

STONEMOR PARTNERS LP
Form 10-Q
August 09, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

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
(State or other jurisdiction of
incorporation or organization)

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

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155 Rittenhouse Circle

Bristol, Pennsylvania
(Address of principal executive offices)

19007
(Zip Code)

(215) 826-2800

(Registrant's telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of the registrant's outstanding common units at August 9, 2007 was 4,795,750.

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Table of Contents**Part I Financial Information****Item 1. Financial Statements****StoneMor Partners L.P.****Condensed Consolidated Balance Sheets**

(in thousands)

(unaudited)

	December 31, 2006	June 30, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,914	\$ 11,559
Accounts receivable, net of allowance	22,968	25,962
Prepaid expenses	2,801	3,119
Other current assets	2,533	4,023
Total current assets	38,216	44,663
LONG-TERM ACCOUNTS RECEIVABLE net of allowance	36,878	37,510
CEMETERY PROPERTY	171,714	170,015
PROPERTY AND EQUIPMENT, net of accumulated depreciation	29,027	28,166
MERCHANDISE TRUSTS, restricted, at fair value	147,788	154,589
PERPETUAL CARE TRUSTS, restricted, at fair value	168,631	170,027
DEFERRED FINANCING COSTS net of accumulated amortization	1,242	1,137
DEFERRED SELLING AND OBTAINING COSTS	33,478	34,966
OTHER ASSETS	51	162
TOTAL ASSETS	\$ 627,025	\$ 641,235
LIABILITIES AND PARTNERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 11,345	\$ 10,228
Accrued interest	361	390
Current portion, long-term debt	1,388	1,179
Total current liabilities	13,094	11,797
LONG-TERM DEBT	102,104	106,881
DEFERRED CEMETERY REVENUES, net	196,103	205,356
MERCHANDISE LIABILITY	45,805	51,094
TOTAL LIABILITIES	357,106	375,128
COMMITMENTS AND CONTINGENCIES NON-CONTROLLING INTEREST IN PERPETUAL CARE TRUSTS	168,631	170,027
PARTNERS EQUITY		
General partner	1,382	1,278

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Limited partners:		
Common	71,700	68,991
Subordinated	28,206	25,811
Total partners equity	101,288	96,080
TOTAL LIABILITIES AND PARTNERS EQUITY	\$ 627,025	\$ 641,235

See Accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents**StoneMor Partners L.P.****Condensed Consolidated Statement of Operations**

(in thousands, except unit data)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2007	2006	2007
Revenues:				
Cemetery	\$ 27,163	\$ 38,161	\$ 52,355	\$ 65,671
Funeral home	1,129	2,503	2,589	5,533
Total revenues	28,292	40,664	54,944	71,204
Costs and Expenses:				
Cost of goods sold (exclusive of depreciation shown separately below):				
Land and crypts	1,416	1,731	2,863	3,020
Perpetual care	847	952	1,583	1,840
Merchandise	1,416	3,000	2,689	4,727
Cemetery expense	6,366	7,876	12,002	14,660
Selling expense	5,772	8,471	11,419	14,715
General and administrative expense	3,086	3,693	6,150	7,431
Corporate overhead (including \$2,339 in stock-based compensation in 2007)	4,426	4,951	8,234	10,233
Depreciation and amortization	925	915	1,746	1,789
Funeral home expense	961	2,045	2,054	4,148
Total cost and expenses	25,215	33,634	48,740	62,563
OPERATING PROFIT	3,077	7,030	6,204	8,641
INTEREST EXPENSE	1,782	2,132	3,515	4,178
INCOME BEFORE INCOME TAXES	1,295	4,898	2,689	4,463
INCOME TAXES:				
State	112	145	255	278
Federal	103	90	413	173
Total income taxes	215	235	668	451
NET INCOME	\$ 1,080	\$ 4,663	\$ 2,021	\$ 4,012
General partner's interest in net income for the period	\$ 22	\$ 93	\$ 40	\$ 80
Limited partners' interest in net income for the period				
Common	\$ 546	\$ 2,426	\$ 1,023	\$ 2,087
Subordinated	\$ 512	\$ 2,144	\$ 958	\$ 1,845
Net income per limited partner unit (basic and diluted)	\$.12	\$.54	\$.23	\$.46
Weighted average number of limited partners' units outstanding (basic and diluted)	8,760	9,036	8,760	9,036

See Accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents**StoneMor Partners L.P.****Condensed Consolidated Statement of Partners Equity**

(in thousands)

(unaudited)

