

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

FORM 10-Q/A
Amendment No. 1

(Mark One)

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

For the quarterly period ended March 31, 2016

or

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

For the transition period from _____ to _____.

Commission File Number: 001-32270

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

3600 Horizon Boulevard
Trevoze, Pennsylvania
(Address of principal executive offices)
(215) 826-2800

19053
(Zip Code)

(Registrant's telephone number, including area code)

311 Veterans Highway, Suite B, Levittown, PA 19056

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of the registrant's outstanding common units at May 1, 2016 was 35,077,494.

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Explanatory Note

We are filing this Amendment No. 1 to our quarterly report on Form 10-Q (Form 10-Q/A) for the period ended March 31, 2016, which was originally filed on May 9, 2016 (Original Filing), to restate the Partnership's consolidated financial statements as of March 31, 2016 and December 31, 2015 and for the three months ended March 31, 2016 and 2015, as well as the related notes included in the Original Filing (Restatement).

This Form 10-Q/A contains only Item 1 (Financial Statements), Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations), Item 4 (Controls and Procedures) of Part I and Item 6 (Exhibits) of Part II, and items including information not affected by the Restatement have not been repeated in this Form 10-Q/A.

The Restatement corrects accounting errors related to:

- 1) The allocation of net loss to the General Partner and the limited partners for the purposes of determining the general partner's and limited partners' capital accounts presented within Partners' capital, and the corresponding effect on net loss per limited partner unit (basic and diluted) for both of the three months ended March 31, 2016 and 2015;
- 2) The presentation of certain components of Cemetery property, Property and equipment, net of accumulated depreciation, Deferred cemetery revenues, net, Merchandise liability, Accounts payable and accrued liabilities and Common limited partners' interest as of March 31, 2016 and December 31, 2015;
- 3) The presentation of Cemetery merchandise revenues, Cemetery service revenues, and Cost of goods sold related to assumed performance obligations from acquisitions for both of the three months ended March 31, 2016 and 2015;
- 4) The recording of incorrect amounts of investment revenues and expenses related to merchandise and perpetual care trusts on the consolidated statement of operations and the incorrect tracking of perpetual care-trusting obligations on the consolidated balance sheets;
- 5) The recognition of incorrect amounts of revenue from deferred pre-acquisition contracts in the consolidated statements of operations based on inaccurate system inputs;
- 6) Other adjustments principally relating to the recognition, accuracy and/or classification of certain amounts in Deferred cemetery revenues, net, Merchandise liabilities, and Other current assets; and
- 7) The corresponding effect of the foregoing accounting errors on the Partnership's income tax accounts, consolidated statement of partners' capital, consolidated statement of cash flows, and the related notes thereto, disclosed in the Partnership's consolidated financial statements as of March 31, 2016 and 2015 and for the three months ended March 31, 2016 and 2015 included in Item 1 Financial Statements (unaudited) to

this Form 10-Q/A.

Note 2, *Restatement of Previously Issued Consolidated Financial Statements*, in the Partnership's consolidated financial statements included in Item 1 provides further information regarding the Restatement. Item 4 Controls and Procedures to this Form 10-Q/A discloses the material weaknesses in the Partnership's internal controls associated with the Restatement, as well as management's conclusion that the Partnership's internal controls over financial reporting were not effective as of December 31, 2015 and March 31, 2016. As disclosed therein, management is currently evaluating the changes needed in the Partnership's internal controls over financial reporting to remediate these material weaknesses.

This Form 10-Q/A does not reflect events occurring after the filing of the Original Filing and does not substantively modify or update the disclosures therein other than as required to reflect the adjustments described above and to state our current address of principal executive offices on the cover page of Form 10-Q/A. See Note 2 to the accompanying consolidated financial statements, set forth in Item 1 of this Form 10-Q/A, for additional information.

We are also filing currently dated certifications from our Chief Executive Officer and Chief Financial Officer as Exhibits 31.1, 31.2, 32.1, and 32.2 to this Form 10-Q/A.

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

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	March 31, 2016	December 31, 2015
	(As restated - see Note 2)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,486	\$ 15,153
Accounts receivable, net of allowance	69,718	68,415
Prepaid expenses	3,955	5,367
Other current assets	26,139	22,241
Total current assets	113,298	111,176
Long-term accounts receivable, net of allowance	95,091	95,167
Cemetery property	334,281	334,457
Property and equipment, net of accumulated depreciation	116,124	116,127
Merchandise trusts, restricted, at fair value	480,008	464,676
Perpetual care trusts, restricted, at fair value	310,207	307,804
Deferred selling and obtaining costs	114,921	111,542
Deferred tax assets	181	181
Goodwill	69,851	69,851
Intangible assets	66,654	67,209
Other assets	16,302	16,167
Total assets	\$ 1,716,918	\$ 1,694,357
Liabilities and Partners Capital		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 33,326	\$ 29,989
Accrued interest	5,023	1,503
Current portion, long-term debt	1,459	2,440
Total current liabilities	39,808	33,932
Long-term debt, net of deferred financing costs	318,136	316,399

