assets and require the Company to maintain certain financial covenants, including specified financial ratios. A material decrease in sales could cause the Company to breach certain of its financial covenants, such as the leverage ratio and the interest coverage ratio, under the Company s NPA, as amended. Any such breach could allow the lenders to accelerate (or create cross-default under) the Company s debt which would have a material adverse effect on the Company s business, financial condition or results of operations. The Company was in compliance with all covenants at June 30, 2010.

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Acquisition Credit Facility and Revolving Credit Facility

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

The Credit Agreement initially provided that: (1) the Acquisition Credit Facility would have a maximum principal amount of $40,000,000 (with an option to increase such facility by an additional $15,000,000 on an uncommitted basis) and the term of 5 years, and (2) the Revolving Credit Facility would have a maximum principal amount of $25,000,000 (with an option to increase such facility by up to $10,000,000 on an uncommitted basis) and a term of 5 years. Amounts borrowed under the Acquisition Credit Facility and repaid or prepaid may not be reborrowed and amounts borrowed under the Revolving Credit Facility and repaid or prepaid during the term may be reborrowed. In addition, Bank of America agreed to provide to the borrowers swing line loans (Swing Line Loans) with a maximum limit of $5,000,000, which is a part of the Revolving Credit Facility. Loans outstanding under the Acquisition Credit Facility and the Revolving Credit Facility bear interest at rates set forth in the Credit Agreement, which have seen been amended as described below.

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

On April 30, 2009, the Company, the General Partner and the Borrowers entered into the Second Amendment to Credit Agreement with the lenders and Bank of America. The Second Amendment to Credit Agreement amended the Credit Agreement to, among other matters, increase (i) the Revolving Credit Facility to a maximum aggregate principal amount of $35,000,000, with the ability to request further increases in a maximum aggregate principal amount of $10,000,000, and (ii) the Acquisition Credit Facility to a maximum aggregate principal amount of $102,850,000, with the ability to request further increases in a maximum aggregate principal amount of $57,000,000, subject to a minimum increase amount of $5,000,000. The maximum aggregate principal amount of the Acquisition Credit Facility was increased to $107,850,000, with the ability to request further increases in a maximum aggregate principal amount of $52,000,000, after giving effect to a $5,000,000 increase in the Acquisition Credit Facility implemented through the Lender Joinder to Amended and Restated Credit Agreement, dated June 24, 2009, among the Company, the General Partner, the Borrowers and other parties thereto.

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

Concurrently with the closing of the Notes Offering and a common unit offering, on November 24, 2009, the Company entered into the Fourth Amendment to Amended and Restated Credit Agreement (the Fourth Amendment to Credit Agreement) by and among the Company, the General Partner, the Borrowers, the lenders, and Bank of America, as Administrative Agent for the benefit of the lenders. The Fourth Amendment to Credit Agreement amended the Credit Agreement to, among other matters, (i) amend certain restrictive covenants and other terms set forth in the Credit Agreement to permit the Company to incur the indebtedness evidenced by the Senior Notes, enter into the Indenture and use the net proceeds of the Notes Offering and Units Offering as discussed above; (ii) decrease the Acquisition Credit Facility to a maximum aggregate principal amount of $45.0 million, with the ability to request further increases in a maximum aggregate principal amount of $10.0 million; and (iii) amend the Consolidated Leverage Ratio (as defined in the Credit Agreement). On January 15, 2010, the Company entered into the Fifth Amendment to the Amended and Restated Credit Agreement which further amended the Consolidated Leverage Ratio. Loans outstanding under the Acquisition Credit Facility and the Revolving Credit Facility bear interest at a per annum rate based upon a base rate (the Base Rate) or a Eurodollar rate (the Eurodollar Rate) plus a margin ranging from 2.25% to 3.25% over the Base Rate and 3.25% to 4.25% over the Eurodollar Rate, as selected by the Borrowers. The Base Rate is the highest of (a) the Federal Funds Rate plus 0.5% or (b) the Prime Rate, as defined in the Credit Agreement. The Eurodollar Rate equals the greater of: (i) the British Bankers Association LIBOR Rate or (ii) if such rate is not available, the rate determined by Bank of America, N.A., as the Administrative Agent, subject to certain conditions. Margin is determined by the ratio of consolidated funded debt to consolidated EBITDA.

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

The proceeds of the Acquisition Credit Facility may be used by the Borrowers to finance (i) Permitted Acquisitions and (ii) the purchase and construction of mausoleums. The proceeds of the Revolving Credit Facility and Swing Line Loans may be utilized to finance working capital requirements, Capital Expenditures, as defined in the Credit Agreement, and for other general corporate purposes.

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

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

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

The agreements governing the Revolving Credit Facility, the Acquisition Credit Facility contain restrictive covenants that, among other things, prohibit distributions upon defined events of default, restrict investments and sales of assets and require the Company to maintain certain financial covenants, including specified financial ratios. A material decrease in sales could cause the Company to breach certain of its financial covenants, such as the leverage ratio and the interest coverage ratio, under the Company s Credit Agreement and NPA, as amended. Any such breach could allow the lenders to accelerate (or create cross-default under) the Company s debt which would have a material adverse effect on the Company s business, financial condition or results of operations. As of June 30, 2010, the Company had $53.0 million outstanding under the Credit Agreement and the Company was in compliance with all applicable covenants.

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

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

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

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

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

The Consolidated Leverage Ratio was 3.76 at June 30, 2010.

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

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

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

Green Lawn Note

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

Nelms Note

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

In June of 2010, certain of the Company s subsidiaries also issued four notes in the aggregate principal amount of approximately $5.8 million in connection with the acquisition referenced above. These notes were paid at the closing of the acquisition referenced above by: (i) the issuance by the Company of 293,947 unregistered common units representing limited partnership interests of the Company valued at $5,585,000 and (ii) a cash payment of $202,347.

9. INCOME TAXES

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

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

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

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

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

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

Certain of the Company s subsidiaries are subject to US federal income tax as well as multiple state jurisdictions. The effective tax rate fluctuates over time based on income tax rates in the various tax jurisdictions in which these subsidiaries operates and based on the level of earnings in those jurisdictions. Several entities of the Company were recently under examination by the Internal Revenue Service for its separate company US income tax returns for the year ended December 31, 2005. These audits were completed in the third quarter of 2009 with no impact to the financial statements. The Company is not currently under examination by any state jurisdictions. The federal statute of limitations and certain state statutes of limitations are open from 2005 forward. Management believes that the accrual for tax liabilities is adequate for all open years. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. On the basis of present information, it is the opinion of the Company s management that there are no pending assessments that will result in a material adverse effect on the Company s condensed consolidated financial statements over the next twelve months.

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

10. DEFERRED CEMETERY REVENUES NET

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

	June 30, 2010	December 31, 2009
	(in thousands)	
Deferred cemetery revenue	$ 248,842	$ 222,749
Deferred merchandise trust revenue	27,310	29,142
Deferred merchandise trust unrealized losses	(22,177)	(27,278)
Deferred pre-acquisition margin	95,355	66,297
Deferred cost of goods sold	(36,028)	(31,931)
Deferred cemetery revenues, net	$ 313,301	$ 258,978
Deferred selling and obtaining costs	$ 55,759	$ 49,782

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

11. COMMITMENTS AND CONTINGENCIES

Legal

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

Leases

At June 30, 2010, the Company was committed to operating lease payments for premises, automobiles and office equipment under various operating leases with initial terms ranging from one to five years and options to renew at varying terms. Expenses under operating leases were $0.5 million and $1.0 million for both the three and six months ended June 30, 2010 and 2009.

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

	(in thousands)
2011	1,715
2012	1,517
2013	1,380
2014	864
2015	653
Thereafter	2,516
Total	$ 8,645

Tax Indemnification

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

12. PARTNERS CAPITAL

Unit-Based Compensation

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

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Unit appreciation rights	$ 121	$	$ 242	$
Restricted phantom units	56	383	111	757
Total unit-based compensation expense	$ 177	$ 383	$ 353	$ 757

As of June 30, 2010, there was approximately $1.7 million in non-vested unit appreciation rights outstanding.

During the 2nd quarter of 2010, the Company issued 180,000 units to executives and key employees as part of its long-term incentive plan.

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13. ACQUISITIONS AND DIVESTITURES
First Quarter 2010 Acquisition

On March 30, 2010, StoneMor Operating LLC, a Delaware limited liability company (StoneMor LLC), StoneMor Michigan LLC, a Michigan limited liability company (Buyer LLC) and StoneMor Michigan Subsidiary LLC, a Michigan limited liability company (Buyer NQ Sub and individually and collectively with StoneMor LLC and Buyer LLC, Buyer), each a wholly-owned subsidiary of StoneMor Partners L.P. (the Company), entered into an Asset Purchase and Sale Agreement (the 1st Quarter Purchase Agreement) with SCI Funeral Services, LLC, an Iowa limited liability company (Parent), SCI Michigan Funeral Services, Inc., a Michigan corporation (SCI Michigan , and together with Parent, SCI), Hillcrest Memorial Company, a Delaware corporation (Hillcrest), Christian Memorial Cultural Center, Inc., a Michigan corporation (Christian), Sunrise Memorial Gardens Cemetery, Inc., a Michigan corporation (Sunrise), and Flint Memorial Park Association, a Michigan corporation (Flint and individually and collectively with Sunrise, Hillcrest and Christian, Seller).

In connection with the 1st Quarter Purchase Agreement, on March 30, 2010, StoneMor LLC and Plymouth Warehouse Facilities LLC, a Delaware limited liability company and a wholly-owned subsidiary of the Company (Plymouth and individually and collectively with StoneMor LLC, Warehouse Buyer), entered into an Asset Purchase and Sale Agreement (the Warehouse Purchase Agreement) with SCI, Hillcrest, Sunrise, Flint, Buyer NQ Sub and Buyer LLC.

Pursuant to the 1st Quarter Purchase Agreement, Buyer acquired nine cemeteries in Michigan, including certain related assets (the Acquired Assets), and assumed certain related liabilities (the Assumed Liabilities). In consideration for the transfer of the Acquired Assets and in addition to the assumption of the Assumed Liabilities, Buyer paid Seller approximately $14 million (the Closing Purchase Price) in cash. The Closing Purchase Price can be increased or decreased post-closing for accounts receivable, merchandise trust amounts and endowment care trust amounts above or below agreed levels, as provided in the Purchase Agreement.

Pursuant to the Warehouse Purchase Agreement, Warehouse Buyer acquired one warehouse in Michigan from SCI, including certain related assets, and assumed certain related liabilities for $0.5 million in cash, which was deemed part of the $14 million consideration paid in connection with the Purchase Agreement.

The 1st Quarter Purchase Agreement and Warehouse Purchase Agreement also include various representations, warranties, covenants, indemnification and other provisions which are customary for transactions of this nature.

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

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

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

The following unaudited pro forma information presents a summary of results of operations of the Company and the acquired cemeteries if the acquisition had occurred on January 1, 2009:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	(unaudited) (In thousands)		(unaudited) (In thousands)	
Revenues	$ 50,267	$ 49,332	$ 92,467	$ 93,460
Net income (loss)	2,742	1,560	24,696	616
Net income (loss) per limited partner unit (basic and diluted)	0.20	0.13	1.33	0.05

The unaudited pro forma results do not purport to be indicative of the results of operations which actually would have resulted had the combination been in effect on January 1, 2009 or of future results of operations of the locations.

