STONEMOR PARTNERS LP
Form 10-Q
May 10, 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 March 31, 2010

or

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

Commission File Number: 000-50910

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

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

(215) 826-2800

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if 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 May 10, 2010 was 13,537,835.

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Part I Financial Information

Item 1. Financial Statements

StoneMor Partners L.P.

Condensed Consolidated Balance Sheets

(in thousands)

(unaudited)

	March 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 13,079	$ 13,479
Accounts receivable, net of allowance	38,710	37,113
Prepaid expenses	2,676	3,531
Other current assets	4,783	4,502
Total current assets	59,248	58,625
Long-term accounts receivable net of allowance	54,851	48,015
Cemetery property	266,865	235,357
Property and equipment, net of accumulated depreciation	57,169	52,265
Merchandise trusts, restricted, at fair value	261,926	203,885
Perpetual care trusts, restricted, at fair value	220,332	196,295
Deferred financing costs net of accumulated amortization	11,402	12,020
Deferred selling and obtaining costs	53,091	49,782
Deferred tax assets	487	451
Other assets	2,072	2,194
Total assets	$ 987,443	$ 858,889
Liabilities and partners capital		
Current liabilities		
Accounts payable and accrued liabilities	$ 21,843	$ 26,574
Accrued interest	5,731	1,829
Current portion, long-term debt	271	378
Total current liabilities	27,845	28,781
Other long-term liabilities	2,900	2,912
Fair value of interest rate swap	1,010	2,681
Long-term debt	201,054	182,821
Deferred cemetery revenues, net	298,447	258,978
Deferred tax liabilities	12,993	5,290
Merchandise liability	89,339	65,883
Perpetual care trust corpus	220,332	196,295
Total liabilities	853,920	743,641

Partners capital		
General partner	2,174	1,904
Common partner	131,350	113,344
Total partners capital	133,524	115,248
Total liabilities and partners capital	$ 987,443	$ 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, except unit data)

(unaudited)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Revenues:		
Cemetery		
Merchandise	$ 18,795	$ 19,276
Services	7,991	9,238
Investment and other	8,007	7,816
Funeral home		
Merchandise	2,499	2,609
Services	3,378	3,659
Total revenues	40,671	42,598
Costs and Expenses:		
Cost of goods sold (exclusive of depreciation shown separately below):		
Perpetual care	1,087	1,005
Merchandise	3,345	3,795
Cemetery expense	9,247	9,439
Selling expense	7,616	7,826
General and administrative expense	5,598	5,479
Corporate overhead (including $175 and $374 in unit-based compensation for the three months ended March 31, 2010 and 2009	5,089	5,366
Depreciation and amortization	1,858	1,310
Funeral home expense		
Merchandise	913	967
Services	2,088	2,406
Other	1,430	1,428
Acquisition related costs	990	1,586
Total cost and expenses	39,260	40,607
Operating profit	1,411	1,991
Other income and expense		
Gain on sale of funeral homes		475
Gain on acquisition	23,312	
Increase in fair value of interest rate swap	1,671	
Interest expense	4,859	3,169
Income before income taxes	21,535	(703)
Income taxes:		
State	28	162

Federal	(528)	
Total income taxes	(500)	162
Net income (loss)	$ 22,035	$ (865)
General partner s interest in net income (loss) for the period	$ 441	$ (17)
Limited partners interest in net income (loss) for the period		
Common	$ 21,594	$ (697)
Subordinated	$	$ (151)
Net income per limited partner unit (basic and diluted)	$ 1.61	$ (.07)
Weighted average number of limited partners units outstanding (basic and diluted) (in thousands)	13,385	11,891

See Accompanying Notes to the Condensed Consolidated Financial Statements.

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Condensed Consolidated Statement of

StoneMor Partners L.P.

Partners Capital

(in thousands)

(unaudited)

	Partners Capital		
	Common Unit Holders	**General Partner**	**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	21,594	441	22,035
Cash distribution	(7,413)	(240)	(7,653)
Balance, March 31, 2010	$ 131,350	$ 2,174	$ 133,524

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 three months ended March 31, 2010	2009
Operating activities:		
Net income (loss)	$ 22,035	$ (865)
Adjustments to reconcile net income to net cash provided by operating activity:		
Cost of lots sold	1,471	1,184
Depreciation and amortization	1,858	1,310
Unit-based compensation	175	374
Accretion of debt discount	82	
Previously capitalized acquisition costs		1,365
Previously capitalized financing fees		
Gain on sale of funeral home		(475)
Increase in value of interest rate swap	(1,671)	
Gain on acquisitions	(23,312)	
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(7,304)	(5,670)
Allowance for doubtful accounts	1,163	1,237
Merchandise trust fund	(4,026)	(1,462)
Prepaid expenses	855	1,011
Other current assets	(41)	513
Other assets	119	(156)
Accounts payable and accrued and other liabilities	2,669	(2,771)
Deferred selling and obtaining costs	(3,309)	(2,560)
Deferred cemetery revenue	13,460	8,947
Deferred taxes (net)	(572)	
Merchandise liability	377	1,228
Net cash provided by operating activities	4,029	3,210
Investing activities:		
Additions to cemetery property	(415)	(1,031)
Purchase of subsidiaries	(14,015)	
Divestiture of funeral home		475
Additions of property and equipment	(388)	(376)
Net cash used in investing activities	(14,818)	(932)
Financing activities:		
Cash distribution	(7,653)	(6,813)
Additional borrowings on long-term debt	18,200	8,815
Repayments of long-term debt	(157)	(556)
General partner contribution	69	
Cost of financing activities	(69)	(385)
Net cash provided by (used in) financing activities	10,389	1,061

Net increase (decrease) in cash and cash equivalents		(400)		3,339
Cash and cash equivalents Beginning of period		13,479		7,068
Cash and cash equivalents End of period	$	13,079	$	10,407
Supplemental disclosure of cash flow information				
Cash paid during the period for interest	$	957	$	3,177
Cash paid during the period for income taxes	$	181	$	280

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 March 31, 2010, StoneMor operates 244 cemeteries in 24 states and in Puerto Rico. The Company owns 228 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 March 31, 2010, StoneMor owned and operated 58 funeral homes in 16 states and in Puerto Rico. 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 March 31, 2010 and for the three months ended March 31, 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 $7.0 million for the three months ended March 31, 2010, as compared to $6.1 million during the same period 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

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Depreciation expense was $1.1 million during both the three months ended March 31, 2010, and 2009.

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 $4.0 million and $3.5 million at March 31, 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 March 31, 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 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 March 31, 2010 and December 31, 2009 was approximately $261.9 million and $203.9 million, respectively (see Note 5).

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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 March 31, 2010 and December 31, 2009 was $220.3 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.

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

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 months ended March 31, 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 trust. This adjusted cost basis includes any adjustments to the original cost basis due to other-than-temporary impairments.

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Net Income per Unit

Basic net income per unit is determined by dividing net income, after deducting the amount of net income allocated to the general partner interest by the weighted average number of units outstanding during the period. Diluted net income per unit is calculated in the same manner as basic net income per unit, except that the weighted average number of outstanding units is increased to include the dilutive effect of outstanding unit options or phantom unit options.

