

STONEMOR PARTNERS LP
Form 10-Q
May 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from _____ to _____ .

Commission File Number: 001-32270

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

311 Veterans Highway, Suite B

Levittown, Pennsylvania
(Address of principal executive offices)

19056
(Zip Code)

(215) 826-2800

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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The number of the registrant's outstanding common units at May 1, 2014 was 23,712,550.

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Table of Contents**Part I Financial Information****Item 1. Financial Statements****StoneMor Partners L.P.****Condensed Consolidated Balance Sheet****(in thousands)****(unaudited)**

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,240	\$ 12,175
Accounts receivable, net of allowance	55,809	55,415
Prepaid expenses	2,480	3,622
Other current assets	19,199	22,667
Total current assets	85,728	93,879
Long-term accounts receivable, net of allowance	80,484	78,367
Cemetery property	314,909	316,469
Property and equipment, net of accumulated depreciation	84,555	85,007
Merchandise trusts, restricted, at fair value	449,853	431,556
Perpetual care trusts, restricted, at fair value	318,154	311,771
Deferred financing costs, net of accumulated amortization	7,836	8,308
Deferred selling and obtaining costs	90,801	87,998
Deferred tax assets	42	42
Goodwill	48,737	48,737
Other assets	11,868	12,209
Total assets	\$ 1,492,967	\$ 1,474,343
Liabilities and partners capital		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 24,273	\$ 37,269
Accrued interest	5,013	1,512
Current portion, long-term debt	1,555	2,916
Total current liabilities	30,841	41,697
Other long-term liabilities	1,457	1,527
Long-term debt	252,054	289,016
Deferred cemetery revenues, net	598,159	579,993

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Deferred tax liabilities	12,498	12,407
Merchandise liability	131,817	130,412
Perpetual care trust corpus	318,154	311,771
Total liabilities	1,344,980	1,366,823
Commitments and contingencies		
Partners capital		
General partner	(2,693)	(2,137)
Common partners	150,680	109,657
Total partners capital	147,987	107,520
Total liabilities and partners capital	\$ 1,492,967	\$ 1,474,343

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

Table of Contents**StoneMor Partners L.P.****Condensed Consolidated Statement of Operations****(in thousands, except per unit data)****(unaudited)**

	Three months ended March 31,	
	2014	2013
Revenues:		
Cemetery		
Merchandise	\$ 26,068	\$ 26,652
Services	10,297	11,299
Investment and other	16,275	10,243
Funeral home		
Merchandise	5,052	4,953
Services	6,695	6,465
Total revenues	64,387	59,612
Costs and expenses:		
Cost of goods sold (exclusive of depreciation shown separately below):		
Perpetual care	1,391	1,281
Merchandise	6,113	5,009
Cemetery expense	13,329	12,785
Selling expense	11,189	11,224
General and administrative expense	7,645	7,582
Corporate overhead (including \$271 and \$330 in unit-based compensation for the three months ended March 31, 2014 and 2013, respectively)	7,456	7,988
Depreciation and amortization	2,368	2,330
Funeral home expense		
Merchandise	1,646	1,522
Services	4,787	4,557
Other	2,853	2,657
Acquisition related costs, net of recoveries	349	1,283
Total cost and expenses	59,126	58,218
Operating profit	5,261	1,394
Gain on acquisition	412	
Gain on settlement agreement		912
Interest expense	5,574	5,463

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Net income (loss) before income taxes	99	(3,157)
Income tax expense (benefit)	(310)	(957)
Net income (loss)	\$ 409	\$ (2,200)
General partner's interest in net income (loss) for the period	\$ 4	\$ (40)
Limited partners' interest in net income (loss) for the period	\$ 405	\$ (2,160)
Net income (loss) per limited partner unit (basic and diluted)	\$.02	\$ (.11)
Weighted average number of limited partners' units outstanding - basic	22,493	19,729
Weighted average number of limited partners' units outstanding - diluted	22,787	19,729
Distributions declared per unit	\$.600	\$.590

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.
Condensed Consolidated Statement of
Partners Capital
(in thousands)
(unaudited)

