STONEMOR PARTNERS LP
Form 10-K
March 19, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED December 31, 2006

OR

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

FOR THE TRANSITION PERIOD FROM TO .

Commission File Number: 000-50910

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware	**80-0103159**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
155 Rittenhouse Circle	
Bristol, Pennsylvania	**19007**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (215) 826-2800

Securities registered pursuant to Section 12(b) of the Act: Common Units

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 x 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 x

The aggregate market value of the common units held by non-affiliates of the registrant was approximately $93.0 million as of June 30, 2006 based on $19.40 per unit, the closing price of the common units as reported on the NASDAQ on that date.[1]

Documents incorporated by reference: None

The number of the registrant s outstanding common units at March 15, 2007 was 4,795,750.

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[1] The aggregate market value of the common units set forth above equals the number of the registrant s common units outstanding, reduced by the number of common units held by executive officers, directors and persons owning 10% or more of the registrant s common units, multiplied by the last reported sale price for the registrant s common units on June 30, 2006, the last day of the registrant s most recently completed second fiscal quarter. The information provided shall in no way be construed as an admission that any person whose holdings are excluded from this figure is an affiliate of the registrant or that any person whose holdings are included in this figure is not an affiliate of the registrant and any such admission is hereby disclaimed. The information provided herein is included solely for record keeping purposes of the Securities and Exchange Commission.

Table of Contents

FORM 10-K OF STONEMOR PARTNERS, L.P.

TABLE OF CONTENTS

PART I

Item 1.	Business	1
Item 1A.	Risk Factors	8
Item 1B.	Unresolved Staff Comments	18
Item 2.	Properties	19
Item 3.	Legal Proceedings	21
Item 4.	Submission of Matters to a Vote of Security Holders	21

PART II

Item 5.	Market for the Partnership s Common Units, Related Unitholder Matters and Issuer Purchases of Equity Securities	22
Item 6.	Selected Financial Data	28
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operation	31
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	57
Item 8.	Financial Statements and Supplementary Data	59
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	85
Item 9A.	Controls and Procedures	86
Item 9B.	Other Information	90

PART III

Item 10.	Directors and Executive Officers of the Registrant	91
Item 11.	Executive Compensation	96
Item 12.	Security Ownership of Certain Beneficial Owners and Management	106
Item 13.	Certain Relationships and Related Transactions	108
Item 14.	Principal Accounting Fees and Services	113

PART IV

Item 15.	Exhibits and Financial Statement Schedules	114

Table of Contents

Item 1. Business

We were formed as a Delaware limited partnership to own and operate the assets and businesses previously owned and operated by Cornerstone Family Services, Inc., or Cornerstone, which was converted into CSFI LLC, a limited liability company, prior to our initial public offering of common units representing limited partner interests on September 20, 2004. Cornerstone was 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. We, us, our, or similar terms, when used in a historical context, refer to Cornerstone Family Services, Inc. (and, after its conversion, CFSI LLC) and its subsidiaries and thereafter refer to StoneMor Partners L.P. and its subsidiaries.

We are the fourth-largest owner and operator of cemeteries in the United States. As of December 31, 2006, we operated 177 cemeteries in 21 states, located primarily in the eastern United States. We own 170 of these cemeteries, and we operate the remaining 7 under long-term management agreements with the cemetery associations that own the cemeteries. The cemetery products and services that we sell are:

Interment Rights	Merchandise	Services
burial lots	burial vaults	installation of burial vaults
lawn crypts	caskets	installation of caskets
mausoleum crypts	grave markers and grave marker bases	installation of other cemetery merchandise
cremation niches	memorials	
perpetual care rights		

We sell these 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. Whenever possible, we sell burial lots with pre-installed vaults. Our sales of real property, including burial lots (with and without installed vaults), lawn and mausoleum crypts and cremation niches, generate qualifying income sufficient for us to be treated as a partnership for federal income tax purposes. In 2006, we performed more than 26,000 burials and sold more than 21,100 interment rights (net of cancellations). Based on our sales of interment spaces in 2006, our cemeteries have a weighted average sales life of 236 years.

Our cemetery properties are located in Pennsylvania, West Virginia, Virginia, North Carolina, Maryland, New Jersey, Tennessee, Ohio, Rhode Island, Alabama, Connecticut, Delaware, Illinois, Kentucky, Oregon, Washington, Kansas, Michigan, Colorado, Missouri and Georgia. In 2006, our cemetery operations accounted for approximately 94.7% of our revenues.

We also own and operate 27 funeral homes in Alabama, Maryland, Ohio, Pennsylvania, West Virginia, Oregon, Kansas, Washington and Virginia. Eight of our 27 funeral homes are located on the grounds of cemeteries that we own. In 2006, more than 1,330 funerals were performed at our funeral homes, and our funeral home revenues accounted for approximately 5.3% of our revenues.

Operations

Cemetery Operations. Our cemetery operations include sales of cemetery interment rights, merchandise and services and the performance of cemetery maintenance and other services. An interment right entitles a customer to burial space in one of our cemeteries and the perpetual care of that burial space. Burial spaces, or lots, are parcels of property that hold interred human remains. Our cemeteries require a burial vault be placed in each burial lot. A burial vault is a rectangular container, usually made of concrete but also made of steel or plastic, which sits in the burial lot and in which the casket is placed. The top of the burial vault is buried approximately 18 to 24 inches below the surface of the ground, and the casket is placed inside the vault. Burial vaults prevent ground settling that otherwise occurs when a casket placed directly in the ground begins to decay creating uneven ground surface. Ground settling typically results in higher maintenance costs and increased potential liability for slip-and-fall accidents on the property. Lawn crypts are a series of closely spaced burial lots

Table of Contents

with preinstalled vaults and other improvements, such as landscaping, sprinkler systems and drainage. A mausoleum crypt is an above-ground structure that may be designed for a particular customer, which we refer to as a private mausoleum; or it may be a larger building that serves multiple customers, which we refer to as a community mausoleum. Cremation niches are spaces in which the ashes remaining after cremation, sometimes referred to as cremains, are stored. Cremation niches are often part of community mausoleums, although we sell a variety of cremation niches to accommodate our customers preferences.

Grave markers, monuments and memorials are above-ground products that serve as memorials by showing who is remembered, the dates of birth and death and other pertinent information. These markers, monuments and memorials include simple plates, such as those used in a community mausoleum or cremation niche, flush-to-the-ground granite or bronze markers, headstones or large stone obelisks.

One of the principal services we provide at our cemeteries is an opening and closing, which is the digging and refilling of burial spaces to install the vault and place the casket into the vault. With pre-need sales, there are usually two openings and closings. During the initial opening and closing, we install the burial vault in the burial space. We usually perform this service shortly after the customer signs a pre-need contract. Advance installation allows us to withdraw the related funds from our merchandise trusts, making the amount in excess of our cost to purchase and install the vault available to us for other uses, and eliminates future merchandise trusting requirements for the burial vault and its installation. During the final opening and closing, we remove the dirt above the vault, open the lid of the vault, place the casket into the vault, close the vault lid and replace the ground cover. With at-need sales, we typically perform the initial opening and closing at the time we perform the final opening and closing. Our other services include the installation of other cemetery merchandise and the perpetual care related to interment rights.

The cost of a traditional interment at one of our cemeteries, together with all related services and merchandise, ranges from approximately $1,600 to approximately $6,000, and averages approximately $2,800.

Managed Cemeteries. We operate 7 cemeteries in New Jersey, Connecticut and Ohio under management agreements with the 7 cemetery associations that own the cemetery properties. These cemetery associations are organized as nonprofit corporations either because state law requires cemetery properties to be owned by nonprofit entities, such as in New Jersey and Connecticut, or because they were originally established as nonprofit entities. We have voting control of four of these cemetery associations as a result of owning all of their outstanding stock, certificates of indebtedness or membership certificates. Three cemetery associations are owned by their lotholders or have no voting members. Because nonprofit entities in most states are restricted in their ability to distribute income, these 7 cemetery associations have entered into management agreements with us. The management agreements under which we operate these 7 cemeteries generally have terms ranging from 3 to 10 years and provide us with management fees that approximate what we would earn if we owned those cemeteries and held them in for-profit entities. In some of the states where we operate cemeteries under management agreements, we are entitled to significant termination fees if the agreements are terminated without our consent.

Funeral Home Operations. We own and operate 27 funeral homes, eight of which are located on cemetery properties that we own, in Alabama, Maryland, Ohio, Pennsylvania and Virginia. Since 1999, we have built two funeral homes and purchased 19. Our funeral homes offer a range of services to meet a family s funeral needs, including family consultation, the removal and preparation of remains, provision of caskets and related funeral merchandise, the use of funeral home facilities for visitation, worship and funeral services and transportation services. The cost of using the services of one of our funeral homes, including the purchase of a casket, ranges from approximately $2,745 to approximately $6,100 and averages approximately $3,400. Funeral home operations primarily generate revenues from at-need sales, for which there is a smaller potential customer base than pre-need sales, and have low barriers to entry by competitors. By focusing primarily on cemeteries and deriving significant revenues from pre-need sales, we minimize our exposure to these types of challenges.

Table of Contents

We purchase caskets from Thacker Caskets, Inc. under a supply agreement that expires on December 31, 2015. This agreement entitles us to specified discounts on the price of caskets but requires that we purchase all of our caskets from Thacker Caskets, Inc. We do not have minimum purchase requirements under this supply agreement.

Cremation Products and Services. We operate three crematories on three of our cemeteries, but our primary cremation operations are sales of receptacles for cremains, such as urns, and the inurnment of cremains in niches or scattering gardens. While cremation products and services usually cost less than traditional burial products and services, they yield higher margins on a percentage basis and take up less space than burials. We sell cremation products and services on both a pre-need and at-need basis.

Pet Cemeteries. At many of our cemeteries, we maintain a separate piece of land that is used exclusively for the burial of pets. Our sales of pet cemetery products and services are similar to those for humans: we sell interment rights, burial vaults, caskets, cremation products and memorials. The costs of these products and services vary based on the size of the animal and the quality of the products. In 2006, sales of pet cemetery products and services totaled approximately $166,000.

Sales Contracts

Pre-need products and services are typically sold on an installment basis. At-need products and services are generally required to be paid for in full in cash by the customer at the time of sale. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Cemetery Operations Pre-need Sales and At-need Sales.

Trusts

Sales of cemetery products and services are subject to a variety of state regulations. In accordance with these regulations, we are required to establish and fund two types of trusts, merchandise trusts and perpetual care trusts, to ensure that we can meet our future obligations. Our funding obligations are generally equal to a percentage of sales proceeds of the products and services we sell. For a detailed discussion of these trusts, please read Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Cemetery Operations Trusting.

Sales Personnel, Training and Marketing

As of December 31, 2006, we employed approximately 459 commissioned salespeople and 84 sales support and telemarketing employees. We have seven regional sales managers covering our cemeteries, who report to our Vice President of Sales. Individual salespersons are typically located at the cemeteries they serve and report directly to the cemetery manager. We have made a strong commitment to the ongoing education and training of our sales force and to salesperson retention in order to ensure that our customers receive the highest quality customer service. Our training program includes classroom training at our headquarters, field training, continuously updated training materials that utilize media, such as the Internet, for interactive training and participation in industry seminars. We place special emphasis on training property sales managers, who are key elements to a successful pre-need sales program.

We reward our salespeople with incentives for generating new customers. Sales force performance is evaluated by sales budgets, sales mix and closing ratios, which are equal to the number of contracts written divided by the number of presentations that are made. Substantially all of our sales force is compensated based solely on performance. Commissions are augmented with various bonus and incentive packages to ensure a high quality, motivated sales force. We pay commissions to our sales personnel based on a percentage of the price of the products and services, which varies from 8% to 24%, of the total contract price for pre-need sales and is generally equal to 5% of the total contract price for at-need sales. In addition, cemetery managers receive an override commission generally equal to 4% to 6% of the gross sales price of the contracts entered into by the salespeople assigned to the cemeteries they manage.

Table of Contents

We generate sales leads through focused telemarketing, direct mail, television advertising, funeral follow-up and sales force cold calling, with the assistance of database mining and other marketing resources. We have created a marketing department to allow us to use more sophisticated marketing techniques to more effectively focus our telemarketing and direct sales efforts. Sales leads are referred to the sales force to schedule an appointment, most often at the customer s home.

Acquisitions

On September 30, 2006 we completed the acquisition of 21 cemeteries and 14 funeral homes from Service Corporation International (NYSE: SCI) for $11.8 million. We paid $5.9 million in cash and 275,046 in Limited Partner units, representing the additional $5.9 million. In addition, we assumed the merchandise and service liabilities associated with certain pre-arranged bonded contracts related to the properties.

The properties are located in Alabama (5 cemeteries and 3 funeral homes), Oregon (5 cemeteries and 6 funeral homes), Michigan (3 cemeteries), Kansas (2 cemeteries and 1 funeral home), Colorado (2 cemeteries), Washington (1 cemetery and 2 funeral homes), West Virginia (2 funeral homes), Kentucky (1 cemetery), Illinois (1 cemetery) and Missouri (1 cemetery). In the aggregate, the 21 cemeteries and 14 funeral homes annually perform approximately 4,300 interments and 2,000 calls, respectively. In 2005, these locations produced annual cemetery revenues of approximately $9.9 million and annual funeral home revenues of approximately $6.1 million.

We acquired two additional cemeteries during the fourth quarter of 2006 with an aggregate purchase price of approximately $1.3 million.

Competition

Our cemeteries and funeral homes generally serve customers that live within a 10- to 15-mile radius of a property s location. Within this localized area, we face competition from other cemeteries and funeral homes located in the area. Most of these cemeteries and funeral homes are independently owned and operated, and most of these owners and operators are smaller than we are and have fewer resources than we do. We generally face limited competition from the three publicly held death care companies that have U.S. operations Service Corporation International, Stewart Enterprises, Inc. and Carriage Services, Inc. as they do not directly operate cemeteries in the geographic areas where we operate.

Within a localized area of competition, we compete primarily for at-need sales because many of the independently owned, local competitors either do not have pre-need sales programs or have pre-need programs that are not as developed as ours. Most of these competitors do not have as many of the resources that are available to us to launch and grow a substantial pre-need sales program. The number of customers that cemeteries and funeral homes are able to attract is largely a function of reputation and heritage, although competitive pricing, professional service and attractive, well maintained and conveniently located facilities are also important factors. The sale of cemetery and funeral home products and services on a pre-need basis has increasingly been used by many companies as an important marketing tool. Due to the importance of reputation and heritage, increases in customer base are usually gained over a long period of time.

Competitors within a localized area have an advantage over us if a potential customer s family members are already buried in the competitor s cemetery. If any of the three publicly held death care companies operated, or in the future were to operate, cemeteries within close proximity of our cemeteries, they may have a competitive advantage over us because they have greater financial resources available to them because of their size and access to the capital markets.

We believe that we currently face limited competition for cemetery acquisitions. The three publicly held death care companies identified above have historically been the industry s primary consolidators but have

Table of Contents

largely curtailed cemetery acquisition activity since 1999. Furthermore, these companies continue to generate a majority of their revenues from funeral home operations. Based on the relative levels of cemetery operations and funeral home operations of the three publicly traded death care companies, which are disclosed in their SEC filings, we are the only public death care company that focuses primarily on cemetery operations.

Robert B. Hellman Jr., who serves as one of our directors, as the Chief Executive Officer and a Managing Director of McCown De Leeuw & Co., LLC and in various other positions with McCown De Leeuw, has applied for a U.S. patent on a technology entitled, Apparatus and Method for Operating a Death Care Business as a Master Limited Partnership. The computer-implemented method defines death care master limited partnership assets based upon qualifying death care business income sources and non-qualifying death care business income sources. The pending patent application was filed on November 27, 2002, and claims priority to an earlier patent application filed November 30, 2001. The United States Patent and Trademark Office has not issued a communication regarding the substantive merits of the application. Mr. Hellman assigned the patent application to McCown De Leeuw & Co. IV, L.P. in February 2003 and recorded the assignment in the United States Patent and Trademark Office in March 2003. McCown De Leeuw & Co. IV, L.P. assigned a 50% ownership interest in the patent application and, if issued, the patent to the partnership. We cannot assure you that the patent will be issued or, if it is issued and subsequently challenged, that it will be determined to be valid.

If a patent is issued relating to this patent application, no other entity will be able to practice the claimed invention without the consent of McCown De Leeuw & Co. IV, L.P. and us. The patent will not prevent corporations, such as the three publicly held death care companies, or privately held partnerships that do not operate as master limited partnerships from competing with us in the death care business. As a result, the issuance of the patent is not expected to have a material impact on our business.

Regulation

General. Our operations are subject to regulation, supervision and licensing under federal, state and local laws.

Cooling-Off Legislation. Each of the states where our current cemetery properties are located has cooling-off legislation with respect to pre-need sales of cemetery and funeral home products and services. This legislation requires us to refund proceeds from pre-need sales contracts if canceled by the customer for any reason within three to thirty days, from the date of the contract, depending on the state.

Trusting. Sales of cemetery interment rights and pre-need sales of cemetery and funeral home merchandise and services are subject to trusting requirements imposed by state laws in all of the states where we operate. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Cemetery Operations Trusting.

Truth in Lending Act and Regulation Z. Our pre-need installment contracts are subject to the federal Truth-in-Lending Act, or TILA, and the regulations thereunder, which are referred to as Regulation Z. TILA and Regulation Z promote the informed use of consumer credit by requiring us to disclose, among other things, the annual percentage rate, finance charges and amount financed when extending credit to customers.

Do Not Call Implementation Act. We are subject to the requirements of two federal statutes governing telemarketing practices, the Telephone Consumer Protection Act, or TCPA, and the Telemarketing and Consumer Fraud and Abuse Prevention Act, or TCFAPA. These statutes impose significant penalties on those who fail to comply with their mandates. The Federal Communications Commission, or FCC, is the federal agency with authority to enforce the TCPA, and the Federal Trade Commission, or FTC, has jurisdiction under the TCFAPA. The FTC has established and implemented a national no-call registry under the TCFAPA. The legislation also establishes a private right of action for consumers against telemarketing entities under certain circumstances. The FCC has adopted regulations that mirror the no-call registry legislation. Primarily as a result

Table of Contents

of implementation of the do not call legislation, the percentage of our pre-need sales generated from telemarketing leads has decreased from 24% in 1999 to 11.0% in 2006. We are also subject to similar telemarketing consumer protection laws in the states of Alabama, Delaware, Georgia, Maryland, New Jersey, Ohio, Pennsylvania, Rhode Island, Tennessee, Virginia and West Virginia. These states statutes permit consumers to prevent unwanted telephone solicitations.

Occupational Safety and Health. We are subject to the requirements of the federal Occupational Safety and Health Act, or OSHA, and comparable state statutes. The OSHA hazard communication standard, the Environmental Protection Agency community right-to-know regulations under Title III of the federal Superfund Amendment and Reauthorization Act and similar state statutes require us to organize information about hazardous materials used or produced in our operations. We may be subject to Tier 1 or Tier 2 Emergency and Hazardous Chemical Inventory reporting requirements depending on the amounts of hazardous materials kept onsite. Some of this information must be provided to employees, state and local governmental authorities and local citizens. We are also subject to the federal Americans with Disabilities Act and similar laws which, among other things, may require that we modify our facilities to comply with minimum accessibility requirements for disabled persons.

Federal Trade Commission. Our funeral home operations are comprehensively regulated by the Federal Trade Commission under Section 5 of the Federal Trade Commission Act and a trade regulation rule for the funeral industry promulgated thereunder referred to as the Funeral Rule. The Funeral Rule requires funeral service providers to disclose the prices for their goods and services as soon as the subject of price arises in a discussion with a potential customer (this entails presenting an itemized price list, referred to as the General Price List, if the consultation is in person, and readily answering all price-related questions posed over the telephone), and to offer their goods and services on an unbundled basis. Through these regulations, the Federal Trade Commission sought to give consumers the ability to compare prices among funeral service providers and to avoid buying packages containing goods or services that they did not want. The unbundling of goods from services has also opened the way for third-party, discount casket sellers to enter the market, although they currently do not possess substantial market share.

Future Enactments and Regulation. Federal and state legislatures and regulatory agencies frequently propose new laws, rules and regulations and new interpretations of existing laws, rules and regulations which, if enacted or adopted, could have a material adverse effect on our operations and on the death care industry in general. A significant portion of our operations are located in Pennsylvania, Virginia, Maryland, North Carolina and West Virginia and any material adverse change in the regulatory requirements of those states applicable to our operations could have a material adverse effect on our results of operations. We cannot predict the outcome of any proposed legislation or regulations or the effect that any such legislation or regulations, if enacted or adopted, might have on us.

Environmental Regulations and Liabilities

Our operations are subject to federal, state and local regulations in three principal areas: (1) crematories for emissions to air that may trigger requirements under the Clean Air Act, (2) funeral homes for the handling of hazardous materials and medical wastes and (3) cemeteries and funeral homes for the management of solid waste, underground and above-ground storage tanks and discharges to septic systems.

Clean Air Act. The Federal Clean Air Act and similar state and local laws, which regulate emissions into the air, can affect crematory operations through permitting and emissions control requirements. Our cremation operations are subject to Clean Air Act regulations under federal and state law and may be subject to enforcement actions if these operations do not conform to the requirements of these laws. In addition, the EPA anticipates the adoption of emissions restrictions to be enforced at the federal and state level for certain solid waste incinerators, including possibly crematory facilities, in the next few years. If the contemplated regulations and guidelines are adopted, we may be required to incur various costs in order to bring our facilities into compliance. We cannot assure you that the costs or liabilities will not be material in that event.

Table of Contents

Emergency Planning and Community Right-to-Know Act. Federal, state and local regulations apply to the use of hazardous materials at our funeral homes. Depending on the types and quantities of materials we handle at any particular location, we may be required to maintain and submit to authorities inventories of these materials present at that location in compliance with the Emergency Planning and Community Right-to-Know Act, or EPCRA.

Comprehensive Response, Compensation, and Liability Act. The Comprehensive Response, Compensation, and Liability Act, or CERCLA and similar state laws affect our cemetery and funeral home operations by, among other things, imposing cleanup liabilities for threatened or actual releases of hazardous substances that may endanger public health or welfare or the environment. Under CERCLA and similar state laws, joint and several liability may be imposed on waste generators, site owners and operators, and others regardless of fault or the legality of the original disposal activity. Our operations include the use of some materials that may meet the definition of hazardous substances under CERCLA and thus may give rise to liability if released to the environment through a spill or discharge. Should we acquire new properties with pre-existing conditions triggering CERCLA or similar state liability, we may become liable for responding to those conditions. We may become involved in proceedings, litigation or investigations at one or more sites where releases of hazardous substances have occurred, and we cannot assure you that the associated costs and potential liabilities would not be material.

Underground and Aboveground Storage Tank Laws and Solid Waste Laws. Federal and state laws regulate the installation, removal, operations and closure of underground storage tanks, or USTs and above-ground storage tanks ASTs, which are located at some of our facilities as well as the management of solid waste. Most of these USTs and ASTs contain petroleum for heating our buildings or are used for vehicle maintenance, or general operations. Depending upon the age and integrity of the USTs and ASTs, they may require upgrades, removal and/or closure, and remediation may be required if there has been a discharge or release of petroleum into the environment. All of the aforementioned activities may require us to incur costs to ensure continued compliance with environmental requirements. Should we acquire properties with existing USTs and ASTs that are not in compliance with environmental requirements, we may become liable for responding to releases to the environment or for costs associated with upgrades, removal and/or closure costs, and we can not assure you that the costs or liabilities will not be material in that event. Solid wastes have been disposed of at some of our cemeteries, both lawfully and unlawfully. Prior to acquiring a cemetery, an environmental investigation is usually conducted to determine, among other conditions, if a solid waste disposal area or landfill exists on the parcel which requires removal, cleaning or management. Depending upon the existence of any such solid waste disposal areas, we may be required by the applicable regulatory authority to remove the waste or to conduct remediation and we cannot assure you that the costs or liabilities will not be material in that event.

Employees

As of December 31, 2006 our general partner and its affiliates employed approximately 1,581 full-time and approximately 53 part-time employees. A total of 8 full time employees at one of our cemeteries located in New Jersey are represented by a union and are subject to collective bargaining agreements that expire in December 2009 and June 2011. An additional 38 employees at 11 of our cemeteries located in Pennsylvania are represented by four different unions and are subject to collective bargaining agreements that expire between June 2007 and June 2011. We believe that our relationship with our employees is good.

Available Information

We maintain an internet website with the address of http://www.stonemor.com. The information on this website is not, and should not be considered part of this annual report on Form 10-K and is not incorporated by reference into this document. This website address is only intended to be an inactive textural reference. Copies of our reports filed with, or furnished to, the SEC on Forms 10-K, 10-Q, and 8-K and any amendments to such reports are available for viewing and copying at such internet website, free of charge, as soon as reasonably practicable after filing such material with, or furnishing it to, the SEC.

Table of Contents

Item 1A. Risk Factors

Risk Factors Related to Our Business

Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the risks set forth below. The risks described below should not be considered comprehensive and all-inclusive. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations, financial condition and results of operations. If any events occur that give rise to the following risks, our business, financial condition or results of operations could be materially and adversely impacted. These risk factors should be read in conjunction with other information set forth in this Annual Report on Form 10-K, including our condensed consolidated financial statements and the related notes. Many such factors are beyond our ability to control or predict. Investors are cautioned not to put undue reliance on forward-looking statements.

We may not have sufficient cash from operations to pay the minimum quarterly distribution after we have paid our expenses, including the expenses of our general partner, funded merchandise and perpetual care trusts and established necessary cash reserves.

The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from operations, which fluctuates from quarter to quarter based on, among other things:

- the volume of our sales;
- the prices at which we sell our products and services; and
- the level of our operating costs.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, such as working capital borrowings, capital expenditures and funding requirements for trusts and our ability to withdraw amounts from trusts.

If we do not generate sufficient cash to pay the minimum quarterly distribution on the common units or the subordinated units, the market price of the common units may decline materially. We expect that we will need working capital borrowings of approximately $4.5 million during the twelve-month period ending December 31, 2007 in order to have sufficient operating surplus to pay the full minimum quarterly distribution on all of our common units and subordinated units for that period, although the actual amount of working capital borrowings could be materially more or less.

Our indebtedness limits cash flow available for our operations and for distribution to our partners.

As of December 31, 2006, we had $103.5 million in debt. Leverage makes us more vulnerable to economic downturns. Because we are obligated to dedicate a portion of our cash flow to service our debt obligations, our cash flow available for operations and for distribution to our partners will be reduced. The amount of indebtedness we have could limit our flexibility in planning for, or reacting to, changes in the markets in which we compete, and require us to dedicate more cash flow to service our debt than we desire. Our ability to satisfy our indebtedness as required by the terms of our debt will be dependent on, among other things, the successful execution of our long-term strategic plan. Subject to limitations in our credit facility and under our senior secured notes, we may incur additional debt in the future, for acquisitions or otherwise, and servicing this debt could further limit our cash flow.