New 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.

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 Financial Accounting Standards Board (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,

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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, consist of the following:

	March 31, 2010	December 31, 2009
	(in thousands)	
Customer receivables	$ 123,507	$ 112,995
Unearned finance income	(14,188)	(14,002)
Allowance for contract cancellations	(15,758)	(13,865)
	93,561	85,128
Less: current portion net of allowance	38,710	37,113
Long-term portion net of allowance	$ 54,851	$ 48,015

Activity in the allowance for contract cancellations is as follows:

	For the three months ended March 31, 2010	2009
	(in thousands)	
Balance Beginning of period	$ 13,865	$ 13,763
Reserve on acquired contracts	729	
Provision for cancellations	3,149	3,960
Charge-offs net	(1,985)	(2,723)
Balance End of period	$ 15,758	$ 15,000

3. CEMETERY PROPERTY

Cemetery property consists of the following:

	March 31, 2010	As of December 31, 2009
	(in thousands)	
Developed land	$ 30,818	$ 26,099
Undeveloped land	188,947	161,802
Mausoleum crypts and lawn crypts	47,100	47,456
Total	$ 266,865	$ 235,357

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4. PROPERTY AND EQUIPMENT

Major classes of property and equipment follow:

	As of March 31, 2010	As of December 31, 2009
	(in thousands)	
Building and improvements	$ 51,920	$ 46,376
Furniture and equipment	34,668	34,151
	86,588	80,527
Less: accumulated depreciation	(29,419)	(28,262)
Property and equipment net	$ 57,169	$ 52,265

5. MERCHANDISE TRUST

At March 31, 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;

Fixed maturity debt securities issued by the U.S. Government and U.S. Government agencies; and

Fixed maturity debt securities issued by U.S. states and local agencies.

Assets acquired related to the March 30, 2010 acquisition of nine cemeteries from SCI Michigan (see Note 13). According to the terms of the agreement, SCI Michigan was required to liquidate the holdings of the related trusts upon closing and forward the proceeds to us as soon as practicable. As of March 31, 2010, we had not as of yet received these amounts. Accordingly, these assets are shown in a single line item in the disclosures below as Assets acquired via acquisition and the cost basis and fair value of such assets are based upon preliminary estimates that the Company is required to make in accordance with Accounting Topic 805. As we will ultimately receive cash, the Company has preliminarily classified each of these assets as Level 1 investments.

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 March 31, 2010, approximately 89.5% of these assets were Level 1 investments while approximately 10.5% 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 March 31, 2010 and December 31, 2009 is as follows:

As of March 31, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(in thousands)		
Short-term investments	$ 14,639	$	$	$ 14,639
Fixed maturities:				
U.S. State and local government agency	33		(10)	23
Corporate debt securities	5,820	77	(66)	5,831
Other debt securities	12,249			12,249
Total fixed maturities	18,102	77	(76)	18,103
Mutual funds debt securities	47,319	176	(705)	46,790
Mutual funds equity securities	103,190		(18,829)	84,361
Equity securities	52,920	2,227	(4,687)	50,460
Assets acquired via acquisition	46,155			46,155
Other invested assets	1,389	28		1,417
Total	$ 283,714	$ 2,508	$ (24,297)	$ 261,926

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. Government and federal agency				
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

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

As of March 31, 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	23			
Corporate debt securities		2,719	2,933	179
Other debt securities	10,888	1,361		
Total fixed maturities	$ 10,911	$ 4,080	$ 2,933	$ 179

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	$	$	$	$
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

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

At March 31, 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			23	10	23	10
Corporate debt securities	2,435	35	318	31	2,753	66
Other debt securities						
Total fixed maturities	2,435	35	341	41	2,776	76
Mutual funds debt securities	17,445	139	3,631	566	21,076	705
Mutual funds equity securities			84,361	18,829	84,361	18,829
Equity securities	3,998	1,206	27,834	3,481	31,832	4,687
Total	$ 23,878	$ 1,380	$ 116,167	$ 22,917	$ 140,045	$ 24,297

At December 31, 2009

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

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A reconciliation of the Company s merchandise trust activities for the three months ended March 31, 2010 is presented below:

Three months ended March 31, 2010

Market Value @ 12/31/2009	Net Contributions (Distributions)	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss (in thousands)	Taxes	Fees	Unrealized Change in Market Value	Change in Accrued Income	Market Value @ 3/31/2010
$ 203,885	$ 50,270	$ 2,362	$ (13)	$ 1,180	$ (13)	$ (371)	$ 4,626	$	$ 261,926

The Company made net deposits into the trusts of approximately $50.2 million during the three months ended March 31, 2010. During the three months ended March 31, 2010, purchases and sales of securities available for sale included in trust investments were approximately $126.7 million and $120.9 million, respectively.

The $50,270 in net trust contributions includes approximately $46.2 million of assets related to the acquisition discussed in Note 13 of this Quarterly Report on Form 10-Q.

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 320-10-35 also changed the disclosure requirements for other-than-temporary impairments on both debt and equity securities.

The fundamental accounting changes resulting from the issuance of ASC 320-10-35 are as follows:

Prior to the issuance of ASC 320-10-35, entity s 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 320-10-35 amended this requirement so that entity s 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;
- Determines that it is not more likely than not that it will 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.

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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.

8. 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.

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

During the three months ended March 31, 2010, the Company determined that there were no other than temporary impairments to the fixed maturity investment portfolio in the Merchandise Trust due to credit losses.

During the three months ended March 31, 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 impairments are 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 March 31, 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;

Fixed maturity debt securities issued by the U.S. Government and U.S. Government agencies; and

Fixed maturity debt securities issued by U.S. states and local agencies.

Assets acquired related to the March 30, 2010 acquisition of nine cemeteries from SCI Michigan (see Note 13). According to the terms of the agreement, SCI Michigan was required to liquidate the holdings of the related trusts upon closing and forward the proceeds to us as soon as practicable. As of March 31, 2010, we had not as of yet received these amounts. Accordingly, these assets are shown in a single line item in the disclosures below as Assets acquired via acquisition and the cost basis and fair value of such assets are based upon preliminary estimates that the Company is required to make in accordance with Accounting Topic 805. As we will ultimately received cash, the Company has preliminarily classified each of these assets as Level 1 investments.

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 March 31, 2010, approximately 80.4% of these assets were Level 1 investments while approximately 19.6% were Level 2 assets. There were no Level 3 assets.