	Partners Capital		
	Common Unit Holders	General Partner	Total
Balance, December 31, 2013	\$ 109,657	\$ (2,137)	\$ 107,520
Proceeds from public offering	53,178		53,178
Compensation related to units awards	271		271
Net income	405	4	409
Cash distributions	(12,831)	(560)	(13,391)
Balance, March 31, 2014	\$ 150,680	\$ (2,693)	\$ 147,987

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

Table of Contents**StoneMor Partners L.P.****Condensed Consolidated Statement of Cash Flows****(in thousands)****(unaudited)**

	For the three months ended March 31,	
	2014	2013
Operating activities:		
Net income (loss)	\$ 409	\$ (2,200)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Cost of lots sold	3,057	1,735
Depreciation and amortization	2,368	2,330
Unit-based compensation	271	330
Accretion of debt discounts	624	490
Gain on settlement agreement		(912)
Gain on acquisition	(412)	
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(3,168)	(1,385)
Allowance for doubtful accounts	705	(1,317)
Merchandise trust fund	(16,420)	(12,161)
Prepaid expenses	1,142	566
Other current assets	3,394	696
Other assets	(44)	(770)
Accounts payable and accrued and other liabilities	(9,564)	5,278
Deferred selling and obtaining costs	(2,803)	(2,745)
Deferred cemetery revenue	18,881	18,987
Deferred taxes (net)	(551)	(1,051)
Merchandise liability	(829)	(1,004)
Net cash provided by (used in) operating activities	(2,940)	6,867
Investing activities:		
Cash paid for cemetery property	(748)	(1,076)
Purchase of subsidiaries	(200)	(9,100)
Cash paid for property and equipment	(1,330)	(1,771)
Net cash used in investing activities	(2,278)	(11,947)
Financing activities:		
Cash distributions	(13,391)	(12,025)
Additional borrowings on long-term debt	17,000	20,948
Repayments of long-term debt	(55,504)	(41,522)

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Proceeds from public offering	53,178	38,377
Cost of financing activities		(108)
Net cash provided by financing activities	1,283	5,670
Net increase (decrease) in cash and cash equivalents	(3,935)	590
Cash and cash equivalents Beginning of period	12,175	7,946
Cash and cash equivalents End of period	\$ 8,240	\$ 8,536
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 1,423	\$ 1,245
Cash paid during the period for income taxes	\$	\$ 451
Non-cash investing and financing activities:		
Acquisition of assets by financing	\$ 30	\$ 62
Issuance of limited partner units for cemetery acquisition	\$	\$ 3,592
Acquisition of asset by assumption of directly related liability	\$	\$ 3,924

See Accompanying Notes to the Unaudited 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. (StoneMor , the Company or the Partnership) is a provider of funeral and cemetery products and services in the death care industry in the United States. Through its subsidiaries, StoneMor offers a complete range of funeral merchandise and services, along with cemetery property, merchandise and services, both at the time of need and on a pre-need basis. As of March 31, 2014, the Partnership operated 278 cemeteries in 27 states and Puerto Rico, of which 260 are owned and 18 are operated under management or operating agreements. The Partnership also owned and operated 90 funeral homes in 18 states and Puerto Rico.

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 March 31, 2014 and for the three months ended March 31, 2014 and 2013 includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The results of operations for interim periods are not necessarily indicative of the results of operations to be expected for a full year. The December 31, 2013 condensed consolidated balance sheet data was derived from audited financial statements included in the Company s 2013 Annual Report on Form 10-K (2013 Form 10-K) and has been adjusted to include the effects of retrospective adjustments resulting from the Company s 2013 first quarter acquisition, but does not include all disclosures required by GAAP, which are presented in the Company s 2013 Form 10-K.

Principles of Consolidation

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

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

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 trusts and perpetual care trusts, 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 sheet.

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

	As of	
	March 31, 2014	December 31, 2013
	(in thousands)	
Customer receivables	\$ 177,349	\$ 174,062
Unearned finance income	(19,807)	(20,005)
Allowance for contract cancellations	(21,249)	(20,275)
	136,293	133,782
Less: current portion, net of allowance	55,809	55,415
Long-term portion, net of allowance	\$ 80,484	\$ 78,367

Activity in the allowance for contract cancellations is as follows:

	For the three months ended March 31,	
	2014	2013
	(in thousands)	
Balance Beginning of period	\$ 20,275	\$ 17,933
Provision for cancellations	5,031	4,986
Charge-offs net	(4,057)	(3,803)