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Second Quarter 2010 Acquisition

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

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

Effective June 21, 2010, pursuant to the 2nd Quarter Purchase Agreement and Amendment No. 1, the Buyer acquired the stock (the Stock) of certain companies owned by Ansure (the Acquired Companies) and certain assets (the Assets) owned by Nelms, Nelms LLC, Gill, Gardens of Memory, Garden View, Forest Lawn, Heritage, Royal Oak and MGMC, resulting in the acquisition of 8 cemeteries and 5 funeral homes in Indiana, Michigan and Ohio (the Acquisition). The Buyer acquired the Stock and Assets, advanced moneys to pay for trust shortfalls of the cemeteries, paid certain liabilities of the Sellers, which were offset by funds held in a Smith Barney Account acquired by the Buyer in the transaction, and paid certain legal fees of the parties to the transaction and other acquisition costs, for a total consideration, including the offset by the funds held in the Smith Barney Account, of approximately $33.0 million. The Acquisition was financed, in part, by borrowing $22.5 million from the Company s acquisition facility under the Amended and Restated Credit Agreement dated August 15, 2007 among StoneMor LLC, certain of its subsidiaries, the Company, StoneMor GP LLC, Bank of America, N.A., the other lenders party thereto, and Banc of America Securities LLC, as amended.

Settlement Agreement

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

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

StoneMor agreed to assume approximately $7.1 million of Ansure s and Forest Lawn s obligations under the notes they issued, with the remaining principal, interest and fees due under such notes forgiven by the Meyer Family. In connection with the assumption of these obligations, at Closing, StoneMor issued promissory notes to each member of the Meyer Family (the Closing Notes) and additional promissory notes payable in installments to certain members of the Meyer Family (the Installment Notes). The Closing Notes were issued effective June 21, 2010 in the aggregate principal amount of approximately $5.8 million, were unsecured subordinated obligations of StoneMor, bore no interest and were payable on demand at the Closing. The Closing Notes were paid at closing by: (i) the issuance by the Company of 293,947 unregistered common units representing limited partnership interests of the Company (the Units) valued at approximately $5.6 million pursuant to the terms of the Settlement Agreement; and (ii) a cash payment of approximately $0.2 million.

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The Installment Notes were issued effective June 21, 2010 in the aggregate principal amount of approximately $1.3 million to be paid in installments over 4 years. The Installment Notes were issued effective June 21, 2010 and mature April 1, 2014. The Installment Notes bear 10.25% interest per annum on the portion of the outstanding balance after the maturity date or while there exists any uncured event of default or the exercise by the Company of any remedies following the occurrence and during the continuance of any event of default. In addition, if StoneMor voluntarily files for bankruptcy or is involved in an involuntary bankruptcy proceeding, the entire principal balance of the Installment Notes will automatically become due and payable.

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

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

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

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

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

Unregistered Sale of Securities

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

Pursuant to the Non-Competition Agreement, the Company is obligated to issue additional Units valued at $0.5 million over the next three years as follows: Units valued at $0.2 million on each of the first anniversary and second anniversary of the Closing with the number of Units determined by dividing $0.2 million by the per-Unit price of Units on The Nasdaq Stock Market LLC (Nasdaq) on the close of the third business day prior to the closing, subject to adjustments as a result of a Unit split, Unit combination or similar events occurring after the closing but prior to each of the first and second anniversaries; and Units valued at $0.1 million on the third anniversary of the closing, with the number of Units determined by dividing $0.1 million by the per-Unit price on the Nasdaq on the close of the third business day prior to the closing, subject to adjustments as a result of a Unit split, Unit combination or similar events occurring after the closing but prior to the third anniversary of the closing.

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

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	As of June 30, 2010 (in thousands)
Assets:	
Cemetery land	$ 23,188
Cemetery and funeral home property	27,842
Accounts receivable (net)	2,191
Merchandise trusts, restricted, at fair value	18,396
Perpetual care trusts, restricted, at fair value	3,541
Other assets	4,225
Total assets	79,383
Liabilities	
Deferred margin	12,070
Merchandise liabilities	14,929
Other liabilities	16,130
Perpetual care trust corpus	3,541
Total liabilities	46,670
Fair value of net assets acquired	32,713
Paid at closing purchase price	8,539
Paid at closing trust underfunding	14,408
Paid at closing units	5,785
Paid at closing liabilities incurred	3,981
Total paid at closing	$ 32,713

Second Quarter 2009 Acquisitions

In the second quarter of 2009, the Company, through certain of its subsidiaries, entered into two long-term operating agreements wherein the Company became exclusive operator of the underlying cemetery land. These two cemeteries qualify as variable interest entities (VIE) for which the Company is the primary beneficiary. As such, the Company has consolidated these two cemeteries into the financial statements.

In the second quarter of this year, the Company made final changes to the fair value of the net assets acquired due to this transaction. These changes resulted in an increase in the gain recorded on this transaction from approximately $0.4 million to approximately $3.8 million.

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The table below denotes the changes made to the recognition of the fair value of the net assets acquired due to this transaction in the second quarter of 2010 as compared to what was recorded at December 31, 2009..

	Amount Originally Recorded	Revised Amount (in thousands)	Change
Assets			
Cemetery land	$ 3,800	$ 8,720	$ 4,920
Cemetery building	1,310	450	(860)
Accounts receivable	270	270	
Merchandise trust assets	1,440	1,385	(55)
PC Trust assets	3,447	3,428	(19)
Equipment	64	179	115
Goodwill	330		(330)
Other assets			
Cemetery inventory	247	247	
Total assets	10,908	14,679	3,771
Liabilities			
Merchandise liabilities	1,635	1,635	
Other liabilities	46	46	
Deferred margin	1,322	1,322	
Deferred tax liabilities	581	198	(383)
Perpetual care trust corpus	3,447	3,428	(19)
Total liabilities	7,031	6,629	(402)
Net assets acquired	$ 3,877	$ 8,050	$ 4,173

The primary assets subject to additional changes are cemetery property and property and equipment. As of June 30, 2010, there were still purchase allocations open on the acquisition made in the third quarter of 2009. The Company will finalize this allocation in the third quarter of 2010.

14. SEGMENT INFORMATION

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

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

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

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

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

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Segment information as of and for the three and six months ended June 30, 2010 and 2009 is as follows:

As of and for the three months ended June 30, 2010

	Cemeteries			Funeral			
	Southeast	Northeast	West	Homes (in thousands)	Corporate	Adjustment	Total
Revenues							
Sales	$ 20,769	$ 8,812	$ 9,344	$	$	$ (11,415)	$ 27,510
Service and other	7,830	6,439	4,363		(57)	(3,122)	15,453
Funeral home				5,923		(149)	5,774
Total revenues	28,599	15,251	13,707	5,923	(57)	(14,686)	48,737
Costs and expenses							
Cost of sales	4,253	1,731	1,517			(2,151)	5,347
Cemetery	5,411	3,495	3,181			(2)	12,086
Selling	6,360	2,792	2,663		258	(2,606)	9,467
General and administrative	3,079	1,478	1,616		(13)		6,161
Funeral home				4,648		(6)	4,642
Depreciation and amortization	329	190	150	282	848		1,799
Corporate					5,605		5,605
Acquisition related costs					1,666		1,666
Total costs and expenses	19,433	9,686	9,127	4,930	8,364	(4,765)	46,773
Operating earnings	9,166	5,565	4,580	993	(8,421)	(9,921)	1,964
Gain on acquisition					4,173		4,173
Increase in value of interest rate swap					1,568		1,568
Interest expense	2,299	947	1,333	675	(16)		5,238
Earnings (losses) before taxes	$ 6,867	$ 4,618	$ 3,247	$ 318	$ (2,664)	$ (9,921)	$ 2,467
Supplemental information							
Total assets	$ 405,742	$ 260,205	$ 316,719	$ 53,528	$ 28,623	$	$ 1,064,816
Amortization of cemetery property	$ 826	$ 560	$ 174	$	$	$ (214)	$ 1,346
Long lived asset additions	$ 5,007	$ 233	$ 28,755	$ 18,648	$ 122	$	$ 52,765

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As of and for the six months ended June 30, 2010

	Cemeteries Southeast	Northeast	West	Funeral Homes (in thousands)	Corporate	Adjustment	Total
Revenues							
Sales	$ 39,425	$ 16,765	$ 16,237	$	$ (79)	$ (24,452)	$ 47,896
Service and other	15,249	12,055	7,864			(5,308)	29,860
Funeral home				11,962		(311)	11,651
Total revenues	54,674	28,820	24,101	11,962	(79)	(30,071)	89,407
Costs and expenses							
Cost of sales	8,068	3,314	2,528		6	(4,137)	9,779
Cemetery	9,703	6,339	5,292			(1)	21,333
Selling	12,521	5,397	4,731		320	(5,887)	17,083
General and administrative	5,906	2,984	2,878		(9)		11,759
Funeral home				9,081		(8)	9,073
Depreciation and amortization	766	380	273	561	1,677		3,657
Corporate					10,694		10,694
Acquisition related costs					2,656		2,656
Total costs and expenses	36,965	18,414	15,702	9,642	15,344	(10,033)	86,034
Operating earnings	17,709	10,406	8,399	2,320	(15,423)	(20,038)	3,373
Gain on acquisition					27,485		27,485
Increase in value of interest rate swap					3,239		3,239
Interest expense	4,611	1,890	2,318	1,293	(15)		10,097
Earnings (losses) before taxes	$ 13,098	$ 8,516	$ 6,081	$ 1,027	$ 15,316	$ (20,038)	$ 24,000
Supplemental information							
Total assets	$ 405,742	$ 260,205	$ 316,719	$ 53,528	$ 28,623	$	$ 1,064,816
Amortization of cemetery property	$ 1,666	$ 1,071	$ 293	$	$	$ (403)	$ 2,627
Long lived asset additions	$ 5,099	$ 264	$ 66,994	$ 18,697	$ 184	$	$ 91,238

As of and for the three months ended June 30, 2009

	Cemeteries Southeast	Northeast	West	Funeral Homes (in thousands)	Corporate	Adjustment	Total
Revenues							
Sales	$ 19,023	$ 8,949	$ 7,817	$	$	$ (9,161)	$ 26,628
Service and other	6,848	5,685	3,321			(444)	15,410

Funeral home				5,914		(151)	5,763
Total revenues	25,871	14,634	11,138	5,914		(9,756)	47,801
Costs and expenses							
Cost of sales	4,131	1,960	1,230			(1,163)	6,158
Cemetery	4,616	3,324	2,472				10,412
Selling	5,532	2,756	2,181		232	(2,083)	8,618
General and administrative	2,775	1,451	1,208		(22)		5,412
Funeral home				4,737		(26)	4,711
Depreciation and amortization	322	196	106	250	834		1,708
Corporate					5,497		5,497
Acquisition related costs					542		542
Total costs and expenses	17,376	9,687	7,197	4,987	7,083	(3,272)	43,058
Operating earnings	8,495	4,947	3,941	927	(7,083)	(6,484)	4,743
Gain on sale of funeral home							
Interest expense	1,421	601	692	479	9		3,202
Earnings (losses) before taxes	$ 7,074	$ 4,346	$ 3,249	$ 448	$ (7,092)	$ (6,484)	$ 1,542
Supplemental information							
Total assets	$ 346,119	$ 243,614	$ 147,484	$ 33,728	$ 23,380	$	$ 794,325
Amortization of cemetery property	$ 937	$ 611	$ 166	$	$	$ 281	$ 1,995
Long lived asset additions	$ 5,467	$ 129	$ 544	$ 1,401	$ 69	$	$ 7,610

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As of and for the six months ended June 30, 2009:

	Cemeteries Southeast	Cemeteries Northeast	Cemeteries West	Funeral Homes	Corporate	Adjustment	Total
	(in thousands)						
Revenues							
Sales	$ 36,089	$ 17,171	$ 14,494	$	$	$ (19,159)	$ 48,595
Service and other	13,094	11,366	6,435		14	(1,134)	29,775
Funeral home				12,031			12,031
Total revenues	49,183	28,537	20,929	12,031	14	(20,293)	90,401
Costs and expenses							
Cost of sales	7,916	3,617	2,426		3	(3,003)	10,959
Cemetery	8,698	6,351	4,791		10		19,850
Selling	11,042	5,473	4,161		370	(4,602)	16,444
General and administrative	5,464	3,101	2,342		(17)		10,890
Funeral home				9,512			9,512
Depreciation and amortization	696	443	210	465	1,206		3,020
Corporate					10,863		10,863
Acquisition related costs					2,128		2,128
Total costs and expenses	33,816	18,985	13,930	9,977	14,563	(7,605)	83,666
Operating earnings	15,367	9,552	6,999	2,054	(14,549)	(12,688)	6,735
Gain on sale of funeral home				475			475
Increase in value of interest rate swap							
Interest expense	2,816	1,207	1,378	952	18		6,371
Earnings (losses) before taxes	$ 12,551	$ 8,345	$ 5,621	$ 1,577	$ (14,567)	$ (12,688)	$ 839
Supplemental information							
Total assets	$ 346,119	$ 243,614	$ 147,484	$ 33,728	$ 25,380	$	$ 796,325
Amortization of cemetery property	$ 1,658	$ 1,083	$ 403	$	$	$ 71	$ 3,215
Long lived asset additions	$ 5,241	$ 517	$ 487	$ 1,714	$ 189	$	$ 8,148

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

15. FAIR VALUE MEASUREMENTS

ASC 820-10 establishes a framework for measuring fair value and expands related disclosures. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10 establishes a fair value hierarchy that gives the highest priority to observable inputs and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy defined by ASC 820-10 are described below.

Level 1: Quoted market prices available in active markets for identical assets or liabilities. The Company includes cash and cash equivalents, U.S. Government debt securities and publicly traded equity instruments and mutual funds in its level 1 investments.

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Level 2:	Quoted prices in active markets for similar assets; quoted prices in non-active markets for identical or similar assets; inputs other than quoted prices that are observable. The Company includes U.S. state and municipal, corporate and other fixed income debt securities in its level 2 investments.
Level 3:	Any and all pricing inputs that are generally unobservable and not corroborated by market data.

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The following table allocates the Company s financial instruments measured at fair value as of June 30, 2010. There were no Level 3 assets at June 30, 2010.

Merchandise Trust

Description	Level 1	Level 2
	(in thousands)	
Assets		
Short-term investments	$ 41,201	$
Fixed maturities:		
U.S. state and local government agency		33
Corporate debt securities		9,412
Other debt securities		18,183
Total fixed maturity investments		27,628
Mutual funds debt securities	48,098	
Mutual funds equity securities real estate sector	11,431	
Mutual funds equity securities energy sector	24,511	
Mutual funds equity securities MLP s	4,388	
Mutual funds equity securities other	50,177	
Equity securities		
Preferred REIT s	14,323	
Master limited partnerships	28,202	
Global equity securities	15,999	
Other invested assets		954
Total	$ 238,327	$ 28,582

Perpetual Care Trust

Description	Level 1	Level 2
	(in thousands)	
Assets		
Short-term investments	$ 12,866	$
Fixed maturities:		
U.S. state and local government agency		213
Corporate debt securities		20,741
Other debt securities		5,816
Total fixed maturity investments		26,770
Mutual funds debt securities	45,773	2,106
Mutual funds equity securities real estate sector	9,915	

Mutual funds equity securities energy sector	27,864	
Mutual funds equity securities MLP s	1,231	
Mutual funds equity securities other	37,114	
Equity securities		
Preferred REIT s	29,229	
Master limited partnerships	22,129	
Global equity securities		
Other invested assets		431
Total	$ 186,121	$ 29,308
Interest Rate Swaps	$	$ 559

All level 2 assets are priced utilizing independent pricing services. The interest rate swap price is provided to the Company by an independent third party source and tested by the Company via an analysis of current swap pricing to the contracted swap pricing.

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

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

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

Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, including, but not limited to, information regarding the status and progress of our operating activities, the plans and objectives of our management, assumptions regarding our future performance and plans, and any financial guidance provided, as well as certain information in other filings with the SEC and elsewhere, are forward-looking statements within the meaning of Section 27A(i) of the Securities Act of 1933 and Section 21E(i) of the Securities Exchange Act of 1934. The words believe, may, will, estimate, continue, anticipate, intend, project, expect, predict, and similar expressions identify these forward-looking statemen forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated, including, but not limited to, the following: uncertainties associated with future revenue and revenue growth; the effect of the current economic downturn; the impact of the Company s significant leverage on its operating plans; the ability of the Company to service its debt and pay distributions; the decline in the fair value of certain equity and debt securities held in the Company s trusts; the Company s ability to attract, train and retain an adequate number of sales people; uncertainties associated with the volume and timing of pre-need sales of cemetery services and products; increased use of cremation; changes in political or regulatory environments, including potential changes in tax accounting and trusting policies; the Company s ability to successfully implement a strategic plan relating to producing operating improvement, strong cash flows and further deleveraging; uncertainties associated with the integration or the anticipated benefits of the Company s recent acquisitions; the Company s ability to complete and fund additional acquisitions; information disclosed within this Quarterly Report on Form 10-Q; and various other uncertainties associated with the deathcare industry and our operations in particular.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, this Quarterly Report on Form 10-Q and our other reports filed with the SEC. We assume no obligation to update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

Organization

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

Cornerstone had been founded in 1999 by members of our management team and a private equity investment firm, which we refer to as McCown De Leeuw, in order to acquire a group of 123 cemetery properties and 4 funeral homes. Since that time, we have acquired 128 additional cemeteries and 59 funeral homes, entered into three long term cemetery operating agreements, built two funeral homes, exited from one long term cemetery operating agreement and sold one cemetery and two funeral homes.

Capitalization

On September 20, 2004, we completed our initial public offering of 3,675,000 common units at a price of $20.50 per unit representing a 42.5% interest in us. On September 23, 2004, we sold an additional 551,250 common units to the underwriters in connection with the exercise of their over-allotment option and redeemed an equal number of common units from CFSI LLC at a cost of $5.3 million. Subsequent to this transaction, there were 4,239,782 common units and 4,239,782 subordinated units outstanding. Total gross proceeds from the initial public offering and the exercise of the over-allotment option were $86.6 million, before offering costs and underwriting discounts. Net proceeds, after deducting underwriting discounts but before paying offering costs, from these sales of common units was $80.8 million.

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Concurrent with the initial public offering, our wholly owned subsidiary, StoneMor Operating LLC, and its subsidiaries (collectively StoneMor LLC), all as borrowers, issued and sold $80.0 million in aggregate principal amount of senior secured notes in a private placement and entered into a $12.5 million revolving credit facility and a $22.5 million acquisition facility with a group of banks. The net proceeds of the initial public offering and the sale of senior secured notes were used to repay the debt and associated accrued interest of approximately $135.1 million of CFSI LLC and $15.7 million of fees and expenses associated with the initial public offering and the sale of senior secured notes. The remaining funds have been used for general partnership purposes, including the construction of mausoleum crypts and lawn crypts, the purchases of equipment needed to install burial vaults and the acquisition of cemetery and funeral home locations.

On December 21, 2007, we completed a follow on public offering of 2,650,000 common units at a price of $20.26 per unit representing a 22.2% interest in us, making a total of 8,505,725 common units outstanding. In conjunction with this offering, our general partner contributed $1.1 million to maintain its 2% general partner interest. Total gross proceeds from this public offering were $54.8 million, before offering costs and underwriting discounts. Net proceeds, after deducting underwriting discounts but before paying offering costs, from these sales of common units were $51.8 million.

Concurrent with this follow on public offering, StoneMor LLC, all as borrowers, issued $17.5 million in aggregate principal amount of senior secured notes. The net proceeds of the public offering and the sale of senior secured notes and borrowings of $6.3 million under our acquisition line of credit were used to purchase 45 cemeteries and 30 funeral homes from Service Corporation International (NYSE: SCI).

On November 24, 2009, we completed the second follow on public offering of 1,275,000 common units at a price of $17.00 per unit representing a 9.5% interest in us. On December 7, 2009, we sold an additional 191,250 common units in connection with the exercise of the underwriter s over-allotment option. In conjunction with this offering, our general partner contributed $0.51 million to maintain its 2% general partner interest. Total gross proceeds from these transactions were $25.4 million, before offering costs and underwriting discounts. Net proceeds, after deducting underwriting discounts and offering expenses were $24.2 million.

Concurrent with this second follow on public offering, certain of our subsidiaries made a private offering to eligible purchasers of $150.0 million aggregate principal amount of senior notes due 2017. The net proceeds from this offering, after deducting the original issue discount and fees were approximately $138.1 million. The net proceeds of the second follow on public offering, the general partner contribution and the offering of senior notes of $162.5 million was used to pay off debt and accrued interest of approximately $154.9 million. The remaining proceeds will be used for general partnership purposes.

Overview

Cemetery Operations

We are the second largest owner and operator of cemeteries in the United States. As of June 30, 2010, we operated 252 cemeteries. We own 236 of these cemeteries and operate the remaining 16 under long-term agreements. As a result of the agreements and other control arrangements, we consolidate the results of the 16 managed cemeteries in our condensed consolidated financial statements.

We sell cemetery products and services both at the time of death, which we refer to as at-need, and prior to the time of death, which we refer to as pre-need. Revenues from cemetery operations accounted for approximately 86.8% and 87.9% of our revenues during the three and six months ended June 30, 2010 as compared to 86.2% and 86.7% during the same periods last year.

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

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

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

pre-need sales of cemetery services, other than perpetual care services, which we recognize as revenues when we perform the services for the customer;

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

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

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

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

the merchandise is complete and ready for installation; or

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

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

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

Pre-need Sales

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

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

Pre-need sales are usually made on an installment contract basis. Contracts are usually for a period not to exceed 60 months with payments of principal and interest required. For those contracts that do not bear a market rate of interest, the Company imputes such interest in order to segregate the principal and interest component of the total contract value.

We normally offer prepayment incentives to customers whose pre-need contracts are longer than 36 months and bear interest. If those customers pay their contracts in full in less than 12 months, we rebate the interest that we collected from them. Even though this rebate policy reduces the amount of interest income we receive on our accounts receivable, the net effect is an increase in our immediate cash flow.

At-need Sales

At-need sales of products and services are generally required to be paid for in full with cash at the time of sale. At that time, we first deposit any amount required to be placed in perpetual care trusts. We are not required to deposit any amounts from our at-need sales into merchandise trusts.

Expenses

We analyze and categorize our operating expenses as follows:

1. Cost of goods sold and selling expenses

Cost of goods sold reflects the actual cost of purchasing products and performing services. Sales of cemetery lots and interment rights, whether at-need or pre-need, typically have a lower cost of goods sold than other merchandise that we sell.

Selling expenses consist of salesperson and sales management payroll costs, including selling commissions, bonuses and employee benefits. We self-insure medical expenses of our employees up to certain individual and aggregate limits over which we have stop-loss insurance coverage. Our self-insurance policy may result in variability in our future operating expenses. Selling expenses also includes other costs of obtaining product and service sales, such as advertising, marketing, postage and telephone.