Adverse conditions in the financial markets may reduce the principal and earnings of the investments held in merchandise and perpetual care trusts and adversely affect our revenues and cash flow.

A substantial portion of our revenues is generated from investment returns that we realize from merchandise and perpetual care trusts. Earnings and investment gains and losses on investments by merchandise and perpetual

Table of Contents

care trusts are affected by financial market conditions that are not within our control. Because the majority of merchandise and perpetual care trust principal is invested in fixed-income securities, investments held in these trusts are particularly susceptible to changes in interest rates. Merchandise trust principal invested in equity securities is also sensitive to the performance of the stock market. Earnings are also affected by the mix of fixed-income and equity securities that our investment managers choose to maintain in the trusts and by the fact that our investment managers may not choose the optimal mix for any particular market condition.

Declines in earnings from merchandise and perpetual care trusts could cause declines in current and future revenues and cash flow. In addition, any significant or sustained investment losses could result in merchandise trusts having insufficient funds to cover our cost of delivering products and services, or in perpetual care trusts offsetting less of our cemetery maintenance costs. In either case, we would be required to use our operating cash to deliver those products and perform those services, which could decrease our cash available for distribution. These events could have a material adverse effect on our financial condition and results of operations.

Pre-need sales typically generate low or negative cash flow in the periods immediately following sales which could adversely affect our ability to service our debt and make distributions to our partners.

When we sell cemetery merchandise and services on a pre-need basis, we pay commissions on the sale to our salespeople and are required by state law to deposit a portion of the sales proceeds into a merchandise trust. In addition, most of our customers finance their pre-need purchases under installment contracts over a number of years. Depending on the trusting requirements of the states in which we operate, the applicable sales commission rates and the amount of the down payment, our cash flow from payments on installment contracts is typically negative until we have paid the sale commission due on the sale or until we purchase the products or perform the services and are permitted to withdraw funds we have deposited in the merchandise trust. To the extent we increase pre-need activities, state trusting requirements are increased or we delay the purchase of the products or performance of the services we sell on a pre-need basis, our cash flow immediately following pre-need sales may be further reduced, and our ability to service our debt and make distributions to our partners could be adversely affected.

Because fixed costs are inherent in our business, a decrease in our revenues can have a disproportionate effect on our cash flow and profits.

Our business requires us to incur many of the costs of operating and maintaining facilities, land and equipment regardless of the level of sales in any given period. For example, we must pay salaries, utilities, property taxes and maintenance costs on our cemetery properties and funeral homes regardless of the number of interments or funeral services we perform. Because we cannot decrease these costs significantly or rapidly when we experience declines in sales, declines in sales can cause our margins, profits and cash flow to decline at a greater rate than the decline in our revenues.

Our failure to attract and retain qualified sales personnel and management could have an adverse effect on our business and financial condition.

Our ability to attract and retain a qualified sales force and other personnel is an important factor in achieving future success. Buying cemetery and funeral home products and services, especially at-need products and services, is very emotional for most customers, so our sales force must be particularly sensitive to our customers needs. We cannot assure you that we will be successful in our efforts to attract and retain a skilled sales force. If we are unable to maintain a qualified and productive sales force, our revenues may decline, and our cash available for distribution may decrease.

We are also dependent upon the continued services of our key officers. The loss of any of our key officers could have a material adverse effect on our business, financial condition and results of operations. We may not be able to locate or employ on acceptable terms qualified replacements for senior management or key employees if their services were no longer available. We do not maintain key employee insurance on any of our executive officers.

Table of Contents

We may not be able to identify, complete, fund or successfully integrate additional cemetery acquisitions which could have an adverse affect on our results of operations.

A primary component of our business strategy is to grow through acquisitions of cemeteries and, to a lesser extent, funeral homes. We cannot assure you that we will be able to identify and acquire cemeteries on terms favorable to us or at all. We may face competition from other death care companies in making acquisitions. Our ability to make acquisitions in the future may be limited by our inability to secure adequate financing, restrictions under our existing or future debt agreements, competition from third parties or a lack of suitable properties. For example, we are not permitted to make acquisitions for more than $2.5 million, or any series of acquisitions aggregating more than $20.0 million in any consecutive 12-month period, without the requisite consent of the lenders under our credit facility. Also, when we acquire cemeteries that do not have an existing pre-need sales program or a significant amount of pre-need products and services that have been sold but not yet delivered or performed, the operation of the cemetery and implementation of a pre-need sales program after acquisition may require significant amounts of working capital. This may make it more difficult for us to make acquisitions. Furthermore, the amount of common units we can issue to fund acquisitions in the next three years is limited by the restrictions that would be placed on our ability to use our net operating losses if such issuances resulted in an ownership change under federal tax laws. Please read Item 7 Managements Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Income Taxes.

We may be unable to successfully integrate our acquisition of certain assets from SCI Funeral Services, Inc. or our other acquisitions with our operations or realize all of the anticipated benefits of these acquisitions.

Integration of the Service Corporation International s businesses and operations that we acquired with our existing business and operations is a complex, time-consuming and costly process, particularly given that the acquisition has significantly increased our size. Failure to successfully integrate the SCI Funeral Services, Inc. businesses and operations with our existing business and operations in a timely manner may have a material adverse effect on our business, financial condition, results of operations and cash flows. Similarly, our ongoing acquisition program exposes us to integration risks as well. The difficulties of combining the acquired operations include, among other things:

- operating a significantly larger combined organization and integrating additional assets to our existing operations;
- coordinating geographically disparate organizations, systems and facilities;
- integrating personnel from diverse business backgrounds and organizational cultures;
- consolidating partnership, technological and administrative functions;
- integrating internal controls, compliance under the Sarbanes-Oxley Act of 2002 and other governance matters;
- the diversion of management s attention from other business concerns;
- customer or key employee loss from the acquired businesses; and
- potential environmental and regulatory liabilities and title problems.

In addition, we may not realize all of the anticipated benefits from our acquisition of certain assets from SCI Funeral Services, Inc., such as cost savings and revenue enhancements, for various reasons, including difficulties integrating operations and personnel and higher costs.

If the trend toward cremation in the United States continues, our revenues may decline which could have an adverse effect on our business and financial condition.

We and other death care companies that focus on traditional methods of interment face competition from the increasing number of cremations in the United States. Industry studies indicate that the percentage of cremations

Table of Contents

has steadily increased and that cremations will represent approximately 36% of the United States death care market by the year 2010, compared to approximately 32% in 2005. Because the products and services associated with a cremation, such as niches and urns, produce lower revenues than the products and services associated with a traditional interment, a continuing trend toward cremations may reduce our revenues and, therefore, our cash available for distribution.

Regulatory and Legal Risks

Our operations are subject to regulation, supervision and licensing under numerous federal, state and local laws, ordinances and regulations, including extensive regulations concerning trusts, pre-need sales, cemetery ownership, marketing practices, crematories, environmental matters and various other aspects of our business.

If state laws or interpretations of existing state laws change or if new laws are enacted, we may be required to increase trust deposits or to alter the timing of withdrawals from trusts, which may have a negative impact on our revenues and cash flow.

We are required by state laws to deposit specified percentages of the proceeds from our pre-need and at-need sales of interment rights into perpetual care trusts and proceeds from our pre-need sales of cemetery products and services into merchandise trusts. These laws also determine when we are allowed to withdraw funds from those trusts. If those laws or the interpretations of those laws change or if new laws are enacted, we may be required to deposit more of the sales proceeds we receive from our sales into the trusts or to defer withdrawals from the trusts, thereby decreasing our cash flow until we are permitted to withdraw the deposited amounts. This could also reduce our cash available for distribution.

If state laws or their interpretations change, or new laws are enacted relating to the ownership of cemeteries and funeral homes, our business, financial condition and results of operations could be adversely affected.

Some states, such as New Jersey, require cemeteries to be organized in the nonprofit form but permit those nonprofit entities to contract with for-profit companies for management services. The New Jersey Cemetery Act was recently recodified to reflect certain technical amendments that may be interpreted to prohibit for-profit entities like us from managing cemeteries located in New Jersey. We manage six cemeteries in New Jersey that accounted for approximately 15.9% of our revenues in the fiscal year ended December 31, 2006. Because the regulations implementing the amendments have not yet been adopted, the impact of these amendments is unknown. If the implementing regulations prohibit us from managing cemeteries in New Jersey, our business, financial condition and results of operations could be adversely affected.

We are subject to legal restrictions on our marketing practices that could reduce the volume of our sales which could have an adverse effect on our business, operations and financial condition.

The enactment or amendment of legislation or regulations relating to marketing activities may make it more difficult for us to sell our products and services. For example, federal do not call legislation has adversely affected our ability to market our products and services using telephone solicitation by limiting who we may call and increasing our costs of compliance. As a result, we have increased our reliance on direct mail marketing and telephone follow-up with existing contacts. Additional laws or regulations limiting our ability to market through direct mail, over the telephone, through internet and e-mail advertising or door-to-door may make it difficult to identify potential customers, which could increase our costs of marketing. Both increases in marketing costs and restrictions on our ability to market effectively could reduce our revenues and could have an adverse effect on our business, operations and financial condition, as well as our ability to make cash distributions to you.

We are subject to environmental and health and safety regulations that may adversely affect our operating results.

Our cemetery and funeral home operations are subject to numerous federal, state and local environmental and health and safety regulations. We may become subject to liability for the removal of hazardous substances

Table of Contents

and solid waste under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and similar state laws. Under CERCLA and similar state laws, joint and several liability may be imposed on various parties, regardless of fault or the legality of the original disposal activity. Our funeral home, cemetery and crematory operations include the use of some materials that may meet the definition of hazardous substances under CERCLA and thus may give rise to liability if released to the environment through a spill or discharge. We cannot assure you that we will not face liability under CERCLA for any conditions at our properties, and we cannot assure you that these liabilities will not be material. Our cemetery and funeral home operations are subject to regulation of underground and above ground storage tanks and laws managing the disposal of solid waste. If new requirements under local, state or federal laws were to be adopted, and are more stringent than existing requirements, new permits or capital expenditures may be required.

Our funeral home operations are generally subject to federal and state regulations regarding the disposal of medical waste, and are also subject to regulation by federal, state or local authorities under the Emergency Planning and Community Right-to-Know Act (EPCRA). We are required to maintain, and may be required to submit to state and local authorities, a list of any hazardous materials we use under EPCRA Tier One and Tier Two reporting requirements.

Our crematory operations are subject to regulation under the federal Clean Air Act and any analogous state laws. If new regulations applicable to our crematory operations were to be adopted, they could require permits or capital expenditures that would increase our costs of operation and compliance.

Risks Inherent in an Investment in Us

Our general partner and its affiliates have conflicts of interest and limited fiduciary duties, which may permit them to favor their own interests to your detriment.

As of December 31, 2006, CFSI LLC owned an aggregate 46.0% limited partner interest in us and owned all of the Class A units of our general partner. Conflicts of interest may arise between CFSI LLC and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of the unitholders. These conflicts include, among others, the following situations:

- The board of directors of our general partner is elected by the owners of our general partner. Although our general partner has a fiduciary duty to manage us in good faith, the directors of our general partner also have a fiduciary duty to manage our general partner in a manner beneficial to the owners of our general partner.

- Our partnership agreement limits the liability of our general partner, reduces its fiduciary duties and restricts the remedies available to unitholders for actions that might, without the limitations, constitute breaches of fiduciary duty.

- Our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional limited partner interests and reserves, each of which can affect the amount of cash that is distributed to unitholders.

- Our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf.

- Our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates.

- In some instances, our general partner may cause us to borrow funds in order to permit the payment of distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units, to make incentive distributions or to hasten the expiration of the subordination period.

12

Table of Contents

Affiliates of our general partner own sufficient common and subordinated units to block any attempt to remove our general partner.

Our general partner generally may not be removed except upon the vote of the holders of at least 66 2/3% of the outstanding units voting together as a single class. Because affiliates of our general partner owned approximately 46.0% of all the units as of December 31, 2006, our general partner currently cannot be removed without the consent of its affiliates. Also, if our general partner is removed without cause during the subordination period and units held by the general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically be converted into common units and any existing arrearages on the common units will be extinguished. This would adversely affect the common units by prematurely eliminating their distribution and liquidation preference over the subordinated units, which would otherwise have continued until we had met certain distribution and performance tests.

Unitholders have limited voting rights.

Unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management s decisions regarding our business. Unitholders did not select our general partner or elect the board of directors of our general partner and will have no right to select our general partner or elect its board of directors in the future. We are not required to have a majority of independent directors on our board, but we are required to establish and maintain an audit committee, which must be made up of at least three independent directors. We cannot assure you that the persons who control our general partner will elect more independent directors than are necessary to satisfy our audit committee composition requirements, even though most listed corporations are required to have a majority of independent directors on their boards.

Unitholders voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than the general partner, its affiliates, their transferees and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot be voted on any matter. In addition, the partnership agreement contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders ability to influence the manner or direction of management.

Our general partner can transfer its ownership interest in us without unitholder consent under certain circumstances, and the control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, there is no restriction in the partnership agreement on the ability of the owners of our general partner to transfer their ownership interest in the general partner to a third party. The new owner of our general partner would then be in a position to replace the board of directors and officers of the general partner with its own choices and thereby influence the decisions taken by the board of directors and officers.

We may issue additional common units without your approval, which would dilute your existing ownership interests.

During the subordination period, our general partner may cause us to issue up to 2,119,891 additional common units without your approval. Our general partner may also cause us to issue an unlimited number of additional common units or other equity securities of equal rank with the common units, without your approval, in numerous circumstances during the subordination period, including, but not limited to, in connection with an acquisition or an expansion capital improvement that increases cash flow from operations per unit on an estimated pro forma basis; if the proceeds of the issuance are used to repay indebtedness, the cost of which to service is greater than the distribution obligations associated with the units issued in connection with its

Table of Contents

retirement; or the redemption of common units or other equity interests of equal rank with the common units from the net proceeds of an issuance of common units or parity units, but only if the redemption price equals the net proceeds per unit, before expenses, to us.

After the end of the subordination period, we may issue an unlimited number of limited partner interests of any type without the approval of the unitholders. You will not have the right to approve our issuance at any time of equity securities ranking junior to the common units.

The issuance of additional common units or other equity securities of equal or senior rank will have the following effects:

- your proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by the common unitholders will increase;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

Cost reimbursements due our general partner may be substantial and will reduce the cash available for distribution to you.

Prior to making any distribution on the common units, we will reimburse our general partner and its affiliates, including CFSI LLC and the officers and directors of our general partner, for all expenses they incur on our behalf. The reimbursement of expenses could adversely affect our ability to pay cash distributions to you. Our general partner determines the amount of these expenses. In addition, our general partner and its affiliates may provide us with other services for which we will be charged fees as determined by our general partner.

In establishing cash reserves, our general partner may reduce the amount of available cash for distribution to you.

The partnership agreement requires our general partner to deduct from operating surplus cash reserves that it establishes to fund our future operating expenditures. The partnership agreement also permits the general partner to reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party or to provide funds for future distributions to partners. These reserves will affect the amount of cash available for distribution to you.

Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.

If, at any time, our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the remaining common units held by unaffiliated persons at a price not less than their then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon the sale of your common units.

You may be required to repay distributions that you have received from us.

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make a

Table of Contents

distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Assignees who become substituted limited partners are liable for the obligations of the assignor to make contributions to the partnership. However, assignees are not liable for obligations unknown to the assignee at the time the assignee became a limited partner if the liabilities could not be determined from the partnership agreement. Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

Tax Risks to Common Unitholders

In addition to reading the following risk factors, you should read Material Tax Considerations included in our Registration Statement on Form S-3 (Registration No. 333-129916) for a further discussion of the expected material federal income tax consequences of owning and disposing of common units.

We may have tax liabilities related to periods before our initial public offering and less net operating losses available to reduce taxable income and therefore tax liabilities for future taxable periods.

Because our business was conducted by an affiliated group of corporations during periods prior to the completion of our initial public offering, we may have federal and state income tax liabilities that relate to our prior operations and to transactions related to our formation. In addition, the amount of cash distributions we receive from our corporate subsidiaries over the next several years will depend in part upon the amount of net operating losses available to those subsidiaries to reduce the amount of income subject to federal income tax they would otherwise pay. These net operating losses will begin to expire in 2019 and are available to reduce future taxable income that would otherwise be subject to federal income taxes. The amount of net operating losses available to reduce the income tax liability of our corporate subsidiaries in future taxable years could be reduced as a result of the prior operations and the transactions occurring immediately before our initial public offering.

CFSI LLC has agreed to indemnify us against additional income tax liabilities, if any, that arise from our operations prior to our initial public offering, and income tax liabilities, if any, that arise from the consummation of the transactions related to our formation in excess of $600,000 if those liabilities are asserted by the IRS or any state taxing authority prior to the expiration of the applicable statutes of limitations for income taxes of Cornerstone for its taxable period ending with the conversion of Cornerstone into CFSI LLC (generally, three years from the filing of the tax return for such period). Also, CFSI LLC has agreed to indemnify us against any liabilities we may be subject to in the future resulting from a reduction in our net operating losses as a result of such prior operations or as a result of such formation transactions in excess of that which is believed to result from them at the time of our initial public offering. We cannot assure you that we will not ultimately be responsible for any or all of these liabilities, if they occur. Any increase in the tax liabilities of our corporate subsidiaries because of a reduction in net operating losses not recouped under the indemnity will reduce our cash available for distribution.

Changes in the ownership of our units, including the changes occurring as a result of our initial public offering, may result in annual limitations on our use of net operating losses available to reduce taxable income, which could increase our tax liabilities and decrease cash available for distribution in future taxable periods.

The use of the net operating losses by our corporate subsidiaries may be limited if the ownership of our units changes such that our corporate subsidiaries are deemed to have an ownership change under applicable provisions of the Internal Revenue Code. In general, an ownership change will occur if the percentage of our units, based on the value of the units, owned by certain unitholders or groups of unitholders increases by more than fifty percentage points during a three-year period. For this purpose, the unitholders who acquired interests in

Table of Contents

us pursuant to our initial public offering will be treated as a single group, as will those persons who acquire units in this or any subsequent offering we may make. The public group that acquired units in our initial public offering acquired approximately 49% of the total partnership interests that were outstanding immediately after completion of the initial public offering. Those units likely constituted more than 50% of the value of all ownership interests in us. However, applicable Treasury Regulations provide generally that if in a public offering units are issued solely for cash, for purposes of calculating the percentage of ownership change resulting from the transaction, the acquiring unitholders will be deemed to acquire only 50% of the number of units they actually acquire. At the time of our initial public offering, our tax counsel opined that the initial public offering should not result in an ownership change. No ruling has been or will be requested from the IRS regarding this issue, and an opinion of counsel represents only the counsel s legal judgment and does not bind the IRS or the courts. Thus there remains some risk that our initial public offering resulted in an ownership change. If an ownership change did occur, each of our corporate subsidiaries would be restricted annually in its ability to use its net operating losses to reduce its federal taxable income to an amount equal to the value of the corporation on the date of the ownership change multiplied by the applicable federal long-term tax-exempt rate in effect at such time. Any such restriction would have a material adverse impact on our ability to make the full minimum quarterly distribution on our common and subordinated units. If our initial public offering did not result in an ownership change, we will be limited in the additional units we can issue in the three years following our initial public offering without triggering an ownership change. While we do not anticipate that an ownership change will occur prior to December 31, 2008, the date by which we expect the majority of our subsidiaries net operating losses to be completely utilized, we cannot assure you that such ownership change will not occur. If an ownership change should occur during this period, an increase in tax liabilities of our corporate subsidiaries could result, which would reduce the amount of cash available for distribution to you.

Furthermore, in order to avoid the consequences of an ownership change, we may refrain from making some acquisitions that we otherwise would finance at least in part with additional units or the proceeds of an offering of common units. As a result, we may be less able to implement our acquisition growth strategy during the next three years. On September 28, 2006, Service Corporation International, joined by certain of its direct and indirect subsidiary entities, acquired approximately 2.98% of the total partnership interests outstanding immediately after such acquisition (and after our issuance of additional general partner interests to our general partner to maintain its 2% general partner interest). We did not request or obtain a legal opinion regarding whether this acquisition resulted in an ownership change.

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to entity-level taxation by individual states. If the IRS treats us as a corporation or we become subject to entity-level taxation for state tax purposes, it would reduce the amount of cash available for distribution to you.

The anticipated after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other tax matter affecting us.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our income at the corporate tax rate, which is currently a maximum of 35% and would likely pay state income tax at varying rates. Distributions to you would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, our cash available for distribution to you would be substantially reduced. Therefore, our treatment as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to the unitholders, likely causing a substantial reduction in the value of our common units.

Current law may change so as to cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. In addition, because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income,

Table of Contents

franchise and other forms of taxation. If any of these states were to impose a tax on us, the cash available for distribution to you would be reduced. The partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution amounts will be adjusted to reflect the impact of that law on us.

We have subsidiaries that will be treated as corporations for federal income tax purposes and subject to corporate-level income taxes.

Some of our operations are conducted through subsidiaries that are organized as C corporations. Accordingly, these corporate subsidiaries are subject to corporate-level tax, which reduces the cash available for distribution to our partnership and, in turn, to you. If the IRS were to successfully assert that these corporations have more tax liability than we anticipate or legislation was enacted that increased the corporate tax rate, the cash available for distribution could be reduced more than we anticipate.

A successful IRS contest of the federal income tax positions we take may adversely affect the market for our common units, and the cost of any IRS contest will reduce our cash available for distribution to you.

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of the positions we take. A court may not agree with all of the positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. In addition, our costs of any contest with the IRS will be borne indirectly by our unitholders and our general partner because the costs will reduce our cash available for distribution.

You may be required to pay taxes on income from us even if you do not receive any cash distributions from us.

Because our unitholders will be treated as partners to whom we will allocate taxable income that could be different in amount than the cash we distribute, you will be required to pay any federal income taxes and, in some cases, state and local income taxes on your share of our taxable income even if you receive no cash distributions from us. You may not receive cash distributions from us equal to your share of our taxable income or even equal to the tax liability that results from that income.

Tax gain or loss on disposition of common units could be more or less than expected.

If you sell your common units, you will recognize a gain or loss equal to the difference between the amount realized and your tax basis in those common units. Prior distributions to you in excess of the total net taxable income you were allocated for a common unit, which decreased your tax basis in that common unit, will, in effect, become taxable income to you if the common unit is sold at a price greater than your tax basis in that common unit, even if the price is less than your original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income. In addition, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale.

Tax-exempt entities and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

Investment in common units by tax-exempt entities, such as individual retirement accounts (known as IRAs) and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons

Table of Contents

will be required to file United States federal tax returns and pay tax on their share of our taxable income. If you are a tax-exempt entity or a foreign person, you should consult your tax advisor before investing in our common units.

We will treat each purchaser of common units as having the same tax benefits without regard to the actual common units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.

Because we cannot match transferors and transferees of common units and because of other reasons, we will take depreciation and amortization positions that may not conform to all aspects of the existing Treasury Regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from the sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns.

You will likely be subject to state and local taxes in states where you do not live as a result of an investment in units.

In addition to federal income taxes, you will likely be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property, even if you do not live in any of those jurisdictions. You will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, you may be subject to penalties for failure to comply with those requirements. We currently own assets and do business in Pennsylvania, West Virginia, Virginia, North Carolina, Maryland, New Jersey, Ohio, Rhode Island, Alabama, Connecticut, Delaware, Illinois, Kentucky, Oregon, Washington, Kansas, Michigan, Colorado, Missouri and Georgia. Each of these states currently imposes a personal income tax. As we make acquisitions or expand our business, we may own assets or do business in additional states that impose a personal income tax. It is your responsibility to file all United States federal, state and local tax returns. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in the common units.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

Cemeteries and Funeral Homes. The following table summarizes the distribution of our cemetery and funeral home properties by state as of December 31, 2006 and their weighted average estimated remaining sales life in years based on number of interment spaces sold during 2006:

	Cemeteries (1)	Funeral Homes	Total Net Acres	Weighted Average Estimated Remaining Sales Life	Number of Interment Spaces Sold in 2006
Pennsylvania	51	8	2,479	516	2,805
West Virginia	32	2	1,404	347	2,083
Virginia	29	2	773	130	3,176
Maryland	10	1	716	158	1,593
North Carolina	10		212	144	1,756
Georgia	7		135	111	1,154
Alabama	7	4	249	172	1,468
New Jersey	6		341	41	2,070
Oregon	5	6	135	322	504
Michigan	3		87	684	152
Colorado	2		12	392	36
Illinois	2		29	884	40
Kansas	2	1	35	274	152
Tennessee	2		127	271	247
Ohio	2	1	368	503	477
Rhode Island	2		70	725	36
Kentucky	1		20	142	172
Missouri	1		37	137	324
Washington	1	2	0	13	16
Connecticut	1		25	207	27
Delaware	1		12	226	21
Total	177	27	7,266	236	18,309

(1) Includes five cemeteries in New Jersey, one cemetery in Connecticut and one cemetery in Ohio that we operated under long-term management agreements.

We calculated estimated remaining sales life for each of our cemeteries by dividing the number of unsold interment spaces by the number of interment spaces sold at that cemetery in the most recent year. For purposes of estimating remaining sales life, we defined unsold interment spaces as unsold burial lots and unsold spaces in existing mausoleum crypts as of December 31, 2006. We defined interment spaces sold in 2006 as:

- the number of burial lots sold, net of cancellations;
- the number of spaces sold in existing mausoleum crypts, net of cancellations; and
- the number of spaces sold in mausoleum crypts that we have not yet built, net of cancellations.

We count the sale of a double-depth burial lot as the sale of one interment space even though a double-depth burial lot includes two interment rights. We count an unsold double-depth burial lot as one unsold interment space. Because our sales of cremation niches were immaterial, we did not include cremation niches in the calculation of estimated remaining sales life. When calculating estimated remaining sales life, we did not take into account any future cemetery expansion. In addition, sales of an unusually high or low number of interment spaces in a particular year

affect our calculation of estimated remaining sales life. Future sales may differ from previous years sales, and actual remaining sales life may differ from our estimates. We calculated weighted

Table of Contents

average remaining sales life by aggregating unsold interment spaces and interment spaces sold on a state-by-state or company-wide basis. Based on the number of interment spaces sold in 2006, we estimate that our cemeteries have an aggregate weighted average remaining sales life of 236 years.