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

As of March 31, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(in thousands)		
Short-term investments	$ 9,874	$	$	$ 9,874
Fixed maturities:				
U.S. Government and federal agency				
U.S. State and local government agency	202		(54)	148
Corporate debt securities	20,690	638	(242)	21,086
Other debt securities	4,109			4,109
Total fixed maturities	25,001	638	(296)	25,343
Mutual funds debt securities	43,030	1,729	(434)	44,325
Mutual funds equity securities	92,275	1,538	(19,219)	74,594
Equity Securities	47,679	4,880	(1,367)	51,192
Assets acquired via acquisition	14,572			14,572
Other invested assets	432	2		434
Total	$ 232,863	$ 8,787	$ (21,316)	$ 220,332

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

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

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As of March 31, 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	148			
Corporate debt securities		9,419	10,906	761
Other debt securities	3,738	371		
Total fixed maturities	$ 3,886	$ 9,790	$ 10,906	$ 761

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

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

At March 31, 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			148	54	148	54
Corporate debt securities	7,597	123	834	119	8,431	242
Other debt securities						
Total fixed maturities	7,597	123	982	173	8,579	296
Mutual funds debt securities	1,983	334	919	100	2,902	434
Mutual funds equity securities			46,903	19,219	46,903	19,219
Equity securities	1,142	595	15,111	772	16,253	1,367
Total	$ 10,722	$ 1,052	$ 63,915	$ 20,264	$ 74,637	$ 21,316

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 three months ended March 31, 2010 is presented below:

Three months ended March 31, 2010

Market Value @ 12/31/2009	Net Contributions (Distributions)	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Market Value	Change in Accrued Income	Market Value @ 3/31/2010
				(in thousands)					
$ 196,295	$ 12,902	$ 3,440	$	$ 20	$ (152)	$ (323)	$ 8,150	$	$ 220,332

The Company made net deposits into the trusts of approximately $12.9 million during the three the three months ended March 31, 2010. During the three months ended March 31, 2010, purchases and sales of securities available for sale included in trust investments were approximately $107.0 million and $104.4 million, respectively.

The Company recorded income from perpetual care trusts of $3.1 million for the three months ended March 31, 2010 as compared to $3.4 million during the same period last year. This income is classified as cemetery revenues in the consolidated statements of operations.

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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 temporary impairments to the assets in the perpetual care trust during the three months ended March 31, 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 1st, 2012.

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

The Interest Rate Swaps do not qualify for hedge accounting. Accordingly, the fair value of the Interest Rate Swaps shall be reported on the Company s balance sheet and periodic changes in the fair value of the Interest Rate Swaps shall be recorded in earnings. At March 31, 2010, the Company recorded a liability (the Fair value of interest rate swaps) of approximately $1.0 million, which represents the fair value of the Interest Rate Swaps at March 31, 2010. The fair value of the Interest Rate Swaps had been approximately $2.7 million at December 31, 2009. Accordingly, the Company recorded a gain on the fair value of interest rate swaps of approximately $1.7 million during the three months ended March 31, 2010.

The Company entered into the Interest Rate Swaps in an effort to manage their total interest expense. The Interest Rate Swaps reduced first quarter 2010 interest expense by approximately $0.4 million.

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:

	As of March 31, 2010	As of December 31, 2009
	(in thousands)	
Insurance premium financing	$ 87	$ 190
Vehicle Financing	494	547
Acquisition Credit Facility, due September 2012	15,000	
Revolving Credit Facility, due September 2012	3,200	
Note payable Greenlawn Acquisition	1,400	1,400
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	205,181	187,137
Less current portion	271	378
Less unamortized bond discount	3,856	3,938
Long-term portion	$ 201,054	$ 182,821

10.25% Senior Notes due 2017

Purchase Agreement

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

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

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

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- 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.

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

The Indenture requires the Company, the Issuers and/or the Note Guarantors, as applicable, to comply with various covenants including, but not limited to, covenants that, subject to certain exceptions, limit the Company s and its subsidiaries ability to (i) incur additional indebtedness; (ii) make certain dividends, distributions, redemptions or investments; (iii) enter into certain transactions with affiliates; (iv) create, incur, assume or permit to exist certain liens against their assets; (v) make certain sales of their assets; and (vi) engage in certain mergers, consolidations or sales of all or substantially all of their assets. The Indenture also contains various affirmative covenants regarding, among other things, delivery of certain reports filed with the SEC and materials required pursuant to Rule 144A under the Securities Act to holders of the Senior Notes and joinder of future subsidiaries as Note Guarantors under the Indenture. The Company was in compliance with all covenants at December 31, 2009.

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 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 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 Restricted Subsidiary; or

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

Registration Rights Agreement

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

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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 were guaranteed by both the Company and the General Partner. 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, 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).

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, 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 Series B Notes and 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 Series B Notes and 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. The Company was in compliance with all covenants at March 31, 2010.

Acquisition Credit Facility and Revolving Credit Facility

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

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The Credit Agreement initially provided that: (1) the Acquisition Credit Facility would have a maximum principal amount of $40,000,000 (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 Units 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) to provide that the Company and the General Partner shall not permit such ratio to be greater than:

4.0 to 1.0, for the Company s most recently completed four fiscal quarters ending prior to January 1, 2010;

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

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

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 to provide that the Company and the General Partner shall not permit such ratio to be greater than:

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

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

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3.65 to 1.0, for the Company s most recently completed four fiscal quarters ending after December 31, 2010.
The Consolidated Leverage Ratio was 3.89 at March 31, 2010.

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 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.

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 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. As of March 31, 2010, the Company had $18.2 million outstanding under the Credit Agreement and the Company was in compliance with all applicable covenants.

On May 4, 2010, the Company entered into (i) the Sixth Amendment to Amended and Restated 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.

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.

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.

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 months ended March 31, 2010 and 2009 respectively is based upon the estimated annual effective tax rates expected to be applicable to the Company for 2009 and 2008, 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.

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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 months ended March 31, 2010 or 2009.

10. DEFERRED CEMETERY REVENUES NET

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

	As of March 31, 2010	As of December 31, 2009
	(in thousands)	
Deferred cemetery revenue	$ 236,434	$ 222,749
Deferred merchandise trust revenue	33,177	29,142
Deferred merchandise trust unrealized losses	(21,191)	(27,278)
Deferred pre-acquisition margin	83,938	66,297
Deferred cost of goods sold	(33,911)	(31,931)
Deferred cemetery revenues, net	$ 298,447	$ 258,978
Deferred selling and obtaining costs	$ 53,091	$ 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 March 31, 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 for both the three months ended March 31, 2010 and 2009, respectively.

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At March 31, 2010, operating leases will result in future payments in the following approximate amounts:

	(in thousands)
2011	1,705
2012	1,510
2013	1,374
2014	860
2015	653
Thereafter	2,516
Total	$ 8,618

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 months ended March 31, 2010 and 2009 are summarized in the table below:

	Three months ended March 31, 2010	2009
	(in thousands)	
Unit appreciation rights	$ 121	$ 13
Restricted phantom units	54	361
Total unit-based compensation expense	$ 175	$ 374

As of March 31, 2010, there was approximately $1.8 million in non-vested unit appreciation rights outstanding.

13. ACQUISITIONS AND DIVESTITURES

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 Purchase Agreement) with SCI Funeral Services, LLC, an Iowa limited liability company (Parent), SCI Michigan Funeral Services, Inc., a Michigan corporation (SCI Michigan , and together with Parent, SCI), Hillcrest Memorial Company, a Delaware corporation (Hillcrest), Christian Memorial Cultural Center, Inc., a Michigan corporation (Christian), Sunrise Memorial Gardens Cemetery, Inc., a Michigan corporation (Sunrise), and Flint Memorial Park Association, a Michigan corporation (Flint and individually and collectively with Sunrise, Hillcrest and Christian, Seller).