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Deferred revenues	836,326	815,421
Deferred tax liabilities	17,764	17,747
Perpetual care trust corpus	310,207	307,804
Other long-term liabilities	22,992	21,508
Total liabilities	1,545,233	1,512,811
Commitments and contingencies		
Partners Capital		
General partner interest	(261)	15
Common limited partners interests	171,946	181,531
Total partners capital	171,685	181,546
Total liabilities and partners capital	\$ 1,716,918	\$ 1,694,357

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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STONEMOR PARTNERS L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data)

(unaudited)

	Three months ended March 31,	
	2016	2015
	(As restated - see Note 2)	
Revenues:		
Cemetery:		
Merchandise	\$ 32,768	\$ 29,403
Services	13,463	14,557
Investment and other	14,375	11,273
Funeral home:		
Merchandise	7,456	7,075
Services	8,867	8,185
Total revenues	76,929	70,493
Costs and Expenses:		
Cost of goods sold	10,720	9,829
Cemetery expense	15,856	16,265
Selling expense	14,576	13,910
General and administrative expense	9,204	9,329
Corporate overhead	10,311	9,083
Depreciation and amortization	3,065	2,952
Funeral home expenses:		
Merchandise	2,149	2,376
Services	6,451	5,593
Other	5,140	4,181
Total cost and expenses	77,472	73,518
Operating loss	(543)	(3,025)
Other gains (losses), net	(882)	
Interest expense	(5,790)	(5,463)
Loss before income taxes	(7,215)	(8,488)
Income tax benefit (expense)	(260)	(22)

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Net loss	\$	(7,475)	\$	(8,510)
General partner's interest	\$	1,088	\$	685
Limited partners' interest	\$	(8,563)	\$	(9,195)
Net loss per limited partner unit (basic and diluted)	\$	(0.26)	\$	(0.31)
Weighted average number of limited partners' units outstanding (basic and diluted)		32,539		29,230

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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STONEMOR PARTNERS L.P.
CONSOLIDATED STATEMENT OF PARTNERS CAPITAL

(dollars in thousands)

(unaudited)

	Outstanding Common Units	Partners Common Limited Partners	Capital General Partner	Total
		(As restated - see Note 2)		
December 31, 2015	32,108,782	\$ 181,531	\$ 15	\$ 181,546
Issuance of common units	727,474	20,083		20,083
Common unit awards under incentive plans	9,293	407		407
Net loss		(8,563)	1,088	(7,475)
Cash distributions		(20,023)	(1,364)	(21,387)
Unit distributions paid in kind	55,737	(1,489)		(1,489)
March 31, 2016	32,901,286	\$ 171,946	\$ (261)	\$ 171,685

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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

	Three months ended March 31,	
	2016	2015
	(As restated - see Note 2)	
Cash Flows From Operating Activities:		
Net loss	\$ (7,475)	\$ (8,510)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Cost of lots sold	2,006	2,048
Depreciation and amortization	3,065	2,952
Non-cash compensation expense	407	272
Non-cash interest expense	757	734
Other gains (losses), net	882	
Changes in assets and liabilities:		
Accounts receivable, net of allowance	(1,227)	(4,477)
Merchandise trust fund	(11,613)	(10,231)
Other assets	(2,847)	2,364
Deferred selling and obtaining costs	(3,379)	(5,109)
Deferred revenue	16,952	23,414
Deferred taxes (net)	17	(179)
Payables and other liabilities	7,689	2,575
Net cash provided by operating activities	5,234	5,853
Cash Flows From Investing Activities:		
Cash paid for capital expenditures	(4,560)	(2,815)
Proceeds from asset sales	138	
Net cash used in investing activities	(4,422)	(2,815)
Cash Flows From Financing Activities:		
Cash distributions	(21,387)	(17,948)
Proceeds from borrowings	10,500	20,335
Repayments of debt	(10,355)	(9,395)
Proceeds from issuance of common units	18,763	
Cost of financing activities		(34)
Net cash used in financing activities	(2,479)	(7,042)

Net decrease in cash and cash equivalents	(1,667)	(4,004)
Cash and cash equivalents - Beginning of period	15,153	10,401
Cash and cash equivalents - End of period	\$ 13,486	\$ 6,397

Supplemental disclosure of cash flow information:

Cash paid during the period for interest	\$ 1,513	\$ 1,176
Cash paid during the period for income taxes	\$ 376	\$ 66

Non-cash investing and financing activities:

Acquisition of assets by financing	\$ 56	\$ 137
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See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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STONEMOR PARTNERS L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

(Unaudited)

1. GENERAL

Nature of Operations

StoneMor Partners L.P. (the Partnership) is a provider of funeral and cemetery products and services in the death care industry in the United States. As of March 31, 2016, the Partnership operated 307 cemeteries in 27 states and Puerto Rico, of which 276 are owned and 31 are operated under lease, management or operating agreements. The Partnership also owned and operated 104 funeral homes in 19 states and Puerto Rico.