The following table shows the cemetery properties that we owned or operated as of December 31, 2006, grouped by estimated remaining sales life:

	0-25 Years	26-49 Years	50-100 Years	101-150 Years	151-200 Years	Over 200 Years
Pennsylvania	2	1	5	3	1	39
West Virginia	4	1	3	4	3	17
Virginia	2	3	7	5		12
Maryland	0	2	2	2		4
North Carolina		1		3	3	3
Georgia	1		2	1	1	2
Alabama			1	3	1	2
New Jersey	1	2	3			
Oregon				1	1	3
Michigan						3
Colorado						2
Illinois						2
Kansas					1	1
Tennessee						2
Ohio						2
Rhode Island						2
Kentucky				1		
Missouri				1		
Washington	1					
Connecticut						1
Delaware						1
Total	11	10	23	24	11	98

We believe that we have either satisfactory title to or valid rights to use all of our cemetery properties. The seven cemetery properties that we operate under long-term management agreements are held by cemetery associations that are owned by the cemetery lot holders or have no legal owners. We believe that the cemetery associations have either satisfactory title to or valid rights to use these seven cemetery properties and that we have valid rights to use these properties under the management agreements. Although title to the cemetery properties is subject to encumbrances such as liens for taxes, encumbrances securing payment obligations, easements, restrictions and immaterial encumbrances, we do not believe that any of these burdens should materially detract from the value of these properties or from our interest in these properties, nor should these burdens materially interfere with the use of our cemetery properties in the operation of our business as described above. Many of our cemetery properties are located in zoned regions, and we believe that cemetery use is permitted for those cemeteries either (1) as expressly permitted under applicable zoning ordinances; (2) through a special exception to applicable zoning designations; or (3) as an existing non-conforming use.

Other. Our corporate headquarters occupy approximately 22,500 square feet of leased office space in Bristol, Pennsylvania, a suburb of Philadelphia. The lease has a term expiring in 2014, and we consider the space to be adequate for our present and anticipated future requirements. We are also tenants under various leases covering office spaces other than our corporate headquarters.

In addition, we own a 13,500-square-foot plant in Butler County, Pennsylvania, where we manufacture burial vaults used in our cemetery operations, and we own a 4,800-square-foot building in Marion, Virginia, which is no longer being used in our business.

Table of Contents

Item 3. Legal Proceedings

We, and certain of our subsidiaries, are parties to legal proceedings that have arisen in the ordinary course of business. While the outcome of these proceedings cannot be predicted with certainty, we do not expect these matters to have a material adverse effect on our results of operations and adequate financial condition or cash flows. We carry insurance with coverage and coverage limits that we believe to be customary in the funeral home and cemetery industries. Although there can be no assurance that such insurance will be sufficient to protect us against all contingencies, we believe that our insurance protection is reasonable in view of the nature and scope of our operations.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Table of Contents

PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common units are listed on the Nasdaq National Market (Nasdaq) under the symbol STON . Prior to September 15, 2004, our equity securities were not publicly traded. As of March 16, 2007, there were 4,795,780 common units outstanding, representing a 52.0% limited partner interest in us. As of that date, there were 4,239,782 subordinated units outstanding, representing a 46.0% limited partner interest in us. As of January 30, 2007, there were 15 unitholders of record, representing approximately 4,248 beneficial holders. There is no established public trading market for our subordinated units. The following table sets forth the high and low sale prices of our common units for the periods indicated, based on the daily composite listing of common unit transactions for the Nasdaq.

	Price Range		Declared
Quarter Ended	**High**	**Low**	**Distributions (2)**
March 31, 2005	$ 22.36	$ 20.00	$ .4625
June 30, 2005	$ 23.65	$ 21.25	$ .4625
September 30, 2005	$ 24.50	$ 22.06	$ .4625
December 31, 2005	$ 22.23	$ 19.12	$ .4750
March 31, 2006	$ 22.50	$ 20.09	$ .4800
June 30, 2006	$ 21.00	$ 18.00	$ .4800
September 30, 2006	$ 21.74	$ 19.44	$ .4900
December 31, 2006	$ 25.90	$ 20.91	$ .5000

(1) Our units began trading on NASDAQ on September 15, 2004.

(2) Distributions were declared and paid within 45 days following the close of each quarter on February 14, 2005, May 13, 2005, November 11, 2005, February 14, 2006, May 12, 2006, August 11, 2006, November 14, 2006 and February 14, 2007 respectively.

CASH DISTRIBUTION POLICY

Quarterly Distributions of Available Cash

General. Within approximately 45 days after the end of each quarter, we will distribute all of our available cash to unitholders of record on the applicable record date.

Available cash for any quarter consists of cash on hand at the end of that quarter, plus cash on hand from working capital borrowings made after the end of the quarter but before the date of determination of available cash for the quarter, less cash reserves. Cash and other investments held in merchandise trusts and perpetual care trusts are not treated as available cash until they are distributed to us.

Minimum Quarterly Distribution. Common units are entitled to receive distributions from operating surplus of $0.4625 per unit per quarter, or $1.85 per unit per year, before any such distributions are paid on our subordinated units. We cannot guarantee you that we will be able to pay the minimum quarterly distribution on the common units in any quarter. We are prohibited from making any distributions to unitholders if the distributions would cause an event of default, or if an event of default is existing, under our debt agreements.

General Partner Interest and Incentive Distribution Rights. Our general partner is entitled to 2% of all distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its 2% general partner interest. The general

Table of Contents

partner s 2% interest in these distributions may be reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us to maintain its 2% general partner interest.

Our general partner also currently holds incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 50%, of the cash we distribute from operating surplus in excess of $0.5125 per unit. The maximum distribution of 50% includes distributions paid to the general partner on its 2% general partner interest but does not include any distributions that the general partner may receive on units that it owns.

Operating Surplus and Capital Surplus

General. All cash distributed to unitholders is characterized as either operating surplus or capital surplus. We distribute available cash from operating surplus differently than available cash from capital surplus. We treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since we began operations equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus.

Operating Surplus. Operating surplus consists of:

- our cash balance on September 20, 2004; plus
- $5.0 million (as described below); plus
- cash receipts from our operations, including cash withdrawn from merchandise and perpetual care trusts; plus
- working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for that quarter; less
- operating expenditures, including cash deposited in merchandise and perpetual care trusts, maintenance capital expenditures and the repayment of working capital borrowings; less
- the amount of cash reserves for future operating expenditures and maintenance capital expenditures.

As reflected above, operating surplus includes $5.0 million in addition to our cash balance on September 20, 2004, cash receipts from our operations and cash from working capital borrowings. This amount does not reflect actual cash on hand at closing that is available for distribution to our unitholders. Rather, it is a provision that will enable us, if we choose, to distribute as operating surplus up to $5.0 million of cash we receive in the future from non-operating sources, such as asset sales outside the ordinary course of business, sales of our equity and debt securities, and long-term borrowings, that would otherwise be distributed as capital surplus.

As described above, operating surplus is reduced by the amount of our maintenance capital expenditures but not our expansion capital expenditures. For our purposes, maintenance capital expenditures are those capital expenditures required to maintain, over the long term, the operating capacity of our capital assets, and expansion capital expenditures are those capital expenditures that increase, over the long term, the operating capacity of our capital assets.

Examples of maintenance capital expenditures include costs to build roads and install sprinkler systems on our cemetery properties and purchases of equipment for those purposes and, in most instances, costs to develop new areas of our cemeteries. Examples of expansion capital expenditures include costs to identify and complete acquisitions of new cemeteries and funeral homes and to construct new funeral homes. Costs to construct mausoleum crypts and lawn crypts may be considered to be a combination of maintenance capital expenditures and expansion capital expenditures. Our general partner, with the concurrence of its conflicts committee, may allocate capital expenditures between maintenance capital expenditures and expansion capital expenditures and may determine the period over which maintenance capital expenditures will be subtracted from operating surplus.

23

Table of Contents

Capital Surplus. Capital surplus consists of:

- borrowings other than working capital borrowings;
- sales of our equity and debt securities; and
- sales or other dispositions of assets for cash (other than sales or other dispositions of excess cemetery property in an aggregate amount not to exceed $1.0 million in any four-quarter period; sales or other dispositions of inventory, accounts receivable and other current assets in the ordinary course of business; and sales or other dispositions of assets as a part of normal retirements or replacements).

The $1.0 million exception for sales of excess cemetery property may be increased by our general partner, with the concurrence of its conflicts committee, if the size of our operations increases as a result of acquisitions or other expansions.

Distributions of Available Cash from Operating Surplus

The following table illustrates the priority of distributions of available cash from operating surplus between the unitholders and our general partner during the subordination period. During the subordination period the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of $0.4625 per unit, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. The amounts set forth in the table in the column titled Marginal Percentage Interest in Distributions are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column titled Total Quarterly Distribution Target Amount, until the available cash from operating surplus that we distribute reaches the next target distribution level, if any. The percentage interests shown for our general partner include its 2% general partner interest and assume the general partner has contributed any additional capital required to maintain its 2% general partner interest and has not transferred the incentive distribution rights.

		Marginal Percentage Interest in Distributions			
	Total Quarterly Distribution Target Amount	**Common Unitholders**	**Subordinated Unitholders**	**Common and Subordinated Unitholders**	**General Partner**
Minimum Quarterly Distribution	up to $0.4625	98%			2%
Arrearages on Minimum Quarterly Distribution	up to $0.4625	98%			2%
Minimum Quarterly Distribution	up to $0.4625		98%		2%
First Target Distribution	above $0.4625 up to $0.5125			98%	2%
Second Target Distribution	above $0.5125 up to $0.5875			85%	15%
Third Target Distribution	above $0.5875 up to $0.7125			75%	25%
Thereafter	above $0.7125			50%	50%

When the subordination period ends, all remaining subordinated units will convert into common units on a one-for-one basis and will then participate, pro rata, with the other common units in distributions of available cash.

Table of Contents

Distributions of Available Cash from Capital Surplus

We do not currently expect to make any distributions of available cash from capital surplus. However, to the extent that we make any distributions of available cash from capital surplus, they will be made in the following manner:

first, 98% to all unitholders, pro rata, and 2% to our general partner, until we have distributed for each common unit an amount of available cash from capital surplus equal to the initial public offering price;

second, 98% to the common unitholders, pro rata, and 2% to our general partner, until we have distributed for each common unit an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units; and

thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus

The partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from the initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the unrecovered initial unit price. Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price.

Because distributions of capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for the general partner to receive incentive distributions and for the subordinated units to convert into common units. Any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied, however, to the payment of the minimum quarterly distribution or any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters.

If we distribute capital surplus on a unit in an amount equal to the initial unit price and have paid all arrearages on the common units, the minimum quarterly distribution and the target distribution levels will be reduced to zero. Once the minimum quarterly distribution and target distribution levels are reduced to zero, all subsequent distributions will be from operating surplus, with 50% being paid to the holders of units and 50% to our general partner.

Subordination Period

General. During the subordination period the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of $ 0.4625 per unit, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. Upon expiration of the subordination period, all subordinated units will convert into common units on a one-for-one basis and will then participate, pro rata, with the other common units in distributions of available cash, and the common units will no longer be entitled to arrearages.

Expiration of Subordination Period. The subordination period will extend until the first day of any quarter beginning after September 30, 2009 that each of the following tests are met:

distributions of available cash from operating surplus on each of the outstanding common units and subordinated units for the three consecutive four-quarter periods immediately preceding that date equaled or exceeded the minimum quarterly distribution;

the adjusted operating surplus (as defined below) generated during the three consecutive four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units and the related distribution on the 2% general partner interest; and

25

Table of Contents

there are no arrearages in payment of the minimum quarterly distribution on the common units.

In addition, if the unitholders remove our general partner other than for cause and units held by our general partner and its affiliates are not voted in favor of that removal:

the subordination period will end and each subordinated unit will immediately convert into one common unit;

any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and

our general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests.

Early Conversion of Subordinated Units. If the tests for ending the subordination period are satisfied for any three consecutive four-quarter periods ending on or after September 30, 2007, 25% of the subordinated units will convert into an equal number of common units. Similarly, if those tests are also satisfied for any three consecutive four-quarter periods ending on or after September 30, 2008, an additional 25% of the subordinated units will convert into an equal number of common units. The second early conversion of subordinated units may not occur, however, until at least one year following the end of the period for the first early conversion of subordinated units.

Adjusted Operating Surplus. Adjusted operating surplus is a measure that we use to determine the operating surplus that is actually earned in a test period by excluding items from prior periods that affect operating surplus in the test period. Adjusted operating surplus consists of:

operating surplus generated with respect to that period; less

any net increase in working capital borrowings with respect to that period but only to the extent that outstanding working capital borrowings exceed $5.0 million as a result of such increase; less

any net decrease in cash reserves for operating expenditures with respect to that period not relating to an operating expenditure made with respect to that period; less

the amount, if any, by which the aggregate principal amount withdrawn from merchandise trusts with respect to that period exceeds the aggregate amount deposited into merchandise trusts with respect to that period; plus

any net decrease in working capital borrowings with respect to that period but only to the extent that such decrease would reduce outstanding working capital borrowings to an amount not less than $5.0 million; plus

any net increase in cash reserves for operating expenditures with respect to that period required by any debt instrument for the repayment of principal, interest or premium; plus

the amount, if any, by which the aggregate amount deposited into merchandise trusts with respect to that period exceeds the aggregate principal amount withdrawn from merchandise trusts with respect to that period.

The limitations on the effect of net increases and net decreases in working capital borrowings set forth in the second and fifth bullet points above will become inoperative and have no further effect with respect to any period ending after September 30, 2006.

Adjustment of Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, we will proportionately adjust:

the minimum quarterly distribution;

Table of Contents

the target distribution levels;

the unrecovered initial unit price;

the number of common units issuable during the subordination period without a unitholder vote; and

the number of common units into which a subordinated unit is convertible.

For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level, the number of common units issuable during the subordination period without a unitholder vote would double and each subordinated unit would be convertible into two common units. We will not make any adjustment by reason of the issuance of additional units for cash or property.

In addition, if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, we will reduce the minimum quarterly distribution and the target distribution levels for each quarter by multiplying each distribution level by a fraction, the numerator of which is available cash for that quarter and the denominator of which is the sum of available cash for that quarter plus our general partner s estimate of our aggregate liability for the income taxes payable by reason of that legislation or interpretation. To the extent that the actual tax liability differs from the estimated tax liability for any quarter, the difference will be accounted for in subsequent quarters.

Distributions of Cash Upon Liquidation

If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to the unitholders and our general partner, in accordance with their respective capital account balances, as adjusted to reflect any taxable gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of taxable gain upon liquidation are intended, to the extent possible, to allow the holders of common units to receive proceeds equal to their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters prior to any allocation of gain to the common units. There may not be sufficient taxable gain upon our liquidation to enable the holders of common units to fully recover all of these amounts, even though there may be cash available for distribution to the holders of subordinated units. Any additional taxable gain will be allocated in a manner intended to allow our general partner to receive proceeds in respect of its incentive distribution rights.

If there are losses upon liquidation, they will first be allocated to the subordinated units and the general partner interest until the capital accounts of the subordinated units have been reduced to zero and then to the common units and the general partner interest until the capital accounts of the common units have been reduced to zero. Any remaining loss will be allocated to the general partner interest.

Equity Compensation Plan Information

See the equity compensation plan table set forth in Part III, Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Recent Sales of Unregistered Securities

In connection with our September 28, 2006 acquisition of 21 cemeteries and 14 funeral homes from Service Corporation International, we paid the sum of $5.9 million in cash and 275,046 common units representing $5.9 million in limited partner interests in us.

Table of Contents

Item 6. Selected Financial Data

On April 2, 2004, StoneMor was created to own and operate the cemetery and funeral home business conducted by Cornerstone. On September 20, 2004, in connection with StoneMor s initial public offering of common units, Cornerstone contributed to the Partnership substantially all of the assets, liabilities and businesses owned and operated by it, 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.

The following table presents selected financial and operating data of StoneMor s predecessor, Cornerstone, and of StoneMor for the periods and as of the dates indicated. The selected financial data for Cornerstone as of and for the years ended December 31, 2002 and 2003 are derived from the audited consolidated financial statements of Cornerstone. The selected financial data as of and for the year ended December 31, 2004, are derived from the audited consolidated financial statements of StoneMor, which comprise the operations of StoneMor from September 20, 2004 to December 31, 2004 and Cornerstone for the period January 1, 2004 to September 19, 2004, and the selected financial data as of and for the years ended December 31, 2005 and 2006 is derived from the audited consolidated financial statements of StoneMor.

The following table should be read together with, and is qualified in its entirety by reference to, the audited financial statements and the accompanying notes included in Item 8 of this Annual Report on Form 10-K. The table should also be read together with Management s Discussion and Analysis of Financial Condition and Results of Operation included in Item 7 of this Annual Report on Form 10-K.

	Cornerstone Family Services, Inc. (1)			StoneMor Partners L.P. (1)	
	Year Ended December 31,				
	2002	2003	2004	2005 (as restated (11))	2006
Statement of Operations Data:					
Cemetery revenues	$ 74,168	$ 77,978	$ 87,305	$ 97,862	$ 108,995
Funeral home revenues	1,360	1,724	1,953	2,798	6,118
Total Revenues	75,528	79,702	89,258	100,660	115,113
Cost of goods sold (exclusive of depreciation shown seperately below):					
Land and crypts	5,948	4,346	4,539	5,860	5,287
Perpetual care	2,434	2,585	2,692	2,575	3,109
Merchandise	3,634	3,123	5,143	5,463	6,296
Selling expense	15,413	15,584	19,158	20,072	23,186
Cemetery expense	17,191	17,732	19,648	20,942	24,344
General and administrative expense	9,020	9,407	9,797	10,553	12,801
Overhead (including $1,178 of stock-based compensation in 2003, $433 in 2004 and $1,212 in 2006) (2)	12,544	12,672	12,658	16,304	19,795
Depreciation and amortization	4,893	5,001	4,547	3,510	3,501
Funeral home expense	1,343	1,513	1,712	2,382	4,836
Total costs and expenses	72,420	71,963	79,894	87,661	103,155
Operating profit	3,108	7,739	9,364	12,999	11,958
Expenses related to terminated debt offering and refinancing (3)			4,200		
Interest expense	14,828	11,376	9,480	6,457	7,491
Income (loss) before income taxes and cumulative effect of change in accounting principle	(11,720)	(3,637)	(4,316)	6,542	4,467
Income taxes (benefit)					
State	(178)	1,362	663	587	438
Federal	(1,453)	1,010	(1,141)	1,250	989
Total income taxes (benefit)	(1,631)	2,372	(478)	1,837	1,427
Income (loss) before cumulative effect of change in accounting principle	(10,089)	(6,009)	(3,838)	4,705	3,040

Cumulative effect of change in accounting principle (4)	5,934				
Net Income (loss)	$ (4,155)	$ (6,009)	$ (3,838)	$ 4,705	$ 3,040

Table of Contents

	Cornerstone Family Services, Inc. (1)			StoneMor Partners L.P. (1)	
	Year Ended December 31,				
	2002	2003	2004	2005	2006
				(as restated (11))	
Net income per limited partner (common) unit (basic and diluted) (5)			$ .27	$ .54	$ .34
Balance Sheet Data (at period end):					
Cemetery property	$ 153,413	$ 151,200	$ 150,215	$ 164,772	$ 171,714
Total assets (6)	377,720	381,230	523,092	550,641	627,026
Deferred cemetery revenues, net (7)	125,007	140,778	156,051	167,035	196,103
Total debt	134,732	130,708	80,000	86,945	103,492
Redeemable preferred stock (par value $0.01, 12,764 and 15,514 shares issued and outstanding at December 31, 2002 and 2003, respectively)(8)	12,764	15,514			
Total stockholders / partners equity	48,920	41,980	115,317	109,600	101,288
Cash Flow Data:					
Net cash provided by (used in):					
Operating activities	$ 11,042	$ 7,146	$ 7,485	$ 17,589	$ 18,339
Investing activities	(8,913)	(3,129)	(5,887)	(15,286)	(14,625)
Financing activities	1,258	(4,022)	7,321	(9,852)	(725)
Other Financial Data:					
Change in assets and liabilities that provided (used) cash:					
Merchandise trusts receivable	$ 594	$ (128)	$	$	$
Due from merchandise trust	(1,379)	(170)			
Merchandise trusts			(1,333)	10,473	(3,517)
Merchandise liability	(3,427)	(3,224)	(7,397)	(7,224)	(8,109)
Capital expenditures:					
Maintenance capital expenditures	3,378	1,184	2,620	2,192	2,059
Expansion capital expenditures, including acquisitions and dispositions	5,535	1,945	3,267	18,851	20,313
Distributions declared per common unit in respect of the period			0.5128	1.8625	1.9500
Operating Data:					
Interments performed	22,693	22,281	22,114	22,263	26,003
Cemetery revenues per interment performed (9)	$ 3,215	$ 3,500	$ 3,948	$ 4,396	$ 4,192
Interment rights sold (10):					
Lots (9)	11,933	12,442	12,136	12,758	13,769
Mausoleum crypts (including pre-construction)	2,271	2,314	2,224	2,163	2,361
Niches	436	445	442	409	440
Total interment rights sold (9)(10)	14,640	15,201	14,802	15,330	16,570
Cemetery revenues per interment right sold (9)(10)	$ 4,984	$ 5,130	$ 5,889	$ 6,384	$ 6,578
Number of contracts written	51,012	47,939	46,149	46,510	54,675
Aggregate contract amount, in thousands (excluding interest)	$ 89,106	$ 90,551	$ 91,983	$ 96,642	$ 116,407
Average amount per contract (excluding interest)	$ 1,747	$ 1,889	$ 1,993	$ 2,078	$ 2,129
Number of pre-need contracts written	23,194	22,276	21,079	21,306	24,999
Aggregate pre-need contract amount, in thousands (excluding interest)	$ 59,177	$ 60,854	$ 60,040	$ 63,415	$ 74,301
Average amount per pre-need contract (excluding interest)	$ 2,551	$ 2,732	$ 2,848	$ 2,976	$ 2,972
Number of at-need contracts written	27,818	25,663	25,070	25,204	29,676
Aggregate at-need contract amount, in thousands	$ 29,928	$ 29,698	$ 31,943	$ 33,227	$ 42,106
Average amount per at-need contract	$ 1,076	$ 1,157	$ 1,274	$ 1,318	$ 1,419

(1) Includes results of operations of cemeteries that we operate under management agreements with the cemetery associations that own them. Prior to September 2004 we operated 12 cemeteries under management agreements and have subsequently converted five of these cemetery associations (one in September 2004 and 4 in April 2005) into for-profit entities owned by us and ceased operating these cemeteries under management agreements.

(2) Includes write-off of $1.3 million of expenses in 2002 and $715,000 in 2003 incurred in connection with a potential acquisition of a group of cemeteries in Michigan that we determined would be unlikely to take place. Also includes $1.7

29

Table of Contents

million in bonuses in 2003, $1.5 million in bonuses in 2004, $2.0 million in bonuses in 2006, an annual payment of $0.4 million to $0.8 million in management fees to MDC Management Company IV, LLC from 2001 to 2004, and $1.2 million of stock-based compensation in 2003, $0.4 million of stock based compensation in 2004 and $1.2 million of stock based compensation in 2006, and $883,000 in reserves for the write-off of our investment in a management agreement at one of our locations that was terminated subsequent to year-end 2006.

(3) In 2004 represents expenses incurred in connection with the refinancing of our debt in connection with our initial public offering in September 2004. These expenses include a $3.9 million write-off of debt issuance costs and $0.3 million of expenses related to early extinguishment of debt.

(4) In 2002, represents negative goodwill recorded as a result of the implementation of SFAS Nos. 141 and 142.

(5) In 2004 represents the net income per common unit (basic and diluted) from September 20, 2004, the date of our initial public offering, through December 31, 2004.

(6) Includes principal of perpetual care and merchandise trusts stated on our balance sheet at fair value as of December 31, 2004 in accordance with FASB Interpretation No. 46 and No. 46 revised, *Consolidation of Variable Interest Entities: an Interpretation of Accounting Research Bulletin No. 51*, which we adopted as of March 31, 2004. In previous periods, includes principal held in merchandise trusts stated on our balance sheets at cost and does not include perpetual care trust principal in accordance with then industry practice.

(7) Represents revenues to be recognized from sales of pre-need products and services and the related income and capital gains on merchandise trusts. We recognize revenues from sales of pre-need interment rights to constructed mausoleums when we have collected at least 10% of the sales price. We defer recognition of revenues from sales of pre-need interment rights to unconstructed mausoleums until we have collected at least 10% of the sales price, at which point we recognize revenues on the percentage-of-completion basis. We recognize revenues from sales of pre-need merchandise and services, other than perpetual care services, when we satisfy the criteria for delivery of the merchandise to the customer or perform the services for the customer. At that time, we also recognize the related income and capital gains from merchandise trusts. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Cemetery Operations Sources of Revenues and Trusting.

(8) Represents shares of preferred stock issued to the McCown De Leeuw funds and members of management that were converted into Class A membership interests of CFSI LLC prior to our initial public offering.

(9) Excludes in 2002 the sale of a tract of developed land equivalent to 9,600 burial lots to a municipality in Pennsylvania for $1.2 million and in 2005 the sale of a tract of land equivalent to 1,881 burial lots to a municipality in New Jersey for $1.7 million.

(10) Net of cancellations. Counts the sale of a double-depth burial lot as the sale of two interment rights.

(11) See Note 2 to the consolidated financial statements.

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and notes thereto included in Item 8 of this Annual Report on Form 10-K. Those notes also give more detailed information regarding the basis of presentation for the following information.

The following management s discussion and analysis reflects the restatement discussed in Note 2 to the accompanying financial statements.

Forward-Looking Statements

Certain statements contained in this annual report, including, but not limited to, information regarding the status and progress of the Company s operating activities, the plans and objectives of the Company s management, assumptions regarding the Company s 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, continues, anticipate, intend, project, expect, anticipate, predict, and similar expressions ident 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 impact of the Company s significant leverage on its operating plans; the ability of the Company to service its debt; 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; variances in death rates; variances in the use of cremation; changes in the 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 acquisition of assets from Service Corporation International and various other uncertainties associated with the deathcare industry and the Company s operations in particular.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth under Risk Factors in Part 1, Item 1A and Regulatory and Legal Risks . We assume no obligation to publicly 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.

Overview

On April 2, 2004, StoneMor was created to own and operate the cemetery and funeral home business conducted by Cornerstone. On September 20, 2004, in connection with the initial public offering by the Partnership of common units representing limited partner interests, Cornerstone contributed to the Partnership substantially all of the assets, liabilities and businesses owned and operated by it, 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 the Partnership.