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

The following is a summary of the material provisions of the Purchase Agreement and Warehouse Purchase Agreement. This summary is qualified in its entirety by reference to the Purchase Agreement and Warehouse Purchase Agreement which are incorporated by reference in their entirety hereto and which are attached to the Current Report on Form 8-K filed on March 30, 2010 as Exhibit 10.1 and Exhibit 10.2, respectively.

Pursuant to the Purchase Agreement, Buyer acquired nine cemeteries in Michigan, including certain related assets (the Acquired Assets), and assumed certain related liabilities (the Assumed Liabilities). In consideration for the transfer of the Acquired Assets and in addition to the assumption of the Assumed Liabilities, Buyer paid Seller approximately $14 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 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 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 31-Mar-10 (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 consolidated financial statements since the date of acquisition and are not material to the 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, 2007:

	Three months ended March 31, 2010	2009
	(unaudited) (In thousands)	
Revenues	$ 42,201	$ 44,128
Net income (loss)	21,956	(944)
Net income (loss) per limited partner unit (basic and diluted)	1.61	(0.07)

The unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments such as decreased cost of goods sold related to the step-down in the basis of the cemetery property acquired and increased interest on the acquisition debt. They do not purport to be indicative of the results of operations which actually would have resulted had the combination been in effect on January 1, 2009 or of future results of operations of the locations.

The accounting for acquisitions made in 2009 have still not been finalized and are subject to adjustment in the second and third quarter of 2010.

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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 months ended March 31, 2010 and 2009 is as follows:

As of and for the three months ended March 31, 2010

	Southeast	Cemeteries Northeast	West	Funeral Homes (in thousands)	Corporate	Adjustment	Total
Revenues							
Sales	$ 18,656	$ 7,953	$ 6,893	$	$	$ (13,330)	$ 20,171
Service and other	7,419	5,616	3,501		15	(1,931)	14,623
Funeral home				6,040		(162)	5,878
Total revenues	26,075	13,569	10,394	6,040	15	(15,423)	40,671
Costs and expenses							
Cost of sales	3,815	1,582	1,011		5	(1,981)	4,432
Cemetery	4,292	2,845	2,111				9,247
Selling	6,161	2,606	2,068		62	(3,280)	7,617
General and administrative	2,827	1,505	1,262		3		5,598
Funeral home				4,438		(10)	4,428
Depreciation and amortization	437	190	123	279	829		1,858
Corporate					5,089		5,089
Acquisition related costs					990		990
Total costs and expenses	17,532	8,728	6,575	4,717	6,978	(5,271)	39,260
Operating earnings	8,543	4,841	3,819	1,323	(6,963)	(10,152)	1,411
Gain on acquisition					23,312		23,312
Increase in value of interest rate swap					1,671		1,671
Interest expense	2,313	942	985	618			4,859
Earnings (losses) before taxes	$ 6,230	$ 3,899	$ 2,834	$ 705	$ 18,020	$ (10,152)	$ 21,535
Supplemental information							
Total assets	$ 392,658	$ 261,659	$ 270,544	$ 34,947	$ 27,635	$	$ 987,443
Amortization of cemetery property	$ 840	$ 511	$ 119	$	$	$ (189)	$ 1,281
Long lived asset additions	$ 92	$ 31	$ 38,239	$ 49	$ 62	$	$ 38,473

As of and for the three months ended March 31, 2009

	Southeast	Cemeteries Northeast	West	Funeral Homes (in thousands)	Corporate	Adjustment	Total
Revenues							
Sales	$ 17,066	$ 8,221	$ 6,677	$	$ 13	$ (9,997)	$ 21,980
Service and other	6,245	5,680	3,114			(689)	14,350
Funeral home				6,336		(68)	6,268
Total revenues	23,311	13,901	9,791	6,336	13	(10,754)	42,598
Costs and expenses							
Cost of sales	3,785	1,657	1,195		3	(1,840)	4,800
Cemetery	4,082	3,027	2,319		11		9,439
Selling	5,510	2,717	1,980		138	(2,519)	7,826
General and administrative	2,689	1,652	1,134		4		5,479
Funeral home				4,812		(11)	4,801
Depreciation and amortization	374	246	104	214	372		1,310
Corporate					5,366		5,366
Acquisition related costs					1,586		1,586
Total costs and expenses	16,440	9,299	6,732	5,026	7,480	(4,370)	40,607
Operating earnings	6,871	4,602	3,059	1,310	(7,467)	(6,384)	1,991
Gain on sale of funeral home						475	475
Interest expense	1,395	606	686	473	9		3,169
Earnings (losses) before taxes	$ 5,476	$ 3,996	$ 2,373	$ 837	$ (7,476)	$ (5,909)	$ (703)
Supplemental information							
Total assets	$ 315,785	$ 230,173	$ 135,060	$ 33,879	$ 19,689	$	$ 734,586
Amortization of cemetery property	$ 721	$ 472	$ 237	$	$	$ (210)	$ 1,220
Long lived asset additions	$ (226)	$ 388	$ (57)	$ 313	$ 120	$	$ 538

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

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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.

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 investments measured at fair value as of March 31, 2010. There were no Level 3 assets at March 31, 2010.

Merchandise Trust

Description	Level 1	Level 2
	(in thousands)	
Assets		
Short-term investments	$ 14,639	$
Fixed maturities:		
U.S. government and federal agency		
U.S. state and local government agency		23
Corporate debt securities		5,831
Other debt securities		10,888
Total fixed maturity investments		16,742
Mutual funds debt securities	38,864	7,926
Mutual funds equity securities real estate sector	11,059	
Mutual funds equity securities energy sector	25,594	
Mutual funds equity securities MLP s	4,793	
Mutual funds equity securities other	42,915	
Equity securities		
Preferred REIT s	10,281	
Master limited partnerships	27,498	
Global equity securities	12,681	
Assets acquired via acquisition	46,155	
Other invested assets		2,778
Total	$ 234,478	$ 27,447

Perpetual Care Trust

Description	Level 1	Level 2
	(in thousands)	
Assets		
Short-term investments	$ 9,874	$
Fixed maturities:		
U.S. government and federal agency		
U.S. state and local government agency		148
Corporate debt securities		21,086
Other debt securities		3,738
Total fixed maturity investments		24,972

Mutual funds debt securities	27,025	17,300
Mutual funds equity securities real estate sector	10,667	
Mutual funds equity securities energy sector	27,692	
Mutual funds equity securities MLP s	1,334	
Mutual funds equity securities other	34,901	
Equity securities		
Preferred REIT s	30,063	
Master limited partnerships	21,129	
Global equity securities		
Assets acquired via acquisition	14,572	
Other invested assets		805
Total	$ 177,257	$ 43,076
Interest Rate Swap	$	$ 1,010

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.

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16. Subsequent Events

On April 29, 2010, the Johnson County Circuit Court of Indiana entered an order, subject to certain conditions, that permits Lynette Gray, as 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 Sellers), to enter into and consummate an Amended and Restated Purchase Agreement (the Purchase Agreement) with various wholly owned subsidiaries 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.