Basis of Presentation

The accompanying consolidated financial statements, which are unaudited except for the balance sheet at December 31, 2015, which is derived from audited financial statements, are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States (GAAP) for interim reporting. They do not include all disclosures normally made in financial statements contained in Form 10-K. In management's opinion, all adjustments necessary for a fair presentation of the Partnership's financial position, results of operations and cash flows for the periods disclosed have been made. These interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto presented in Amendment No. 1 to the Partnership's Annual Report on Form 10-K/A for the year ended December 31, 2015. Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation. The results of operations for the three months ended March 31, 2016 may not necessarily be indicative of the results of operations for the full year ending December 31, 2016.

Principles of Consolidation

The unaudited consolidated financial statements include the accounts of each of the Partnership's wholly-owned subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the Partnership has a variable interest and is the primary beneficiary. The Partnership operates 31 cemeteries under long-term lease, operating or management contracts. The operations of 16 of these managed cemeteries have been consolidated.

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

cemeteries. Upon termination of these contracts, the Partnership will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. The Partnership has also recognized the existing performance obligations that it assumed as part of these agreements.

New Accounting Pronouncements

In the second quarter of 2014, the Financial Accounting Standards Board (FASB) issued Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which supersedes the revenue recognition requirements in Topic 605 - Revenue Recognition and most industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. During the third quarter of 2015, Update No. 2015-14, Revenue from Contracts with Customers (Topic 606) was released, deferring the effective date of the amendments to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted, only as of an annual reporting

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period beginning after December 15, 2016. During the first quarter of 2016, Update No. 2016-08, Revenue from Contracts with Customers (Topic 606) was released, which clarifies the implementation guidance on principal versus agent considerations. During the second quarter of 2016, Update No. 2016-10, Revenue from Contracts with Customers (Topic 606) was released, which clarifies the implementation guidance on identifying performance obligations. The Partnership will adopt the requirements of these updates upon the effective date of January 1, 2018, and is evaluating the potential impact of the adoption on its financial position, results of operations or related disclosures.

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

In the first quarter of 2016, the FASB issued Update No. 2016-02, Leases (Topic 842) (ASU 2016-02). The core principle of ASU 2016-02 is that all leases create an asset and a liability for lessees and recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The amendment is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Partnership plans to adopt the requirements of ASU 2016-02 upon its effective date of January 1, 2019, and is evaluating the potential impact of the adoption on its financial position, results of operations and related disclosures.

Use of Estimates

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

Net Income (Loss) per Common Unit

Basic net income (loss) attributable to common limited partners per 10% >6,270,000 Unifi, Inc., 11.50%, 05/15/2014
144A 2,500,000 2,431,250 Warnaco Group, Inc., 8.875%, 06/15/2013 3,000,000 3,078,750

21,028,000

CONSUMER STAPLES 2.2% **Food & Staples Retailing 0.7%** Rite Aid Corp., 12.50%, 09/15/2006 5,725,000 5,796,563

Food Products 0.8% Del Monte Foods Co., 8.625%, 12/15/2012 5,608,000 5,846,340

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Personal Products 0.7% Playtex Products, Inc., 8.00%, 03/01/2011 5,125,000 5,336,406

ENERGY 7.0% **Energy Equipment & Services 1.9%** Dresser-Rand Group, Inc., 9.375%,
04/15/2011 4,500,000 4,590,000 GulfMark Offshore, Inc., 7.75%, 07/15/2014 1,675,000 1,637,312 Hanover Compressor Co.,
8.75%, 09/01/2011 3,000,000 3,142,500 Parker Drilling Co., 9.625%, 10/01/2013 p 5,141,000 5,603,690

14,973,502

Oil, Gas & Consumable Fuels 5.1% ANR Pipeline Co., 8.875%, 03/15/2010 1,135,000 1,205,089 Chesapeake Energy Corp.,
7.75%, 01/15/2015 p 5,425,000 5,492,812 El Paso Corp., 7.875%, 06/15/2012 p 3,000,000 3,082,500 El Paso Production
Holding Co., 7.75%, 06/01/2013 4,500,000 4,595,625 Overseas Shipholding Group, Inc., 8.25%,
03/15/2013 6,000,000 6,240,000 Plains Exploration & Production Co., 8.75%, 07/01/2012 p 5,501,000 5,782,926 Premcor
Refining Group, Inc., 9.50%, 02/01/2013 2,650,000 2,887,647 Targa Resources, Inc., 8.50%, 11/01/2013
144A 2,900,000 2,856,500 Williams Cos.: 7.50%, 01/15/2031 2,850,000 2,757,375 8.125%,
03/15/2012 4,150,000 4,367,875