Cornerstone was 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.

As of December 31, 2006, the Company operated 177 cemeteries in 21 states, located primarily in the eastern United States. The Company owns 170 of these cemeteries and operates the remaining 7 under long-term management agreements with cemetery associations that own the cemeteries. As a result of the agreements and other control arrangements, we consolidate the results of the 7 managed cemeteries in our historical consolidated financial statements. We also own and operate 27 funeral homes in 9 states.

Table of Contents

StoneMor sells cemetery products and services both at the time of death, which the Company refers to as at-need, and prior to the time of death, which the Company refers to as pre-need. During the year ended December 31, 2006, StoneMor performed over 26,000 burials and sold more then 21,100 interment rights (net of cancellations) compared to 22,300 and 18,500, respectively for the same period of 2005.

Initial Public Offering. On September 20, 2004, StoneMor completed its initial public offering of 3,675,000 common units at a price of $20.50 per unit representing 42.5% interest in us. On September 22, 2004, StoneMor 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, making a total of 4,239,782 common units outstanding. Total gross proceeds from these sales were $86.6 million, before offering costs and underwriting discounts. The net proceeds to the Partnership, after deducting underwriting discounts but before paying offering costs, from these sales of common units was $80.8 million. . As described in the partnership agreement, during the subordination period the subordinated units are not entitled to receive any distributions until the common units have received their minimum quarterly distribution plus any arrearages from prior quarters. The subordination period will end once the partnership meets certain financial tests described in the partnership agreement, but it generally cannot end before September 30, 2009. When the subordination period ends, all subordinated units will convert into common units on a one-for-one basis, and the common units will no longer be entitled to arrearages. If the partnership meets certain financial tests described in the partnership agreement, 25% of the subordinated units can convert into common units on or after September 30, 2007 and an additional 25% can convert into common units on or after September 30, 2008. Concurrent with the initial public offering, the Partnership s wholly owned subsidiary, StoneMor Operating LLC and its subsidiaries (collectively StoneMor LLC), all as borrowers, issued new 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 and $15.7 million of fees and expenses associated with the initial public offering and the sale of senior secured notes. The remaining funds were reserved for general partnership purposes, including the construction of mausoleum crypts and lawn crypts and the purchases of equipment needed to install burial vaults. One-half of the net proceeds of the sale of common units upon the exercise of the over-allotment option was used to redeem an equal number of common units from CFSI LLC, and one-half has been reserved for general Partnership purposes. The proceeds received by the Partnership and its subsidiaries from the sales of common units and senior secured notes and the use of these proceeds is summarized as follows (in thousands):

Proceeds received:	
Sale of 4,226,250 common units at $20.50 per unit	$ 86,638
Issuance of senior secured notes	80,000
Total proceeds received	$ 166,638
Use of proceeds from sale of common units	
Underwriting discount	$ 5,849
Professional fees and other offering costs	9,542
Repayment of debt and accrued interest	56,361
Redemption of 551,250 units from CFSI LLC	5,255
Construction of mausoleum and lawn crypts, purchase of burial vault installation equipment, and reorganization taxes	5,098
Acquisition of cemetery and funeral home locations	4,533
Total use of proceeds from the sale of common units	$ 86,638
Use of proceeds from the issuance of senior secured notes	
Debt issuance costs	$ 1,076
Other related costs	215
Repayment of debt	78,709
Total use of proceeds from the issuance of senior secured notes	80,000
Total use of proceeds	$ 166,638

Table of Contents

Cemetery Operations

Sources of Revenues. Our results of 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 revenues primarily from:

- at-need sales of cemetery interment rights, merchandise and services, which we recognize as revenues at the time of sale;
- 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;
- accumulated merchandise trust earnings related to the delivery of pre-need cemetery merchandise and the performance of pre-need cemetery services, which we recognize as revenues when we deliver the merchandise or perform the services;
- 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.

Revenues from pre-need sales of cemetery merchandise and the related accumulated merchandise trust earnings are deferred until the merchandise is delivered to the customer, which generally means that:

- the merchandise is complete and ready for installation or, in the case of merchandise other than burial vaults, storage on third-party premises;
- 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, except as described below; 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.

Deferred Cemetery Revenues, Net. Deferred revenues from pre-need sales and related merchandise trust earnings are reflected on our balance sheet in deferred cemetery revenues, net, until we recognize the amounts as revenues. 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. These entities include those that we acquired at the time of the formation of Cornerstone and other entities we subsequently acquired. We recognize revenues from these acquired

pre-need sales in the manner described above that is, when we deliver the merchandise to, or perform the services for, the customer. Our profit margin on these pre-need sales 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 those sales. We recognize certain expenses, such as indirect selling costs, maintenance costs and general and administrative costs, at the time the pre-need sale is made and defer other expenses, such as direct selling costs and costs of goods sold, until we recognize revenues on the sale. As a result, our profit margin on current pre-need sales is generally higher than on the pre-need sales we acquired.

Table of Contents

Revenues by State. The following table shows the percentage of revenues attributable to each of the states in which we operate for the periods presented:

	Year Ended December 31,		
	2004	2005	2006
Pennsylvania	30.3%	29.3%	29.0%
New Jersey	15.2%	18.1%	15.9%
Virginia	19.5%	16.0%	15.4%
West Virginia	13.8%	14.4%	11.0%
Maryland	11.7%	12.8%	10.9%
Ohio	5.2%	5.2%	5.8%
North Carolina	0.0%	0.4%	5.5%
Alabama	1.2%	0.8%	1.9%
Georgia	0.1%	0.2%	1.8%
Tennessee	1.9%	1.8%	0.9%
Missouri	0.0%	0.0%	0.3%
Oregon	0.0%	0.0%	0.3%
Connecticut	0.5%	0.6%	0.3%
Kansas	0.0%	0.0%	0.2%
Michigan	0.0%	0.0%	0.2%
Delaware	0.3%	0.2%	0.2%
Rhode Island	0.3%	0.2%	0.2%
Illinois	0.0%	0.0%	0.1%
Kentucky	0.0%	0.0%	0.1%
Colorado	0.0%	0.0%	0.0%
Washington	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

Table of Contents

Principal Products and Services. The following table shows the percentage of revenues attributable to our principal products, services and other items during the periods presented:

	Year Ended December 31,		
	2004	2005	2006
Pre-need sales:			
Burial lots	6.7%	7.4%	7.5%
Mausoleum crypts	7.5%	9.4%	8.1%
Markers	7.4%	6.1%	5.1%
Grave marker bases	2.2%	2.0%	1.6%
Burial vaults	5.1%	4.8%	6.3%
Lawn crypts	0.6%	0.5%	0.2%
Caskets	5.7%	7.0%	3.9%
Initial openings and closings (1)	5.9%	5.3%	7.1%
Other (2)	2.5%	2.5%	3.1%
Total pre-need sales	43.6%	45.0%	42.9%
Interest from pre-need installment contracts	4.7%	3.8%	3.6%
Investment income from trusts:			
Perpetual care trusts	8.1%	7.7%	8.3%
Merchandise trusts	5.6%	6.4%	5.2%
Total investment income from trusts	13.7%	14.1%	13.5%
At-need sales:			
Openings and closings (3)	13.4%	12.3%	12.9%
Markers	7.5%	7.2%	8.1%
Burial lots	3.1%	2.9%	3.3%
Mausoleum crypts	2.0%	1.8%	1.6%
Grave marker bases	2.5%	2.4%	2.5%
Foundations and inscriptions (4)	1.6%	1.5%	1.5%
Burial vaults	1.3%	1.3%	1.3%
Other (5)	1.3%	1.3%	1.5%
Total at-need sales	32.7%	30.7%	32.7%
Funeral home revenues	2.2%	2.8%	5.3%
Other revenues (6)	3.1%	3.6%	2.0%
Total revenues	100.0%	100.0%	100.0%

(1) Installation of the burial vault into the ground.
(2) Includes revenues from niches, mausoleum lights, cremations, pet cemeteries, installation of burial vaults and markers sold to our customers by third parties and pre-need sales made in connection with the relocation of other cemetery interment rights. Also includes document processing fees on pre-need contracts and fees from sales of travel care protection, which covers shipping costs of a body if death occurs more than 100 miles from the place of residence.
(3) Installation of the burial vault into the ground and the placement of the casket into the vault.
(4) Installation of the marker on the ground and its inscription.
(5) Includes revenues from lawn crypts, decorative lights installed on mausoleum crypts, installations of burial vaults and markers sold to our customers by third parties and cremation fees. Also includes document-processing fees on at-need contracts.

(6) Includes sales of manufactured burial vaults to third parties, sales of cemetery and undeveloped land, commissions from sales of pre-need funeral policies and death benefit policies provided through a third-party insurance provider and other miscellaneous revenue.

Table of Contents

Pre-need Sales. Pre-need products and services are typically sold on an installment basis with terms ranging from 12 months to 84 months, with an average of 37 months. Our pre-need contracts are subject to cooling-off periods, generally between three and thirty days, required by state law during which the customer may elect to cancel the contract and receive a full refund of amounts paid. Subject to applicable state law, if customers cancel after the cooling-off period, we are generally permitted to retain the amounts already paid on contracts, including any amounts that were required to be deposited into trust. Historically, our customers have cancelled contracts representing approximately 10% of our pre-need sales (based on contract dollar amounts) after the cooling-off period. 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 becomes immediately due and must be paid in cash.

Approximately 54% of our pre-need sales contracts do not bear interest. Historically, we did not charge interest on pre-need sales contracts having a term of 12 months or less, and during 2005, we did not charge interest on contracts with a term of 24 months or less. In those cases, interest is imputed at varying market rates, currently 8.75%. The interest rates on our interest-bearing pre-need contracts range from 6% to 13%, with a weighted average interest rate of 7%. We 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. Interest income from pre-need sales, including imputed interest, accounted for 3.3% of our 2006 revenues.

Trusting. We are generally required by state law to place a portion of the sales price of cemetery interment rights, whether at-need or pre-need, into a perpetual care trust to maintain the cemetery property in perpetuity. The amount that we are required to deposit into a perpetual care trust varies from state to state but is generally 10% to 15% of the sales price of the interment right. As payments are received from the customer, we deposit a pro rata amount of the payment into a perpetual care trust. For example, if we receive a payment of 20% of the sales price from the customer, we would deposit into the perpetual care trust 20% of the total amount required to be placed into trust for that sale.

Under the state laws that require the creation of the perpetual care trusts, we are not permitted to withdraw the trust principal, and our creditors and customers have no right to make claim to the funds deposited into these trusts. Amounts held in these perpetual care trusts are invested by third-party investment managers as discussed in more detail below. As a result, we do not possess legal title to the trust principal in these perpetual care trusts; however, in accordance with current industry practice, amounts deposited into perpetual care trusts are reflected at fair market value on the asset portion of our balance sheet as of December 31, 2006 as an asset entitled perpetual care trusts, restricted, at fair value, and an equal amount is reflected on the liabilities, preferred stock and common stockholders equity portion of our balance sheet as an item entitled non-controlling interest in perpetual care trusts. For periods ending before March 31, 2004, we did not include perpetual care trust principal on our balance sheet in accordance with prior industry practice. We recognize income from perpetual care trusts in our revenues as it is earned in the trust, regardless of when we withdraw it. We are permitted under state law to withdraw the investment income, such as interest and dividends, but not the capital gains, from perpetual care trusts, generally on a monthly basis. To maximize the income generated by perpetual care trusts, we have established investment guidelines for the third-party investment managers so that substantially all of the funds held in perpetual care trusts are invested in intermediate-term, investment-grade, fixed-income securities, high-yield fixed-income securities and real estate investment trusts. We are required to use all amounts withdrawn from perpetual care trusts for cemetery maintenance and administration.

We are generally required by state law to deposit a portion of the sales price of pre-need cemetery merchandise and services, or the estimated current cost of providing that merchandise and those services, into a merchandise trust to ensure that we will have sufficient funds in the future to purchase the merchandise or perform the services. The amount we are required to deposit into a merchandise trust varies from state to state but is generally 40% to 70% of the sales price of the merchandise or services. As payments are received from the

Table of Contents

customer, we deposit a pro rata amount of the payment into the merchandise trust. For example, if we receive a payment of 20% of the sales price from the customer, we would deposit into the merchandise trust 20% of the total amount required to be placed into trust for the merchandise and services sold.

Under the state laws that require the creation of the merchandise trusts, we are not permitted to withdraw the trust principal, except as described below, and our creditors and customers have no right to make claim to the funds deposited into these trusts. Amounts held in these merchandise trusts are invested by third-party investment managers as discussed in more detail below. As a result, we do not possess legal title to the trust principal in these merchandise trusts; however, in accordance with current industry practice, amounts deposited into merchandise trusts are reflected at fair value on our balance sheet as of December 31, 2006 as an asset called merchandise trusts, restricted, at fair value . For periods ending prior to March 31, 2004, amounts deposited into merchandise trust were reflected at cost on our balance sheet as an asset called due from merchandise trust , in accordance with prior industry practice. Earnings on funds held in merchandise trusts, including investment income and capital gains, are included separately on our balance sheet in deferred cemetery revenues, net. These amounts remain on our balance sheet until we recognize them as revenues. We recognize amounts withdrawn from merchandise trusts, including principal, as revenues when we satisfy the criteria for delivery of the related merchandise or perform the related services.

We are permitted to withdraw the investment income, such as interest and dividends, as well as capital gains, from merchandise trusts at varying times depending on the applicable state law. In most states, we are permitted to make monthly withdrawals of investment income, but in other states we are permitted to withdraw income less frequently or only upon death. In all states, however, we are permitted to withdraw trust principal and earnings to purchase the merchandise or perform the services or, generally, when the customer cancels the contract. We invest the amounts deposited into merchandise trusts, within specified investment guidelines, primarily in intermediate-term, investment-grade fixed-income securities, high-yield fixed-income securities, real estate investment trusts and, to a lesser extent, equity securities and cash.

The income earned on funds held in perpetual care trusts and merchandise trusts can be materially affected by fluctuations in interest rates and, in the case of merchandise trusts, by the performance of the stock market to the extent that the funds held in merchandise trusts are invested in equity securities. Earnings on merchandise and perpetual care trusts that we recognized as revenues accounted for 13.6% of our 2006 revenue. During 2004, 2005 and 2006 our average annual rates of return from realized earnings on funds held in merchandise trusts were 9.0%, 7.1% and 7.6%, respectively, and our average annual rates of return from realized earnings on funds held in perpetual care trusts were 6.1%, 6.0% and 6.3%, respectively. We cannot assure you, however, that that we will continue to be successful in achieving any particular return in the future.

Amounts held in trusts are invested by third-party investment managers who are selected by the Trust and Compliance Committee of our board of directors. These investment managers are required to invest our trust funds in accordance with applicable state law and internal investment guidelines adopted by our Trust and Compliance Committee. Our investment managers are monitored by third-party investment advisors selected by our Trust and Compliance Committee who advise the Committee on the determination of asset allocations, evaluate the investment managers and provide detailed monthly reports on the performance of each merchandise and perpetual care trust.

Unrealized gains and losses in merchandise trusts have no immediate impact on our revenues, earnings or cash flow unless the fair market value of the funds declines below the estimated costs to deliver the related products and services, in which case we would be required to record a current charge to earnings equal to the difference between the fair market value of the funds and the estimated costs. Over time, gains and losses realized in merchandise trusts are allocated to the underlying pre-need contracts and affect the amount of trust earnings to be recognized as revenues when we deliver the related products or perform the related services. As of December 31, 2006, the aggregate fair market value of funds held in merchandise trusts exceeded our costs to purchase the related products and perform the related services by $102.0 million.

Table of Contents

At the time we enter into a pre-need contract, we determine both the amount required to be deposited into a merchandise trust and our cost to purchase the related products and perform the related services. We determine the amount required to be deposited into a merchandise trust based on applicable state law. We determine our cost to purchase a product using the actual current cost of the product as indicated on the price list from the manufacturer at the time we enter into the pre-need contract. We determine our cost to perform a service based on the current cost of the labor necessary to perform the service at the time we enter into the pre-need contract. We are able to control the cost of the vaults we are required to purchase by manufacturing most of those vaults. We are also able to control the cost to perform services, such as openings and closings, by purchasing the necessary equipment and using our employees to perform these services for us.

Our cost to purchase any product or to perform any service is generally less than 30% of the retail price of such product or service. The retail price is the price at which we sell the product or service to our customers. Because each state in which we operate requires us to deposit into a merchandise trust an amount equal to at least 30% of the retail price (and usually a greater percentage) of the related products and services, our cost to purchase these products and perform those services is generally less than the amount required to be deposited in trust.

As of December 31, 2006, approximately 44.7% of the fair market value of the amounts held in merchandise trusts was invested in fixed-income securities to ensure that the market value of those funds will be sufficient to cover our cost to purchase the related products and perform the related services at the time of purchase and performance.

Some states impose additional restrictions on our ability to withdraw merchandise trust earnings if those trusts have realized losses. For example, if a Pennsylvania merchandise trust realizes a loss, the trust is required to recover the amount of the realized loss, either by earning income or generating capital gains, before we are allowed to withdraw earnings, except to purchase the related products or perform the related services. Other states, such as Virginia, permit continued withdrawals of merchandise trust earnings following a realized loss so long as the fair market value of the funds held in trust equals or exceeds the cost of the related products and services.

Cash Flow. The impact of pre-need sales on near-term cash flow depends primarily on the commissions paid on the sale, the portion of the sales price required to be deposited into trust and the terms of the particular contract, such as the amount of the required down payment, the products purchased and the length of the contract. Customers are required to make a down payment on a pre-need contract of at least 5% of the total sales price, with the average down payment equal to 12.5% of the total sales price. When we receive a payment from a customer on a pre-need contract, we first deposit the requisite portion into trust as required by state law. Then, we pay all or a portion of the commission due to the salesperson responsible for the sale. We generally pay commissions to our pre-need sales personnel based on a percentage, usually 8% to 24%, of the total sales price, but only to the extent that cash is received from the customer. If the down payment received from the customer is not sufficient to cover the entire commission, the remaining commission is paid from subsequent installments, but only to the extent of 80% of the cash received from the customer in each installment. Because we are required to deposit a portion of each installment into trust, we are usually required to use our own cash to cover a portion of the commission due to the salesperson. Accordingly, pre-need sales are generally cash flow negative initially but become cash flow positive at varying times over the life of the contract, generally six to seven months after the down payment is made, depending upon the trust requirements, the terms of the particular contract, the sales commission paid and the timing of delivery or performance of the related products and services.

For example, on a pre-need contract with a total sales price of $1,000, a 10% down payment, a 40% perpetual care and merchandise trusting requirement, a 15% sales commission and a one-year term without interest, our short-term cash flow would be as follows:

When we receive the $100 down payment from the customer, we would deposit 40% of the payment, or $40 in trust and pay 100% of the commission due to the salesperson, or $150, but only to the extent

Table of Contents

that we received cash from the customer, or $100. Our total cash obligations would be $140 even though we only received $100 from the customer. We would use $40 of our operating cash to pay the sales commission and, at this time, would be cash flow negative on the contract.

In month one, when we receive the first $75 installment from the customer, we would deposit 40%, or $30, into trust and pay 100% of the balance of the commission due to the sales person, or $50. Our total cash obligations would be $80 even though we only received $75 from the customer. We would use $5 of our operating cash to pay sales commission and would still be cash flow negative on the contract.

In month two, when we receive the next $75 installment from the customer, we would deposit 40%, or $30, into trust, but we would have no further commission due on the sale. The remaining $45 received from the customer would go back into our operating cash, and we would break even on the contract on a cash-flow basis.

In month three, when we receive the next $75 installment from the customer, we would deposit 40%, or $30, into trust and the remaining $45 would go back into our operating cash. In this month, we would become cash flow positive on the contract.

We can enhance our operating cash flow by purchasing and delivering many of our products in advance of the time of customer need, either by installing them in the customer s burial space (in the case of burial vaults) or storing them for the customer, and by performing certain services prior to the time of need. For example, within the allowances of state law, we purchase burial vaults, grave markers and caskets, and perform initial openings and closings to install the burial vault in the ground before the time of need. When we satisfy the criteria for delivery of pre-need products or perform pre-need services, we are permitted to withdraw the related principal and any income and capital gains that we have not already withdrawn from the merchandise trust, and we recognize the amounts withdrawn, including amounts previously withdrawn, as revenues. Advance purchasing helps us avoid the negative cash flow impact of depositing significant portions of our sales proceeds in trusts while earning rates on those trusts that are currently less than interest rates we pay on our debt. To the extent that we can purchase and deliver products and perform services in advance of the time of need, we can accelerate, within the limitations of GAAP, the timing of our revenue recognition for these products and services. As a result, decisions made by our management to purchase and deliver products or perform services in advance, for cash flow or other reasons, affects the timing of revenue recognition from the underlying sales.

In 1999 and 2000, the rates of return on funds held in merchandise and perpetual care trusts generally exceeded the interest rates on our outstanding debt. We focused on increasing our assets by holding the funds deposited in merchandise and perpetual care trusts until the time of need and borrowing under our credit facility any cash needed for our operations. In 2001, however, market conditions changed, and the interest rates on our outstanding debt generally exceeded our rates of return on funds held in merchandise and perpetual care trusts. We began to consider alternative methods for increasing our cash flow in response to these declining rates of return. By 2003, we had adjusted our cash flow management to accelerate the withdrawal of funds from merchandise trusts, within the limitations of applicable state law, and to purchase and deliver pre-need products and perform pre-need services in advance of the time of need. We used the amounts withdrawn from merchandise trusts, after deducting our costs to purchase the related products and perform the related services, to service our outstanding debt and operate our business. The availability of these withdrawn funds for our operations reduced the amount of additional borrowings we otherwise would have been required to make under our credit facility, and we did not incur the interest expense that would have been associated with those borrowings.

We are somewhat limited, however, in our ability to purchase some products in advance of the time of need because of their availability. Given our large volume of pre-need sales, it is unlikely that our suppliers could provide, or we could manufacture, all of the products included in our pre-need backlog at any given time. For example, we generally need over 20,000 vaults per year to fulfill our pre-need contract obligations, of which we manufacture approximately 18,000 at our plant. We must purchase any excess from third party suppliers who must also meet the demands of other cemetery operators.

Table of Contents

We currently purchase burial vaults from third-party providers to assist us in meeting the demands of our accelerated purchase and delivery program. We are also limited in our ability to perform certain services in advance of the time of need because of their nature or our resources. For example, we cannot perform the final opening and closing, which is the placing of the casket into the ground, or inscribe the date of death on the monument or marker until the time of need. Even if we chose to perform all of the services in our pre-need backlog that could be performed in advance of need, such as installing all of the burial vaults in our pre-need backlog, we would not currently have the labor, equipment or other resources to perform all of those services in a short period of time.

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. Then we pay commissions, which are usually equal to 5% of the total sales price, to our sales personnel. We are not required to deposit any amounts from our at-need sales into merchandise trusts.

Expenses. Our primary variable operating costs are cost of goods sold and selling expenses. Cost of goods sold reflects the actual cost of purchasing products and performing services and averaged from 20% to 25% of the related sales price for the last three years. Selling expense consists of salesperson and sales management payroll costs, including selling commissions, bonuses and employee benefits, and other costs of obtaining product and service sales, such as advertising, marketing, postage and telephone. Selling expense also includes override commissions paid to our cemetery managers based on the volume of sales made for the cemeteries they manage. Override commissions are generally 4% to 6% of gross sales price and are payable weekly. Selling expense has historically averaged between 36% and 41% of product and service sales.

Additionally, we self-insure medical expenses of our employees up to certain individual and aggregate limits after which our insurer is responsible for additional medical expenses. Our self-insurance policy may result in variability in our future operating expenses.

In addition to our variable operating expenses, we incur fixed costs, primarily for cemetery expense, depreciation of property and equipment and general and administrative expense for our cemeteries. Cemetery expense represents the cost to maintain and repair our cemetery properties and consists 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. We depreciate our property and equipment on a straight-line basis over their estimated useful lives. General and administrative expense, which does not include corporate overhead, includes primarily insurance and other costs necessary to maintain our cemetery offices.

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.

Sales of cemetery lots and interment rights, whether at-need or pre-need, typically generate a higher profit margin than the other products and services we sell. This is primarily because our cost of goods sold is lower on these sales. When we purchase cemetery property, we allocate the purchase price to the property based on the number of burial lots. As we recognize revenues from sales of interment rights or land, we expense the cost of the associated lots as the cost of goods sold.

Outlook. We believe that in order to expand our cemetery operations, we must attract new customers, continue to attract and hire talented sales personnel and management and enhance our current marketing department to generate additional pre-need sales. Our principal target market is the 45-to 64-year-old category

Table of Contents

because this age group typically purchases pre-need products and services at a higher rate than younger age groups. This target age group is expected to experience a 2.6% compounded annual growth rate from 2000 to 2010, or approximately three times the annual growth rate for the public overall. We believe that the aging of the baby boom generation will more than offset the impact of increased life expectancy.

We believe that competition experienced by individual cemetery properties is generally limited to existing cemeteries within the same area. Competition from new entrants is minimized by the significant barriers to establishing a new cemetery in any particular location, including the availability of land, compliance with local regulatory requirements and the significant start-up capital costs, such as paving roads and installing sprinkler systems. Heritage and tradition also make it difficult to establish a new cemetery, as existing cemeteries have often served multiple generations of families and have developed strong family loyalty.

The death care industry is facing challenges, however, including an increasing trend toward cremation and difficulty in attracting and retaining high quality sales and management personnel to the industry.

On November 1, 2005, StoneMor acquired 22 cemeteries and six funeral homes from Service Corporation International (NYSE: SCI) for $12.93 million. StoneMor paid $7.03 million in cash and 280,952 StoneMor Limited Partner units, representing the additional $5.9 million. In addition, StoneMor will assume the merchandise and service liabilities associated with certain pre-arranged bonded contracts related to the properties. Additionally, on September 30, 2006 we completed the acquisition of 21 cemeteries and 14 funeral homes from Service Corporation International (NYSE: SCI) for $11.8 million. We paid $5.9 million in cash and 275,046 in Limited Partner units, representing the additional $5.9 million. We acquired two additional cemeteries during the fourth quarter of 2006 with an aggregate purchase price of approximately $1.3 million.

We intend to continue to expand our operations through accretive acquisitions of high-quality cemetery properties. However, our valuations of potential acquisitions of high-quality cemeteries may be below the current sellers expectations, which may make it more difficult for us to complete acquisitions of desired properties on terms acceptable to us, or at all. Furthermore, we are not permitted to make acquisitions for more than $2.5 million, or any series of acquisitions aggregating more than $20.0 million in any consecutive 12-month period, without the requisite consent of the lenders under our credit facility. In addition, we may face competition for future acquisitions because several large death care companies have recently announced their intention to resume some level of acquisition activity. When we acquire cemeteries that do not have an existing pre-need sales program or a significant amount of pre-need products and services that have been sold but not yet delivered or performed, the operation of the cemetery and implementation of a pre-need sales program after acquisition may require significant amounts of working capital. This may make it more difficult for us to make accretive acquisitions.