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

2. Cemetery Expenses

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

3. General and administrative expenses

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

4. Depreciation and amortization

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

5. Acquisition related costs

On January 1, 2009, we adopted ASC 805. Amongst other things, ASC 805 requires that costs incurred in acquisition related activities be expensed as incurred. Acquisition related costs include legal fees and other third party costs incurred in acquisition related activities.

Funeral Home Operations

As of June 30, 2010, we owned and operated 63 funeral homes. Twenty six of our 63 funeral homes are located on the grounds of cemeteries that we own.

We derive revenues at our funeral homes from the sale of funeral home merchandise, including caskets and related funeral merchandise, and services, including removal and preparation of remains, the use of our facilities for visitation, worship and performance of funeral services and transportation services. We sell these services and merchandise primarily at the time of need utilizing salaried licensed funeral directors. Funeral home revenues accounted for approximately 13.2% and 12.1% of our revenues during the three and six months ended June 30, 2010, respectively as compared to 13.8% and 13.3% during the same periods last year.

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

Our funeral home operating expenses consist primarily of compensation to our funeral directors and the cost of caskets.

Corporate

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

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Current Market Conditions and Economic Developments

In the first quarter of 2010, we reported that the market for at-need sales of our cemetery merchandise and services continued to be soft. We saw somewhat of an improvement in the second quarter of 2010. Total revenues from at need sales were $16.0 million during the three months ended June 30, 2010 as compared to $13.4 million during the same period last year. The value of contracts written increased by $1.8 million while the increase in deferred revenue decreased by $1.1 million. We will continue to closely monitor trends in at-need sales.

We completed two acquisitions during the six months ended June 30, 2010. The first acquisition took place in the first quarter of the year and consisted of nine cemeteries. We paid approximately $14.0 million for these properties and have preliminarily assessed the fair value of net assets acquired at approximately $37.3 million, resulting in a gain on acquisition of $23.3 million.

The second acquisition took place in the second quarter of the year and consisted of eight cemeteries and five funeral homes. We paid a total of $32.7 million at closing, the components of which were:

- $8.5 million in cash related to purchase price.
- $14.4 million in cash to lend monies to the merchandise and perpetual care trusts of these properties to fund their current underfunded status.
- $5.8 million in common units representing limited partner interests in us.
- $4.0 million in debt which will be settled in future periods.

We have preliminarily assessed the fair value of net assets acquired at approximately $32.7 million, resulting in neither a gain on the acquisition nor goodwill.

Decline in Market Value of Trust Assets

We have a substantial portfolio of invested assets in both our merchandise trust and the perpetual care trust. Both trusts have a mix of cash and cash equivalents, fixed maturity debt securities and equity securities. There was a significant decline in the fair value of trust assets during the last six months of 2008. Many of these assets have since recovered a material portion of their value. At June 30, 2010, the ratio of fair value to cost was 90.5% for assets held in our merchandise trust and 91.5% for assets held in our perpetual care trust.

Funds in our trusts are managed by third-party investment managers who are in turn monitored by a third-party investment advisor selected by our Trust and Compliance Committee. The third-party investment advisor is providing the committee with frequent updates on the performance of the investments. We will continue to monitor performance closely. See Item 3. Quantitative and Qualitative Disclosure About Market Risk for more information.

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

Perpetual Care Trust

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

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

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

Our primary risk related to the assets in the perpetual care trust relate to the interest and dividends paid and released to us and used to defray cemetery maintenance costs. Any material reduction in this income stream could have a material effect on our financial condition, results of operations and liquidity. Interest and dividend income earned on perpetual care trust assets was approximately $3.8 million and $6.8 million during the three and six months ended June 30, 2010, respectively, as compared to $3.3 million and $6.6 million during the same periods last year.

Merchandise Trust

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

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

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

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

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

At June 30, 2010, the merchandise trust had approximately $41.2 million in cash and cash equivalents. This amount functions to mitigate the risk of liquidating impaired assets. In evaluating the sufficiency of this amount as to its effectiveness in mitigating the risk of liquidating impaired assets, we have considered the net inflows and outflows of cash into the trust in recent prior periods. These net inflows and outflows are a function of both sales originations and the corresponding trust deposits and meeting the criteria for releasing funds. Not including amounts related to acquisitions, total net cash inflows into the merchandise trust were approximately $4.0 million during the six months ended June 30, 2010 while there was a net cash outflow of less than $0.1 million during the three months ended June 30, 2010.

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

Impact on Our Ability to Meet Our Debt Covenants

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

The Profitability Measure is primarily related to the current period value of contracts written, investment income from the merchandise and perpetual care trust and current expenses incurred. The revenue recognition rules that we must follow for GAAP purposes is not considered. We have not seen any material decline in the value of contracts written due to current economic conditions. The value of cemetery contracts written increased by $4.5 million and $6.4 million during the three and six months ended June 30, 2010.

The coverage ratio relates to the excess of the Profitability Measure less distributions made to partners over fixed charges. This ratio has been somewhat negatively impacted in so much that while the Profitability Measure has not eroded, distributions paid to partners and fixed charges have increased due to our fourth quarter 2009 follow on public offering and issuance of senior notes. We do not believe we are currently in danger of defaulting on this debt covenant.

The leverage ratio relates to the ratio of consolidated debt to the Profitability Measure. We have seen an increase in debt during the first six months of 2010 as we borrowed money to complete two acquisitions. Our leverage ratio is 3.76 at June 30, 2010, we do not believe we are currently in danger of defaulting on this debt covenant.

Segment Reporting and Related Information

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

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

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

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

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

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

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

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

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

Accounts Receivable Allowance for Cancellations

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

The allowance for cancellations is established based upon our estimate of expected cancellations and historical experiences and is currently approximately 10% of total contract values. Future cancellation rates may differ from this current estimate. We will continue to evaluate cancellation rates and will make changes to the estimate should the need arise. Actual cancellations did not vary significantly from the estimates of expected cancellations at June 30, 2010 and December 31, 2009, respectively.

Merchandise Trust Assets

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

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

Any reduction in the cost basis of assets held in our merchandise trust due to an other-than-temporary impairment is offset against deferred revenue.

Perpetual Care Trust Assets

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

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

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

Any reduction in the cost basis of assets held in our perpetual care trust due to an other-than-temporary impairment is offset against perpetual care trust corpus. There is no impact on earnings.

Impairment of Long-Lived Assets

We monitor the recoverability of long-lived assets, including cemetery property, property and equipment and other assets, based on estimates using factors such as current market value, future asset utilization, business and regulatory climate and future undiscounted cash flows expected to result from the use of the related assets. Our policy is to evaluate an asset for impairment when events or circumstances indicate that a long-lived asset s carrying value may not be recovered. An impairment charge is recorded to write-down the asset to its fair value if the sum of future undiscounted cash flows is less than the carrying value of the asset.

Property and Equipment

Property and equipment is recorded at cost and depreciated on a straight-line basis. Maintenance and repairs are charged to expense as incurred, whereas additions and major replacements are capitalized and depreciation is recorded over their estimated useful lives as follows:

Buildings and improvements	10 to 40 years
Furniture and equipment	5 to 10 years
Leasehold improvements	over the term of the lease

These estimates could be impacted in the future by changes in market conditions or other factors.

Income Taxes

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

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

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

As of December 31, 2009, our taxable corporate subsidiaries had a federal net operating loss carryover of approximately $90.7 million, which will begin to expire in 2019 and a state net operating loss carry-forward of approximately $140.7 million, a portion of which expires annually through 2028. Our ability to use such federal net operating losses may be limited by changes in the ownership of our units deemed to result in an ownership change under the applicable provisions of the Internal Revenue Code of 1986, as amended.

For additional information about, among other things, our pre-need sales, at-need sales, trusting requirements, cash flow, expenses and operations, please see Management s Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and our other reports and statements filed with the SEC.

Recent Accounting Pronouncements

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

Updates issued in 2010 that are applicable to us include:

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

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

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

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

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

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

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

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Additional accounting pronouncements issued during the reporting period include:

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

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

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

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

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

Results of Operations Segments

Three Months Ended June 30, 2010 Compared to the Three Months ended June 30, 2009

Cemetery Segments

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

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We account for and analyze the results of operations for each of these segments on a basis of accounting that is different from generally accepted accounting principals in so much that we record revenues and related expenses based upon the value of contracts written rather than upon the delivery of merchandise and services. We reconcile these non-GAAP accounting results of operations to GAAP based amounts at the consolidated level. This reconciliation is included in Note 14 to the financial statements included in this Quarterly Report on Form 10-Q.

The method of accounting we utilize to analyze our segment results of operations provides for a production based view of our business. Accordingly, the ensuing segment discussion is on a basis of accounting that differs from generally accepted accounting principles. We believe that this method allows for a critical understanding of any economic value added during a given period of time.

In prior periods, we have included in our segment discussion amounts and variations of interest expense allocated to such segment. Upon further review, we have concluded that as segment and segment managers have no control over total corporate interest expense nor the amount allocated to their segment, such discussion does not add to the understanding of how each segment performed. Accordingly, we no longer include a discussion of interest expense at the segment level.

Cemetery Operations Southeast

The table below compares the results of operations for our Cemetery Operations Southeast for the three months ended June 30, 2010 to the same period last year:

	Three months ended June 30, 2010	2009	Change ($)	Change (%)
	(In thousands) (non-GAAP)			
Total revenues	$ 28,599	$ 25,871	$ 2,728	10.5%
Total costs and expenses	19,433	17,376	2,057	11.8%
Operating earnings	$ 9,166	$ 8,495	$ 671	7.9%

Revenues

Revenues for Cemetery Operations Southeast were $28.6 million for the three months ended June 30, 2010, an increase of $2.7 million, or 10.5%, compared to $25.9 million during the same period last year.

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The increase was primarily related to an increase in both the value of pre-need contracts written ($1.6 million) and the value of at-need contracts written ($0.9 million).

Total costs and expenses

Total costs and expenses for Cemetery Operations Southeast were $19.4 million for the three months ended June 30, 2010, an increase of $2.1 million, or 11.8%, compared to $17.3 million during the same period last year.

The increase was primarily related to:

- A $0.8 million increase in selling expenses. This was mostly attributable to the corresponding increase in the value of pre-need and at-need contracts written. The ratio of selling expenses to the total value of contracts written increased by 90 basis points to 25.4% during the three months ended June 30, 2010 as compared to 24.5% during the same period last year.

- A $0.8 million increase in cemetery expenses. The increase was due to a $0.3 million increase in labor costs and a $0.5 million increase in non-labor costs.

- A $0.3 million increase in general and administrative expenses. This was caused by a number of small increases that by themselves were not material.

Cemetery Operations Northeast

The table below compares the results of operations for our Cemetery Operations Northeast for the three months ended June 30, 2010 to the same period last year:

	Three months ended June 30,			
	2010	**2009**	**Change ($)**	**Change (%)**
	(In thousands) (non-GAAP)			
Total revenues	$ 15,251	$ 14,635	$ 616	4.2%
Total costs and expenses	9,686	9,688	(2)	0.0%
Operating earnings	$ 5,565	$ 4,947	$ 618	12.5%

Revenues

Revenues for Cemetery Operations Northeast were $15.3 million for the three months ended June 30, 2010, an increase of $0.6 million, or 4.2%, compared to $14.6 million during the same period last year.

The increase was primarily due to a $0.8 million increase in investment income from trusts. The value of pre-need contracts was $7.1 million while the value of at-need contracts written was $4.5 million during both the three months ended June 30, 2010 and 2009 respectively.

Total costs and expenses

Total costs and expenses for Cemetery Operations Northeast were $9.7 million for both the three months ended June 30, 2010 and 2009, respectively. There were no material changes in any cost categories.