Pursuant to the Purchase Agreement, the Buyer agreed to acquire the stock (the Stock) of certain companies owned by Ansure (the Companies) and certain assets owned by Nelms, Gill, Gardens of Memory, Garden View, Forest Lawn, Heritage, Royal Oak and MGMC (the Acquired Assets), resulting in the acquisition of 8 cemeteries and 5 funeral homes in Indiana, Michigan and Ohio. The Buyer also agreed to pay certain liabilities of the Sellers, which will be offset by funds held in accounts acquired by the Buyer in the transaction, as well as certain legal fees of the parties to the transaction and other acquisition costs. The parties are in the process of negotiating the consideration for the transfer of the Stock and Acquired Assets.

The Purchase Agreement may be terminated at any time before the Closing Date: (i) upon the mutual consent of the Sellers and Buyer or (ii) by the Buyer or Sellers, upon written notice to the other party given at any time after June 30, 2010, if any or all of the conditions precedent to the party s obligations under the Purchase Agreement have not been met, without such party s fault.

The closing of the transactions contemplated by the Purchase Agreement is subject to a number of conditions, including: (i) the Buyer s satisfaction with its due diligence investigation of the Owned Business; (ii) the consent of the Buyer s existing lenders; (iii) the final approval of the board of directors of StoneMor s general partner, StoneMor GP LLC; (iv) approval of certain governmental authorities in Indiana, Michigan and Ohio; (v) resolution of certain third party claims which have been or could be asserted against the Sellers or the Companies; and (vi) the Buyer entering into an agreement with the Meyers, the former owners of certain of the Owned Business.

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

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, expec similar expressions identify these forward-looking statements. These 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, Cornerstone, succeeded by us, acquired 111 additional cemeteries and 54 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.

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).

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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.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 March 31, 2010, we operated 244 cemeteries in 24 states and in Puerto Rico. We own 228 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 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 85.5% and 85.3% of our revenues during the three months ended March 31, 2010 and 2009, respectively.

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

- at-need sales of cemetery interment rights, merchandise and services;
- 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, 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.

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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 March 31, 2010, we owned and operated 58 funeral homes. These properties are located within the contiguous United States. Twenty six of our 58 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 14.5% and 14.7% of our revenues during the three months ended March 31, 2010 and 2009, respectively.

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.

Business Developments

Significant business developments for the three months ended March 31, 2010 include the following:

- On March 30, 2010, we completed the acquisition of nine cemeteries from Service Corporation International. We paid approximately $14.0 million for this acquisition. We have preliminarily valued the net assets acquired at $37.3 million and have recorded a provisional gain on a bargain purchase of $23.3 million.

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.

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Current Market Conditions and Economic Developments

Revenues for at-need sales of our cemetery merchandise and services were down in the first quarter of 2010 compared to 2009. Total revenues from at need sales were $13.1 million during the three months ended March 31, 2010 as compared to $16.6 million during the same period last year. The decline was caused by both a decrease in the value of contracts written ($1.4 million) and an increase in deferred revenue ($2.0 million). The increase in deferred revenue is a timing issue and does not represent any downturn in our business.

Change 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 March 31, 2010, the ratio of fair value to cost was 92.5% for assets held in our merchandise trust and 94.6% 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 income earned on perpetual care trust assets was approximately $3.1 million and $3.4 million during the three months ended March 31, 2010 and 2009, respectively.

Merchandise Trust

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

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

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

A decline in the market value of the assets in the merchandise trust could ultimately impair our profitability and resulting financial position and liquidity should we be forced to liquidate such assets at an amount significantly below our original expectation, which is ultimately asset cost 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 March 31, 2010, the merchandise trust had approximately $14.6 million in cash and cash equivalents. This amount functions to mitigate the risk of liquidating impaired assets. In evaluating the sufficiency of this amount as to its effectiveness in mitigating the risk of liquidating impaired assets, we have considered the net inflows and outflows of cash into the trust in recent prior periods. These net inflows and outflows are a function of both sales originations and the corresponding trust deposits and meeting the criteria for releasing funds. Total net cash inflows into the merchandise trust for the three months ended March 31, 2010 were approximately $4.0 million.

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 as defined in the Second Amendment.

The Profitability Measure is primarily related to the current period value of contracts written and their associated expense. We have not seen any material decline in the value of contracts written due to current economic conditions. The aforementioned decline in the value of at-need contracts written ($1.4 million) has been offset by a larger increase in the value of pre-need contracts written (approximately $3.4 million). Expenses have remained relatively stable.

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 quarter of 2010 as we borrowed money to complete our acquisition of nine cemeteries from Service Corporation Internation. While this has caused our leverage ratio to increase, 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.

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 December 31, 2009 and March 31, 2010, 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.

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.

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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.

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 825-10-65-1amends 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 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 March 31, 2010 Compared to the Three Months ended March 31, 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.

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 13 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.

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Cemetery Operations Southeast

The table below compares the results of operations for our Cemetery Operations Southeast for the three months ended March 31, 2010 to the same period last year:

	Three months ended March 31,			
	2010	2009	Change ($)	Change (%)
	(In thousands)			
			(non-GAAP)	
Total revenues	$ 26,075	$ 23,311	$ 2,764	11.9%
Total costs and expenses	17,532	16,440	1,092	6.6%
Operating earnings	8,543	6,871	1,672	24.3%
Interest expense	2,313	1,395	918	65.8%
Earnings (losses) before taxes	$ 6,230	$ 5,476	$ 754	13.8%

Revenues

Revenues for Cemetery Operations Southeast were $26.1 million for the three months ended March 31, 2010, an increase of $2.7 million, or 11.9%, compared to $23.3 million during the same period last year.

The increase was primarily related to an increase in the value of pre-need contracts written ($2.3 million) and a smaller increase in income from our trusts ($0.6 million). The value of at-need contracts written was $7.8 million during both the three months ended March 31, 2010 and 2009.

Total costs and expenses

Total costs and expenses for Cemetery Operations Southeast were $17.5 million for the three months ended March 31, 2010, an increase of $1.1 million, or 6.6%, compared to $16.4 million during the same period last year.

The increase was primarily related to:

- No material change in cost of goods sold (this was approximately $3.8 million during both the three months ended March 31, 2010 and 2009. The ratio of cost of goods sold to the total value of contracts written declined by 170 basis points to 16.7% during the three months ended March 31, 2010 as compared to 18.4% during the same period last year.

- A $0.7 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 20 basis points to 27.0% during the three months ended March 31, 2010 as compared to 26.8% during the same period last year.

- A $0.2 million increase in cemetery expenses. The increase was due to a corresponding increase in non-labor costs. Cemetery expense related labor costs were essentially flat.

A $0.1 million increase in general and administrative expenses. The increase was due to a corresponding increase in non-labor costs. General and administrative expense related labor costs were essentially flat.

Interest Expense

Interest expense for Cemetery Operations Southeast was $2.3 million for the three months ended March 31, 2010, an increase of $0.9 million, or 65.8%, compared to $1.4 million during the same period last year. This was primarily due to an overall increase in corporate wide interest expense which in turn was primarily due to an increase in total debt outstanding and an increase in debt related interest rates.