Funeral Home Operations

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 almost exclusively at the time of need utilizing salaried licensed funeral directors. In 2006, our funeral home revenues accounted for approximately 5.3% of our revenues. More than 1,330 funerals were performed at our funeral homes in 2006.

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. We do not report the results of our funeral home operations as a separate business segment.

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

Table of Contents

Other

Corporate Overhead. 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. During 2006, our expenses related to being a public company totaled $2.5 million of which, $0.9 million was related to costs of compliance with the Sarbanes-Oxley Act of 2002.

Consolidation. Our historical operations are part of a consolidated group for financial reporting purposes that includes the cemeteries we operate under long-term management contracts with the cemetery associations that own the cemetery properties. Prior to September 2004 we operated 12 cemeteries under management agreements and have subsequently converted five of these cemetery associations (one in September 2004 and 4 in April 2005) into for-profit entities owned by us and ceased operating these cemeteries under management agreements. Intercompany balances and transactions have been eliminated in consolidation

Income Taxes. Our historical financial statements include the effects of applicable U.S. federal and state income taxes in order to comply with GAAP. We are a limited partnership that has elected to be treated as a partnership for U.S. federal income tax purposes and therefore not be subject to U.S. federal or applicable state income taxes. See Material Tax Considerations included in our Registration Statement on Form S-3 (Registration No. 333-129916) filed with the SEC. In order to be treated as a partnership for federal income tax purposes, at least 90% of our gross income must be qualifying income, which includes income from the sale of real property, including burial lots (with and without installed vaults and grave marker bases), lawn and mausoleum crypts and cremation niches. Most of our activities that do not generate qualifying income, such as the sale of other cemetery products, the provision of perpetual care services, the operation of our managed cemeteries and all funeral home operations, will be owned by and conducted through these corporate subsidiaries, which will be subject to tax on their net taxable income. Dividends we receive from corporate subsidiaries will be qualifying income.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on the consolidated financial statements of Stonemor Partners L.P. We prepared these financial statements in conformity with GAAP. 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. We continue 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 consolidated financial statements.

Revenue Recognition. At-need sales of cemetery interment rights, merchandise and services and at-need sales of funeral home merchandise and services are recognized as revenues when the interment rights or merchandise is delivered or the 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. Revenues from pre-need sales of cemetery interment rights in unconstructed burial property, such as mausoleum crypts, are deferred until at least 10% of the sales price has been collected, at which time revenues are recognized using the percentage-of-completion method of accounting. The percentage-of-completion method of accounting requires us to estimate the percentage of completion as of the balance sheet date and future costs (including estimates for future inflation). Changes to our estimates of the percentage of completion or the related future costs would impact the amount of recognized and deferred revenues.

Table of Contents

Revenues from pre-need sales of cemetery merchandise and services are deferred until the merchandise is delivered or the services are performed. Investment earnings generated by funds that are required to be deposited into merchandise trusts, including realized gains and losses, in connection with pre-need sales of cemetery merchandise and services are deferred until the associated merchandise is delivered or the services are performed.

We defer recognition of the direct costs associated with pre-need sales of cemetery products and services. Direct costs are those costs that vary with and are directly related to obtaining new pre-need cemetery business and the actual cost of the products and services we sell. Direct costs are expensed when the related revenues are recognized.

Earnings from the perpetual care trusts are recognized, as earned, in cemetery revenues and are used to defray cemetery maintenance costs, which are expensed as incurred.

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. Because of 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.

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 record an impairment loss in the period when it is determined that the sum of future undiscounted cash flows is less than the carrying value of the asset. Modifications to our estimates could result in our recording impairment charges in future periods.

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 depreciated over the estimated useful life of the asset. We estimate that the useful lives of our buildings and improvements are 10 to 40 years, that the useful lives of our furniture and equipment are 5 to 10 years and that the useful lives of our leasehold improvements are the respective terms of the leases. These estimates could be impacted in the future by changes in market conditions or other factors.

Income Taxes. We make estimates and judgments to calculate some of our tax liabilities and determine the recoverability of some of our deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenues and expenses. We also estimate a reserve for deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized 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.

We expect to reduce the amount of our taxable income as a result of our treatment as a partnership for U.S. federal tax purposes. However, some of our operations will continue to be conducted through corporate subsidiaries that will be subject to applicable U.S. federal and state income taxes. Accordingly, changes in our income tax plans and estimates may impact our earnings in future periods.

Table of Contents

As of December 31, 2006 Stonemor Partners L.P., and its affiliated group of corporate subsidiaries had a consolidated federal net operating loss carryover of approximately $35.4 million and state net operating losses of approximately $46.0 million. The federal net operating losses will begin to expire in 2019 and the state net operating losses began to expire during 2006. These are available to reduce future taxable income of our taxable subsidiaries that would otherwise be subject to federal income taxes. 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. Although we do not anticipate that an ownership change will occur prior to December 31, 2008, we cannot assure you that such ownership change will not occur. If an ownership change should occur during this period, an increase in tax liabilities of our corporate subsidiaries could result, which would reduce the amount of cash available for distribution to unitholders. Furthermore, in order to avoid the consequences of an ownership change, we may refrain from making some acquisitions that we otherwise would finance at least in part with additional units or the proceeds of an offering of common units. As a result, we may be less able to implement our acquisition growth strategy during the next three years.

Results of Operations

The following table summarizes our results of operations for of the periods presented:

	Year Ended December 31,		
	2004	2005	2006
		(in thousands)	
Statement of Operations Data:			
Revenues:			
Cemetery	$ 87,305	$ 97,862	$ 108,995
Funeral home	1,953	2,798	6,118
Total	89,258	100,660	115,113
Costs and Expenses:			
Cost of goods sold:			
Land and crypts	4,539	5,860	5,287
Perpetual care	2,692	2,575	3,109
Merchandise	5,143	5,463	6,296
Cemetery expense	19,648	20,942	24,344
Selling expense	19,158	20,072	23,186
General and administrative expense	9,797	10,553	12,801
Corporate overhead	12,658	16,304	19,795
Depreciation and amortization	4,547	3,510	3,501
Funeral home expense	1,712	2,382	4,836
Expenses related to refinancing	4,200		
Interest expense	9,480	6,457	7,491
Income taxes (benefit)	(478)	1,837	1,427
Net (loss) income	$ (3,838)	$ 4,705	$ 3,040
Balance Sheet Data (as of period end):			
Deferred cemetery revenues, net	$ 156,051	$ 167,035	$ 196,103

Year Ended December 31, 2006 versus Year Ended December 31, 2005

Cemetery Revenues. Cemetery revenues were $109.0 million in 2006, an increase of $11.1 million, or 11.3%, as compared to $97.9 million in 2005. Cemetery revenues from pre-need sales, including interest income from pre-need installment contracts and investment income from trusts, were $68.9 million in 2006, an increase of $5.2 million, or 8.2%, as compared to $63.7 million in 2005. The increase primarily resulted from increased

44

Table of Contents

lot sales ($1.4 million), performance of additional initial opening and closings ($2.8 million) and increased vault deliveries ($2.4 million). An additional contribution to the increase in cemetery revenue from pre-need sales was higher accumulated earnings from merchandise trusts allocated to the pre-need products delivered during 2006. Total revenues from merchandise and perpetual care trust for 2006 were higher by $1.4 million than 2005. The increase in the deliveries of pre-need products and services in 2006 was primarily as a result of the full year contribution of properties we acquired in 2005. These increases were offset by a decrease in casket deliveries of $2.6 million, due to production problems of the Company s major casket supplier.

Cemetery revenues from at-need sales in 2006 were $37.7 million, an increase of $7.1 million, or 23.2%, as compared to $30.6 million in 2005. The increase in cemetery revenues from at-need sales was primarily attributable to higher sales of all at need cemetery merchandise and services. Generally, these increases are related to the full year contribution of properties that we acquired in 2005.

Other cemetery revenues were $2.2 million in 2006, a decrease of $1.4 million, or 38.9%, from $3.6 million in 2005. The decrease in other cemetery revenues was primarily attributable to a decrease in sales of undeveloped land of $1.4 million.

Costs of Goods Sold. Cost of goods sold was $14.7 million in 2006, an increase of $0.8 million, or 5.8%, as compared to $13.9 million in 2005. As a percentage of cemetery revenues, cost of goods decreased from 14.2% in the year ended December 31, 2005 to 13.5% for the year ended December 31, 2006. The decrease in cost of goods sold as a percentage of cemetery revenues is attributable to higher gross profit margin attained on the sale of interment rights (lots and mausoleums) and higher gross profit margins associated with the deliveries of markers and monument bases in 2006 than with the delivery of markers and monuments bases 2005.

Selling Expense. Total selling expense was $23.2 million in 2006, an increase of $3.1 million, or 15.4%, as compared to $20.1 million 2005. Sales commissions and other compensation expenses contributed $17.5 million to total selling expense during 2006, an increase of $3.0 million, or 20.7%, compared to $14.5 million in 2005. As a percentage of pre-need sales, sales commissions and other compensation expenses were 35.6% in 2006, as compared to 34.2% in 2005. This increase is primarily attributable to higher average commission rates and bonuses recognized related to a product mix. Indirect selling expenses were $5.3 million during 2006, an increase of $0.7 million, or 15.2%, compared to $4.6 million in 2005. The increased cost was primarily attributed to an increase of $0.3 million in advertising, an increase in telemarketing costs of $0.1 and an increase in telephone charges of $0.1 million.

Cemetery Expense. Cemetery expense was $24.3 million in 2006, an increase of $3.4 million, or 16.3%, as compared to $20.9 million in the same period of 2005. This increase was primarily attributable to an increase in cemetery labor of $1.9 million, increased cemetery maintenance and supplies of $0.7 million, increased real estate taxes of $0.2 million and increased building repair and maintenance costs of $0.1 million. These increases relate to the full year expenses of properties that we acquired in 2005.

General and Administrative Expense. General and administrative expense was $12.8 million in 2006, an increase of $2.2 million, or 20.8%, as compared to $10.6 million in the same period of 2005. The increase was primarily attributable to an increase in office labor expenses of $1.2 million, an increase in insurance expenses of $0.3 million and an increase in surety bond costs of $0.4 million. These increases relate to the full year expenses of properties that we acquired in 2005.

Funeral Home Revenues and Expense. Funeral home revenues were $6.1 million in 2006, an increase of approximately $3.3 million, or 117.9%, as compared to $2.8 million during the same period of 2005. Funeral home expense was approximately $4.8 million in 2006, an increase $2.4 million, or 100.0%, as compared to $2.4 million during the same period of 2005. The increases in revenues and expenses relate to the addition of six funeral homes in November 2005 and 13 funeral homes in September of 2006.

Table of Contents

Corporate Overhead. Corporate overhead was $19.8 million in 2006, an increase of $3.5 million, or 21.5%, as compared to $16.3 million in 2005. The increase was primarily attributable to $1.2 million in additional non-cash expenses resulting from an equity grant under our Long-Term Incentive Plan program in November of 2006. We expect to incur similar non-cash expenses of approximately $3.9 million in 2007, $2.1 million in 2008 and $1.0 million in 2009, related to the vesting of this grant in accordance with FAS123R. Additionally, we incurred $2.0 million in increased salary due to our 2006 bonus program and $0.9 million in reserves for the write-off of our investment in a management agreement that was terminated subsequent to year-end 2006. These increases were off set by a reduction in professional fees of $0.2 million and a reduction of software expenses of $0.4 million.

Depreciation and Amortization. Depreciation and amortization was $3.5 million in 2006, essentially unchanged from 2005.

Interest Expense. Interest expense was $7.5 million in 2006, an increase of $1.0 million or 15.4%, as compared to $6.5 million in 2005. The increase was primarily attributable to an increase in the average amount of debt outstanding during 2006.

Provision for Income Taxes. Provision for income taxes was $1.4 million in 2006 as compared to $1.8 million in 2005. The change in provision for income taxes was primarily due to lower revenues in our taxable subsidiaries in 2006 as compared to 2005.

Net Income/ Loss. Net income was $3.0 million in 2006, a decrease of $1.7 million, as compared to net income of $4.7 million in 2005. The decrease is primarily due to approximately $1.2 million non-cash compensation charge for our Long-Term Incentive Plan, a cash bonus payment of approximately $2.0 million, and a reserve for the write-off of our investment in a management agreement at one of our locations that was terminated subsequent to year-end 2006 of $0.9 million.

Deferred Cemetery Revenue. Deferred cemetery revenues, net, increased $29.1 million, or 17.4%, in 2006, from $167.0 million as of December 31, 2005 to $196.1 million as of December 31, 2006. In 2005, deferred cemetery revenues, net, increased $10.9 million, or 7.0%, from $156.1 million as of December 31, 2004 to $167.0 million as of December 31, 2005. The net increase in 2006 was primarily attributable to an increase in sales of pre-need cemetery products and services that were not delivered or performed in 2006. We added $59.2 million in pre-need sales of cemetery merchandise and services, net of deferred costs and cancellations, to our pre-need sales backlog during 2006 as compared to $43.8 million added during 2005. These increases were offset by revenues recognized, net of costs, of $40.1 million, including accumulated merchandise trust earnings, during 2006 related to the delivery and performance of pre-need cemetery merchandise and services as compared to $36.8 million of revenues recognized in 2005. The additional increase in deferred cemetery revenues, net relates to acquisitions completed in 2005 and 2006.

Year Ended December 31, 2005 versus Year Ended December 31, 2004

Cemetery Revenues. Cemetery revenues were $97.9 million in 2005, an increase of $10.6 million, or 12.1%, as compared to $87.3 million in 2004. Cemetery revenues from pre-need sales, including interest income from pre-need installment contracts and investment income from trusts, were $63.7 million in 2005, an increase of $8.3 million, or 15.0%, as compared to $55.4 million in 2004. The increase primarily resulted from increased mausoleum and crypt sales ($2.7 million), increased casket deliveries ($2.0 million), increased lot sales ($1.4 million), performance of additional initial opening and closings ($0.3 million) and increased vault deliveries ($0.2 million). An additional contribution to the increase in cemetery revenue from pre-need sales was higher accumulated earnings from merchandise trusts allocated to the pre-need products delivered during 2005. Total revenues from merchandise and perpetual care trust for 2005 were higher by $1.9 million than 2004. The increase in the deliveries of pre-need products and services in 2005 was a result of management s continuation of cash flow management initiatives initiated in 2003. These increases were offset by a decrease in interest income of $0.5 million and decreased marker sales of $0.5 million.

Cemetery revenues from at-need sales in 2005 were $30.6 million, an increase of $1.4 million, or 4.8%, as compared to $29.2 million in 2004. The increase in cemetery revenues from at-need sales was primarily

Table of Contents

attributable to higher sales of monument bases and markers of $0.6 million, higher sales of at-need interment rights of $0.3 million, and higher sales of at-need lots of $0.1 million.

Other cemetery revenues were $3.6 million in 2005, an increase of $0.9 million, or 33.3%, from $2.7 million in 2004. The increase in other cemetery revenues was primarily attributable to an increase in sales of undeveloped land of $1.4 million partially offset by other miscellaneous items.

Costs of Goods Sold. Cost of goods sold was $13.9 million in 2005, an increase of $1.5 million, or 12.1%, as compared to $12.4 million in 2004. As a percentage of cemetery revenues, cost of goods sold was 14.2% in the year ended December 31, 2005 unchanged from 2004.

Selling Expense. Total selling expense was $20.1 million in 2005, an increase of $0.9 million, or 4.7%, as compared to $19.2 million 2004. Sales commissions and other compensation expenses contributed $14.5 million to total selling expense during 2005, an increase of $1.0 million, or 7.4%, compared to $13.5 million in 2004. As a percentage of pre-need sales, sales commissions and other compensation expenses were 32.4% in 2005, as compared to 34.7% in 2004. This decrease is primarily attributable to lower average commission rates and bonuses recognized related to a product mix. Indirect selling expenses were $5.3 million during 2005, a decrease of $.3 million, or 5.4%, compared to $5.6 million in 2004. The decreased cost was primarily attributed to a decrease of $0.6 million in employee benefits partially offset by an increase in advertising of $0.2 million.

Cemetery Expense. Cemetery expense was $20.9 million in 2005, an increase of $1.3 million, or 6.6%, as compared to $19.6 million in the same period of 2004. This increase was primarily attributable to an increase in cemetery labor of $0.6 million, increased utility costs of $0.2 million, increased real estate taxes of $0.2 million and increased building repair and maintenance costs of $0.1 million. These increases relate to our increased focus on cash flow maximization, which we accomplish by accelerating the performance of some of our pre-need services and increasing the delivery of pre-need merchandise.

General and Administrative Expense. General and administrative expense was $10.6 million in 2005, an increase of $0.8 million, or 8.2%, as compared to $9.8 million in the same period of 2004. The increase was primarily attributable to an increase in professional fees of $0.5 million,.

Funeral Home Revenues and Expense. Funeral home revenues were $2.8 million in 2005, an increase of approximately $0.9 million, or 47.4%, as compared to $1.9 million during the same period of 2004. Funeral home expense was approximately $2.4 million in 2005, an increase $0.7 million, or 41.2%, as compared to $1.7 million during the same period of 2004. The increases in revenues and expenses relate to the addition of six funeral homes in November 2005.

Corporate Overhead. Corporate overhead was $16.3 million in 2005, an increase of $3.6 million, or 28.3%, as compared to $12.7 million in 2004. The increase was primarily attributable to $2.1 million in additional expenses related to first year Sarbanes-Oxley compliance and other incremental costs related to being a public entity for all of 2005.

Depreciation and Amortization. Depreciation and amortization was $3.5 million in 2005, a decrease of $1.0 million, or 22.2%, as compared to $4.5 million in 2004. The decrease was primarily related to the amortization expense of debt issuance costs recognized in 2004 and not similarly recognized in 2005.

Expenses related to refinancing. We had no expenses related to refinancing in 2005. Of the $4.2 million of expenses related to refinancing in 2004, $3.9 million were attributable to the write-off of debt issuance costs related to our former credit facility and $0.3 million were related to a fee paid for early extinguishment of debt.

Interest Expense. Interest expense was $6.5 million in 2005, a decrease of $3.0 million or 31.6%, as compared to $9.5 million in 2004. The decrease was primarily attributable to a decrease in the average amount of debt outstanding during 2005. We used a portion of the proceeds of our initial public offering in September 2004 to reduce the amount of outstanding debt.

Table of Contents

Provision (Benefit) for Income Taxes. Provision for income taxes was $1.8 million in 2005 as compared to a benefit for income taxes that was $0.5 million in 2004. The change in provision (benefit) for income taxes was primarily due to an increase in the net amount of trust withdrawals and increased taxable land sales in 2005 as compared to 2004. Additionally, in 2004, we benefited from a reduction in deferred taxes related to the change in tax status from a corporation to a partnership.

Net Income/ Loss. Net income was $4.7 million in 2005, an increase of $8.5 million, as compared to a net loss of $3.8 million in 2004. The increase in net income was primarily attributable to our increase in operating profit and decrease in costs related to refinancing.

Deferred Cemetery Revenue. Deferred cemetery revenues, net, increased $10.9 million, or 7.0%, in 2005, from $156.1 million as of December 31, 2004 to $167.0 million as of December 31, 2005. In 2004, deferred cemetery revenues, net, increased $15.3 million, or 10.9%, from $140.8 million as of December 31, 2003 to $156.1 million as of December 31, 2004. The net increase in 2005 was primarily attributable to an increase in sales of pre-need cemetery products and services that were not delivered or performed in 2005. We added $43.8 million in pre-need sales of cemetery merchandise and services, net of deferred costs and cancellations, to our pre-need sales backlog during 2005 as compared to $43.3 million added during 2004. These increases were offset by revenues recognized, net of costs, of $36.8 million, including accumulated merchandise trust earnings, during 2005 related to the delivery and performance of pre-need cemetery merchandise and services as compared to $33.0 million of revenues recognized in 2004.

Liquidity and Capital Resources

Overview. Our primary short-term operating liquidity needs are to fund general working capital requirements and maintenance capital expenditures. Our long-term operating liquidity needs are primarily associated with acquisitions of cemetery properties and the construction of mausoleum crypts and lawn crypts on the grounds of our cemetery properties. We may also construct funeral homes on the grounds of cemetery properties that we acquire in the future. Our primary source of funds for our short-term liquidity needs will be cash flow from operations and income from perpetual care trusts. Our primary source of funds for long-term liquidity needs will be long-term bank borrowings and the issuance of additional common units and other partnership securities, including debt, subject to the restrictions in our credit facility and under our senior secured notes.

We believe that cash generated from operations and our borrowing capacity under our credit facility, which is discussed below, will be sufficient to meet our working capital requirements, anticipated capital expenditures and scheduled debt payments for the foreseeable future. In 2007, we anticipate that we will spend $2.0 million for the construction of mausoleums. Additionally, we anticipate ongoing annual capital expenditure requirements of between approximately $2.3 million and $2.6 million for the foreseeable future. The estimate for cemetery maintenance capital expenditures would increase if we were to acquire additional cemetery properties.

One of our goals is to grow through the acquisition of high-quality cemetery properties. On November 1, 2005, StoneMor acquired 22 cemeteries and six funeral homes from Service Corporation International (NYSE: SCI) for $12.93 million. StoneMor paid $7.03 million in cash and 280,952 StoneMor Limited Partner units, representing the additional $5.9 million. In addition, StoneMor assumed the merchandise and service liabilities associated with certain pre-arranged bonded contracts related to the properties. Additionally, on September 30, 2006 we completed the acquisition of 21 cemeteries and 14 funeral homes from Service Corporation International (NYSE: SCI) for $11.8 million. We paid $5.9 million in cash and 275,046 in Limited Partner units, representing the additional $5.9 million. We acquired two additional cemeteries during the fourth quarter of 2006 with an aggregate purchase price of approximately $1.3 million.

We anticipate financing future acquisitions with the proceeds of borrowings under our credit facility or the issuance of additional common units and other partnership securities, including debt, to the extent permitted

Table of Contents

under our credit facility, the senior secured notes and our partnership agreement. Since our predecessor began operations in 1999, we have acquired fifty four cemetery properties ranging in price per cemetery from $0.2 million to $15.8 million and having an aggregate purchase price of $57.5 million.

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.

Cash Flow from Operating Activities. Cash flows from operating activities were $18.3 million in 2006, an increase of $0.7 million or 4.0%, as compared to cash flows from operating activities of $17.6 million in 2005. The increase in cash flow was primarily attributable to an increase in cash collected on our accounts receivable of approximately $8.8 million during 2006, a $4.7 million net increase in cemetery revenue deferral , offset by a $14.0 million increase in net trust deposits to our trust funds. Cash flows from operating activities were $17.6 million in 2005, an increase of $10.1 million or 135%, as compared to cash flows from operating activities of $7.5 million in 2004. The increase in cash flow was primarily attributable to an increase in net income of approximately $8.5 million during 2005 and increases in cash withdrawn from merchandise trusts of $11.8 million, partially offset by an $6.9 million net decrease in cemetery revenue deferral and a $3.9 million decrease in non-cash charges related to refinancing in 2004.

Cash Flow from Investing Activities. Net cash used in investing activities was $14.6 million during 2006, a decrease of $0.7 million, as compared to $15.3 million during 2005. This decrease was primarily attributable to the divestiture of one of our funeral homes partially offset by increased cemetery acquisition activity. Net cash used in investing activities was $15.3 million during 2005, an increase of $9.4 million, as compared to $5.9 million during 2004. This increase was primarily attributable to the November 1, 2005 acquisition of 22 cemetery and six funeral home locations including due diligence costs of $15.6 million.

Cash Flow from Financing Activities. Net cash used in financing activities during 2006 was $0.7 million, a decrease of $9.2 million from the net cash used in financing activities of $9.8 million during 2005. The decrease from 2005 is primarily related to additional borrowings under our lines of credit which we used to finance our acquisitions and provide additional working capital. Cash used in financing activities during 2005 primarily relate to unitholder distributions of $16.4 million offset by long-term debt borrowings of $8.0 million. The 2004 cash flow from financing activities was primarily attributable to the results of our initial public offering and the sale of senior secured notes in a private placement. The net proceeds of $58.0 million from the sale of limited partner units in our initial public offering together with the net proceeds from our offering of $80.0 million aggregate principal amount of senior secured notes were used in part to repay the outstanding amounts on the term loan, revolving line of credit, a note to a seller of one of our acquisitions, and financing costs associated with issuing our senior secured notes and obtaining our credit facility.

Ongoing Capital Expenditures. The following table summarizes total maintenance capital expenditures and expansion capital expenditures, including the construction of mausoleums and for acquisitions, for the periods presented (in thousands):

	Years Ended December 31,		
	2004	2005	2006
	(In Thousands)		
Maintenance capital expenditures	$ 2,620	$ 2,192	$ 2,059
Expansion capital expenditures	3,267	18,851	20,313
Total capital expenditures	$ 5,887	$ 21,043	$ 22,372

Table of Contents

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 are 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.

Contractual Obligations and Contingencies. A summary of our total contractual obligations including interest, as of December 31, 2006, is as follows (dollars in thousands):

		Payment due by period			
Type of Obligation	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**
Long-term debt (1)	$ 135,036	$ 9,303	$ 14,897	$ 110,836	$
Operating leases	3,415	595	1,121	823	876
Merchandise liability (2)	45,805				
Total	$ 184,256	$ 9,898	$ 16,018	$ 111,659	$ 876

(1) Represents obligations including interest under the senior secured notes as described below.

(2) Total cannot be separated into periods because we are unable to anticipate when the merchandise will be needed. We will satisfy these obligations at or, to the extent practicable, prior to the time of need.

Credit Facility. On September 20, 2004, we paid in full all amounts outstanding under our old credit facility, which consisted of $25.5 million under our revolving credit facility and a $103.1 million term loan, from a portion of the net proceeds of our initial public offering and the private placement of senior secured notes. The term loan and borrowings under the old revolving credit facility bore interest at 18.0% per annum beginning September 15, 2004, and would have increased an additional 2.0% per annum on each of January 1, 2005 and April 1, 2005. Prior to September 15, 2004, the term loan and borrowings under the old revolving credit facility bore interest at the aggregate rate of 4.5% plus the greater of LIBOR or 3.5%.