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Cemetery Operations West

The table below compares the results of operations for our Cemetery Operations West for the three months ended June 30, 2010 to the same period last year:

	Three months ended June 30,			
	2010	2009	Change ($)	Change (%)
	(In thousands) (non-GAAP)			
Total revenues	$ 13,707	$ 11,138	$ 2,569	23.1%
Total costs and expenses	9,127	7,197	1,930	26.8%
Operating earnings	$ 4,580	$ 3,941	$ 639	16.2%

Revenues

Revenues for Cemetery Operations West were $13.7 million for the three months ended June 30, 2010, an increase of $2.6 million, or 23.1%, compared to $11.1 million during the same period last year.

The increase was primarily related to an increase in the value of pre-need contracts written ($1.1 million) and at-need contracts written ($0.9 million).

Total costs and expenses

Total costs and expenses for Cemetery Operations West were $9.1 million for the three months ended June 30, 2010, an increase of $1.9 million, or 26.8%, compared to $7.2 million during the same period last year.

The increase was primarily related to:

A $0.3 million increase in the cost of goods sold. This was primarily attributable to the increase in the value of contracts written. The ratio of cost of goods sold to the value of contracts written rose slightly to 13.5% during the three months ended June 30, 2010 as compared to 13.3% during the same period last year.

A $0.5 million increase in selling expenses. This was also primarily attributable to the increase in the value of contracts written. The ratio of selling expense to the value of contracts was 23.6% for both the three months ended June 30, 2010 and 2009.

A $0.7 million increase in cemetery expenses. This was somewhat equally split between labor ($0.4 million) and non-labor costs ($0.3 million).

A $0.4 million increase in general and administrative costs. This was primarily attributable to a number of small increases that by themselves were not material.

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Funeral Home Segment

The table below compares the results of operations for our Funeral Home segment for the three months ended June 30, 2010 as compared to the same period last year:

	Three months ended June 30,			
	2010	2009	Change ($)	Change (%)
	(In thousand s) (non-GAAP)			
Total revenues	$ 5,923	$ 5,914	$ 9	0.2%
Total costs and expenses (a)	4,930	4,987	(57)	-1.1%
Operating earnings	$ 993	$ 927	$ 66	7.1%

(a) includes depreciation of $282 and $250 for the three months ended June 30, 2010 and 2009 respectively. This amount is included in depreciation and amortization on the income statement.

Revenues

Revenues for the Funeral Home segment were $5.9 million for both the three months ended June 30, 2010 and 2009. There were no material changes to any major component of revenue.

Total costs and expenses

Total costs and expenses as shown herein are consist of both funeral home expenses as shown on the income statement and depreciation and amortization allocated to the Funeral Home segment. Total costs and expenses for the Funeral Home segment were $4.9 million for the three months ended June 30, 2010, a slight decrease of $0.1 million, or 1.1%, compared to $5.0 million during the same period last year.

Corporate Segment

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

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

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

Certain depreciation and amortization expenses.

Gains and losses and purchases and sales of cemetery and funeral home properties.

Acquisition related costs.

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The table below details expenses incurred by the Corporate segment for the three months ended June 30, 2010 and for the same period last year:

	Three months ended June 30,			
	2010	2009	Change ($)	Change (%)
	(In thousand s)			
Selling, cemetery and general and administrative expenses (a)	$ 302	$ 368	$ (66)	-17.9%
Depreciation and amortization	848	831	17	2.0%
Acquisition related costs	1,666	542	1,124	207.4%
Corporate expenses				
Corporate personnel expenses	2,604	2,638	(34)	-1.3%
Other corporate expenses	3,001	2,859	142	5.0%
Total corporate expenses	5,605	5,497	108	2.0%
Gain on acquisition	4,173		4,173	n/a
Increase in value of interest rate swap	1,568		1,568	n/a
Operating gain (loss)	$ (2,680)	$ (7,238)	$ 4,558	-57.7%

(a) Includes $(56) and $(158) in miscellaneous revenues for the three months ended June 30, 2010 and 2009 respectively. Miscellaneous selling, cemetery and general administrative expenses allocated to the Corporate segment were approximately $0.3 million for both the three months ended June 30, 2010 and 2009 respectively.

Total corporate expenses were $5.6 million for the three months ended June 30, 2010, an increase of $0.1 million, or 2.0% compared to the same period last year. There were a number of small increases that by themselves were not material.

The gain on acquisition discussed in Note 13 to the Financial Statements included in this Quarterly Report on Form 10 Q has been allocated to the Corporate segment. The gain relates to the excess of the fair value of net assets acquired over the purchase price.

The increase in the fair value of the interest rate swap as discussed in Note 7 to the Financial Statements included in this Quarterly Report on Form 10-Q has been allocated to the corporate segment.

Reconciliation of Segment Results of Operations to Consolidated Results of Operations

As discussed in the segment sections of this Management s Discussion and Analysis of Financial Condition and Results of Operations, cemetery revenues and their associated costs as reported at the segment level are deferred until such time that we meet the delivery component for revenue recognition.

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

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

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

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The table below analyzes results of operations and the changes therein for the three months ended June 30, 2010 as compared to the same period last year. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/ or changes in the timing of when merchandise and services were delivered:

	Three months ended June 30, 2010 (in thousand s)			Three months ended June 30, 2009 (in thousand s)				
	Segment Results (non-GAAP)	Changes in Deferred Revenues and Expenses	GAAP Results	Segment Results (non-GAAP)	Changes in Deferred Revenues and Expenses	GAAP Results	Change in GAAP results ($)	Change in GAAP results (%)
Revenues								
Pre-need cemetery revenues	$ 29,845	$ (9,548)	$ 20,297	$ 27,050	$ (5,969)	$ 21,081	$ (784)	-3.7%
At-need cemetery revenues	18,224	(2,178)	16,046	16,502	(3,099)	13,403	2,643	19.7%
Investment income from trusts	7,656	(3,003)	4,653	5,871	(525)	5,346	(693)	-13.0%
Interest income	1,460		1,460	1,528		1,528	(68)	-4.5%
Funeral home revenues	5,923	(149)	5,774	5,914	(152)	5,762	12	0.2%
Other cemetery revenues	316	192	508	536	146	682	(174)	-25.5%
Total revenues	63,424	(14,686)	48,737	57,401	(9,599)	47,802	935	2.0%
Costs and expenses								
Cost of goods sold	7,501	(2,151)	5,347	7,322	(1,163)	6,159	(812)	-13.2%
Cemetery expense	12,088	(2)	12,086	10,412		10,412	1,674	16.1%
Selling expense	12,074	(2,607)	9,467	10,701	(2,083)	8,618	849	9.9%
General and administrative expense	6,161		6,161	5,411		5,411	750	13.9%
Corporate overhead	5,605		5,605	5,497		5,497	108	2.0%
Depreciation and amortization	1,799		1,799	1,708		1,708	91	5.3%
Funeral home expense	4,648	(10)	4,638	4,734	(23)	4,711	(73)	-1.5%
Acquisition related costs	1,666		1,666	542		542	1,124	207.4%
Total costs and expenses	51,542	(4,770)	46,773	46,327	(3,269)	43,058	3,715	8.6%
Operating profit	11,882	(9,916)	1,964	11,074	(6,330)	4,744	(2,780)	-58.6%
Gain on acquisition	4,173		4,173				4,173	n/a
Gain on disposition of funeral home								n/a
Increase in value of interest rate swap	1,568		1,568				1,568	n/a
Interest expense	5,238		5,238	3,202		3,202	2,036	63.6%
Income before taxes	12,385	(9,916)	2,467	7,872	(6,330)	1,542	925	60.0%
State income taxes	27		27	39		39	(12)	-30.8%
Federal income taxes	(381)		(381)	(136)		(136)	(245)	180.1%
Total income taxes	(354)		(354)	(97)		(97)	(257)	264.9%
Net income	$ 12,739	$ (9,916)	$ 2,821	$ 7,969	$ (6,330)	$ 1,639	$ 1,182	72.1%

Revenues

Pre-need cemetery revenues were $20.3 million for the three months ended June 30, 2010, a decrease of $0.8 million, or 3.7%, as compared to $21.1 million during the same period last year. The decrease was caused by an increase in the amount of revenue deferred quarter over quarter ($3.6 million). There was an increase in the value of contracts written ($2.8 million).

At-need cemetery revenues were $16.0 million for the three months ended June 30, 2010, an increase of $2.6 million, or 19.7%, as compared to $13.4 million during the same period last year. The increase was primarily caused by an increase in the value of cemetery contracts written ($1.7 million) and a decrease in the amount of revenue deferred during the quarter ($0.9 million).

Investment income from trusts was $4.7 million for the three months ended June 30, 2010, a decrease of $0.7 million, or 13.0%, compared to $5.4 million during the same period last year. The decrease was primarily related to the sale of securities, the proceeds of which were subsequently reinvested in low-yield short-term investments for a period of time before they could be reallocated.

Interest income on accounts receivable was $1.6 million for both the three months ended June 30, 2010, and the three months ended June 30, 2009.

Revenues for the Funeral Home segment were $5.8 million for both the three months ended June 30, 2010, and the three months ended June 30, 2009.

Other cemetery revenues were $0.5 million for the three months ended June 30, 2010, a slight decrease from $0.7 million during the same period last year.

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Costs and Expenses

Cost of goods sold were $5.3 million during the three months ended June 30, 2010, a decrease of $0.8 million, or 13.2%, as compared to the same period last year. The decrease was primarily caused by an improvement in the ratio of cost of goods sold to pre-need and at-need cemetery revenues (14.7% during the three months ended June 30, 2010 as compared to 17.9% during the same period last year).

Cemetery expenses were $12.1 million during the three months ended June 30, 2010, an increase of $1.7 million, or 16.1%, compared to $10.4 million during the same period last year. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 33.3% during the three months ended June 30, 2010 as compared to 30.2% during the same period last year. The increase in expenses and the increase in expense ratio was primarily caused by the acquisition of nine cemeteries completed in the first quarter of 2010. We would expect this to abate as we begin to build our sales programs at these locations.

Selling expenses were $9.5 million during the three months ended June 30, 2010, an increase of $0.8 million, or 9.9%, compared to $8.7 million during the same period last year. The increase was primarily caused by the increase in pre-need and at-need revenue. There was a slight improvement (19.7% during the three months ended June 30, 2010 as compared to 19.8% during the same period last year) in the ratio of selling expenses to pre-need and at-need cemetery revenues.

General and administrative expenses were $6.2 million during the three months ended June 30, 2010, an increase of $0.8 million, or 13.9%, compared to $5.4 million during the same period last year. General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues was 12.8% during the three months ended June 30, 2010 compared to 12.4% during the same period last year.

Total corporate overhead was $5.6 million during the three months ended June 30, 2010, a slight increase of $0.1 million, or 2.0%, compared to $5.6 million during the same period last year.

Depreciation and amortization was $1.8 million during the three months ended June 30, 2010, a slight increase of $0.1 million, or 5.3%, as compared to $1.7 million during the period last year.

Funeral home expenses were $4.6 million for the three months ended June 30, 2010, a slight decrease of $0.1 million, or 1.5%, as compared to $4.7 million during the same period last year.