39,268,349

FINANCIALS 5.0% **Consumer Finance 2.7%** CCH II Capital Corp., 10.25%, 09/15/2010 4,600,000 4,669,000 Ford Motor
Credit Corp., 9.75%, 09/15/2010 144A 7,000,000 6,933,997 Northern Telecom Capital Corp., 7.875%,
06/15/2026 3,000,000 2,550,000 Terra Capital, Inc., 11.50%, 06/01/2010 3,600,000 3,906,000 Triad Financial Corp., Ser. B,
11.125%, 05/01/2013 2,900,000 2,784,000

20,842,997

Insurance 0.7% Crum & Forster Holdings Corp., 10.375%, 06/15/2013 p 5,000,000 5,125,000

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EVERGREEN MANAGED INCOME FUND
SCHEDULE OF INVESTMENTS continued

July 31, 2006 (unaudited)

	Principal Amount	Value
CORPORATE BONDS continued		
FINANCIALS continued		
Real Estate Investment Trusts 1.6%		
Crescent Real Estate Equities Co., 9.25%, 04/15/2009	\$ 4,500,000	\$ 4,663,125
Saxon Capital, Inc., 12.00%, 05/01/2014 144A p	2,000,000	2,040,000
Thornburg Mortgage, Inc., 8.00%, 05/15/2013	6,000,000	5,880,000
		12,583,125
HEALTH CARE 2.8%		
Health Care Equipment & Supplies 0.8%		

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Universal Hospital Services, Inc., 10.125%, 11/01/2011	5,920,000	6,156,800
Health Care Providers & Services 2.0%		
HCA, Inc., 8.75%, 09/01/2010	8,250,000	8,332,500
IASIS Healthcare Corp., 8.75%, 06/15/2014	4,575,000	4,414,875
Select Medical Corp., 7.625%, 02/01/2015	3,500,000	2,992,500
		15,739,875
INDUSTRIALS 3.8%		
Commercial Services & Supplies 1.8%		
Allied Waste North America, Inc., 9.25%, 09/01/2012	7,000,000	7,472,500
NationsRent Companies, Inc., 9.50%, 10/15/2010	6,000,000	6,548,634
		14,021,134
Machinery 2.0%		
Case New Holland, Inc., 9.25%, 08/01/2011	9,750,000	10,322,813
Commercial Vehicle Group, Inc., 8.00%, 07/01/2013	1,775,000	1,692,906
RBS Global, Inc., 9.50%, 08/01/2014 144A	3,750,000	3,768,750
		15,784,469
INFORMATION TECHNOLOGY 2.8%		
Electronic Equipment & Instruments 0.5%		
Da-Lite Screen Co., Inc., 9.50%, 05/15/2011	3,650,000	3,859,875
IT Services 1.5%		
SunGard Data Systems, Inc.:		
9.125%, 08/15/2013	9,450,000	9,698,062
10.25%, 08/15/2015 p	1,750,000	1,782,813
		11,480,875
Software 0.8%		
UGS Corp., 10.00%, 06/01/2012	5,740,000	6,206,375
MATERIALS 12.1%		
Chemicals 3.9%		
Equistar Chemicals, LP, 10.625%, 05/01/2011	5,700,000	6,156,000
Huntsman Advanced Materials, LLC, 11.625%, 10/15/2010	3,000,000	3,318,750
Huntsman International, LLC, 11.50%, 07/15/2012	6,300,000	7,056,000
Lyondell Chemical Co.:		
9.50%, 12/15/2008 p	1,880,000	1,941,100
10.50%, 06/01/2013	3,960,000	4,365,900
11.125%, 07/15/2012 p	1,165,000	1,274,219
Tronox Worldwide, LLC, 9.50%, 12/01/2012	6,125,000	6,354,687

			30,466,656
Containers & Packaging 2.7%			
Crown Americas, Inc., 7.75%, 11/15/2015 144A		3,300,000	3,271,125
Graham Packaging Co., 9.875%, 10/15/2014 p		3,075,000	3,005,813
Graphic Packaging International, Inc.:			
8.50%, 08/15/2011 p		2,000,000	2,020,000
9.50%, 08/15/2013 p		4,000,000	4,020,000

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EVERGREEN MANAGED INCOME FUND
SCHEDULE OF INVESTMENTS continued

July 31, 2006 (unaudited)