Concurrent with the closing of our initial public offering on September 20, 2004, StoneMor Operating LLC, which is our operating company, and its present and future subsidiaries, all as borrowers, entered into a new $35.0 million credit agreement. The credit agreement consists of a $12.5 million revolving credit facility and a $22.5 million acquisition line of credit. Borrowings under our revolving credit facility are due and payable three years after the date of the credit agreement, and borrowings under the acquisition facility are due and payable four years after the date of the credit agreement. We may prepay all loans under the credit agreement at any time without penalty, although our acquisition line may be subject to hedging arrangements with attendant termination fees. Any amounts repaid on the acquisition line cannot be reborrowed. We are required to reduce borrowings under our revolving credit facility that are designated for the purpose of funding a regularly scheduled quarterly distribution to the unitholders to not more than $5.0 million for a period of at least 30 consecutive days at least once during each consecutive 12-month period prior to the maturity of the revolving credit facility. As of December 31, 2006, we had $22.95 million outstanding under our credit agreement.

The revolving credit facility is available for ongoing working capital needs, capital expenditures, distributions and general partnership purposes. Amounts borrowed and repaid under the revolving credit facility may be borrowed in an amount that does not exceed 80% of our eligible accounts receivable. Eligible accounts receivable are defined as gross accounts receivable represented by approved installment agreements for pre-need sales net of collection reserves, imputed interest earnings, funds due to perpetual care and merchandise trusts, unpaid sales commissions and other reserves as may be required by the agent for the lenders.

Table of Contents

The acquisition facility is available to finance acquisitions of companies in our line of business that have been approved by our board of directors. We are required to obtain the approval of the requisite lenders for any acquisition exceeding $2.5 million and for any series of acquisitions exceeding $20.0 million in any consecutive 12 months, but this consent may not be unreasonably withheld. Interest under the acquisition facility is payable quarterly for the first 12 months after each borrowing. We will repay the then outstanding borrowings in equal quarterly installments based on a six-year amortization schedule, with the first quarterly principal payment beginning 15 months after each borrowing and subsequent quarterly principal payments continuing on each 3 month interval from the previous quarterly principal payment and with a balloon payment for any unpaid amount due at the maturity of the acquisition facility.

Borrowings under the credit agreement rank pari passu with all of our other senior secured debt, including the senior secured notes issued concurrently with our initial public offering, subject to the description of the collateral securing the credit agreement described below. Borrowings under the credit agreement will be guaranteed by the partnership and our general partner.

Our obligations under the revolving 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 the guarantors, excluding trust accounts and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, our general partner s general partner interest in the partnership and our general partner s incentive distribution rights under our partnership agreement. These assets will secure the acquisition facility and our senior secured notes, as described below and under Senior Secured Notes. The specified receivable rights include all accounts and other rights to payment arising under customer contracts or agreements (other than amounts required to be deposited into merchandise and perpetual care trusts) 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.

Our obligations under the acquisition 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, our general partner s general partner interest in the partnership and our general partner s incentive distribution rights under our partnership agreement, and a secondary priority lien and security interest in those specified receivable rights of the borrowers and the guarantors. The senior secured notes share pari passu in the collateral securing the acquisition facility.

Depending on the type of loan, indebtedness outstanding under the revolving credit facility bears interest at a rate based upon the Base Rate or the Eurodollar Rate plus an applicable margin ranging from 0.00% to 1.00% and 2.50% to 3.50% per annum, respectively, depending on our ratio of total debt to consolidated cash flow. The Base Rate is the higher of the federal funds rate plus .050% or the prime rate announced by Fleet National Bank, a Bank of America company. The Eurodollar Rate is to be determined by the administrative agent according to the new credit agreement. The interest will be determined and payable quarterly. We incur commitment fees ranging from 0.375% to 0.500% per annum, depending on our ratio of total debt to consolidated cash flow, determined and payable quarterly based on the unused amount of the credit facilities.

We are required to use the net cash proceeds from the sale of any assets, the incurrence of any indebtedness or the issuance of any equity interests in the partnership or any subsidiary of the partnership to repay amounts outstanding under the credit agreement and our senior secured notes, pro rata based on the percentage share of the aggregate amounts outstanding, provided that we may use the proceeds from the sale of any assets to purchase capital assets or fund permitted acquisitions within 180 days of such sale and we may use the proceeds from any issuance of equity interests by the partnership to fund permitted acquisitions to the extent such equity interests are issued in connection with a permitted acquisition that is completed within 180 days before or after the receipt of such proceeds.

Table of Contents

The credit agreement prevents us from declaring dividends or distributions if any event of default, as defined in the new credit agreement, occurs or would result from such declaration. The following will be an event of default under the credit agreement:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- failure of any of our representations and warranties to be materially correct;
- failure to observe any covenant included in the credit agreement beyond specified cure periods in specified cases;
- the occurrence of a default under other indebtedness of the partnership, our general partner, our operating company or any of our other subsidiaries;
- the occurrence of specified bankruptcy or insolvency events involving the partnership, our operating company, our general partner or our other subsidiaries;
- a change of control; or
- the entry of judgments against the partnership, our general partner, our operating company or any of our other subsidiaries in excess of certain allowances.

Change of control is defined in the credit agreement as the occurrence of any of the following events:

- any two of our chairman, chief executive officer or chief financial officer on the date of the credit agreement cease to hold such positions unless approved by the lenders under the credit agreement;
- any person or group that did not hold any equity interests in the general partner or the partnership on the date of the credit agreement acquires 20% or more of the equity interests in the partnership or the general partner;
- the general partner ceases to be our sole general partner;
- the partnership ceases to own 100% of the operating company; or
- the operating company ceases to own 100% of the other borrowers.

The credit agreement contains financial covenants requiring us to maintain, on a rolling four-quarter basis:

- a ratio of consolidated EBITDA, as defined in the credit agreement, to consolidated interest expense of not less than 3.5 to 1.0 for the four most recent quarters;

a ratio of total funded debt on the last day of each quarter to consolidated EBITDA of not more than 3.5 to 1.0 for the four most recent quarters; and

consolidated cash flow of at least $21.0 million. Our minimum consolidated cash flow will be increased by 80% of any consolidated cash flow acquired in an acquisition.

The credit agreement was amended in November 2004 to amend the leverage ratio from 3.5 to 1 to 3.75 to 1 until September 30, 2005 at which time it reverts back to 3.5 to 1. On March 31, 2006 we requested a waiver of any default arising from our failure to meet the requirement that requires us to deliver the 2005 annual audited financial statements within 95 days of the 2005 fiscal year-end. Our lenders agreed to this waiver provided that we deliver the 2005 annual audited financial statements within 125 days of 2005 fiscal year-end, which we did. As of March 15, 2007, we are in compliance with all debt covenants.

For purposes of determining our compliance with the covenants described above, total funded debt includes all indebtedness for borrowed money (except that if we reduce borrowings under our revolving credit facility that are designated for the purpose of funding a regularly scheduled quarterly distribution to unitholders to not more than $5.0 million for a period of at least 30 consecutive days at least once during each consecutive 12-month period prior to the maturity of the revolving credit facility, then the amount of outstanding revolving loans to be

Table of Contents

included in total funded debt will be an amount not to exceed $5.0 million), purchase money indebtedness, obligations under letters of credit, capitalized leases, if any, and the deferred purchase price of any property or services. Consolidated cash flow is based on our adjusted EBITDA and is defined in the credit agreement as net income plus, among other things:

- interest expense;
- taxes;
- depreciation and amortization;
- non-cash cost of land and crypts;
- extraordinary losses;
- other non-cash items;
- increase (decrease) in deferred cemetery revenues, net (excluding deferred margin);
- increase (decrease) in accounts receivable;
- increase (decrease) in merchandise liability; and
- increase (decrease) in merchandise trust (excluding any change in trust income receivable).

Consolidated cash flow is adjusted to exclude, among other things, extraordinary gains, gains from sales of assets outside the ordinary course of business and non-cash items.

The credit agreement limits the ability of the partnership, our general partner, our operating company and any of our other subsidiaries, among other things, to:

- enter into a new line of business;
- enter into any agreement of merger or acquisition;
- sell, transfer, assign or convey assets;

grant certain liens;

incur or guarantee additional indebtedness;

make certain loans, advances and investments;

declare and pay dividends and distributions;

enter into certain leases;

enter into transactions with affiliates; and

make voluntary payments or modifications of indebtedness.

Senior Secured Notes. Concurrent with the closing of our initial public offering, StoneMor Operating LLC and its existing subsidiaries issued and sold $80.0 million in aggregate principal amount of senior secured notes. The net proceeds of the senior secured notes were used to repay a portion of our then existing indebtedness.

The senior secured notes rank pari passu with all of our other senior secured debt, including the revolving credit facility and the acquisition facility, subject to the description of the collateral securing the senior secured notes described below. The senior secured notes are guaranteed by the partnership, our general partner and any future subsidiaries of our operating company. Obligations under the senior secured notes are secured by a first priority lien and security interest covering substantially all of the assets of the 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, each as described above, of the issuers, whether then owned or thereafter acquired.

Table of Contents

The senior secured notes mature on September 20, 2009 and bear interest at a rate of 7.66% per annum. Interest on the senior secured notes is payable quarterly, having commenced on December 20, 2004. There will be no principal amortization prior to the final maturity of the senior secured notes.

The senior secured notes are redeemable, at our option, at any time in whole or in part at a make-whole premium. The make-whole premium is calculated on the basis of a discount rate equal to the yield on the U.S. treasury notes having a constant maturity comparable to the remaining term of the senior secured notes, plus 100 basis points. The senior secured notes are not subject to any sinking fund provisions.

The senior secured notes limit the ability of the partnership, our general partner, our operating company and any of our other subsidiaries, among other things, to:

- enter into a new line of business;
- enter into any agreement of merger or acquisition;
- sell, transfer, assign or convey assets;
- grant certain liens;
- incur or guarantee additional indebtedness;
- make certain loans, advances and investments;
- declare and pay dividends and distributions;
- enter into certain leases;
- enter into transactions with affiliates; and
- make voluntary payments or modifications of indebtedness.

The note purchase agreement also contains financial covenants requiring us to maintain, on a rolling four-quarter basis:

- a ratio of consolidated cash flow, as defined in the note purchase agreement, to consolidated interest expense of not less than 3.5 to 1.0 for the four most recent quarters;
- a ratio of total funded debt on the last day of each quarter to consolidated cash flow of not more than 3.5 to 1.0 for the four most recent quarters; and

consolidated cash flow of at least $21.0 million. Our minimum consolidated cash flow will be increased by 80% of any consolidated cash flow acquired in an acquisition.

For purposes of determining our compliance with the covenants described above, total funded debt and consolidated cash flow are defined in the note purchase agreement in the same manner as they are defined in our new credit agreement.

Each of the following is an event of default under the note purchase agreement:

failure to pay any principal, interest, fees, expenses or other amounts when due;

failure of any of our representations and warranties to be materially correct;

failure to observe any covenant included in the note purchase agreement beyond specified cure periods in specified cases;

the occurrence of a default under other indebtedness of the partnership, our general partner, our operating company or any of our other subsidiaries;

the occurrence of specified bankruptcy or insolvency events involving the partnership, our operating company, our general partner or our other subsidiaries;

Table of Contents

a change of control; or

the entry of judgments against the partnership, our general partner, our operating company or any of our other subsidiaries in excess of certain allowances.

Change of control is defined as the occurrence of any of the following events:

any two of our chairman, chief executive officer or chief financial officer on the closing date of the senior secured notes offering cease to hold such positions unless approved by the requisite noteholders;

any person or group that did not hold any equity interests in the general partner or the partnership on the closing date of the senior secured notes offering acquires 20% or more of the equity interests in the partnership or the general partner;

the general partner ceases to be our sole general partner;

the partnership ceases to own 100% of the operating company; or

the operating company ceases to own 100% of the other borrowers.

The initial offering of the senior secured notes was not registered under the Securities Act, and the senior secured notes may not be resold absent registration or an available exemption from the registration requirements of the Securities Act. The holders of the senior secured notes do not have registration rights. The senior secured notes are not listed or quoted on any national securities exchange or association.

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.

Off-Balance Sheet Arrangements. As of December 31, 2006, we had no off-balance sheet arrangements except for operating leases

Inflation. Inflation in the United States has been relatively low in recent years and did not have a material impact on our results of operations during 2004, 2005 or 2006. Although the impact of inflation has been insignificant in recent years, it is still a factor in the U.S. economy and may increase the cost to acquire or replace property, plant and equipment and may increase the costs of labor and supplies. To the extent permitted by competition and regulation, we have and will continue to pass along increased costs to our customers in the form of higher product prices.

Recent Accounting Pronouncements.

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109*. 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 is effective for fiscal years beginning after December 15, 2006, and will be adopted by the Company on January 1, 2007. The Company currently does not believe that the adoption of Interpretation 48 will have a significant effect on its financial statements or its ability to comply with its current debt covenants.

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

55

Table of Contents

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. We are in the process of evaluating this guidance and therefore have not yet determined the impact that FAS 157 will have on our 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 for us. The impact of SAB 108 in the future depends on the nature and extent of any prior year misstatements. The Company utilized the guidance in SAB 108 to determine the effect of the prior year misstatement. See Note 2 to the consolidated financial statements.

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.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The information presented below should be read in conjunction with the notes to our audited consolidated financial statements included under Item 8 Financial Statements and Supplementary Data.

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 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 merchandise trusts and perpetual care trusts. As of December 31, 2006, fixed-income securities represented 44.7% of the funds held in merchandise trusts and 60.3% of the funds held in perpetual care trusts. The aggregate quoted market value of these fixed-income securities was $66.1 million and $101.6 million in merchandise trusts and perpetual care trusts, respectively, as of December 31, 2006. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately $0.7 million and $1.0 million in the fair market values of the securities held in 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 held in merchandise trusts and perpetual care trusts. As of December 31, 2006, these investments accounted for approximately 13.1% and 10.7% of the funds held in merchandise trusts and perpetual care trusts, respectively. The fair market value of these investments was $19.4 million and $18.1 million in merchandise trusts and perpetual care trusts, respectively, as of December 31, 2006. Each 1% change in average interest rates applicable to these investments would result in changes of approximately $194,000 and $181,000, respectively, in the aggregate fair market values of the perpetual care investments and the merchandise trust investments.

Marketable Equity Securities. Our marketable equity securities subject to market risk consist primarily of investments held in merchandise trusts and in the case of perpetual care trusts, investments in real estate investment trusts, or REITs and master limited partnerships, or MLPs. As of December 31, 2006, marketable equity securities represented 42.1% of funds held in merchandise trusts and 29.0% of funds held in perpetual care trusts. The aggregate fair market value of these marketable equity securities was $62.3 million and $48.9 million in merchandise trusts and perpetual care trusts, respectively, as of December 31, 2006, 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 $6.2 million and $4.9 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 that 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;

Table of Contents

Provide specific guidelines for each investment manager. These guidelines control the level of overall risk and liquidity assumed in their 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 our peers, 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 that 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 accompanying consolidated financial statements for a breakdown of the assets held in our merchandise trusts and perpetual care trusts by asset class.

Debt Instruments. Our credit facility bears interest at a floating rate, based on LIBOR, which is adjusted quarterly. This credit facility will subject us to increases in interest expense resulting from movements in interest rates. As of December 31, 2006 we have $22.9 million in indebtedness outstanding under our credit facility.

Table of Contents

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of StoneMor Partners GP LLC and Unitholders of StoneMor Partners L.P.

Bristol, Pennsylvania

We have audited the accompanying consolidated balance sheets of StoneMor Partners L.P. (the Company), successor to Cornerstone Family Services, Inc. and subsidiaries as of December 31, 2005 and 2006, and the related consolidated statements of operations, common stockholders /partners equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of StoneMor Partners L.P. as of December 31, 2005 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Company has restated its 2005 consolidated financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2007 expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an adverse opinion on the effectiveness of the Company s internal control over financial reporting because of a material weakness.

Philadelphia, Pennsylvania

March 16, 2007

Table of Contents

StoneMor Partners L.P.

Consolidated Balance Sheets

(in thousands)

	December 31, 2005 (as restated, see Note 2)	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,925	$ 9,914
Accounts receivable, net of allowance	29,991	22,968
Prepaid expenses	2,420	2,801
Other current assets	1,316	2,535
Total current assets	40,652	38,218
LONG-TERM ACCOUNTS RECEIVABLE net of allowance	33,672	36,878
CEMETERY PROPERTY	164,772	171,714
PROPERTY AND EQUIPMENT, net	27,091	29,027
MERCHANDISE TRUSTS, restricted, at fair value	113,432	147,788
PERPETUAL CARE TRUSTS, restricted, at fair value	136,719	168,631
DEFERRED FINANCING COSTS net of accumulated amortization	1,985	1,242
DEFERRED SELLING AND OBTAINING COSTS	30,360	33,478
OTHER ASSETS	1,958	50
TOTAL ASSETS	$ 550,641	$ 627,026
LIABILITIES and PARTNERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 7,461	$ 11,345
Accrued interest	260	361
Current portion, long-term debt	641	1,388
Total current liabilities	8,362	13,094
LONG-TERM DEBT	86,304	102,104
DEFERRED CEMETERY REVENUES, net	167,035	196,103
MERCHANDISE LIABILITY	42,621	45,805
Total liabilities	304,322	357,106
COMMITMENTS AND CONTINGENCIES		
NON-CONTROLLING INTEREST IN PERPETUAL CARE TRUSTS	136,719	168,631
PARTNERS EQUITY		
General partner	1,549	1,382
Limited partners:		
Common	73,053	71,700
Subordinated	34,998	28,206
Total partners equity	109,600	101,288
TOTAL LIABILITIES AND PARTNERS EQUITY	$ 550,641	$ 627,026

See Accompanying Notes to the Consolidated Financial Statements.

Table of Contents

StoneMor Partners L.P.

Successor to Cornerstone Family Services, Inc. (Predecessor)

Consolidated Statements of Operations

(in thousands, except per unit data)

	Cornerstone Family Services, Inc./ StoneMor Partners L.P. 2004 (see Note 1)	StoneMor Partners L.P. 2005 (as restated, see Note 2)	StoneMor Partners L.P. 2006
Revenues:			
Cemetery	$ 87,305	$ 97,862	$ 108,995
Funeral home	1,953	2,798	6,118
Total revenues	89,258	100,660	115,113
Costs and Expenses:			
Cost of goods sold (exclusive of depreciation shown separately below):			
Land and crypts	4,539	5,860	5,287
Perpetual care	2,692	2,575	3,109
Merchandise	5,143	5,463	6,296
Cemetery expense	19,648	20,942	24,344
Selling expense	19,158	20,072	23,186
General and administrative expense	9,797	10,553	12,801
Corporate overhead (including $433 in stock-based compensation in 2004, and $1,212 in 2006)	12,658	16,304	19,795
Depreciation and amortization	4,547	3,510	3,501
Funeral home expense	1,712	2,382	4,836
Total cost and expenses	79,894	87,661	103,155
OPERATING PROFIT	9,364	12,999	11,958
EXPENSE RELATED TO REFINANCING	4,200		
INTEREST EXPENSE	9,480	6,457	7,491
INCOME / (LOSS) BEFORE INCOME TAXES	(4,316)	6,542	4,467
INCOME TAXES (BENEFIT):			
State	663	587	438
Federal	(1,141)	1,250	989
Total income taxes (benefit)	(478)	1,837	1,427
NET INCOME (LOSS)	$ (3,838)	$ 4,705	$ 3,040

In 2004, supplemental information is for the period from September 20, 2004 to December 31, 2004:			
Net income	$ 2,365	$ 4,705	$ 3,040
General partner s interest in net income for the period	$ 47	$ 94	$ 60
Limited partners interest in net income for the period			
Common	$ 1,159	$ 2,318	$ 1,549
Subordinated	$ 1,159	$ 2,293	$ 1,430
Net income per limited partner (common) unit (basic and diluted)	$ .27	$ .54	$ .34
Weighted average number of limited partners units outstanding (basic and diluted)	8,480	8,526	8,831

See Accompanying Notes to the Consolidated Financial Statements.

Table of Contents

StoneMor Partners L.P.

Successor to Cornerstone Family Services, Inc. (Predecessor)

Consolidated Statements of

Common Stockholders / Partners Equity

(in thousands)

	Common Stockholders Equity	Partners Equity Limited Partners			General Partner	Total
		Common	Subordinated	Total		
Balance at December 31, 2003	$ 41,980	$	$	$	$	$ 41,980
Dividends paid in kind	(1,564)					(1,564)
Stock-based compensation	433					433
Net loss January 1, 2003 through September 19, 2004	(6,203)					(6,203)
Balance at September 19, 2004	34,646					34,646
Book value of net assets contributed to the partnership	(34,646)	3,931	29,511	33,442	1,204	
Redeemable preferred stock of Cornerstone converted to limited liability company units		1,344	10,092	11,436	412	11,848
Proceeds from initial public offering, net of offering costs		71,713		71,713		71,713
Purchase of CFSI LLC common units		(5,255)		(5,255)		(5,255)
Net Income September 20, 2004 through December 31, 2004		1,159	1,159	2,318	47	2,365
Balance, December 31, 2004		72,892	40,762	113,654	1,663	115,317
Proceeds from units issued in acquisition		5,900		5,900		5,900
General partner contribution					120	120
Net Income (as restated see Note 2)		2,318	2,293	4,611	94	4,705
Cash distribution		(8,057)	(8,057)	(16,114)	(328)	(16,442)
Balance, December 31, 2005 (as restated see Note 2)		73,053	34,998	108,051	1,549	109,600
Proceeds from units issued in acquisition		5,875		5,875		5,875
General partner contribution					120	120
Net Income		1,549	1,430	2,980	60	3,040
Cash distribution		(8,777)	(8,222)	(16,999)	(347)	(17,346)
Balance, December 31, 2006	$	$ 71,700	$ 28,206	$ 99,907	$ 1,381	$ 101,288

See Accompanying Notes to the Consolidated Financial Statements.

Table of Contents

StoneMor Partners L.P.

Successor to Cornerstone Family Services, Inc. (Predecessor)

Consolidated Statements of Cash Flows

(in thousands)

	Years Ended December 31,		
	2004	**2005 (as restated, see Note 2)**	**2006**
OPERATING ACTIVITIES:			
Net Income (Loss)	$ (3,838)	$ 4,705	$ 3,040
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Cost of lots sold	5,071	4,274	4,605
Depreciation and amortization	4,547	3,510	3,501
Expenses related to refinancing	3,889		
Stock-based compensation	433		1,212
Deferred income tax (benefit)	(1,415)		
Other non cash			453
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable	(2,038)	(1,878)	5,990
Allowance for doubtful accounts	(350)	313	1,225
Merchandise trusts	(1,333)	10,473	(3,517)
Prepaid expenses	(237)	(642)	(385)
Other current assets	(75)	(54)	(1,299)
Other assets	450	(274)	862
Accounts payable and accrued and other liabilities	(440)	1,024	2,720
Deferred cemetery revenue and deferred selling and obtaining costs	10,218	3,362	8,041
Merchandise liability	(7,397)	(7,224)	(8,109)
Net cash provided by operating activities	7,485	17,589	18,339
INVESTING ACTIVITIES:			
Costs associated with potential acquisitions		(143)	(219)
Additions to cemetery property	(3,267)	(2,850)	(3,398)
Purchase of subsidiaries, net of common units issued		(10,101)	(11,040)
Divestiture of Funeral Home			2,091
Acquisitions of property and equipment	(2,620)	(2,192)	(2,059)
Net cash used in investing activities	(5,887)	(15,286)	(14,625)
FINANCING ACTIVITIES:			
Cash distribution		(16,442)	(17,346)
Additional borrowings on long-term debt	85,048	8,048	17,522
Repayments of long-term debt	(135,763)	(1,400)	(1,021)
Sale of partner units	86,638	120	120
Purchase of CFSI LLC common units	(5,255)		
Cost of financing activities	(23,346)	(178)	
Net cash provided by (used in) financing activities	7,321	(9,852)	(725)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,919	(7,549)	2,989

CASH AND CASH EQUIVALENTS Beginning of period	5,554	14,474	6,925
CASH AND CASH EQUIVALENTS End of period	$ 14,474	$ 6,925	$ 9,914
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the period for interest	$ 9,980	$ 6,354	$ 7,390
Cash paid during the period for income taxes	$ 777	$ 1,068	$ 2,508
NON-CASH INVESTING AND FINANCING ACTIVITIES			
Issuance of limited partner units to fund cemetery acquisition	$	$ 5,900	$ 5,875

See Accompanying Notes to the Consolidated Financial Statements.

Table of Contents

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

Basis of Presentation. On April 2, 2004, StoneMor Partners L.P. (StoneMor or the Partnership) was created to own and operate the cemetery and funeral home business conducted by Cornerstone Family Services Inc. and its subsidiaries (Cornerstone). On September 20, 2004, in connection with the initial public offering by the Partnership of common units representing limited partner interests, Cornerstone contributed to the Partnership substantially all of the assets, liabilities and businesses owned and operated by it, 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 the Partnership. The consolidated statements of operations for the year ended December 31, 2004 includes the operations of Cornerstone Family Services Inc. from January 1, 2004 through September 19, 2004 and StoneMor Partners L.P. from September 20, 2004 through December 31, 2004.

Cornerstone was 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 acquired ten additional cemeteries and one funeral home, built two funeral homes and sold one cemetery.