Interest expense was $5.2 million during the three months ended June 30, 2010, an increase of $2.0 million, or 63.6%, as compared to $3.2 million during the same period last year. The increase was primarily due to an overall increase in the average amount of debt outstanding and a higher average interest rate. At March 31, 2010, we had approximately $201.3 million in debt outstanding. At June 30, 2010, we had increased this amount to $237.7 million. Most of this additional debt was utilized to fund acquisitions and was borrowed towards the latter part of the second quarter. At March 31, 2009, we had approximately $169.2 million in debt outstanding. At June 30, 2009, we had increased this amount to $181.5 million. The average amount of debt outstanding during the second quarter increased in relation to these debt totals. In addition, during the second quarter of 2010, approximately $185 million of total debt outstanding paid interest at a rate of 10.25% or above while the remainder averaged between 6% to 7%. During the second quarter of 2009, approximately $52.5 million of total debt outstanding paid interest at a rate of 11% while the remainder averaged between 6% and 7%.

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Six Months Ended June 30, 2010 as compared to Six Months Ended June 30, 2009

Cemetery Operations Southeast

The table below compares the results of operations for our Cemetery Operations Southeast for the six months ended June 30, 2010 to the same period last year:

	Six months ended June 30,			
	2010	2009	Change ($)	Change (%)
	(In thousands) (non-GAAP)			
Total revenues	$ 54,674	$ 49,182	$ 5,492	11.2%
Total costs and expenses	36,965	33,816	3,149	9.3%
Operating earnings	$ 17,709	$ 15,366	$ 2,343	15.2%

Revenues

Revenues for Cemetery Operations Southeast were $54.7 million for the six months ended June 30, 2010, an increase of $5.5 million, or 11.2%, compared to $49.2 million during the same period last year.

The increase was primarily related to an increase in pre-need ($3.9 million) and at-need ($0.8 million) sales.

Total costs and expenses

Total costs and expenses for Cemetery Operations Southeast were $37.0 million for the six months ended June 30, 2010, an increase of $3.2 million, or 9.3%, compared to $33.8 million during the same period last year.

The increase was primarily related to:

A $1.5 million increase in selling expenses. This was primarily attributable to the corresponding increase in the value of pre-need and at-need contracts written. The ratio of selling expenses to the total value of contracts written increased by 60 basis points to 26.2% during the six months ended June 30, 2010 as compared to 25.6% during the same period last year.

A $1.0 million increase in cemetery expenses. The increase was due to a $0.2 million increase in labor costs and a $0.8 million increase in non-labor costs.

A $0.4 million increase in general and administrative costs. There was a $0.2 million increase in both labor and non-labor costs.

Cemetery Operations Northeast

The table below compares the results of operations for our Cemetery Operations Northeast for the six months ended June 30, 2010 to the same period last year:

	Six months ended June 30,			
	2010	2009	Change ($)	Change (%)
	(In thousand s) (non-GAAP)			
Total revenues	$ 28,820	$ 28,537	$ 283	1.0%
Total costs and expenses	18,414	18,986	(572)	-3.0%
Operating earnings	$ 10,406	$ 9,551	$ 855	9.0%

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Revenues

Revenues for Cemetery Operations Northeast were $28.8 million for the six months ended June 30, 2010, a slight increase of $0.3 million, or 1.0%, compared to $28.5 million during the same period last year.

The increase was primarily related to decrease was primarily due to a $0.4 million increase in the value of pre-need cemetery contracts written and a $0.8 million increase in trust income offset by a $0.7 million decrease in the value of at-need cemetery contracts written.

Total costs and expenses

Total costs and expenses for Cemetery Operations Northeast were $18.4 million during the six months ended June 30, 2010, a decrease of $0.6 million, or 3.0%, compared to $19.0 million during the same period last year.

The decrease was primarily due to a $0.3 million decrease in cost of goods sold, which in turn was primarily related to the overall decrease in the value of contracts written. Other changes were not material.

Cemetery Operations West

The table below compares the results of operations for our Cemetery Operations West for the six months ended June 30, 2010 to the same period last year:

	Six months ended June 30, 2010	2009	Change ($)	Change (%)
	(In thousand s) (non-GAAP)			
Total revenues	$ 24,101	$ 20,929	$ 3,172	15.2%
Total costs and expenses	15,702	13,929	1,773	12.7%
Operating earnings	$ 8,399	$ 7,000	$ 1,399	20.0%

Revenues

Revenues for Cemetery Operations West were $24.1 million for the six months ended June 30, 2010, an increase of $3.2 million, or 15.2%, compared to $20.9 million during the same period last year.

The increase was primarily related to an increase in the value of pre-need contracts written ($1.9 million), at-need contracts written ($0.3 million) and trust income ($1.0 million).

Total costs and expenses

Total costs and expenses for Cemetery Operations West were $15.7 million for the six months ended June 30, 2010, an increase of $1.8 million, or 12.7%, compared to $13.9 million during the same period last year.

The increase was primarily related to:

A $0.6 million increase in selling expenses. This was primarily attributable to the increase in the value of contracts written. The ratio of selling expenses to the value of contracts was 24.4% for both the six months ended June 30, 2010 and 2009.

A $0.5 million increase in cemetery expenses. This was somewhat equally split between labor ($0.2 million) and non-labor costs ($0.3 million).

A $0.5 million increase in general and administrative costs. This was primarily attributable to a number of small increases that by themselves were not material.

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Funeral Home Segment

The table below compares the results of operations for our Funeral Home segment for the six months ended June 30, 2010 as compared to the same period last year:

	Six months ended June 30,			
	2010	2009	Change ($)	Change (%)
	(In thousand s) (non-GAAP)			
Total revenues	$ 11,962	$ 12,251	$ (289)	-2.4%
Total costs and expenses (a)	9,642	10,016	(374)	-3.7%
Operating earnings	$ 2,320	$ 2,235	$ 85	3.8%

(a) includes depreciation of $561 and $470 for the six months ended June 30, 2010 and 2009 respectively. This amount is included in depreciation and amortization on the income statement.

Revenues

Revenues for the Funeral Home segment were $12.0 million for the six months ended June 30, 2010, a decrease of $0.3 million, or 2.4%, as compared to $12.3 million during the same period last year. There were no material changes to any major component of revenue.

Total costs and expenses

Total costs and expenses as shown herein are consist of both funeral home expenses as shown on the income statement and depreciation and amortization allocated to the Funeral Home segment. Total costs and expenses for the Funeral Home segment were $9.6 million for the six months ended June 30, 2010, a decrease of $0.4 million, or 3.7%, compared to $10.0 million during the same period last year. The change was due to a number of small changes that by themselves were not material.

Corporate Segment

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

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

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

Certain depreciation and amortization expenses.

Gains and losses and purchases and sales of cemetery and funeral home properties.

Acquisition related costs.

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The table below details expenses incurred by the Corporate segment for the six months ended June 30, 2010 and for the same period last year:

	Six months ended June 30,			
	2010	**2009**	**Change ($)**	**Change (%)**
	(In thousand s)			
Selling, cemetery and general and administrative expenses (a)	$ 396	$ 408	$ (12)	-2.9%
Depreciation and amortization	1,677	1,201	476	39.6%
Acquisition related costs	2,656	2,128	528	24.8%
Corporate expenses				
Corporate personnel expenses	5,136	5,262	(126)	-2.4%
Other corporate expenses	5,558	5,601	(43)	-0.8%
Total corporate expenses	10,694	10,863	(169)	-1.6%
Gain on acquisition	27,485		27,485	n/a
Increase in value of interest rate swap	3,239		3,239	n/a
Operating gain (loss)	$ 15,301	$ (14,600)	$ 29,901	n/a

(a) Includes $15 and $14 in miscellaneous revenues for the three months ended June 30, 2010 and 2009 respectively.
Miscellaneous selling, cemetery and general administrative expenses allocated to the Corporate segment were approximately $0.4 million for both the six months ended June 30, 2010 and 2009 respectively.

Total corporate expenses were $10.7 million for the six months ended June 30, 2010, a decrease of $0.2 million, or 1.6% compared to $10.9 million during the same period last year. There were a number of small decreases that by themselves were not material.

The gain on acquisition discussed in Note 13 to the Financial Statements included in this Quarterly Report on Form 10 Q has been allocated to the Corporate segment. The gain relates to the excess of the fair value of net assets acquired over the purchase price.

The increase in the fair value of the interest rate swap as discussed in Note 7 to the Financial Statements included in this Quarterly Report on Form 10-Q has been allocated to the corporate segment.

Reconciliation of Segment Results of Operations to Consolidated Results of Operations

As discussed in the segment sections of this Management s Discussion and Analysis of Financial Condition and Results of Operations, cemetery revenues and their associated costs as reported at the segment level are deferred until such time that we meet the delivery component for revenue recognition.

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

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

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

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The table below analyzes results of operations and the changes therein for the six months ended June 30, 2010 as compared to the same period last year. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/ or changes in the timing of when merchandise and services were delivered:

	Six months ended June 30, 2010 (in thousand s)			Six months ended June 30, 2009 (in thousand s)				
Revenues	**Segment Results (non-GAAP)**	**Changes in Deferred Revenues and Expenses**	**GAAP Results**	**Segment Results (non-GAAP)**	**Changes in Deferred Revenues and Expenses**	**GAAP Results**	**Change in GAAP results ($)**	**Change in GAAP results (%)**
Pre-need cemetery revenues	$ 56,195	$ (21,190)	$ 35,005	$ 50,054	$ (16,760)	$ 33,294	$ 1,711	5.1%
At-need cemetery revenues	33,611	(3,598)	30,013	33,320	(2,409)	30,911	(898)	-2.9%
Investment income from trusts	13,996	(5,308)	8,687	11,063	(1,363)	9,700	(1,013)	-10.4%
Interest income	3,011		3,011	3,033		3,033	(22)	-0.7%
Funeral home revenues	11,962	(311)	11,651	12,251	(220)	12,031	(380)	-3.2%
Other cemetery revenues	705	336	1,041	1,134	297	1,431	(390)	-27.3%
Total revenues	119,480	(30,071)	89,407	110,855	(20,455)	90,400	(993)	-1.1%
Costs and expenses								
Cost of goods sold	13,915	(4,132)	9,779	13,962	(3,003)	10,959	(1,180)	-10.8%
Cemetery expense	21,335	(2)	21,333	19,851		19,851	1,482	7.5%
Selling expense	22,970	(5,887)	17,083	21,046	(4,602)	16,444	639	3.9%
General and administrative expense	11,759		11,759	10,890		10,890	869	8.0%
Corporate overhead	10,694		10,694	10,863		10,863	(169)	-1.6%
Depreciation and amortization	3,657		3,657	3,018		3,018	639	21.2%
Funeral home expense	9,081	(15)	9,066	9,546	(34)	9,512	(446)	-4.7%
Acquisition related costs	2,656		2,656	2,128		2,128	528	24.8%
Total costs and expenses	96,067	(10,036)	86,034	91,304	(7,639)	83,665	2,369	2.8%
Operating profit	23,413	(20,035)	3,373	19,551	(12,816)	6,735	(3,362)	-49.9%
Gain on acquisition	27,485		27,485				27,485	n/a
Gain on disposition of funeral home				475		475	(475)	n/a
Increase in value of interest rate swap	3,239		3,239				3,239	n/a
Interest expense	10,097		10,097	6,371		6,371	3,726	58.5%
Income before taxes	44,040	(20,035)	24,000	13,655	(12,816)	839	23,161	n/a
State income taxes	55		55	201		201	(146)	-72.6%
Federal income taxes	(909)		(909)	(136)		(136)	(773)	n/a
Total income taxes	(854)		(854)	65		65	(919)	n/a

Net income	$ 44,894	$ (20,035)	$ 24,854	$ 13,590	$ (12,816)	$ 774	$ 24,080	n/a

Revenues

Pre-need cemetery revenues were $35.0 million for the six months ended June 30, 2010, an increase of $1.7 million, or 5.1%, as compared to $33.3 million during the same period last year. The increase was primarily caused by an increase in the value of contracts written ($6.1 million) offset by an increase in the amount of revenue deferred quarter over quarter ($4.4 million).