		Principal Amount		Value
CORPORATE BONDS continued				
MATERIALS continued				
Containers & Packaging continued				
Owens-Brockway Glass Containers, Inc.:				
8.25%, 05/15/2013	\$	4,300,000	\$	4,375,250
8.75%, 11/15/2012		4,050,000		4,293,000
				20,985,188
Metals & Mining 2.7%				
Freeport-McMoRan Copper & Gold, Inc.:				
6.875%, 02/01/2014 p		4,705,000		4,610,900
10.125%, 02/01/2010		1,450,000		1,551,500
Indalex Holding Corp., 11.50%, 02/01/2014 144A		4,000,000		4,090,000
United States Steel Corp., 10.75%, 08/01/2008		9,450,000		10,253,250
				20,505,650
Paper & Forest Products 2.8%				
Bowater, Inc., 9.375%, 12/15/2021 p		3,000,000		2,880,000
Buckeye Technologies, Inc., 8.50%, 10/01/2013 p		5,000,000		4,900,000
Georgia Pacific Corp.:				
8.00%, 01/15/2024		1,670,000		1,590,675
8.125%, 05/15/2011		6,000,000		6,015,000
Verso Paper Holdings, LLC:				
9.125%, 08/01/2014 144A #		1,750,000		1,758,750
11.375%, 08/01/2016 144A #		4,250,000		4,250,000
				21,394,425

TELECOMMUNICATION SERVICES 7.3%**Diversified Telecommunication Services 3.1%**

Citizens Communications Co., 9.25%, 05/15/2011	3,000,000	3,270,000
Consolidated Communications, Inc., 9.75%, 04/01/2012	3,900,000	4,075,500
Insight Midwest, LP:		
9.75%, 10/01/2009	3,750,000	3,834,375
10.50%, 11/01/2010	3,500,000	3,657,500
Qwest Communications International, Inc.:		
7.875%, 09/01/2011	3,000,000	3,120,000
8.875%, 03/15/2012	5,250,000	5,683,125
		<hr/>
		23,640,500

Wireless Telecommunication Services 4.2%

Alamosa Holdings, Inc., 11.00%, 07/31/2010	1,600,000	1,756,000
American Cellular Corp., 10.00%, 08/01/2011	2,500,000	2,631,250
Centennial Communications Corp.:		
10.00%, 01/01/2013 p	1,500,000	1,503,750
10.125%, 06/15/2013	4,000,000	4,240,000
Dobson Communications Corp., 8.375%, 11/01/2011 p	1,500,000	1,560,000
Horizon PCS, Inc., 11.375%, 07/15/2012	2,200,000	2,480,500
Rural Cellular Corp.:		
8.25%, 03/15/2012	5,750,000	5,965,625
9.75%, 01/15/2010 p	3,125,000	3,148,437
Sprint Nextel Corp., Inc., Ser. D, 7.375%, 08/01/2015	6,000,000	6,153,168
UbiquiTel, Inc., 9.875%, 03/01/2011	1,500,000	1,638,750
US Unwired, Inc., Ser. B, 10.00%, 06/15/2012	1,500,000	1,657,500
		<hr/>
		32,734,980

UTILITIES 4.7%**Electric Utilities 1.2%**

Reliant Energy, Inc.:		
9.25%, 07/15/2010	3,000,000	3,090,000
9.50%, 07/15/2013 p	5,500,000	5,665,000
		<hr/>
		8,755,000

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EVERGREEN MANAGED INCOME FUND**SCHEDULE OF INVESTMENTS** continued

July 31, 2006 (unaudited)

Principal
Amount

Value

CORPORATE BONDS continued**UTILITIES continued****Gas Utilities 0.5%**

SEMCO Energy, Inc., 7.75%, 05/15/2013	\$	4,000,000	\$	4,011,172
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Independent Power Producers & Energy**Traders 3.0%**

AES Corp., 9.00%, 05/15/2015 144A		6,800,000		7,344,000
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Dynegy, Inc., 8.375%, 05/01/2016 144A p		9,000,000		8,887,500
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Mirant Americas Generation, LLC, 8.50%, 10/01/2021		3,000,000		2,805,000
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Mirant Corp., 7.375%, 12/31/2013 144A		4,425,000		4,275,656
---------------------------------------	--	-----------	--	-----------

				23,312,156
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<i>Total Corporate Bonds (cost \$545,358,706)</i>				534,725,706
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**FOREIGN BONDS-CORPORATE (PRINCIPAL
AMOUNT DENOMINATED IN CURRENCY****INDICATED) 13.9%****CONSUMER DISCRETIONARY 0.3%****Auto Components 0.1%**

TRW Automotive, Inc., 10.125%, 02/15/2013 EUR		704,000		1,006,305
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Multi-line Retail 0.2%