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Cemetery Operations Northeast

The table below compares the results of operations for our Cemetery Operations Northeast for the three months ended March 31, 2010 to the same period last year:

	Three months ended March 31,			
	2010	**2009**	**Change ($)**	**Change (%)**
	(In thousands)			
			(non-GAAP)	
Total revenues	$ 13,569	$ 13,902	$ (333)	-2.4%
Total costs and expenses	8,728	9,299	(571)	-6.1%
Operating earnings	4,841	4,603	238	5.2%
Interest expense	942	606	336	55.4%
Earnings (losses) before taxes	$ 3,899	$ 3,997	$ (98)	-2.5%

Revenues

Revenues for Cemetery Operations Northeast were $13.6 million for the three months ended March 31, 2010, a decrease of $0.3 million, or 2.4%, compared to $13.9 million during the same period last year.

The decrease was primarily due to a $0.7 million decrease in the value of at-need contracts written offset by a $0.3 million increase in the value of pre-need contracts written.

Total costs and expenses

Total costs and expenses for Cemetery Operations Northeast were $8.7 million for the three months ended March 31, 2010, a decrease of $0.6 million, or 6.1%, compared to $9.3 million during the same period last year.

The decrease was primarily related to:

A $0.1 million decrease in the cost of goods sold. This was primarily attributable to the corresponding decrease in the value of contracts written. The ratio of cost of goods sold to the value of contracts written declined by 20 basis points to 14.9% during the three months ended March 31, 2010 compared to 15.1% during the same period last year.

A $0.1 million decrease in selling expense. This was primarily attributable to the corresponding decrease in the value of contracts written. The ratio of selling expenses to the value of contracts written was 24.6% during the three months ended March 31, 2010 as compared to 24.8% during the same period last year.

A $0.2 million decrease in cemetery expenses. The decrease was primarily due to a $0.2 million decrease in labor costs. Other changes were not material.

A $0.1 million decrease in general and administrative costs. The decrease was primarily due to a $0.1 million decrease in labor costs. Other changes were not material.

Interest Expense

Interest expense for Cemetery Operations   Northeast was $0.9 million for the three months ended March 31, 2010, an increase of $0.3 million, or 55.4%, compared to $0.6 million during the same period last year. This was primarily due to an overall increase in corporate wide interest expense which in turn was primarily due to an increase in total debt outstanding and an increase in debt related interest rates.

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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 March 31, 2010 to the same period last year:

	Three months ended March 31,			
	2010	**2009**	**Change ($)**	**Change (%)**
	(In thousands)			
			(non-GAAP)	
Total revenues	$ 10,394	$ 9,790	$ 604	6.2%
Total costs and expenses	6,575	6,732	(157)	-2.3%
Operating earnings	3,819	3,058	761	24.9%
Interest expense	985	686	299	43.6%
Earnings (losses) before taxes	$ 2,834	$ 2,372	$ 462	19.5%

Revenues

Revenues for Cemetery Operations West were $10.4 million for the three months ended March 31, 2010, an increase of $0.6 million, or 6.2%, compared to $9.8 million during the same period last year.

The increase was primarily related to an increase in the value of pre-need contracts written ($0.7 million) and income from our trusts ($0.6 million) offset by a decrease in the value of at-need contracts written ($0.6 million).

Total costs and expenses

Total costs and expenses for Cemetery Operations West were $6.6 million for the three months ended March 31, 2010, a decrease of $0.1 million, or 2.3%, compared to $6.7 million during the same period last year.

The decrease was primarily related to:

- A $0.2 million decrease in the cost of goods sold. A change in product mix on the value of contracts written led to decrease in the ratio of cost of goods sold to the value of contracts written to 12.2% during the three months ended March 31, 2010 as compared to 14.6% during the same period last year.

- A $0.2 million decrease in cemetery expenses. The decrease was equally split between labor and non-labor costs.

Interest Expense

Interest expense for Cemetery Operations West was $1.0 million for the three months ended March 31, 2010, an increase of $0.3 million, or 43.6%, compared to $0.7 million during the same period last year. This was primarily due to an overall increase in corporate wide interest expense which in turn was primarily due to an increase in total debt outstanding and an increase in debt related interest rates.

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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 March 31, 2010 as compared to the same period last year:

	Three months ended March 31,			
	2010	2009	Change ($)	Change (%)
	(In thousands)			
			(non-GAAP)	
Total revenues	$ 6,040	$ 6,336	$ (296)	-4.7%
Total costs and expenses (a)	4,717	5,030	(313)	-6.2%
Operating earnings	1,323	1,306	17	1.3%
Interest expense	618	474	144	30.4%
Earnings (losses) before taxes	$ 705	$ 832	$ (127)	-15.3%

(a) includes depreciation of $287 and $229 for the three months ended March 31, 2010 and 2009 respectively. This amount is included in depreciation and amortization on the income statement.

Revenues

Revenues for the Funeral Home segment were $6.0 million for the three months ended March 31, 2010, a decrease of $0.3 million, or 4.7%, compared to $6.3 million during the same period last year.

The decrease was primarily attributable to a $0.5 million decrease in at-need revenues offset by a $0.2 million increase in other revenues.

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Total costs and expenses

Total costs and expenses as shown herein are consist of both funeral home expenses as shown on the face of the income statement and depreciation and amortization allocated to the Funeral Home segment. Total costs and expenses for the Funeral Home segment were $4.7 million for the three months ended March 31, 2010, a decrease of $0.3 million, or 6.2%, compared to $5.0 million during the same period last year.

The decrease was primarily related to a $0.3 decrease in personnel expenses. Other changes were relatively minor.

Interest Expense

Interest expense for the Funeral Home segment was $0.6 million for the three months ended March 31, 2010, an increase of $0.1 million, or 30.4%, compared to $0.5 million during the same period last year. This was primarily due to an overall increase in corporate wide interest expense which in turn was primarily due to an increase in total debt outstanding and an increase in debt related interest rates.

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 March 31, 2010 and for the same period last year:

	Three months ended March 31,			
	2010	2009	Change ($)	Change (%)
	(In thousand s)			
Selling, cemetery and general and administrative expenses (a)	$ 55	$ 142	$ (87)	-61.3%
Depreciation and amortization	829	369	460	124.7%
Acquisition related costs	990	1,587	(597)	-37.6%
Corporate expenses				
Corporate personnel expenses	2,532	2,624	(92)	-3.5%
Other corporate expenses	2,557	2,742	(185)	-6.7%
Total corporate expenses	5,089	5,366	(277)	-5.2%
Operating loss	$ 6,963	$ 7,464	(501)	-6.7%
Gain on acquisition	23,312		23,312	n/a
Increase in value of interest rate swap	1,671		1,671	n/a
Interest expense		9	(9)	-100.0%
(Gain) losses before taxes	$ (18,020)	$ 7,473	$ (25,493)	-341.1%
Personnel expenses as a % of segment revenues (b)	4.5%	4.9%		
Other expenses as a % of segment revenues (b)	4.6%	5.1%		
Total expenses as a % of segment revenue (b)	9.1%	10.0%		

(a) Includes $15 and $14 in miscellaneous revenues for the three months ended March 31, 2010 and 2009 respectively.