At-need cemetery revenues were $30.0 million for the six months ended June 30, 2010, a decrease of $0.9 million, or 2.9%, as compared to $30.9 million during the same period last year. The decrease was primarily caused by an increase in the amount of revenue deferred during the quarter ($1.1 million) offset by an increase in the value of cemetery contracts written ($0.3 million).

Investment income from trusts was $8.7 million for the six months ended June 30, 2010, a decrease of $1.0 million, or 10.4%, compared to $9.7 million during the same period last year. The decrease was primarily related to the sale of securities, the proceeds of which were subsequently reinvested in low-yield short-term investments for a period of time before they could be reallocated.

Interest income on accounts receivable was $3.0 million for both the six months ended June 30, 2010, and the six months ended June 30, 2009.

Revenues for the Funeral Home segment were $11.7 million for the six months ended June 30, 2010, a slight decrease of $0.4 million, or 3.2%, compared to the same period last year.

Other cemetery revenues were $1.0 million for the six months ended June 30, 2010, a decrease of $0.4 million, or 27.3%, as compared to $1.4 million during the same period last year. There were a number of small increases that by themselves were not immaterial.

Costs and Expenses

Cost of goods sold were $9.8 million during the six months ended June 30, 2010, a decrease of $1.2 million, or 10.8%, as compared to the same period last year. The decrease was primarily caused by an improvement in the ratio of cost of goods sold to pre-need and at-need cemetery revenues (15.0% during the six months ended June 30, 2010 as compared to 17.1% during the same period last year).

Cemetery expenses were $21.3 million during the six months ended June 30, 2010, an increase of $1.5 million, or 7.5%, compared to $19.8 million during the same period last year. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 23.8% during both the six months ended June 30, 2010 and 2009.

Selling expenses were $17.1 million during the six months ended June 30, 2010, an increase of $0.7 million, or 3.9%, compared to $16.4 million during the same period last year. The increase was primarily caused by the increase in pre-need and at-need revenue. There was a slight degradation (26.3% during the six months ended June 30, 2010 as compared to 25.6% during the same period last year) in the ratio of selling expenses to pre-need and at-need cemetery revenues.

General and administrative expenses were $11.8 million during the six months ended June 30, 2010, an increase of $0.9 million, or 8.0%, compared to $10.9 million during the same period last year. General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues was 13.1% during both the six months ended June 30, 2010 and 2009.

Total corporate overhead was $10.7 million during the six months ended June 30, 2010, a slight increase of $0.2 million, or 1.6%, compared to $10.9 million during the same period last year.

Depreciation and amortization was $3.6 million during the six months ended June 30, 2010, an increase of $0.6 million, or 21.2%, as compared to $3.0 million during the period last year.

Funeral home expenses were $9.1 million for the six months ended June 30, 2010, a decrease of $0.4 million, or 4.7%, as compared to $9.5 million during the same period last year. This was primarily due to the corresponding decrease in revenue.

Interest expense was $10.1 million during the six months ended June 30, 2010, an increase of $3.7 million, or 58.5%, as compared to $6.4 million during the same period last year. The increase was due to both an overall increase in debt outstanding and an increase in interest rates. At December 31, 2009, we had approximately $183.2 million in debt outstanding. At June 30, 2010, we had increased this amount to $237.7 million. At December 31, 2008, we had approximately $160.9 million in debt outstanding. At June 30, 2009, we had increased this amount to $181.5 million. The average amount of debt outstanding during the six months ended June 30, 2010 increased compared to the same period last year in relation to these debt totals. In addition, during the six months ended June 30, 2010 approximately $185 million of total debt outstanding paid interest at a rate of 10.25% or above while the remainder averaged between 6% to 7%. During the six months ended June 30, 2009, approximately $52.5 million of total debt outstanding paid interest at a rate of 11% while the remainder averaged between 6% and 7%.

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Supplemental data

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

	Six Months Ended 30-Jun-10	Six Months Ended 30-Jun-09	Three Months Ended 30-Jun-10	Three Months Ended 30-Jun-09
Operating Data:				
Interments performed	19,401	19,063	9,917	9,351
Interment rights sold:				
Lots	12,364	12,267	6,264	6,942
Mausoleum crypts (including pre-construction)	1,152	1,162	573	598
Niches	521	457	278	204
Total interment rights sold	14,037	13,886	7,115	7,744
Number of contracts written	43,956	42,131	24,175	21,302
Aggregate contract amount, in thousands (excluding interest)	$ 106,981	$ 100,708	$ 57,543	$ 52,263
Average amount per contract (excluding interest)	$ 2,434	$ 2,390	$ 2,380	$ 2,453
Number of pre-need contracts written	21,764	19,708	11,855	10,088
Aggregate pre-need contract amount, in thousands (excluding interest)	$ 69,442	$ 63,143	$ 36,990	$ 33,720
Average amount per pre-need contract (excluding interest)	$ 3,191	$ 3,204	$ 3,120	$ 3,343
Number of at-need contracts written	22,192	22,423	12,320	11,214
Aggregate at-need contract amount, in thousands	$ 37,539	$ 37,565	$ 20,553	$ 18,543
Average amount per at-need contract	$ 1,692	$ 1,675	$ 1,668	$ 1,654

Liquidity and Capital Resources

Overview

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

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

We believe that cash generated from operations, and our borrowing capacity under our Credit Agreement, and future equity offering will be sufficient to meet our working capital requirements as well as our anticipated capital expenditures for the foreseeable future.

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

Long-term Debt

Purchase Agreement

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

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

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

- repay approximately $30.7 million of borrowings under the Revolving Facility (as defined below);
- repay approximately $104.7 million of borrowings under the Acquisition Credit Facility (as defined below); and
- redeem $17.5 million of outstanding 11.00% Series B Senior Secured Notes due 2012 (the Series B Notes).

Indenture

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

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

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

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

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

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

Year	**Optional Redemption Price**

2013	105.125%
2014	102.563%
2015 and thereafter	100%

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

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

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

The Indenture requires us, the Issuers and/or the Note Guarantors, as applicable, to comply with various covenants including, but not limited to, covenants that, subject to certain exceptions, limit our and our subsidiaries ability to (i) incur additional indebtedness; (ii) make certain dividends, distributions, redemptions or investments; (iii) enter into certain transactions with affiliates; (iv) create, incur, assume or permit to exist certain liens against their assets; (v) make certain sales of their assets; and (vi) engage in certain mergers, consolidations or sales of all or substantially all of their assets. The Indenture also contains various affirmative covenants regarding, among other things, delivery of certain reports filed with the SEC and materials required pursuant to Rule 144A under the Securities Act to holders of the Senior Notes and joinder of future subsidiaries as Note Guarantors under the Indenture. We were in compliance with all covenants at June 30, 2010.

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

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

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

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

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

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

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

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

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

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

Registration Rights Agreement

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

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

The Issuers are required to pay additional interest to the holders of the Senior Notes under certain circumstances if they fail to comply with their obligations under the Registration Rights Agreement.

Note Purchase Agreement

On August 15, 2007, we entered into, along with the General Partner and certain of our subsidiaries, (collectively, the Note Issuers) the Amended and Restated Note Purchase Agreement (the NPA) with Prudential Investment Management Inc., The Prudential Insurance Company of America, Prudential Retirement Insurance and Annuity Company, certain Affiliates of Prudential Investment Management Inc., iStar Financial Inc., SFT I, Inc., and certain Affiliates of iStar Financial Inc. (collectively, the Note Purchasers). Capitalized terms which are not defined in this Quarterly Report on Form 10-Q shall have the same meaning assigned to such terms in the NPA, as amended.

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

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

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

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

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

On April 30, 2009, we entered into the Second Amendment to Amended and Restated Credit Agreement by and among us and certain of our subsidiaries, the lenders, and Bank of America, N.A., as Administrative Agent (the Second Amendment to Credit Agreement), pursuant to which we borrowed $63,000,000 under the new Acquisition Credit Facility commitments, which, together with the $17,000,000 of the existing availability under the Acquisition Credit Facility, were used to repay the Series A Notes. In addition, we borrowed $5,400,000 under the Revolving Credit Facility, which was used to pay the accrued interest on the Series A Notes, fees to Bank of America, N.A., amendment fees to noteholders under the Second Amendment to NPA described below as well as various other fees and costs incurred in connection with these transactions. In connection with the Second Amendment to Credit Agreement, on April 30, 2009, we also entered into the Second Amendment to Amended and Restated Note Purchase Agreement by and among us, the General Partner and certain of our subsidiaries and the noteholders (the Second Amendment to NPA).

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

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

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

Consolidated Leverage Ratio in accordance with the Fourth Amendment to Credit Agreement.

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

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

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

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

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

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

The NPA contains restrictive covenants that, among other things, prohibit distributions upon defined events of default, restrict investments and sales of assets and require us to maintain certain financial covenants, including specified financial ratios. We were in compliance with all debt covenants at June 30, 2010.

Acquisition Credit Facility and Revolving Credit Facility

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

The Credit Agreement initially provided that: (1) the Acquisition Credit Facility would have a maximum principal amount of $40,000,000 (with an option to increase such facility by an additional $15,000,000 on an uncommitted basis) and the term of 5 years, and (2) the Revolving Credit Facility would have a maximum principal amount of $25,000,000 (with an option to increase such facility by up to $10,000,000 on an uncommitted basis) and a term of 5 years. Amounts borrowed under the Acquisition Credit Facility and repaid or prepaid may not be reborrowed and amounts borrowed under the Revolving Credit Facility and repaid or prepaid during the term may be reborrowed. In addition, Bank of America agreed to provide to the borrowers swing line loans (Swing Line Loans) with a maximum limit of $5,000,000, which is a part of the Revolving Credit Facility. Loans outstanding under the Acquisition Credit Facility and the Revolving Credit Facility bear interest at rates set forth in the Credit Agreement, which have seen been amended as described below.

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

On April 30, 2009, we, the General Partner and the Borrowers entered into the Second Amendment to Credit Agreement with the lenders and Bank of America. The Second Amendment to Credit Agreement amended the Credit Agreement to, among other matters, increase (i) the Revolving Credit Facility to a maximum aggregate principal amount of $35,000,000, with the ability to request further increases in a maximum aggregate principal amount of $10,000,000, and (ii) the Acquisition Credit Facility to a maximum aggregate principal amount of $102,850,000, with the ability to request further increases in a maximum aggregate principal amount of $57,000,000, subject to a minimum increase amount of $5,000,000. The maximum aggregate principal amount of the Acquisition Credit Facility was increased to $107,850,000, with the ability to request further increases in a maximum aggregate principal amount of $52,000,000, after giving effect to a $5,000,000 increase in the Acquisition Credit facility implemented through the Lender Joinder to Amended and Restated Credit Agreement, dated June 24, 2009, among us, the General Partner, the Borrowers and other parties thereto.

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

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

On January 15, 2010, we entered into the Fifth Amendment to the Amended and Restated Credit Agreement (the Fifth Amendment) which further amended the Consolidated Leverage Ratio.

On May 4, 2010, we entered into the Sixth Amendment to Amended and Restated Credit Agreement (the Sixth Amendment to Credit Agreement). The Sixth Amendment to Credit Agreement amended the Amended and Restated Credit Agreement, dated August 15, 2007 (as amended, the Credit Agreement) to, among other things, provide that the Partnership and the General Partner shall not permit the Consolidated Leverage Ratio to be greater than:

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

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

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

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

The Consolidated Leverage Ratio was 3.76 at June 30, 2010.