	Partners Capital			General	
	Common	Subordinated	Total	Partner	Total
Balance, December 31, 2006	\$ 71,700	\$ 28,206	\$ 99,906	\$ 1,382	\$ 101,288
Net loss	(339)	(299)	(638)	(13)	(651)
Cash distribution	(2,398)	(2,120)	(4,518)	(92)	(4,610)
Balance, March 31, 2007	\$ 68,963	\$ 25,787	\$ 94,750	\$ 1,277	\$ 96,027
Net Income	2,426	2,144	4,570	93	4,663
Cash distribution	(2,398)	(2,120)	(4,518)	(92)	(4,610)
Balance, June 30, 2007	\$ 68,991	\$ 25,811	\$ 94,802	\$ 1,278	\$ 96,080

See Accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents**StoneMor Partners L.P.****Condensed Consolidated Statement of Cash Flows**

(in thousands)

(unaudited)

	Six months ended June 30,	
	2006	2007
OPERATING ACTIVITIES:		
Net income	\$ 2,021	\$ 4,012
Adjustments to reconcile net income to net cash provided by operating activity:		
Cost of lots sold	2,210	2,350
Depreciation and amortization	1,746	1,789
Stock-based compensation		2,339
Other non cash	303	
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	125	(5,151)
Allowance for doubtful accounts	784	1,524
Merchandise trust fund	(869)	(292)
Prepaid expenses	(320)	(317)
Other current assets	(14)	(452)
Other assets	(57)	(116)
Accounts payable and accrued and other liabilities	(1,940)	(2,609)
Deferred selling and obtaining costs	(1,686)	(1,292)
Deferred cemetery revenue	6,399	8,148
Merchandise liability	(3,243)	(202)
Net cash provided by operating activities	5,459	9,731
INVESTING ACTIVITIES:		
Cost associated with potential acquisitions	(884)	(1,036)
Additions to cemetery property	(2,468)	(1,161)
Divestiture of funeral home	2,091	
Additions to property and equipment	(1,527)	(972)
Net cash used in investing activities	(2,788)	(3,169)
FINANCING ACTIVITIES:		
Cash distribution	(8,538)	(9,220)
Additional borrowings on long-term debt	4,376	5,490
Repayments of long-term debt	(610)	(921)
Cost of financing activities		(266)
Net cash used in financing activities	(4,772)	(4,917)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,101)	1,645
CASH AND CASH EQUIVALENTS Beginning of period	6,925	9,914
CASH AND CASH EQUIVALENTS End of period	\$ 4,824	\$ 11,559

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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Cash paid during the period for interest	\$ 3,460	\$ 4,586
Cash paid during the period for income taxes	\$ 3,024	\$ 1,879

See Accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents**1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation. StoneMor Partners L.P. (StoneMor , the Partnership or the Company) headquartered in Bristol, Pennsylvania, is an owner and operator of cemeteries in the United States, with 178 cemeteries and 27 funeral homes in 21 states. StoneMor is the only publicly traded deathcare company structured as a partnership.

Interim Financial Data The interim financial data are unaudited. However, in the opinion of management, the interim financial data as of June 30, 2007 and for the three and six months ended June 30, 2007 and 2006 include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim. The results of operations for interim periods are not necessarily indicative of the results of operations to be expected for a full year.

Summary of Significant Accounting Policies Significant accounting policies followed by the Company, as summarized below, are in conformity with accounting principles generally accepted in the United States of America.

Principles of Consolidation The condensed consolidated financial statements include the accounts of each of the Company's subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the Company has a variable interest and is the primary beneficiary. The operations of the 6 managed cemeteries that the Company operates under long-term management contracts are also consolidated in accordance with the provisions of Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46 revised (FIN 46R), Consolidation of Variable Interest Entities: an Interpretation of Accounting Research Bulletin (ARB) No. 51.

Total revenues derived from the cemeteries under long-term management contracts totaled approximately \$4.8 million and \$5.5 million for the three months ended June 30, 2006 and 2007, respectively and \$10.7 million and \$11.1 million for the six months ended June 30, 2006 and 2007, respectively.