Table of Contents

Initial Public Offering. On September 20, 2004, StoneMor completed its initial public offering of 3,675,000 common units at a price of $20.50 per unit representing 42.5% interest in us. On September 22, 2004, StoneMor 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, making a total of 4,239,782 common units outstanding. Total gross proceeds from these sales were $86.6 million, before offering costs and underwriting discounts. The net proceeds to the Partnership, after deducting underwriting discounts but before paying offering costs, from these sales of common units was $80.8 million. As described in the partnership agreement, during the subordination period the subordinated units are not entitled to receive any distributions until the common units have received their minimum quarterly distribution plus any arrearages from prior quarters. The subordination period will end once the partnership meets certain financial tests described in the partnership agreement, but it generally cannot end before September 30, 2009. When the subordination period ends, all subordinated units will convert into common units on a one-for-one basis, and the common units will no longer be entitled to arrearages. If the partnership meets certain financial tests described in the partnership agreement, 25% of the subordinated units can convert into common units on or after September 30, 2007 and an additional 25% can convert into common units on or after September 30, 2008. Concurrent with the initial public offering, the Partnership s wholly owned subsidiary, StoneMor Operating LLC, and its subsidiaries (collectively StoneMor LLC), all as borrowers, issued new 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, $15.7 million of fees and expenses associated with the initial public offering and the sale of senior secured notes. One-half of the net proceeds of the sale of common units upon the exercise of the over-allotment option was used to redeem an equal number of common units from CFSI LLC, and one-half has been reserved for general Partnership purposes. The proceeds received by the Partnership and its subsidiaries from the sales of common units and senior secured notes and the use of these proceeds is summarized as follows (in thousands):

Proceeds received:	
Sale of 4,226,250 common units at $20.50 per unit	$ 86,638
Issuance of senior secured notes	80,000
Total proceeds received	$ 166,638
Use of proceeds from sale of common units	
Underwriting discount	$ 5,849
Professional fees and other offering costs	9,542
Repayment of debt and accrued interest	56,361
Redemption of 551,250 units from CFSI LLC	5,255
Construction of mausoleum and lawn crypts, purchase of burial vault installation equipment, and reorganization taxes	5,098
Acquisition of cemetery and funeral home locations	4,533
Reserve for general partnership purposes	0
Total use of proceeds from the sale of common units	$ 86,638
Use of proceeds from the issuance of senior secured notes	
Debt issuance costs	$ 1,076
Other related costs	215
Repayment of debt	78,709
Total use of proceeds from the issuance of senior secured notes	80,000
Total use of proceeds	$ 166,638

Table of Contents

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

Principles of Consolidation The consolidated financial statements include the accounts of each of the Company s subsidiaries and the operations of 7 managed cemeteries that the Company operates under long-term management contracts as of December 31, 2006. Prior to September 2004 the Company operated 12 cemeteries under management agreements and have subsequently converted five of these cemetery associations (one in September 2004 and 4 in April 2005) into for-profit entities owned by us and ceased operating these cemeteries under management agreements. Intercompany balances and transactions have been eliminated in consolidation.

Prior to March 31, 2004, the cemeteries that the Company operated under long term management contracts were consolidated in accordance with Emerging Issues Task Force (EITF) Issue No. 97-2, Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangement. Effective March 31, 2004, the Company adopted FIN 46R. The Company s historical policy of consolidating these cemeteries did not change with the adoption of FIN 46R.

Total revenues derived from the cemeteries under long-term management contracts totaled approximately $19.7 million, $21.2 million and $21.8 million for the years ended December 31, 2004, 2005 and 2006, 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 are deferred until at least 10% of the sales price has been collected. At the time of the sale, an allowance for the 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 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 the Company makes payment for the merchandise and title to the merchandise is transferred to the customer.

Table of Contents

Subsequently, 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. The merchandise liability is also reduced when the Company performs the contracted service. 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 December 31, 2005 and December 31, 2006.

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, 2005 and December 31, 2006 was approximately $113.4 million and $147.8 million, respectively (see Note 6).

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, 2005 and December 31, 2006 were $136.7 million and $168.6 million, respectively (see Note 7).

Cash and Cash Equivalents The Company considers all highly liquid investments purchased with a 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 extends credit based on an evaluation of a customer s financial condition and it retains a security interest in any merchandise sold pursuant to the pre-need contracts. The 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 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 $1.0 million at December 31, 2005 and approximately $2.2 million at December 31, 2006.

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 years ended December 31, 2005 and 2006, depreciation expense was $2.8 million and $2.7 million, respectively.

Deferred Cemetery Revenues, Net Revenues and all cost of sales 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

Table of Contents

by the Company, including entities that were acquired by 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.

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, purchase accounting adjustments and depreciation.

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 bases and operating loss and tax credit carry forwards.

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 from its issuance date of September 20, 2004, 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

Effective November 1, 2006, the Company adopted SFAS No. 123R using the modified prospective application transition method. Prior to November 1, 2006, the Company accounted for its stock-based employee compensation plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees and followed the disclosure-only provisions of SFAS No. 123 and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No. 123. No stock-based employee compensation cost related to stock options was reflected in net earnings, as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the grant date. Accordingly, share-based compensation related to stock options was only included as a pro forma disclosure in the notes to the consolidated financial statements.

Under the modified prospective application transition method, compensation cost for the period includes the portion vesting in the period for (1) all share-based compensation arrangements granted prior to, but not vested as of November 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) all share-based compensation arrangements granted subsequent to November 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Under this transition method, no cumulative effect of change in accounting principle was required for the Company, and results for prior periods have not been restated. SFAS No. 123R also requires that excess tax benefits be reported as a financing cash inflow rather than an operating cash inflow.

Table of Contents

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109*. 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 is effective for fiscal years beginning after December 15, 2006, and will be adopted by the Company in the first quarter of 2007. The Company currently does not believe that the adoption of Interpretation 48 will have a significant effect on its financial statements or its ability to comply with its current debt covenants.

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. We are in the process of evaluating this guidance and therefore have not yet determined the impact that FAS 157 will have on our 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 for us. The impact of SAB 108 in the future depends on the nature and extent of any prior year misstatements. The Company utilized the guidance in SAB 108 to determine the effect of the prior year misstatement.

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 of SFAS No. 157.

Use of Estimates Preparation of these 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 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 financial statements are the allowance for cancellations, merchandise liability, deferred margin, deferred merchandise trust investment earnings, deferred obtaining costs and income taxes. Deferred margin, deferred merchandise trust investment earnings and deferred obtaining costs are included in deferred cemetery revenues, net, on the consolidated balance sheets.

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

Table of Contents

Disclosure of reported segment revenue:

	Year Ended December 31,		
	2004	2005	2006
	(in thousands)		
Revenues:			
Cemetery:			
Sales	$ 48,892	$ 56,766	$ 63,734
Services and other	22,706	23,866	26,600
Investment, including realized gains from merchandise trusts and receivables	12,198	14,101	15,544
Deferred margin, recognized	3,510	3,129	3,117
	87,305	97,862	108,995
Funeral home revenues	1,953	2,798	6,118
Total Revenues	$ 89,258	$ 100,660	$ 115,113

2. RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of the December 31, 2005 Consolidated Financial Statements, the Company discovered a lack of functionality in its automated systems relating to revenue recognition from the installation of pre-need burial vaults. The Company determined that it had not recognized revenue on some of the pre-need burial vaults that had been previously installed. As a result the consolidated financial statements for the year ended December 31, 2005 have been restated.

The following is a summary of the impact of the restatement on the consolidated financial statements as of and for the year ended December 31, 2005.

	Consolidated Statement of Income (in thousands)		
	As Previously Reported	Adjustment	As Restated
Year ended December 31, 2005:			
Cemetery revenues	$ 96,927	$ 935	$ 97,862
Cost of goods sold, merchandise	5,337	126	5,463
Selling expense	19,878	194	20,072
Operating profit	12,384	615	12,999
Net income	$ 4,090	$ 615	$ 4,705
General partners interest in net income for the period	82	12	94
Limited partners interest in net income for the period, common	2,015	303	2,318
Limited partners interest in net income for the period, subordinated	1,993	300	2,293
Net income per limited partner (common) unit (basic and diluted)	$ 0.47	$ 0.07	$ 0.54

	Consolidated Balance Sheet (in thousands)		
	As Previously Reported	Adjustment	As Restated
At December 31, 2005:			
Deferred Selling and Obtaining Costs	$ 30,554	$ (194)	$ 30,360
Total Assets	550,835	(194)	550,641
Deferred Cemetery Revenues, net	167,844	(809)	167,035
Total Liabilities	305,131	(809)	304,322
General partners equity	1,537	12	1,549

Limited partners equity, common	72,750	303	73,053
Limited partners equity, subordinated	34,698	300	34,998
Total Liabilities and Partners Equity	$ 550,835	$ (194)	$ 550,641

Table of Contents

	Consolidated Statement of Cash Flow (in thousands)		
	As Previously Reported	Adjustment	As Restated
Year ended December 31, 2005:			
Operating Activities			
Net income	$ 4,090	$ 615	$ 4,705
Deferred cemetery revenue and deferred selling and obtaining costs	3,977	(615)	3,362
Net cash provided in operating activities	17,589		17,589

See note 16 Quarterly Results of Operations (Unaudited) for additional restatement information.

3. LONG-TERM ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

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

	Year Ended December 31,	
	2005	2006
	(in thousands)	
Customer receivables	$ 80,755	$ 81,584
Unearned finance income	(7,831)	(9,495)
Allowance for contract cancellations	(9,261)	(12,243)
	63,663	59,846
Less: current portion net of allowance	29,991	22,968
Long-term portion net of allowance	$ 33,672	$ 36,878

Activity in the allowance for contract cancellations is as follows:

	Year Ended December 31,		
	2004	2005	2006
		(in thousands)	
Balance Beginning of period	$ 8,806	$ 8,948	$ 9,261
Reserve on acquired contracts			926
Provision for cancellations	6,681	6,490	8,363
Charge-offs net	(6,539)	(6,177)	(6,307)
Balance End of period	$ 8,948	$ 9,261	$ 12,243

4. CEMETERY PROPERTY

Cemetery property consists of the following:

	Year Ended December 31,	
	2005	2006
	(in thousands)	
Developed land	$ 21,165	$ 21,981
Undeveloped land	110,556	114,175

Mausoleum crypts and lawn crypts	33,051	35,558
Total	$ 164,772	$ 171,714

Table of Contents

5. PROPERTY AND EQUIPMENT

Major classes of property and equipment are as follows:

	Year Ended December 31, 2005	2006
	(in thousands)	
Building and improvements	$ 26,242	$ 29,202
Furniture and Equipment	20,784	21,966
	47,026	51,168
Less: accumulated depreciation	(19,935)	(22,141)
Property and Equipment net	$ 27,091	$ 29,027

6. 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 6.75% during the year ended December 31, 2005 and 8.75% for the year ended December 31, 2006). 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.

The Company deposited $15,696 and $30,917 into and withdrew $32,363 and $27,400 from the trusts during the year ended December 31, 2005 and December 31, 2006, respectively.

At December 31, 2005, the cost and market value associated with the assets held in merchandise trusts follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(In Thousands)		
Short-term investment	$ 11,651	$	$	$ 11,651
Fixed maturities:				
U.S. Government and federal agency	2,408	1	(48)	2,361
U.S. State and local government agency	1,946	1	(10)	1,937
Corporate debt securities	4,113	10	(133)	3,990
Other debt securities	47,212	59	(759)	46,512
Total fixed maturities	55,679	71	(950)	54,800
Equity securities	47,944	1,192	(2,155)	46,981

Total	$ 115,274	$ 1,263	$ (3,105)	$ 113,432

Table of Contents

An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at December 31, 2005 is presented below:

	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	$ 1,508	$ 19	$ 681	$ 29	$ 2,189	$ 48
U.S. State and local government agency	987	8	512	2	1,499	10
Corporate debt securities	2,294	100	1,031	33	3,325	133
Other debt securities	11,750	419	15,284	340	27,034	759
Total fixed maturities	16,539	546	17,508	404	34,047	950
Equity securities	31,193	2,138	292	17	31,485	2,155
Total	$ 47,732	$ 2,684	$ 17,800	$ 421	$ 65,532	$ 3,105

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(In Thousands)		
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

An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at December 31, 2006 is presented below:

	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	$ 1,134	$ 10	$ 1,215	$ 37	$ 2,349	$ 47
U.S. State and local government agency	740	14	990	19	1,730	33
Corporate debt securities	838	14	741	12	1,579	26
Other debt securities	25,724	75	11,293	992	37,017	1,067
Total fixed maturities	28,436	113	14,239	1,060	42,675	1,173

Equity securities	7,734	410	3,895	158	11,629	568
Total	$ 36,170	$ 523	$ 18,134	$ 1,218	$ 54,304	$ 1,741

Table of Contents

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 December 31, 2006 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.

During the year ended December 31, 2006, purchases and sales of available for sale securities included in trust investments were $50,906 and $34,813, respectively. During the year ended December 31, 2005, purchases and sales of available for sale securities included in trust investments were $184,027 and $198,543 respectively.

The realized investment earnings recognized in the consolidated statements of operations as cemetery revenues related to these merchandise trusts were $5.0 million, $6.4 million and $6.0 million, for the years ended December 31, 2004, 2005 and 2006, respectively.

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 $1.6 million at December 31, 2005 and approximately $1.8 million at December 31, 2006 and is 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.

7. PERPETUAL CARE TRUSTS.

At December 31, 2005 the cost and market value associated with the assets held in perpetual care trust were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
		(In Thousands)		
Short-term investment	$ 13,400	$	$	$ 13,400
Fixed maturities:				
U.S. Government and federal agency	3,988	9	(69)	3,928
U.S. State and local government agency	1,673	11	(13)	1,671
Corporate debt securities	14,609	212	(271)	14,550
Other debt securities	66,392	535	(300)	66,627
Total fixed maturities	86,662	767	(653)	86,776
Equity Securities	34,993	1,882	(332)	36,543
Total	$ 135,055	$ 2,649	$ (985)	$ 136,719

Table of Contents

An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at December 31, 2005 held in perpetual care trusts is presented below:

	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	$ 2,548	$ 43	$ 878	$ 26	$ 3,426	$ 69
U.S. State and local government agency	489	2	496	11	985	13
Corporate debt securities	6,384	192	2,793	79	9,177	271
Other debt securities	27,431	300			27,431	300
Total fixed maturities	36,852	537	4,167	116	41,019	653
Equity Securities	9,559	331	44	1	9,603	332
Total	$ 46,411	$ 868	$ 4,211	$ 117	$ 50,622	$ 985

At December 31, 2006 the cost and market value associated with the assets held in perpetual care trust were as 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)	5,084
Corporate debt securities	14,796	337	(67)	15,066
Other debt securities	73,471	1,857	(84)	75,244
Total fixed maturities	99,588	2,235	(216)	101,607
Equity Securities	43,966	5,082	(116)	48,932
Total	$ 161,646	$ 7,317	$ (332)	$ 168,631

An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at December 31, 2006 held in perpetual care trusts is presented below:

	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	$ 1,243	$ 21	$ 1,219	$ 24	$ 2,462	$ 45
U.S. State and local government agency	2,167	12	304	8	2,471	20
Corporate debt securities	3,032	32	2,583	35	5,615	67
Other debt securities	18,724	84			18,724	84

Total fixed maturities	25,166	149	4,106	67	29,272	216
Equity Securities	1,307	14	4,024	102	5,331	116
Total	$ 26,473	$ 163	$ 8,130	$ 169	$ 34,603	$ 332

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

Table of Contents

to hold the investments. At December 31, 2006 the Company has concluded that the declines in the fair values of the Company s investments in fixed maturities and equity securities held in perpetual care trusts are temporary.

The Company deposited $5,144 and $4,315 into and withdrew $7,828 and $7,315 from the trusts during the year ended December 31, 2006 and December 31, 2005, respectively.

During the year ended December 31, 2006, purchases and sales of available for sale securities included in trust investments were $55,261 and $42,004, respectively. During the nine months ended December 31, 2005, purchases and sales of available for sale securities included in trust investments were $59,361 and $63,247, respectively.

The Company recorded income from perpetual care trusts of $7.2 million, $7.7 million and $9.5 million for the years ended December 31, 2004, 2005 and 2006, respectively. This income is classified as cemetery revenues in the consolidated statements of operations.

8. LONG-TERM DEBT

The following is a summary of debt outstanding at:

	December 31,	
	2005	2006
	(In Thousands)	
Vehicle Financing	$	$ 50
Insurance premium financing, due in installments through September 2007 (4.75%)	437	433
Covenants not to compete due through August 2007 (non-interest bearing)	258	59
Acquisition Credit Line, due September 2009 (interest rate Libor + 3.5%)	5,250	15,550
Revolving Credit Line, due September 2009 (interest rate Libor + 3.5%)	1,000	7,400
Senior secured notes, due 2009 (interest rate 7.66%)	80,000	80,000
Total	86,945	103,492
Less current portion	641	1,388
Long-term portion	$ 86,304	$ 102,104

On March 31, 1999, the Company entered into a $200.0 million credit facility with a group of banks and Wachovia Bank, formerly First Union National Bank, as administrative and collateral agent. The credit facility consisted of a $100.0 million term loan and a $100.0 million revolving credit facility. The proceeds of the term loan and $27.5 million of the revolving credit facility were used by the Company to finance the acquisition of 123 cemeteries and 4 funeral homes from The Loewen Group, Inc.

On April 8, 2004, the Company amended and restated its credit agreement. This amendment extended the Company s then existing revolving credit facility maturity date to June 2005 from September 2004. This amendment also changed the quarterly principal payments on the term loan from $7.5 million per quarter beginning June 2004 through March 31, 2005 and $21.5 million per quarter beginning April 1 through December 31, 2005 with the balance to be paid in full March 31, 2006 to $1.25 million due on March 2004 and $2.0 million due quarterly from June 2004 through March 2005 with the remainder due June 2005. The Company paid approximately $1.4 million in fees to the banks in connection with this refinancing.

On September 20, 2004, concurrent with the closing of the Partnership s initial public offering, StoneMor LLC issued and sold $80.0 million aggregate principal amount of senior secured notes. The senior secured notes bear interest at a rate of 7.66% per annum and mature in 2009. The senior secured notes rank pari passu with all of the Company s other senior secured debt, including the revolving credit facility and the acquisition facility, subject to the description of the collateral securing the senior secured notes described below. The senior secured notes are guaranteed by the Partnership, the general partner of the Partnership and any future subsidiaries of StoneMor Operating LLC. Obligations under the senior secured notes are secured by a first

Table of Contents

priority lien and security interest covering substantially all of the assets of the issuers of the senior secured notes, whether then owned or thereafter acquired, other than specified receivable rights and a second priority lien and security interest covering those specified receivable rights, each as described above, of such issuers, whether then owned or thereafter acquired.

On September 20, 2004, concurrent with the closing of the Partnership s initial public offering, StoneMor LLC entered into a new $35.0 million credit facility with a group of banks. This credit facility consists of a $12.5 million revolving credit line and a $22.5 million acquisition line of credit. Borrowings under the revolving credit line were due and payable on September 20, 2007, and borrowings under the acquisition line of credit were due and payable on September 20, 2008. On September 28, 2006, the Company entered into a second amendment of the credit facility which extended the due date on both lines of credit to September 20, 2009. Depending on the type of loan, this credit facility bears interest at the Base Rate or the Eurodollar Rate, plus applicable margins ranging from 0.00% to 1% and 2.5% to 3.5% per annum, respectively, depending on our ratio of total debt to consolidated EBIDTA, as defined. The Base Rate is the higher of the federal funds rate plus 0.05% or the prime rate announced by Fleet National Bank, a Bank of America Company. The Eurodollar Rate is to be determined by the administrative agent according to the credit facility. As of December 31, 2006, we had outstanding borrowings of $7.4 million under our revolving credit line and $15.6 million outstanding under our acquisition line of credit.

Borrowings under the credit facility rank pari passu with all of our other senior secured debt, including the senior secured notes, subject to the description of the collateral securing the credit facility described below. The Partnership and the general partner of the Partnership guarantee borrowings under the credit facility.

Our obligations under the revolving facility are secured by a first priority lien and security interest in specified receivable rights, whether then owned or thereafter acquired, of the borrower and the guarantors and by a second priority lien and security interest in substantially all assets other than those receivable rights of the borrower 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, our general partner s interest in the Partnership and our general partner s incentive distribution rights under the Partnership s partnership agreement. These assets secure the acquisition facility and our senior secured notes. The specified receivable rights include all accounts and other rights to payment arising under customer contracts or agreements (other than amounts required to be deposited into merchandise and perpetual care trusts) 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.

Our obligations under the acquisition 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 borrower 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, our general partner s interest in the Partnership and our general partner s incentive distribution rights under the Partnership s partnership agreement, and a secondary priority lien and security interest in those specified receivable rights of the borrower and the guarantors. The senior secured notes share pari passu in the collateral securing the acquisition facility.

The agreements governing the revolving credit facility, the acquisition line of credit and the senior secured notes contain 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. As of December 31, 2006, the Company was in compliance with all debt covenants.

In September 2004, the remaining deferred financing cost associated with the previous outstanding debt was expensed in the amount of $3.9 million. Deferred financing cost relating to our credit facility and senior secured notes totaled approximately $1.2 million at December 31, 2006.

Table of Contents

9. INCOME TAXES

Effective with the closing of the Partnership s initial public offering on September 20, 2004 (see Note 1), 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.

The tax on our net income is borne by our general and limited partners. Net income for financial statement purposes may differ significantly from the taxable income of our partners as a result of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under our partnership agreement. The aggregate difference in the basis of our net assets for financial and tax reporting purposes cannot be readily determined because information regarding each partners tax attributes is not available to us.

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 bases 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.

Management periodically evaluates all evidence, both positive and negative, in determining whether a valuation allowance to reduce the carrying value of deferred tax assets is still needed. In 2006, it concluded, based on the projected allocations of taxable income, the Partnership s corporate subsidiaries, will more likely than not realize a partial benefit from its deferred tax assets and loss carryforwards. Ultimate realization of the deferred tax asset is dependent upon, among other factors, the Partnership s corporate subsidiaries ability to generate sufficient taxable income within the carryforward periods and is subject to change depending on the tax laws in effect in the years in which the carryforwards are used.

Components of the income tax provision (benefit) applicable to continuing operations for federal and state taxes are as follows:

	Year Ended December 31,		
	2004	2005	2006
		(in thousands)	
Taxes Payable:			
Federal	$ 98	$ 1,250	$ 989
State	839	587	438
Total	937	1,837	1,427
Deferred Income Taxes (Benefit):			
Federal	(1,239)		
State	(176)		
Total	(1,415)		
Total tax (benefit)	$ (478)	$ 1,837	$ 1,427

Table of Contents

The difference between the statutory federal income tax and our effective income tax is summarized as follows:

	Year Ended December 31,		
	2004	2005	2006
Computed tax provision at the applicable statutory income tax rate	$ (1,441)	$ 2,074	$ 1,563
State and local taxes net of federal income tax benefit	663	381	285
Tax exempt (income) loss	296	217	(538)
Acquisition Interest	(224)		
Change in valuation allowance	14,599	1,304	2,837
Change in deferred taxes due to conversion to partnership	(13,747)		
Partnership earnings not subject to tax	(624)	(2,532)	(2,687)
Other		393	(33)
Income taxes (benefit)	$ (478)	$ 1,837	$ 1,427

Deferred tax assets and liabilities result from the following (in thousands):

	December 31,	
	2005	2006
	(in thousands)	
Deferred tax assets:		
Property plant and equipment	$	$ 142
Deferred revenue	5,399	3,995
Prepaid expenses	1,798	2,506
State net operating loss	2,733	5,705
Federal net operating loss	12,375	13,208
Alternative minimum tax credit	63	36
FAS 115 adjustment	743	
Valuation allowance	(19,373)	(16,212)
Total deferred tax assets	3,738	9,380
Deferred tax liabilities:		
Property plant and equipment	381	
FAS 115 Adjustment		1,715
Deferred cost adjustment	2,193	1,977
Acquisition	1,164	5,688
Total deferred tax liabilities	3,738	9,380
Net deferred tax liabilities	$	$

We had available, at December 31, 2006, approximately $36,000 of alternative minimum tax credit carryforwards, which are available indefinitely, and $40.9 million of federal net operating loss carryforwards, which will begin to expire in 2019 and $74.2 in state net operating losses which will begin to expire in 2006.

10. DEFERRED CEMETERY REVENUES NET / DEFERRED SELLING AND OBTAINING COSTS

In accordance with SAB No. 104, the Company defers the revenues and all direct costs associated with the sale of pre-need cemetery merchandise and services until the merchandise is delivered or the services are performed. The Company also defers the costs to obtain new pre-need cemetery and new prearranged funeral business as well as the investment earnings on the prearranged services and merchandise trusts (see Note 1).

79

Table of Contents

At December 31, 2005 and December 31, 2006, deferred cemetery revenues, net, consisted of the following:

	December 31,	
	2005	2006
	(In Thousands)	
Deferred cemetery revenue	$ 135,457	$ 149,327
Deferred merchandise trust revenue	22,008	27,422
Deferred pre-acquisition margin	30,216	41,954
Deferred cost of good sold	(20,646)	(22,600)
Deferred cemetery revenue, net	$ 167,035	$ 196,103
Deferred selling and obtaining costs	$ 30,360	$ 33,478

11. STOCK PURCHASE PROGRAM

During 2004, in connection with the conversion of Cornerstone Family Services, Inc. into CFSI LLC, certain members of management acquired Class B units in CFSI LLC, which controls our general partner, StoneMor GP LLC, with an estimated value of $0.4 million. The estimated value of these Class B units was recorded as compensation expense in 2004.

12. RETIREMENT PLANS

The Company has a 401(k) retirement savings plan for employees who may defer up to 15% of their compensation. The Company does not currently match any of the employee contributions.

Our general partner has adopted the StoneMor Partners L.P. Long-Term Incentive Plan (LTIP) for its employees, consultants and directors, who perform services for us. The long-term incentive plan permits the grant of awards covering an aggregate of 624,000 common units in the form of unit options, unit appreciation rights, restricted units and phantom units. The compensation committee of our general partner s board of directors administers the plan. The plan will continue in effect until the earliest of (i) the date determined by the board of directors of our general partner; (ii) the date that common units are no longer available for payment of awards under the plan; or (iii) the tenth anniversary of the plan.

Our general partner s board of directors or compensation committee may, in their discretion, terminate, suspend or discontinue the long-term incentive plan at any time with respect to any units for which a grant has not yet been made. Our general partner s board of directors also has the right to alter or amend the long-term incentive plan or any part of the plan from time to time, including increasing the number of units that may be delivered in accordance with awards under the plan, subject to any approvals if required by the exchange upon which the common units are listed at that time. No change in any outstanding grant may be made, however, that would materially impair the rights of the participant without the consent of the participant.

Restricted Units and Phantom Units. A restricted unit is a common unit that is subject to forfeiture. Upon vesting, the grantee receives a common unit that is not subject to forfeiture. A phantom unit is a notional unit that entitles the grantee to receive a common unit upon the vesting of the phantom unit or, in the discretion of the compensation committee, cash equivalent to the fair market value of a common unit. The compensation committee may make grants of restricted units and phantom units under the plan to employees, consultants and directors containing such terms as the compensation committee shall determine under the plan, including the period over which restricted units and phantom units granted will vest. The committee may, in its discretion, base its determination on the grantee s period of service or upon the achievement of specified financial objectives. In addition, the restricted and phantom units will vest upon a change of control of us or our general partner, subject to additional or contrary provisions in the award agreement.

If a grantee s employment, consulting arrangement or membership on the board of directors terminates for any reason, the grantee s restricted units and phantom units will be automatically forfeited unless, and to the extent, the compensation committee provides otherwise or unless otherwise provided in an award agreement. Common units to be delivered with respect to these awards may be common units acquired by our general partner in the open market, common units already owned by our general partner, common units acquired by our

80

Table of Contents

general partner directly from us or any other person or any combination of the foregoing. Our general partner will be entitled to reimbursement by us for the cost incurred in acquiring common units. If we issue new common units with respect to these awards, the total number of common units outstanding will increase.