Woolworths Group plc, 8.75%, 11/15/2006 GBP		750,000		1,425,595
---	--	---------	--	-----------

CONSUMER STAPLES 0.8%**Beverages 0.2%**

Canandaigua Brands, Inc., 8.50%, 11/15/2009 GBP		750,000		1,507,908
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Food & Staples Retailing 0.2%

Ahold USA, Inc., 5.875%, 03/14/2012 EUR		1,000,000		1,311,123
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Tobacco 0.4%

Imperial Tobacco plc, 6.50%, 11/13/2008 GBP		1,500,000		2,870,664
---	--	-----------	--	-----------

ENERGY 0.1%**Oil, Gas & Consumable Fuels 0.1%**

Transco plc, 7.00%, 12/15/2008 AUD		1,000,000		772,046
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FINANCIALS 11.7%**Capital Markets 0.8%**

Deutsche Bank AG, FRN, 4.35%, 08/09/2007 CAD		6,200,000		5,482,498
--	--	-----------	--	-----------

Morgan Stanley, FRN, 5.33%, 11/14/2013 GBP		510,000		951,159
--	--	---------	--	---------

				6,433,657
--	--	--	--	-----------

Commercial Banks 6.7%

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BOS International Australia, 3.50%, 01/22/2007		
CAD	5,000,000	4,397,424
DnB NOR ASA, FRN, 4.55%, 12/08/2008 CAD	4,000,000	3,531,125
Eurofima:		
5.50%, 09/15/2009 AUD	2,400,000	1,798,846
6.50%, 08/22/2011 AUD	5,000,000	3,859,921
European Investment Bank:		
4.00%, 04/15/2009 SEK	5,000,000	701,321
4.50%, 01/14/2013 GBP	1,940,000	3,535,325
5.75%, 09/15/2009 AUD	5,470,000	4,130,012
8.00%, 10/21/2013 ZAR	58,430,000	8,108,198
FRN, 2.90%, 08/16/2013 GBP	800,000	1,734,062
Kreditanstalt für Wiederaufbau, 5.375%, 01/29/2014 GBP	3,665,000	7,028,024
Landwirtschaftliche Rentenbank, 6.00%, 09/15/2009 AUD	7,100,000	5,387,623
Rabobank Australia, Ltd., 6.25%, 11/22/2011 NZD	725,000	433,072
Rabobank Nederland:		
4.25%, 01/05/2009 CAD	3,030,000	2,662,078
FRN, 4.53%, 06/18/2007 CAD	5,000,000	4,422,253
		51,729,284

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EVERGREEN MANAGED INCOME FUND
SCHEDULE OF INVESTMENTS continued

July 31, 2006 (unaudited)

	Principal Amount		Value
FOREIGN BONDS-CORPORATE (PRINCIPAL AMOUNT DENOMINATED IN CURRENCY INDICATED) continued			
FINANCIALS continued			
Consumer Finance 1.4%			
ABB International Finance, Ltd., 6.50%, 11/30/2011			
EUR	2,360,000	\$	3,299,852
General Electric Capital Corp., 5.25%, 12/10/2013			
GBP	780,000		1,457,920
HSBC Finance Corp., 7.00%, 03/27/2012 GBP	370,000		747,219
KfW International Finance, Inc., 6.25%, 12/17/2007			
NZD	9,160,000		5,566,780
			11,071,771
Diversified Financial Services 0.2%			
Lighthouse Group plc, 8.00%, 04/30/2014 EUR	1,000,000		1,365,924

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Insurance 0.1%

Travelers Insurance Co., 6.00%, 04/07/2009 AUD	1,000,000	755,530
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Thriffs & Mortgage Finance 2.5%

Canada Housing Trust, Ser. 5, 3.70%, 09/15/2008		
CAD	6,280,000	5,485,198
Nykredit, 5.00%, 10/01/2035 DKK	78,312,986	13,238,282
Totalkredit, FRN, 3.71%, 01/01/2015 DKK	2,162,548	371,931
		19,095,411

INDUSTRIALS 0.3%

Machinery 0.3%

Harsco Corp., 7.25%, 10/27/2010 GBP	1,000,000	1,999,895
Savcio Holdings, 8.00%, 02/15/2013 EUR	250,000	322,943
		2,322,838

INFORMATION TECHNOLOGY 0.3%

Office Electronics 0.3%

Xerox Corp., 9.75%, 01/15/2009 EUR	1,800,000	2,549,946
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TELECOMMUNICATION SERVICES 0.4%

Diversified Telecommunication Services

Deutsche Telekom AG, 6.25%, 12/09/2010 GBP	1,700,000	3,277,238
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Total Foreign Bonds-Corporate (Principal Amount Denominated in Currency Indicated) (cost \$104,285,173)