Cemetery Operations Sales of at-need cemetery interment rights, merchandise and services are recognized when the service is performed or merchandise is delivered. In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements (SAB No. 104), and the retail land sales provisions of Statement of Financial Accounting Standards No. 66, Accounting for the Sale of Real Estate (SFAS No. 66), revenues from pre-need sales of burial lots and constructed mausoleum crypts and lawn crypts are deferred until at least 10% of the sales price has been collected. At the time of the sale, an allowance for customer cancellations is established, which reduces the amount of accounts receivable, net and deferred cemetery revenues, net or cemetery revenue recognized, based on management's estimates of expected cancellations and historical experiences. Historically, the cancelled contracts represent approximately 10% of the pre-need sales (based on contract dollar amounts). Revenues from the pre-need sale of unconstructed mausoleum and lawn crypts are deferred until at least 10% of the sales price has been collected, at which point revenues are recognized using the percentage-of-completion method of accounting, also in accordance with SFAS No. 66. Revenues related to the pre-need sale of merchandise and services are deferred until 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 such services are performed.

The Company also 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 SFAS No. 60, Accounting and Reporting by Insurance Enterprises (SFAS No. 60), and are expensed as revenues are recognized.

Costs related to the sales of interment rights include property and other costs related to cemetery development activities that are specifically identified by project. At the completion of a project, costs are charged to operations as revenues are recognized. Costs related to merchandise and services are based on actual costs incurred or estimates of future costs necessary, including provisions for inflation when required.

The Company records a merchandise liability at the time it enters into a pre-need contract with a customer at the estimated cost to purchase the merchandise or provide the service. The merchandise liability is reduced when payment for the merchandise is made by the Company and title to the merchandise is transferred to the customer. The merchandise liability is also reduced when the contracted service is performed by the Company. Allowances for customer cancellations arising from non-payment are provided at the date of sale based upon management's estimates of expected cancellations and historical experience. Actual cancellation rates in the future may result in a change in estimate. Actual cancellations did not vary significantly from the estimates of expected cancellations at June 30, 2006 and June 30, 2007.

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Pursuant to state law, a portion of the proceeds from cemetery merchandise or services sold on a pre-need basis is required to be paid into merchandise trusts. The Company defers investment earnings generated by the assets in these merchandise trusts (including realized gains and losses) until the associated merchandise is delivered or the services are performed. The fair value of the funds held in merchandise trusts at December 31, 2006 and June 30, 2007 was approximately \$147.8 million and \$154.6 million, respectively (see Note 5). A portion of the proceeds from the sale of cemetery property is required by state law to be paid into perpetual care trusts. Earnings from the perpetual care trusts are recognized in current cemetery revenues and are used to defray cemetery maintenance costs, which are expensed as incurred. Funds held in perpetual care trusts at December 31, 2006 and June 30, 2007 were \$168.6 million and \$170.0 million, respectively (see Note 6).

Cash and Cash Equivalents The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk The Company's revenues and accounts receivable relate to the sale of products and services to a customer base that is almost entirely concentrated in the states where the Company has cemeteries and funeral homes. The Company retains a security interest in any merchandise sold pursuant to the pre-need contracts. The condensed consolidated balance sheets contain a provision for cancellations arising from non-payment in amounts determined based on historical experience and the judgment of Company's management.

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 \$2.2 million and \$2.5 million at December 31, 2006 and June 30, 2007, respectively.

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

For the three months ended June 30, 2006 and 2007, depreciation expense was \$0.7 million and \$0.7 million, respectively. For the six months ended June 30, 2006 and 2007, depreciation expense was \$1.4 million and \$1.4 million, respectively.

Deferred Cemetery Revenues, Net Revenues and all costs associated with pre-need sales of cemetery merchandise and services are deferred until the merchandise is delivered or the services are performed. In addition, investment earnings generated by the assets included in the merchandise trusts are deferred until the associated merchandise is delivered or the services are performed. Deferred cemetery revenues, net, also 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. (Cornerstone) 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.

Merchandise Liability Merchandise liability accounts for merchandise and services that have been contracted for but not yet delivered or performed. This liability is recorded at the estimated cost and is expensed to cost of goods sold as merchandise is delivered and services are performed.

Allowance for Cancellations. Allowances for cancellations arising from non-payment of pre-need contracts are estimated at the date of sale based upon our historical cancellation experience. Due to the number of estimates and projections used in determining an expected cancellation rate and the possibility of changes in collection patterns resulting from modifications to our collection policies or contract terms, actual collections could differ from these estimates.

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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 flow 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.

Income Taxes The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. The tax effects of temporary differences between income for financial statement and income tax purposes are recognized in the financial statements. The differences arise primarily from receivables and depreciation.