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

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

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

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

The proceeds of the Acquisition Credit Facility may be used by the Borrowers to finance (i) Permitted Acquisitions, as defined in the Credit Agreement, and (ii) the purchase and construction of mausoleums. The proceeds of the Revolving Credit Facility and Swing Line Loans may be utilized to finance working capital requirements, Capital Expenditures, as defined in the Credit Agreement, and for other general corporate purposes.

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

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

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

The agreements governing the Revolving Credit Facility, the Acquisition Credit Facility and Amended NPA Notes contain restrictive covenants that, among other things, prohibit distributions upon defined events of default, restrict investments and sales of assets and require the Company to maintain certain financial covenants, including specified financial ratios. A material decrease in sales could cause the Company to breach certain of its financial covenants, such as the leverage ratio and the interest coverage ratio, under the Company s Credit Agreement and NPA, as amended. Any such breach could allow the lenders to accelerate (or create cross-default under) the Company s debt which would have a material adverse effect on the Company s business, financial condition or results of operations.

There was $53.0 million outstanding and we were in compliance with all debt covenants under the Credit Agreement at June 30, 2010.

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Green Lawn Note

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

Nelms Note

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

In June of 2010, certain of the Company s subsidiaries also issued four notes in the aggregate principal amount of approximately $5.8 million in connection with the acquisition referenced above. These notes were paid at the closing of the acquisition referenced above by: (i) the issuance by the Company of 293,947 unregistered common units representing limited partnership interests of the Company valued at $5,585,000 and (ii) a cash payment of $202,347.

Interest Rate Swaps

On November 24, 2009, we entered into an interest rate swap (the First Interest Rate Swap) wherein we agreed to pay the counterparty interest in the amount of three month LIBOR plus 888 basis points in consideration for the counterparties agreement to pay us a fixed rate of interest of 10.25% on a principal amount of $108 million. Settlements are to be made net on a quarterly basis in February, May, August and November of each year. The First Interest Rate Swap expires on December 1st, 2012.

On December 4, 2009, we entered into an interest rate swap (the Second Interest Rate Swap , together with the First Interest Rate Swap, the Interest Rate Swaps) wherein we agreed to pay the counterparty interest in the amount of three month LIBOR plus 869 basis points in consideration for the counterparties agreement to pay us a fixed rate of interest of 10.25% on a principal amount of $27 million. Settlements are to be made net on a quarterly basis in February, May, August and November of each year. The Second Interest Rate Swap expires on December 1, 2012.

The Interest Rate Swaps do not qualify for hedge accounting. Accordingly, the fair values of the Interest Rate Swaps are reported on the balance sheet and periodic changes in the fair value of the Interest Rate Swaps are recorded in earnings. At June 30, 2010, we recorded an asset (the Fair value of interest rate swaps) of approximately $0.5 million, which represents the fair value of the Interest Rate Swaps at that date. We recognized a gain on the fair value of Interest Rate Swaps of approximately $1.6 million and $3.2 million during the three and six months ended June 30, 2010.

We entered into the Interest Rate Swaps in an effort to manage our total interest expense. The Interest Rate Swaps reduced interest expense by approximately $0.4 million and $0.8 million during the three and six months ended June 30, 2010.

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

Intercreditor and Collateral Agency Agreement

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

Acquisitions During Six Months Ended June 30, 2010 and 2009

During the six months ended June 30, 2010 and 2009, the Company completed certain acquisitions which are described in Note 13 to the Company s Condensed Consolidated Financial Statements included in this Form 10-Q.

Cash Flow from Operating Activities.

Cash flows provided by operating activities were $2.6 million during the six months ended June 30, 2010, a decrease of $5.5 million, or 68.1%, compared to $8.1 during the same period last year. The decrease is primarily related to cash flow timing differences rather than operating results. The most material of these timing differences were a $3.5 million increase in accounts receivable and a $2.1 million increase in net inflows into the merchandise trust.

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Cash Flow from Investing Activities

Net cash used in investing activities was $40.5 million during the six months ended June 30, 2010 as compared to $5.6 million during the same period last year. The primary reason for the increase was the $37.0 million utilized on acquisitions during the six months ended June 30, 2010.

Cash Flow from Financing Activities

Cash flows provided by financing activities were $37.9 million during the six months ended June 30, 2010 as compared to $1.7 million during the same period last year. The primary reason for the increase was a $32.6 million increase in net borrowings during the six months ended June 30, 2010 as compared to the same period last year, which in turn was primarily utilized to fund the acquisitions made in 2010.

Capital Expenditures

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
			(In thousand s)	
Maintenance capital expenditures	$ 2,269	$ 685	$ 2,657	$ 1,061
Expansion capital expenditures	23,435	3,936	37,865	4,967
Total capital expenditures	$ 25,704	$ 4,621	$ 40,522	$ 6,028

Pursuant to our partnership agreement, in connection with determining operating cash flows available for distribution, costs to construct mausoleum crypts and lawn crypts may be considered to be a combination of maintenance capital expenditures and expansion capital expenditures depending on the purposes for construction. Our general partner, with the concurrence of its conflicts committee, has the discretion to determine how to allocate a capital expenditure for the construction of a mausoleum crypt or a lawn crypt between maintenance capital expenditures and expansion capital expenditures. In addition, maintenance capital expenditures for the construction of a mausoleum crypt or a lawn crypt are not subtracted from operating surplus in the quarter incurred but rather is subtracted from operating surplus ratably during the estimated number of years it will take to sell all of the available spaces in the mausoleum or lawn crypt. Estimated life is determined by our general partner, with the concurrence of its conflicts committee.

Seasonality

The death care business is relatively stable and predictable. Although we experience seasonal increases in deaths due to extreme weather conditions and winter flu, these increases have not historically had any significant impact on our results of operations. In addition, we perform fewer initial openings and closings in the winter when the ground is frozen.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The information presented below should be read in conjunction with the notes to our unaudited condensed consolidated financial statements included under Part I Item 1 Financial Statements in this Quarterly Report on Form 10-Q.

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

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Interest-Bearing Investments

Our fixed-income securities subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of June 30, 2010, the fair value of fixed-income securities in our merchandise trusts represented 10.4% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 12.4% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was $27.6 million and $26.8 million in merchandise trusts and perpetual care trusts, respectively, as of June 30, 2010. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately $276,000 and $268,000 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows. If these securities are held to maturity, no change in fair market value will be realized.

Our money market and other short-term investments subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of June 30, 2010, the fair value of money market and short-term investments in our merchandise trusts represented 15.4% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 6.0% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was $41.2 million and $12.9 million in merchandise trusts and perpetual care trusts, respectively, as of June 30, 2010. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately $412,000 and $129,000 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively.

Marketable Equity Securities

Our marketable equity securities subject to market risk consist primarily of investments held in our merchandise trusts and perpetual care trusts. These assets consist of both individual equity securities as well as closed and open ended mutual funds. As of June 30, 2010, the fair value of marketable equity securities in our merchandise trusts represented 73.8% of the fair value of total trust assets while the fair value of marketable equity securities in our perpetual care trusts represented 81.4% of total trust assets. The aggregate quoted fair market value of these marketable equity securities was $197.1 million and $175.4 million in merchandise trusts and perpetual care trusts, respectively, as of June 30, 2010, based on final quoted sales prices. Each 10% change in the average market prices of the equity securities would result in a change of approximately $19.7 million and $17.5 million in the fair market value of securities held in merchandise trusts and perpetual care trusts, respectively.

Investment Strategies and Objectives

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

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

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

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

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

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

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

We recognize the challenges we face in achieving our investment objectives in light of the uncertainties and complexities of contemporary investment markets. Furthermore, we recognize that, in order to achieve the stated long-term objectives, we may have short-term declines in market value. Given the need to maintain consistent values in the portfolio, we have attempted to develop a strategy which is likely to maximize returns and earnings without experiencing overall declines in value in excess of 3% over any 12-month period.

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

Debt Instruments

Our Acquisition Credit Facility and Revolving Credit Facility bear interest at a floating rate, based on LIBOR, which is adjusted quarterly. These credit facilities will subject us to increases in interest expense resulting from movements in interest rates. As of June 30, 2010, we had outstanding borrowings of $37.5 million under our Acquisition Credit Facility and $15.5 million under our Revolving Credit Facility. The interest rate on these facilities was 6.5% at June 30, 2010.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

We and certain of our subsidiaries may from time to time be parties to legal proceedings that have arisen in the ordinary course of business. While the outcome of these proceedings cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

We carry insurance that we believe to be adequate. Although there can be no assurance that such insurance is sufficient to protect us against all contingencies, management believes that our insurance protection is reasonable in view of the nature and scope of our operations.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and in other reports filed with the SEC which could materially affect our business, financial condition or future results.

The risks described in the Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and in other reports filed with the SEC are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by us described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The Company issued 303,800 unregistered Units on June 21, 2010, as reported in the Company s Current Report on Form 8-K filed on June 25, 2010.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Removed and Reserved

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
10.1*	Amended and Restated Purchase Agreement by and among StoneMor Operating LLC, StoneMor Indiana LLC, StoneMor Indiana Subsidiary LLC, Ohio Cemetery Holdings, Inc., Ansure Mortuaries of Indiana, LLC, Memory Gardens Management Corporation, Forest Lawn Funeral Home Properties, LLC, Gardens of Memory Cemetery LLC, Gill Funeral Home, LLC, Garden View Funeral Home, LLC, Royal Oak Memorial Gardens of Ohio Ltd., Heritage Hills Memory Gardens of Ohio Ltd., Robert E. Nelms and Lynnette Gray, as receiver, dated April 2, 2010 (incorporated by reference to Exhibit 10.1 of Registrant s Current Report on Form 8-K filed on May 5, 2010).
10.2*	Sixth Amendment to Amended and Restated Credit Agreement, dated May 4, 2010, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, certain Subsidiaries of StoneMor Operating LLC, the Lenders and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of Registrant s Current Report on Form 8-K filed on May 7, 2010).
10.3*	Sixth Amendment to Amended and Restated Note Purchase Agreement, dated May 4, 2010, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, certain Subsidiaries of StoneMor Partners L.P. and the Noteholders (includes the Amended and Restated Form of Series B Note and the Amended and Restated Form of Series C Note as Exhibit A-1 and Exhibit A-2, respectively) (incorporated by reference to Exhibit 10.2 of Registrant s Current Report on Form 8-K filed on May 7, 2010).
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10.5*	Settlement Agreement by and among StoneMor Indiana LLC, StoneMor Operating LLC, StoneMor Partners L.P., Chapel Hill Associates, Inc., Chapel Hill Funeral Home, Inc., Covington Memorial Funeral Home, Inc., Covington Memorial Gardens, Inc., Forest Lawn Memorial Chapel Inc., Forest Lawn Memory Gardens Inc., Fred W. Meyer, Jr. by James R. Meyer as Special Administrator to the Estate of Fred W. Meyer, Jr., James R. Meyer, Thomas E. Meyer, Nancy Cade, and F.T.J. Meyer Associates, LLC dated June 21, 2010 (incorporated by reference to Exhibit 10.2 of Registrant s Current Report on Form 8-K filed on June 25, 2010).
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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 William R. Shane, Executive Vice President and 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)
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* Incorporated by reference, as indicated.

Management contract, compensatory plan or arrangement.

Table of Contents

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
August 9, 2010	/s/ Lawrence Miller Lawrence Miller Chief Executive Officer, President and Chairman of the Board of Directors (Principal Executive Officer)
August 9, 2010	/s/ William R. Shane William R. Shane Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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