107,495,240

FOREIGN BONDS-GOVERNMENT (PRINCIPAL AMOUNT DENOMINATED IN CURRENCY

INDICATED) 19.7%

Australia, 5.25%, 03/15/2019 AUD	19,465,000	14,121,038
Canada:		
4.25%, 12/01/2026 CAD	11,114,943	13,976,804
4.50%, 04/17/2008 CAD	5,250,000	4,647,541
5.75%, 03/03/2008 NZD	5,000,000	3,017,522
Denmark, 7.00%, 11/10/2024 DKK	60,650,000	14,010,849
France, 4.25%, 04/25/2019 EUR	6,290,000	8,216,949
Hong Kong, 4.23%, 03/21/2011 HKD	72,250,000	9,239,602
Korea, 5.25%, 09/10/2015 KRW	2,850,000,000	3,029,072
Mexico, 10.00%, 12/05/2024 MXN	83,950,000	8,534,945
New Zealand:		
6.00%, 04/15/2015 NZD	50,000	31,142
6.50%, 04/15/2013 NZD	6,606,000	4,194,195
Norway, 4.25%, 05/19/2017 NOK	94,400,000	15,223,432
Singapore, 3.625%, 07/01/2014 SGD	14,100,000	9,041,756
Sweden:		
3.00%, 07/12/2016 SEK	95,830,000	12,408,135
5.50%, 10/08/2012 SEK	102,910,000	15,650,103

United Kingdom, 1.27%, 11/22/2017 GBP	9,635,000	17,522,174
<i>Total Foreign Bonds-Government (Principal Amount Denominated in Currency Indicated) (cost \$152,731,618)</i>		152,865,259

EVERGREEN MANAGED INCOME FUND SCHEDULE OF INVESTMENTS continued

July 31, 2006 (unaudited)

	Principal Amount	Value
U.S. TREASURY OBLIGATIONS 2.1%		
U.S. Treasury Notes:		
2.00%, 01/15/2016 ##	\$ 8,972,656	\$ 8,661,071
4.50%, 02/15/2036 ##	8,162,000	7,452,290
<i>Total U.S. Treasury Obligations (cost \$16,216,145)</i>		16,113,361
YANKEE OBLIGATIONS-CORPORATE 5.0%		
CONSUMER DISCRETIONARY 0.8%		
Media 0.8%		
IMAX Corp., 9.625%, 12/01/2010 þ	6,000,000	6,300,000
FINANCIALS 0.4%		
Capital Markets 0.0%		
UBS Luxembourg SA, FRN, 6.86%, 10/24/2006	260,000	261,638
Diversified Financial Services 0.4%		
Ship Finance International, Ltd., 8.50%, 12/15/2013	3,455,000	3,264,975
INFORMATION TECHNOLOGY 0.6%		
Electronic Equipment & Instruments 0.6%		
Celestica, Inc.:		
7.625%, 07/01/2013 þ	1,250,000	1,225,000
7.875%, 07/01/2011 þ	3,175,000	3,159,125
		4,384,125
MATERIALS 1.2%		
Chemicals 0.4%		
Ineos Group Holdings plc, 8.50%, 02/15/2016 144A þ	3,250,000	3,063,125
Metals & Mining 0.8%		

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Novelis, Inc., 8.00%, 02/15/2015 144A	6,300,000	6,126,750
TELECOMMUNICATION SERVICES 2.0%		
Diversified Telecommunication Services 0.3%		
Northern Telecom, Ltd., 6.875%, 09/01/2023	3,000,000	2,400,000
Wireless Telecommunication Services 1.7%		
Intelsat, Ltd.:		
9.25%, 06/15/2016 144A	5,750,000	5,908,125
11.25%, 06/15/2016 144A	2,000,000	2,030,000
Rogers Wireless, Inc.:		
7.50%, 03/15/2015	1,750,000	1,802,500
9.625%, 05/01/2011	3,000,000	3,330,000
		13,070,625
<i>Total Yankee Obligations-Corporate</i> <i>(cost \$39,737,413)</i>		38,871,238
DEBT OBLIGATIONS 0.7%		
Blue Grass Energy Corp. Loan, 10.40%, 12/30/2013 # (cost \$5,200,000)	5,200,000	5,238,896
<hr/>		
		Shares
		Value
SHORT-TERM INVESTMENTS 15.0%		
MUTUAL FUND SHARES 15.0%		
Evergreen Institutional Money Market Fund ø ##	6,829,629	6,829,629
Navigator Prime Portfolio bb	109,587,240	109,587,240
<i>Total Short-Term Investments (cost</i> <i>\$116,416,869)</i>		116,416,869
Total Investments (cost \$1,283,369,572)		1,275,331,496
164.8%		
Other Assets and Liabilities and Preferred Shares (64.8%)		(501,540,124)
Net Assets Applicable to Common Shareholders 100.0%		\$ 773,791,372