New Accounting Pronouncements

In July 2006, the FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes: an Interpretation of FASB Statement No. 109* (*Interpretation 48*). Interpretation 48, which clarifies Statement 109, *Accounting for Income Taxes*, establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Company's financial statements. On initial application, Interpretation 48 will be applied to all tax positions for which the statute of limitations remains open. Only tax positions that meet the more-likely-than-not recognition threshold at the adoption date will be recognized or continue to be recognized. The cumulative effect of applying Interpretation 48 will be reported as an adjustment to retained earnings at the beginning of the period in which it is adopted. Interpretation 48 was effective for fiscal years beginning after December 15, 2006. The adoption of Interpretation 48 did not have a significant effect on the Company's financial statements or its ability to comply with its current debt covenants. See Note 8.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. FAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. FAS 157 does not expand or require any new fair value measures, however the application of this statement may change current practice. The requirements of FAS 157 are effective for our fiscal year beginning January 1, 2008. StoneMor is in the process of evaluating this guidance and therefore has not yet determined the impact that FAS 157 will have on its financial statements upon adoption.

In September 2006, the SEC released SAB No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements* (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. The provisions of SAB 108 became effective beginning November 15, 2006. The impact of SAB 108 in the future depends on the nature and extent of any prior year misstatements.

In February 2007, the FASB issued SFAS No. 159, *Establishing the Fair Value Option for Financial Assets and Liabilities* , to permit all entities to choose to elect to measure eligible financial instruments at fair value. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157, *Fair Value Measurements* . An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. The Company is currently evaluating the impact of SFAS No. 159 on the consolidated financial statements.

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Segment Reporting and Related Information The Company has one reportable segment, death care services.

Disclosure of reported segment revenue:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2007	2006	2007
	(in thousands)		(in thousands)	
Revenues:				
Cemetery:				
Sales	\$ 15,854	\$ 24,769	\$ 30,857	\$ 40,799
Services and other	6,704	7,070	13,625	14,567
Investment, including realized gains from merchandise trusts and receivables	3,813	5,322	6,645	8,732
Deferred margin, recognized	792	1,000	1,228	1,573
	27,163	38,161	52,355	65,671
Funeral home revenues	1,129	2,503	2,589	5,533
Total revenues	\$ 28,292	\$ 40,664	\$ 54,944	\$ 71,204

2. LONG-TERM ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

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

	December 31,	June 30,
	2006	2007
	(in thousands)	
Customer receivables	\$ 81,584	\$ 87,378
Unearned finance income	(9,495)	(10,967)
Allowance for contract cancellations	(12,243)	(12,939)
	59,846	63,472
Less: current portion net of allowance	22,968	25,962
Long-term portion net of allowance	\$ 36,878	\$ 37,510

Activity in the allowance for contract cancellations is as follows:

	December 31,	June 30,
	2006	2007
	(in thousands)	
Balance Beginning of period	\$ 9,261	\$ 12,243
Reserve on acquired contracts	926	
Provision for cancellations	8,363	5,361
Charge-offs net	(6,307)	(4,665)

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Balance	End of period	\$ 12,243	\$ 12,939
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Cemetery property consists of the following:

	December 31,	June 30,
	2006	2007
	(in thousands)	
Developed land	\$ 21,981	\$ 20,677
Undeveloped land	114,175	114,175
Mausoleum crypts and lawn crypts	35,558	35,163
Total	\$ 171,714	\$ 170,015

4. PROPERTY AND EQUIPMENT

Major classes of property and equipment follow:

	December 31,	June 30,
	2006	2007
	(in thousands)	
Building and improvements	\$ 29,202	\$ 28,130
Furniture and equipment	21,966	21,901
	51,168	50,031
Less: accumulated depreciation	(22,141)	(21,865)
Property and equipment net	\$ 29,027	\$ 28,166

5. PRE-NEED MERCHANDISE AND SERVICES AND MERCHANDISE TRUSTS.

Cemetery In connection with the pre-need sale of cemetery interment rights, merchandise and services, the customer typically enters into an installment contract with the Company. The contract is usually for a period not to exceed 60 months with payments of principal and interest required. Interest is imputed for contracts that do not bear a market rate of interest (at a rate of 8.75% during the year ended December 31, 2006 and 9.75% during the six months ended June 30, 2007). The Company establishes an allowance for cancellations due to non-payment at the date of sale based on historic experience and management's estimates. The allowance is reviewed quarterly and changes in estimates are reflected for current and prior contracts as a result of recent cancellation experience. Actual cancellation rates in the future may result in a change in estimate.

The Company evaluates the collectibility of the assets held in merchandise trusts for impairment when the fair values of the assets are below the recorded asset balance. Assets are deemed to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts from the merchandise trust at the time such amounts are due. In those instances when the amount is deemed to be impaired, the merchandise trust is reduced to the currently estimated recoverable amount with a corresponding reduction to the associated deferred cemetery revenues balance. There is no income statement impact as long as deferred revenues are not below the estimated costs to deliver the underlying products or services. If the deferred revenue were to decrease below the estimated cost to deliver the underlying products or services, the Company would record a charge to earnings for the difference.