(b) As noted in the cemetery segment sections, segment revenue is measured utilizing non-GAAP amounts. This ratio is based upon such non-GAAP amounts.

Miscellaneous selling, cemetery and general administrative expenses allocated to the Corporate segment were approximately $0.1 million for both the three months ended March 31, 2010 and 2009 respectively.

Total corporate expenses were $5.1 million for the three months ended March 31, 2010, a decrease of $0.3 million, or 5.2% compared to 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 three months ended March 31, 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 March 31, 2010 (in thousand s)			Three months ended March 31, 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	$ 26,523	$ (10,954)	$ 15,569	$ 23,142	$ (9,996)	$ 13,146	$ 2,423	18.4%
At-need cemetery revenues	15,215	(2,052)	13,163	16,601	(5)	16,596	(3,433)	-20.7%
Investment income from trusts	6,377	(2,400)	3,977	5,249	(838)	4,411	(434)	-9.8%
Interest income	1,550		1,550	1,505		1,505	45	3.0%
Funeral home revenues	6,040	(162)	5,878	6,336	(68)	6,268	(390)	-6.2%
Other cemetery revenues	389	144	533	520	151	671	(138)	-20.6%
Total revenues	56,094	(15,424)	40,671	53,353	(10,756)	42,598	(1,927)	-4.5%
Costs and expenses								
Cost of goods sold	6,413	(1,981)	4,432	6,641	(1,841)	4,800	(368)	-7.7%
Cemetery expense	9,247		9,247	9,438		9,438	(191)	-2.0%
Selling expense	10,897	(3,280)	7,617	10,345	(2,519)	7,826	(209)	-2.7%
General and administrative expense	5,598		5,598	5,479		5,479	119	2.2%
Corporate overhead	5,089		5,089	5,366		5,366	(277)	-5.2%
Depreciation and amortization	1,858		1,858	1,310		1,310	548	41.8%
Funeral home expense	4,438	(10)	4,428	4,802		4,802	(374)	-7.8%
Acquisition related costs	990		990	1,587		1,587	(597)	-37.6%
Total costs and expenses	44,530	(5,271)	39,260	44,968	(4,360)	40,607	(1,347)	-3.3%
Operating profit	11,564	(10,153)	1,411	8,385	(6,396)	1,991	(580)	-29.1%
Gain on acquisition	23,312		23,312				23,312	n/a
Gain on disposition of funeral home				475		475	(475)	-100.0%
Increase in value of interest rate swap	1,671		1,671				1,671	n/a
Interest expense	4,859		4,859	3,169		3,169	1,690	53.3%
Income before taxes	31,688	(10,153)	21,535	5,691	(6,396)	(703)	22,238	-3163.3%
State income taxes	28		28	162		162	(134)	-82.7%
Federal income taxes	(528)		(528)				(528)	n/a
Total income taxes	(500)		(500)	162		162	(662)	-408.6%
Net income	$ 32,188	$ (10,153)	$ 22,035	$ 5,529	$ (6,396)	$ (865)	$ 22,900	n/a

Revenues

Pre-need cemetery revenues were $15.6 million for the three months ended March 31, 2010, an increase of $2.5 million, or 18.4%, as compared to $13.1 million during the same period last year. The increase was primarily caused by an increase in the value of cemetery contracts written ($3.4 million) offset by an increase in the amount of revenue deferred ($1.0 million), which was in turn caused by a greater lag in the delivery of our merchandise and services. On a product by product basis, there was an increase in the delivery of pre-need markers ($1.4 million) and lots ($0.9 million).

At-need cemetery revenues were $13.2 million for the three months ended March 31, 2010, a decrease of $3.4 million, or 20.7%, as compared to $16.6 million during the same period last year. The decrease was primarily caused by a decrease in the value of cemetery contracts written ($1.4 million) and an increase in the increase in deferred revenue ($2.0 million), which was in turn caused by a greater lag in the delivery of our merchandise and services. On a product by product basis, the decrease was most impacted by a decline in the delivery of markers ($1.9 million). Other decreases were not nearly as substantial.

Investment income from trusts was $4.0 million for the three months ended March 31, 2010, a decrease of $0.4 million, or 9.8%, as compared to $4.4 million during the same period last year. Not considering income deferrals, our trusts actually earned $1.1 million more in the three months ended March 31, 2010 as compared to the same period last year. The decline in trust income after deferral was primarily caused by the reduction in the deferral of realized losses caused by other than temporarily impaired assets.

Interest income on accounts receivable was $1.6 million for the three months ended March 31, 2010, an increase of $0.1 million, or 3.0%, as compared to $1.5 million during the same period last year. The change was related to the continued increase in the value of contracts written, which is in turn reflected in the continuing increase in revenues as recorded at the segment level.

Revenues for the Funeral Home segment were $5.9 million for the three months ended March 31, 2010, a decrease of $0.3 million, or 6.2%, compared to $6.3 million during the same period last year. The decrease was primarily attributable to a decrease in at-need revenues, which is consistent with our decrease in cemetery at-need revenues.

Other cemetery revenues were $0.4 million for the three months ended March 31, 2010, a slight decrease from $0.5 million during the same period last year.

Costs and Expenses

Cost of goods sold were $4.4 million during the three months ended March 31, 2010, a decrease of $0.4 million, or 7.7%, as compared to the same period last year. The decrease was primarily caused by the corresponding decrease in pre-need and at-need cemetery revenues recognized. There was an improvement in the ratio of cost of goods sold to pre-need and at-need cemetery revenues (15.4% during the three months ended March 31, 2010 as compared to 16.1% during the same period last year).

Cemetery expenses were $9.2 million during the three months ended March 31, 2010, a decrease of $0.2 million, or 2.0%, compared to $9.4 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 22.2% during the three months ended March 31, 2010 as compared to 23.7% during the same period last year.

Selling expenses were $7.6 million during the three months ended March 31, 2010, a decrease of $0.2 million, or 2.7%, compared to $7.8 million during the same period last year. There was a slight degradation (26.5% during the three months ended March 31, 2010 as compared to 26.3% 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 $5.6 million during the three months ended March 31, 2010, a slight increase of $0.1 million, or 2.2%, compared to $5.5 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 13.4% during the three months ended March 31, 2010 compared to 13.8% during the same period last year.

Total corporate overhead was $5.1 million during the three months ended March 31, 2010, a decrease of $0.3 million, or 5.2%, compared to the same period last year. The decrease was primarily caused by a decline in share-based compensation ($0.2 million) and other small net changes.

Depreciation and amortization was $1.9 million during the three months ended March 31, 2010, an increase of $0.6 million, or 41.8%, as compared to $1.3 million during the period last year. The increase was primarily due to an increase in the amortization of deferred financing costs.

Funeral home expenses were $4.4 million for the three months ended March 31, 2010, a decrease of $0.4 million, or 7.8%, as compared to $4.8 million during the same period last year. The decrease was primarily related to the corresponding decrease in funeral home revenues.

Interest expense was $4.9 million during the three months ended March 31, 2010, an increase of $1.7 million, or 53.3%, 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.