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- # When-issued or delayed delivery security
 p All or a portion of this security is on loan.
 144A Security that may be sold to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. This security has been determined to be liquid under guidelines established by the Board of Trustees, unless otherwise noted.
 □ Security initially issued in zero coupon form which converts to coupon form at a specified rate and date. An effective interest rate is applied to recognize interest income daily for the bond. This rate is based on total expected interest to be earned over the life of the bond which consists of the aggregate coupon-interest payments and discount at acquisition. The rate shown is the stated rate at the current period end.
 ## All or a portion of this security has been segregated for when-issued or delayed delivery securities.
 ø Evergreen Investment Management Company, LLC is the investment advisor to both the Fund and the money market fund.
 pp Represents investment of cash collateral received from securities on loan.

Summary of Abbreviations

AUD	Australian Dollar
CAD	Canadian Dollar
DKK	Danish Krone
EUR	Euro
FHLMC	Federal Home Loan Mortgage Corp.
FNMA	Federal National Mortgage Association
FRN	Floating Rate Note
GBP	Great British Pound
GNMA	Government National Mortgage Association
HKD	Hong Kong Dollar
JPY	Japanese Yen
KRW	Republic of Korea Won
MXN	Mexican Peso
NOK	Norwegian Krone
NZD	New Zealand Dollar
SEK	Swedish Krona
SGD	Singapore Dollar
TBA	To Be Announced
ZAR	South African Rand

At July 31, 2006, the Fund had the following open interest rate swap agreements:

Expiration	Notional Amount	Counterparty	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Unrealized Gain
11/27/2006	\$168,000,000	JPMorgan Chase & Co.	Fixed-2.79%	Floating-5.39% ¹	\$1,547,225
11/26/2008	112,000,000	JPMorgan Chase & Co.	Fixed-3.582%	Floating-5.39% ¹	4,353,872

¹ This rate represents the 1 month USD London InterBank Offered Rate (LIBOR) effective for the period of July 26, 2006 through August 28, 2006.

At July 31, 2006, the Fund had forward foreign currency exchange contracts outstanding as follows:

Forward Foreign Currency Exchange Contracts to Buy:

Exchange Date	Contracts to Receive	U.S. Value at July 31, 2006	In Exchange for U.S. \$	Unrealized Gain

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10/10/2006	9,026,000 EUR	\$11,582,139	\$11,578,914	\$ 3,225
10/10/2006	2,690,319,504 JPY	23,694,117	23,572,000	122,117

Forward Foreign Currency Exchange Contracts to Buy:

Exchange Date	Contracts to Receive	U.S. Value at July 31, 2006	In Exchange for	U.S. Value at July 31, 2006	Unrealized Loss
09/26/2006	4,812,150,000 JPY	\$42,301,182	22,964,538 GBP	\$42,951,558	\$ 650,376
09/26/2006	197,600,000 JPY	1,737,002	940,214 GBP	1,758,522	21,520
09/29/2006	3,200,000,000 JPY	28,140,203	38,300,419 AUD	29,296,896	1,156,693
09/29/2006	136,274,000 JPY	1,198,368	1,609,282 AUD	1,230,978	32,610
09/29/2006	1,555,291,000 JPY	13,676,939	22,855,121 NZD	14,042,526	365,587

On July 31, 2006, the aggregate cost of securities for federal income tax purposes was \$1,283,917,350. The gross unrealized appreciation and depreciation on securities based on tax cost was \$14,313,426 and \$22,899,280, respectively, with a net unrealized depreciation of \$8,585,854.

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Item 2 Controls and Procedures

- (a) The registrant's principal executive officer and principal financial officer have evaluated the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) within 90 days of this filing and have concluded that the registrant's disclosure controls and procedures were effective, as of that date, in ensuring that information required to be disclosed by the registrant in this Form N-Q was recorded, processed, summarized, and reported timely.
- (b) There has been no change in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting.

Item 3 Exhibits

File the exhibits listed below as part of this Form. Letter or number the exhibits in the sequence indicated.

- (a) Separate certifications for the registrant's principal executive officer and principal financial officer, as required by Rule 30a-2(a) under the Investment Company Act of 1940, are attached as EX-99.CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Evergreen Managed Income Fund

By: /s/ Dennis H. Ferro
 Dennis H. Ferro,
 Principal Executive Officer
 Date: September 27, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURES

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By: /s/ Dennis H. Ferro
Dennis H. Ferro,
Principal Executive Officer

Date: September 27, 2006

By: /s/ Kasey Phillips
Kasey Phillips
Principal Financial Officer

Date: September 27, 2006