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At December 31, 2006, the cost and market value associated with the assets held in merchandise trusts follows:

	Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses (in thousands)	Market
Short-term investment	\$ 19,423	\$	\$	\$ 19,423
Fixed maturities:				
U.S. Government and federal agency	3,572	7	(47)	3,532
U.S. State and local government agency	2,453	6	(33)	2,426
Corporate debt securities	3,875	62	(26)	3,911
Other debt securities	56,737	558	(1,067)	56,228
Total fixed maturities	66,637	633	(1,173)	66,097
Equity securities	57,471	5,365	(568)	62,268
Total	\$ 143,531	\$ 5,998	\$ (1,741)	\$ 147,788

At June 30, 2007, the cost and market value associated with the assets held in merchandise trusts follows:

	Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses (in thousands)	Market
Short-term investment	\$ 9,561	\$	\$	\$ 9,561
Fixed maturities:				
U.S. Government and federal agency	3,560	2	(79)	3,483
U.S. State and local government agency	2,533	5	(47)	2,491
Corporate debt securities	3,872	52	(70)	3,854
Other debt securities	42,852	118	(57)	42,913
Total fixed maturities	52,817	177	(253)	52,741
Equity securities	86,845	6,040	(598)	92,287
Total	\$ 149,223	\$ 6,217	\$ (851)	\$ 154,589

An aging of unrealized losses on the Company's investments in fixed maturities and equity securities at June 30, 2007 is presented below:

	Less than 12 months		12 Months or more		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
	(in thousands)					
Fixed maturities:						
U.S. Government and federal agency	\$ 2,556	\$ 57	\$ 593	\$ 22	\$ 3,149	\$ 79
U.S. State and local government agency	695	11	945	36	1,640	47
Corporate debt securities	1,774	50	576	20	2,350	70
Other debt securities			11,015	57	11,015	57

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Total fixed maturities	5,025	118	13,129	135	18,154	253
Equity securities	3,991	247	9,122	351	13,113	598
Total	\$ 9,016	\$ 365	\$ 22,251	\$ 486	\$ 31,267	\$ 851

The Company considers various factors when considering if a decline in fair value of an asset is other than temporary, including but not limited to the length of time and magnitude of the unrealized loss; the volatility of the investment; the credit ratings of the issuers of the investments; and the Company's intentions to sell or ability to hold the investments. At June 30, 2007, the Company has concluded that the declines in the fair values of the Company's investments in fixed maturities and equity securities held by the merchandise trusts are temporary.

The Company deposited \$3,078 and \$5,223 and withdrew \$4,592 and \$10,774 from the trusts during the three month period ended June 30, 2006 and 2007, respectively. The company deposited \$7,385 and \$10,196 and withdrew \$9,756 and \$17,752 from the trusts during the six month period ended June, 2006 and 2007, respectively. During the three months ended June 30, 2006, purchase and sales of securities available for sale included in trust investments were \$17,605 and \$17,330, respectively. During the three months ended June 30, 2007, purchase and sales of securities available for sale included in trust investments were \$47,062 and \$53,840, respectively. During the six months ended June 30, 2006, purchase and sales of securities available for sale included in trust investments were \$40,399 and \$38,255, respectively. During the six months ended June 30, 2007, purchase and sales of securities available for sale included in trust investments were \$82,844 and \$84,639, respectively.

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Funeral Home Prearranged funeral home services provide for future funeral home services generally determined by prices prevailing at the time that the contract is signed. A portion of the payments made under funeral home pre-need contracts is placed in funeral trusts. Amounts used to defray the initial cost of administration are not placed in trust. The balance of the amounts in the trusts totaled approximately \$1.8 million at December 31, 2006 and approximately \$7.2 million at June 30, 2007 and are included within the merchandise trusts above. Funeral trust principal, together with investment earnings retained in trust, are deferred until the service is performed. Upon performance of the contracted funeral home service, the Company recognizes the funeral trust principal amount together with the accumulated trust earnings as funeral home revenues.

6. PERPETUAL CARE TRUSTS.

At December 31, 2006, the cost and market value associated with the assets held in perpetual care trust follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(in thousands)		
Short-term investment	\$ 18,092	\$	\$	\$ 18,092
Fixed maturities:				
U.S. Government and federal agency	6,239	19	(45)	6,213
U.S. State and local government agency	5,082	22	(20)	