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Supplemental data

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

	Three Months Ended 31-Mar-10	Three Months Ended 31-Mar-09
Operating Data:		
Interments performed	9,484	9,712
Interment rights sold:		
Lots	6,100	5,325
Mausoleum crypts (including pre-construction)	579	564
Niches	243	253
Total interment rights sold	6,922	6,142
Number of contracts written	19,781	20,829
Aggregate contract amount, in thousands (excluding interest)	$ 49,437	$ 48,444
Average amount per contract (excluding interest)	$ 2,499	$ 2,326
Number of pre-need contracts written	9,909	9,620
Aggregate pre-need contract amount, in thousands (excluding interest)	$ 32,452	$ 29,423
Average amount per pre-need contract (excluding interest)	$ 3,275	$ 3,059
Number of at-need contracts written	9,872	11,209
Aggregate at-need contract amount, in thousands	$ 16,985	$ 19,021
Average amount per at-need contract	$ 1,721	$ 1,697

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.

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

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

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.

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.

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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 March 31, 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 Restricted Subsidiary; or

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

Registration Rights Agreement

In connection with the sale of the Senior Notes, on November 24, 2009, the Issuers, 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.

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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 Series B Notes and 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 Series B Notes and Series C Notes were amended and restated to provide for the payment of the Additional Interest as described in the Sixth Amendment to NPA.

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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 March 31, 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).

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, 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) to provide that we and the General Partner shall not permit such ratio to be greater than:

4.0 to 1.0, for our most recently completed four fiscal quarters ending prior to January 1, 2010;

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

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

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 to provide that we and the General Partner shall not permit such ratio to be greater than:

- 4.0 to 1.0, for our most recently completed four fiscal quarters ending prior to July 1, 2010;
- 3.75 to 1.0, for our most recently completed four fiscal quarters ending between July 1, 2010 and December 31, 2010; or
- 3.65 to 1.0, for our most recently completed four fiscal quarters ending after December 31, 2010.

On May 4, 2010, we entered into (i) the Sixth Amendment to Amended and Restated 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.

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.

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 borrowers under the Credit Agreement paid fees to Bank of America, N.A. as Administrative Agent, and Banc of America Securities LLC, 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, 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 $18.2 million outstanding and we were in compliance with all debt covenants under the Credit Agreement at March 31, 2010.

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.

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 March 31, 2010, we recorded a liability (the Fair value of interest rate swaps) of approximately $1.0 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 $1.7 million during the three months ended March 31, 2010.

We entered into the Interest Rate Swaps in an effort to manage our total interest expense. The Interest Rate Swaps reduced first quarter 2010 interest expense by approximately $0.4 million.

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

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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.

Cash Flow from Operating Activities.

Cash flows provided by operating activities were $4.0 million during the three months ended March 31, 2010, an increase of $0.8 million, or 25.0%, compared to $3.2 during the same period last year. The increase is related to the increase in operating profit as measured at the segment level ($3.3 million) net of the increase in interest expense ($1.7 million) further impacted by certain changes in cash flow timing issues.

Cash Flow from Investing Activities

Net cash used in investing activities was $14.8 million during the three months ended March 31, 2010 as compared to $0.9 million during the same period last year. Cash flows used for investing activities during the three months ended March 31, 2010 were primarily utilized for the acquisition of nine cemetery properties ($14.0 million) and other capital expenditures ($0.8 million).

Cash Flow from Financing Activities

Cash flows provided by financing activities were $10.4 million during the three months ended March 31, 2010 as compared to $1.1 million during the same period last year. Cash flows provided by financing activities for the three months ended March 31, 2010 were primarily related to increased net borrowings ($18.0 million), which were in turn primarily used to fund the acquisition of nine cemetery properties and the related expenses offset by the payment of partner distributions ($7.7 million).

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 March 31,	
	2010	**2009**
	(In thousands)	
Maintenance capital expenditures	$ 388	$ 376
Expansion capital expenditures	14,430	1,031
Total capital expenditures	$ 14,818	$ 1,407

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.

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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.

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 March 31, 2010, the fair value of fixed-income securities in our merchandise trusts represented 6.9% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 11.5% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was $18.1 million and $25.3 million in merchandise trusts and perpetual care trusts, respectively, as of March 31, 2010. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately $181,000 and $253,000 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 March 31, 2010, the fair value of money market and short-term investments in our merchandise trusts represented 5.6% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 4.5% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was $14.6 million and $9.9 million in merchandise trusts and perpetual care trusts, respectively, as of March 31, 2010. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately $146,000 and $99,000 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 March 31, 2010, the fair value of marketable equity securities in our merchandise trusts represented 69.3% of the fair value of total trust assets while the fair value of marketable equity securities in our perpetual care trusts represented 77.2% of total trust assets. The aggregate quoted fair market value of these marketable equity securities was $181.6 million and $170.1 million in merchandise trusts and perpetual care trusts, respectively, as of March 31, 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 $18.2 million and $17.0 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.

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 March 31, 2010, we had outstanding borrowings of $15.0 million under our Acquisition Credit Facility and $3.2 million under our Revolving Credit Facility. The interest rate on these facilities was 6.25% at March 31, 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 March 31, 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.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4.

Item 5. Other Information.

None.

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Item 6. Exhibits

Exhibit Number	Description
10.1	Fifth Amendment to Amended and Restated Credit Agreement, dated January 15, 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 January 21, 2010).
10.2	Fifth Amendment to Amended and Restated Note Purchase Agreement, dated January 15, 2010, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, certain Subsidiaries of StoneMor Partners L.P. and the Noteholders (incorporated by reference to Exhibit 10.2 of Registrant s Current Report on Form 8-K filed on January 21, 2010).
10.3	Asset Purchase and Sale Agreement by and among StoneMor Operating LLC, StoneMor Michigan LLC, StoneMor Michigan Subsidiary LLC, SCI Funeral Services, LLC, SCI Michigan Funeral Services, Inc., Hillcrest Memorial Company, Christian Memorial Cultural Center, Inc., Sunrise Memorial Gardens Cemetery, Inc. and Flint Memorial Park Association dated March 30, 2010 (incorporated by reference to Exhibit 10.1 of Registrant s Current Report on Form 8-K filed on March 30, 2010).
10.4	Asset Purchase and Sale Agreement by and among StoneMor Operating LLC, Plymouth Warehouse Facilities LLC, SCI Funeral Services, LLC, SCI Michigan Funeral Services, Inc., Hillcrest Memorial Company, Sunrise Memorial Gardens Cemetery, Inc., Flint Memorial Park Association, StoneMor Michigan LLC, and StoneMor Michigan Subsidiary LLC dated March 30, 2010(incorporated by reference to Exhibit 10.2 of Registrant s Current Report on Form 8-K filed on March 30, 2010).
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)
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of William R. Shane, Executive Vice President and Chief Financial Officer (furnished herewith)

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SIGNATURES

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

	STONEMOR PARTNERS L.P.
	By: StoneMor GP LLC its general partner
May 10, 2010	/s/ Lawrence Miller Lawrence Miller Chief Executive Officer, President and Chairman of the Board of Directors (Principal Executive Officer)
May 10, 2010	/s/ William R. Shane William R. Shane Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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