Distributions on restricted units may be subject to the same vesting requirements as the restricted units, in the compensation committee s discretion. The compensation committee, in its discretion, may also grant tandem distribution-equivalent rights with respect to phantom units. These are rights that entitle the grantee to receive cash equal to the cash distributions made on the common units. We are considering amending the plan to permit grantees to receive units rather than cash.

We intend for the issuance of the common units upon vesting of the restricted units and phantom units under the plan to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation of the common units. Therefore, plan participants will not pay any consideration for the common units they receive, and we will receive no remuneration for the units.

As of December 31, 2006, 381,779 restricted phantom units had been granted under the plan, 360,560 of which vest in direct proportion to the conversion of subordinated units into common units in accordance to the provision of the Partnership Agreement. The additional 21,279 units issued to certain members of our board of directors as compensation for serving on the board are fully vested at issuance.

The following table sets forth the LTIP restricted phantom unit activity for the periods indicated:

	Years Ended December 31,		
	2004	2005	2006
Outstanding, beginning of period			
Granted (1)			381,779
Matured			
Forfeited			
Outstanding, end of period			381,779
Non-cash compensation expense recognized (in thousands)	$	$	$ 1,184

(1) The weighted average price for phantom unit awards on the date of grant $21.22 for awards granted for the year ended December 31,2006. There were no units awarded for the years ended December 31, 2004 and December 31, 2005.

Unit Options and Unit Appreciation Rights. The long-term incentive plan permits the grant of options and unit appreciation rights (UARs) covering common units. A UAR entitles the grantee to a payment in cash or units, in the discretion of the compensation committee, equal to the appreciation of the unit price between the grant date and the exercise date. The compensation committee may make grants under the plan to employees, consultants and directors containing such terms, as the committee shall determine, including the grant of tandem distribution-equivalent rights. It is our intention not to issue Unit Options and UARs with an exercise price less than the fair market value of the units on the date of the grant. In general, unit options and UARs granted will become exercisable over a period determined by the compensation committee and, in the compensation committee s discretion, may provide for accelerated vesting upon the achievement of specified performance objectives. In addition, unless otherwise provided in an award agreement, the unit options and UARs will become exercisable upon a change in control of our general partner or us. Unless otherwise provided in an award agreement, unit options and UARs may be exercised only by the participant during his lifetime or by the person to whom the participant s right will pass by will or the laws of descent and distribution.

If a grantee s employment, consulting arrangement or membership on the board of directors terminates for any reason, the grantee s unvested options and UARs will be automatically forfeited unless, and to the extent, the compensation committee provides otherwise or unless otherwise provided in an award agreement. Upon exercise of a unit option or UAR, the general partner will acquire common units in the open market or directly from us or any other person or use common units already owned by our general partner or any combination of the foregoing. The general partner will be entitled to reimbursement by us for the difference between the cost incurred by it in

Table of Contents

acquiring these common units and the proceeds it receives from a grantee at the time of exercise. Thus, the cost of the unit options and UARs above the proceeds from grantees will be borne by us. If we issue new common units upon exercise of the unit options, the total number of common units outstanding will increase, and our general partner will pay us the proceeds it received from the grantee upon exercise of the unit option.

The plan has been designed to furnish additional compensation to our employees, consultants and directors and to align their economic interests with those of common unitholders. Awards may be granted under the plan in substitution of similar awards held by individuals who become our employees, consultants or directors as a result of an acquisition. These substitute awards may have exercise prices less than the fair market value of a common unit on the date of substitution.

In 2006, the Company began awarding UARs. The compensation expense is the fair value on the date of grant, recognized over the vesting period. The fair value for these awards was estimated using the Black-Scholes-Merton valuation model and follows the provisions of SFAS No. 123R. The Company used historical data and other pertinent information to estimate the expected volatility for the term of the award and the outstanding period of the award for separate groups of employees that had similar historical exercise behavior. The risk free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant. The weighted-average fair value of unit appreciation rights granted during the year ended December 31, 2006 was $2.47. Pursuant to SFAS 123R, the fair value is amortized to expense ratably over the vesting period.

A summary of unit appreciation rights activity for the year ended December 31, 2006 follows:

	Year Ended December 31, 2006		
	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Fair Value Price Per Share
Outstanding at beginning of year			
Granted	120,000	$ 24.14	$ 2.47
Exercised			
Forfeited			
Outstanding at end of year	120,000	$ 24.14	$ 2.47
Exercisable at end of year		$	$

The following table summarizes information about unit appreciation rights outstanding as of December 31, 2006:

	Unit Appreciation Rights Outstanding				Unit Appreciation Rights Exercisable			
Range of Exercise Prices Per Unit	Number Outstanding	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price Per Unit	Aggregate Intrinsic Value	Number Exercisable	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price Per Unit	Aggregate Intrinsic Value
$ 24.14	120,000	3.53	$ 24.14	$ 296,400	0	3.53	$ 24.14	$

The fair value of each unit appreciation right granted is estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

	December 31, 2006
Expected dividend yield	7.90%
Risk-free interest rate	4.50%
Expected volatility	24.20%
Expected life (in years)	3.53

Table of Contents

As of December 31, 2006, there was approximately $268,000 of unrecognized compensation cost related to nonvested unit appreciation rights. Such cost is expected to be recognized over a weighted-average period of 2.75 years. Total compensation expense (income) for unit appreciation rights was $28,000, for the year ended December 31, 2006.

13. 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 December 31, 2005 and 2006, 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 $0.6 million for the year ended December 31, 2005 and 2006.

At December 31, 2006, operating leases will result in future payments in the following approximate amounts (in thousands):

	(in thousands)
2007	$ 595
2008	572
2009	549
2010	434
2011	389
Thereafter	876
Total	$ 3,415

Employment Agreements The Company has employment agreements with four of its senior executives which are annually renewable.

Tax Indemnification CFSI LLC has agreed to indemnify us for all federal, state and local income tax liabilities attributable to the operation of the assets contributed by CFSI LLC to us prior to the closing of the public offering. CFSI LLC has also agreed to indemnify us against additional income tax liabilities, if any, that arise from the consummation of the transactions related to our formation in excess of those believed to result at the time of the closing of our initial public offering. We estimate 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 us against the increase in income tax liabilities of our corporate subsidiaries resulting from any reduction or elimination of our 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 us, or from our 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 our general partner or the common units or subordinated 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 our general partner or the common units or subordinated units held by it if the effect of the proposed transfer would trigger an ownership change under the Internal Revenue Code that would limit our ability to use our federal net operating loss carryovers.

14. RELATED PARTY TRANSACTIONS

Cornerstone Family Services was party to an agreement with its majority shareholder, whereby the majority shareholder provided various services to the Company. The agreement required minimum yearly payments of

Table of Contents

$0.5 million plus certain out of pocket expenses. The Company expensed $0.4 for the year ended December 31, 2004 as a result of this agreement. The agreement was terminated on September 20, 2004, the date of the Company s initial public offering.

15. SUBSEQUENT EVENTS

On February 14, 2007, the Company paid a distribution to the common and subordinated unitholders of record as of the close of business on February 2, 2007, in the amount of $0.5 per unit totaling approximately $4.6 million.

On February 28, 2007, we terminated one of the management contracts under which we operate one of our locations. The Company consolidates this location in accordance with FIN 46R (see Note 1.). As of this date we are no longer operating under the terms and conditions of the agreement and will discontinue consolidating this entity. In February 2007, we evaluated our investment for recoverability and have determined that we recorded a non-cash charge of approximately $1.0 million related to this transaction. For the years ended December 31, 2004, 2005 and 2006 we received $190,527, $164,930 and $53,586 in net management fees from this location.

16. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following summarizes certain quarterly results of operations:

	March 31		June 30		September 30		December 31	
	(in thousands, except per unit amounts)							
	As Previously Reported	As Restated (2)	As Previously Reported	As Restated (2)	As Previously Reported	As Restated (2)	As Previously Reported	As Restated (2)
Fiscal 2005								
Revenues	$ 20,966	$ 21,135	$ 25,228	$ 25,729	$ 24,821	$ 25,084	$ 28,710	$ 28,712
Gross Profit (1)	$ 5,184	$ 5,304	$ 6,741	$ 7,062	$ 6,692	$ 6,865	$ 6,693	$ 6,694
Net Earnings (Loss)	$ 668	$ 788	$ 1,352	$ 1,673	$ 656	$ 829	$ 1,414	$ 1,415
General partners interest in net income for the period	$ 13	$ 16	$ 26	$ 33	$ 14	$ 15	$ 29	$ 30
Limited partners interest in net income for the period								
Common	$ 327	$ 386	$ 663	$ 820	$ 321	$ 404	$ 704	$ 708
Subordinated	$ 327	$ 386	$ 663	$ 820	$ 321	$ 404	$ 682	$ 683
Net Income per Common Unit								
Basic	$ .08	$ .09	$ .16	$ .20	$ .07	$ .09	$ .16	$ .16
Diluted	$ .08	$ .09	$ .16	$ .20	$ .07	$ .09	$ .16	$ .16

	Three Months Ended				
	March 31	June 30	September 30		December 31
	(in thousands, except per unit amounts)				
	As Reported	As Reported	As Previously Reported	As Restated (3)	
Fiscal 2006					
Revenues	$ 26,652	$ 28,292	$ 26,785	$ 26,906	$ 33,263
Gross Profit (1)	$ 6,336	$ 7,195	$ 6,789	$ 6,906	$ 8,536
Net Earnings (Loss)	$ 941	$ 1,080	$ 1,059	$ 1,176	$ (157)
General partners interest in net income for the period	$ 19	$ 22	$ 21	$ 24	$ (4)
Limited partners interest in net income for the period					
Common	$ 476	$ 546	$ 536	$ 595	$ (79)
Subordinated	$ 446	$ 512	$ 502	$ 557	$ (74)
Net Income per Common Unit					
Basic	$ .11	$ .12	$ .12	$ .13	$ (.02)
Diluted	$ .11	$ .12	$ .12	$ .13	$ (.02)

84

Table of Contents

(1) The Company defines Gross Profit as cemetery sales less cost of goods sold and selling expenses.
(2) See Note 2 to the consolidated financial statements.
(3) Subsequent to the issuance of the Company s interim condensed consolidated financial statements for the period ended September 30, 2006, the Company discovered a lack of functionality in its automated systems relating to revenue recognition from the installation of the pre-need burial vaults, the company determined that it had not recognized revenue on some of the pre-need burial vaults that had been installed in the ground during the three months ended September 30, 2006. Even though the Audit Committee of the Company s Board of Directors determined this adjustment not to be material, the Company is restating its interim Consolidated Financial Statements as of September 30, 2006.

17. ACQUISITIONS

On September 30, 2006 the Company acquired 21 cemeteries and 14 funeral homes from Service Corporation International (NYSE: SCI), joined by certain of its direct and indirect subsidiary entities for $11.8 million in the aggregate. The results of the operations of these acquired cemeteries and funeral homes have been included in the consolidated financial statements since that date. StoneMor paid $5.9 million in cash in the aggregate and 275,046 StoneMor Limited Partner units, representing the additional $5.9 million. The value of the StoneMor Limited Partner units issued was determined based on the closing price of the Company s units on The NASDAQ Global Market for the second business day immediately preceding September 28, 2006. Including the acquisition transaction costs, the transaction was valued at $15.7 million for accounting purposes.

We acquired two additional cemeteries during the fourth quarter of 2006 with an aggregate purchase price of approximately $1.3 million.

The following table summarizes the estimated fair values (in thousands) of the assets acquired and liabilities assumed as of the acquisition dates. StoneMor is in the process of finalizing the allocation of the purchase price; thus, the allocation shown below is preliminary and subject to further refinement.

Assets acquired	
Long-term accounts receivable, net of allowance	$ 4,022
Cemetery property	8,473
Property and equipment	4,444
Merchandise trust funds, restricted at fair value	25,772
Total assets acquired	**42,711**
Liabilities assumed	
Deferred margin	13,012
Deferred interest	628
Merchandise liability	12,010
Total liabilities assumed	25,650
Net assets acquired	**$ 17,061**

The following unaudited pro forma information presents a summary of results of operations of StoneMor and the acquired cemeteries and funeral homes as if the acquisitions had occurred January 1, 2005.

	Year ended December 31,	
	2005 (unaudited)	2006 (unaudited)
	(in thousands, except per unit)	
Revenues	$ 129,874	$ 128,010
Net Income	2,418	3,704
Net Income per limited partner unit (basic and diluted) (1)	.28	.41

(1) StoneMor Partners L.P. became a public entity on September 20, 2004 therefore per unit data is not available for the year ended December 31, 2004.

Table of Contents

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 acquisition 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, 2006 or of future results of operations of the locations.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 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 the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s Disclosure Committee and management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company s disclosure controls and procedures were not effective because of the material weakness described below. In light of the material weakness described below, the Company performed additional analysis and other post-closing procedures to ensure our consolidated financial statements are prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the consolidated financial statements included in this Annual Report on Form 10-K fairly present in all material respects our financial position, results of operations and cash flows for the periods presented.

Management s Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company s internal control over financial reporting is a process designed under the supervision of the Company s Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria described in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Table of Contents

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. We identified the following material weakness in our assessment of the effectiveness of internal control over financial reporting as of December 31, 2006:

- The Company did not design and implement adequate controls related to the recognition of revenue from pre-need burial vaults. Specifically, revenue should be recognized once vaults are installed and management did not have controls in place to ensure that such revenue was recognized once the vault had been installed.

This weakness resulted in the restatement of previously issued financial statements and material audit adjustments that were necessary to present the 2005 and third quarter 2006 financial statements in accordance with generally accepted accounting principles.

Because of this material weakness, we have concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2006 based on the criteria in the Internal Control-Integrated Framework issued by the COSO. Management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm as stated in their report which appears herein.

Plan for Remediation

To remediate the material weakness related to the unrecognized revenue from pre-need burial vaults, the Company has made changes to its automated revenue recognition systems which capture revenue recognition events that were previously excluded.

The Company s management believes that the procedures described above will serve to remediate the material weakness identified once implemented and operating effectively.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company s internal controls over financial reporting that occurred during the Company s last fiscal quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of StoneMor GP LLC and Unitholders of StoneMor Partners L.P.

Bristol, Pennsylvania

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that StoneMor Partners LLP (the Company) did not maintain effective internal control over financial reporting as of December 31, 2006, because of the effect of the material weakness identified in management s assessment based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management s assessment: the Company did not design and implement adequate controls related to the recognition of revenues from pre-need burial vaults. Due to (1) the material adjustments identified in the year-end 2005 and third quarter 2006 financial statements and (2) the significance of the deficiencies in the preparation of reliable financial statements, there is a more than remote likelihood that a material misstatement of the interim and annual financial statements would not have been prevented or detected. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2006, of the Company and this report does not affect our report on such financial statements.

Table of Contents

In our opinion, management s assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006, of the Company and our report dated March 16, 2007 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the restatement of the Company s 2005 consolidated financial statements.

Philadelphia, Pennsylvania

March 16, 2007

Table of Contents

Item 9B. Other Information

None.

Table of Contents

PART III

Item 10. Directors and Executive Officers of the Registrant

Partnership Structure and Management

StoneMor GP LLC, as our general partner, manages our operations and activities. Unitholders are not entitled to participate, directly or indirectly in our management or operation.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business. Unitholders do not have the right to elect StoneMor s general partner or its directors on an annual or other continuing basis. StoneMor s general partner may not be removed except by the vote of the holders of at least 66 2/3% of the outstanding common and subordinated units, including units owned by our general partner and its affiliates, voting together as a single class. Because of their controlling ownership interest in our general partner, the McCown De Leeuw funds are able to control the election of a majority of the directors of StoneMor s general partner, and because these funds indirectly control greater than 33 1/3% of our units, they are able to prevent the removal of our general partner.

Directors and Executive Officers of StoneMor GP LLC

The following table shows information regarding the directors and executive officers of our general partner. Directors are elected for one-year terms.

Name	Age	Positions with Stonemor GP LLC
Lawrence Miller (1)	58	Chief Executive Officer, President and Chairman of the Board
William R. Shane (1)	60	Executive Vice President, Chief Financial Officer and Director
Michael L. Stache	55	Senior Vice President and Chief Operating Officer
Robert Stache	58	Senior Vice President Sales
Gregg Strom	64	Vice President Business Development
Paul Waimberg	49	Vice President Finance
Allen R. Freedman	66	Director
Peter K. Grunebaum	73	Director
Robert B. Hellman, Jr.	47	Director
Martin R. Lautman, Ph.D.	60	Director
Fenton R. Talbott	65	Director
Jeffrey A. Zawadsky	36	Director
Howard L. Carver	62	Director

(1) The Amended and Restated Limited Liability Company Agreement of our general partner, or the GP LLC Agreement, specifies that, so long as Mr. Miller serves as Chief Executive Officer of our general partner, he shall also serve as a director of our general partner and, so long as Mr. Shane serves as Chief Financial Officer of our general partner, he shall also serve as a director of our general partner.

Lawrence Miller has served as our Chief Executive Officer, President and Chairman of the Board since our formation in April 2004 and has served as the Chief Executive Officer and President of Cornerstone, since March 1999. Prior to joining Cornerstone, Mr. Miller was employed by The Loewen Group, Inc. (now known as the Alderwoods Group, Inc.), where he served in various management positions, including Executive Vice President of Operations from January 1997 until June 1998, and President of the Cemetery Division from March of 1995 until December 1996. Prior to joining The Loewen Group, Mr. Miller served as President and Chief Executive Officer of Osiris Holding Corporation, a private consolidator of cemeteries and funeral homes of which Mr. Miller was a one-third owner, from November 1987 until March 1995, when Osiris was sold to The Loewen Group. Mr. Miller served as President and Chief Operating Officer of Morlan International, Inc., one of the first publicly traded cemetery and funeral home consolidators from 1982 until 1987, when Morlan was sold to Service Corporation International.

Table of Contents

William R. Shane has served as our Executive Vice President and Chief Financial Officer and on our board of directors since our formation in April 2004 and has served as Executive Vice President and Chief Financial Officer of Cornerstone since March 1999. Prior to joining Cornerstone, Mr. Shane was employed by The Loewen Group, Inc., where he served as Senior Vice President of Finance for the Cemetery Division from March 1995 until January 1998. Prior to joining The Loewen Group, Mr. Shane served as Senior Vice President of Finance and Chief Financial Officer of Osiris Holding Corporation, which he founded with Mr. Miller, and of which he was a one-third owner. Prior to founding Osiris, Mr. Shane served as the Chief Financial Officer of Morlan International, Inc.

Michael L. Stache has served as our Senior Vice President and Chief Operating Officer since our formation in April 2004 and has served as Senior Vice President and Chief Operating Officer of Cornerstone since March 1999. Prior to joining Cornerstone, Mr. Stache was with Loewen Group International, Inc., a wholly owned subsidiary of The Loewen Group, Inc., between March 1995 and March 1999. Mr. Stache also served as Vice President of Funeral Home Advanced Planning for the United States and Canada for The Loewen Group from January 1999 until he joined Cornerstone in March 1999. Mr. Stache previously served in several different capacities with The Loewen Group, including as Regional President of the North Central Region between 1996 and 1999 and Regional Vice President of Cemetery Operations in the Midwest between 1995 and 1996. Mr. Stache served as Vice President of Operations for Osiris Holding Corporation between 1994 and 1995 and as General Manager between 1988 and 1994.

Robert Stache has served as our Vice President of Sales since our formation in April 2004 and has served in the same capacity with Cornerstone since March 1999. Mr. Stache was in charge of the North Central Region for The Loewen Group, Inc. for both funeral home and cemetery sales from 1996 to 1999. Mr. Stache joined The Loewen Group in 1995, when it acquired Osiris Holding Corporation, where Mr. Stache had been Vice President of Sales for the Cemetery Division. Mr. Stache joined Osiris in 1988 as Vice President of Sales for Colorado.

Gregg Strom has been our Senior Vice President of Business Development since our formation in April 2004 and has acted as Senior Vice President of Business Development of Cornerstone since March 1999. Mr. Strom previously acted as the Vice President of Cemetery Operations for The Loewen Group, Inc. s Cemetery and Combination Division, which he joined in 1995. From 1990 to 1995, Mr. Strom was National Director of Sales, Marketing and Corporate Development at Osiris Holding Corporation. Before 1990, Mr. Strom held various positions with Osiris, Service Corporation International and Morlan International, Inc.

Paul Waimberg has served as our Vice President of Finance since our formation in April 2004 and has served as Vice President of Finance of Cornerstone since March 1999. Mr. Waimberg was previously employed at The Loewen Group, Inc. from 1995 to 1999, where he was responsible for all accounting acquisition functions and internal and external financial reporting as Vice President of Cemetery Accounting. He had approximately 80 employees reporting to him who were responsible for all general ledger functions for 500 companies. Prior to joining The Loewen Group in 1995, he carried out all accounting responsibilities for Osiris Holding Corporation before it merged into The Loewen Group. Mr. Waimberg joined Osiris in July 1990 as its Controller.

Howard L. Carver has served on our Board of Directors since August 2005. Mr. Carver retired in June 2002 from Ernst & Young. During his 35-year career with the firm, Mr. Carver held a variety of positions in six U.S. offices, culminating with the position of managing partner responsible for the operation of the Hartford, Connecticut office. Since June 2002, Mr. Carver has served on the boards of directors of Assurant, Inc. (formerly Fortis, Inc.) and Phoenix National Trust Company (until its sale in April 2004) and has been the chair of the Audit Committee for both boards. Since September 2004, Mr. Carver has served on the board of directors of Open Solutions, Inc. and is the chair of that company s Audit Committee (until January 23, 2007 when Open Solutions, Inc was sold).

Allen R. Freedman has served on our Board of Directors since our formation in April 2004, and has served as a director of Cornerstone since October 2000. He served as Non-Executive Chairman of Systems & Computer

Table of Contents

Technology, Inc., a company that provides software and services to educational institutions, from January 2002 to early 2004. Mr. Freedman retired in July 2000 from his position as Chairman and Chief Executive Officer of Fortis, Inc., a specialty insurance company that he started in 1979. He currently serves on the board of Assurant, Inc. (which was formerly known as Fortis, Inc.). He is also a founding director of the Association of Audit Committee Members, Inc.

Peter Grunebaum has served on our Board of Directors since December 2004. Mr. Grunebaum, currently an independent investment banker and corporate consultant, was the Managing Director of Fortrend International, an investment firm headquartered in New York, New York, a position he held from 1989 until the end of 2003. Mr. Grunebaum currently serves as a director; member of the Executive Committee and Chairman of the Audit Committee of Pre Paid Legal Services, Inc., a NYSE listed company that provides legal service plans.

Robert B. Hellman, Jr. has served on our Board of Directors since our formation in April 2004 and has served as a director of Cornerstone since March 1999. Mr. Hellman is the Chief Executive Officer and a Managing Director of McCown De Leeuw & Co., LLC, which he joined in 1987. McCown De Leeuw & Co., LLC is the sponsor of numerous private equity investment funds. Mr. Hellman was named Managing Director in 1991 and Chief Executive Officer in 2001.

Martin R. Lautman, Ph.D. has served on our Board of Directors since our formation in April 2004 and has served as a director of Cornerstone since its formation in March 1999. Dr. Lautman currently serves as the Managing Director of GfK ARBOR, LLC, a worldwide marketing consultancy and research agency, where he has served in different capacities since 1974. He also served with Numex Corporation, a machine-tool manufacturing company, as President from 1987 to 1990 and as a director from 1991 to 1997. From 1986 to 2000, Dr. Lautman served on the Board of Advisors of Bachow Inc., a venture-capital firm specializing in high-tech companies.

Fenton R. Pete Talbott has served on our Board of Directors since our formation in April 2004 and has served as Chairman of the Board of Cornerstone since April 2000. Mr. Talbott previously served as an operating affiliate of McCown De Leeuw & Co., LLC from November 1999 to December 2004. Additionally, he served as the Chairman of the Board of Telespectrum International, an international telemarketing and market-research company, from August 2000 to January 2001. Prior to 1999, Mr. Talbott held various executive positions with Comerica Bank, American Express Corporation, Bank of America and other entities. He currently serves as a board member of the Preventative Medicine Research Institute.

Jeffrey A. Zawadsky has served on our Board of Directors since our formation in April 2004 and has served as a director of Cornerstone since February 2003. He has worked at McCown De Leeuw & Co., LLC as an investment professional since 2000. From 1998 to 1999, Mr. Zawadsky was Vice President and Junior Partner of Eagle International Management, a private equity firm sponsored by CIBC Oppenheimer investing in Russia and the former Soviet Union. From 1996 to 1998, Mr. Zawadsky served as Vice President of Troika Dialog Investment Banking. Prior to joining Troika, he was involved in the start-up, management and financing of two restaurants, a health club and a medical text publishing house.

The GP LLC Agreement specifies that the directors of our general partner shall be elected by a plurality vote of the Class A units of our general partner, subject to the requirements described in footnote (1) to the table above. CFSI LLC holds all of the outstanding Class A units. CFSI LLC is controlled by the McCown De Leeuw funds. See also Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Messrs. Hellman and Zawadsky hold positions with McCown De Leeuw & Co., LLC, whose sponsored investment funds together beneficially own 87.8% of CFSI LLC through the funds direct ownership of approximately 10.6% of the Class B units of CFSI LLC and indirectly through the funds ownership of approximately 90.8% of the membership interests in Cornerstone Family Services LLC, which owns 85% of the

Table of Contents

Class B units of CFSI LLC. CFSI LLC indirectly owns our 2% general partner interest and directly owns 13,532 of our outstanding common units and all of our outstanding subordinated units. See Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters below.

Messers. M. Stache and R. Stache are brothers.

Independence of Directors

The board of directors has determined that Allen Freedman, Howard Carver and Peter Grunebaum qualify as independent directors in accordance with the applicable listing requirements of Nasdaq and the Exchange Act. In making these determinations, the directors reviewed and discussed information provided by the directors and us with regard to each director s business and personal activities as they may relate to our management and us.

Board Meetings and Committees

From January 1, 2006 to December 31, 2006, the Board of Directors of our general partner held four meetings. All directors then in office attended all of these meetings, either in person or by teleconference. We have standing Audit, Conflicts, Trust and Compliance, and Nominating, Compensation and Corporate Governance Committees of the Board of Directors of our general partner. The Board of Directors of our general partner appoints the members of such committees. The Audit Committee has a written charter approved by the board and which is posted on our website at www.stonemor.com under the Investor Relations section. The current members of the committees, the number of meetings held by each committee from January 1, 2006 to December 31, 2006, and a brief description of the functions performed by each committee are set forth below:

Audit Committee (14 meetings). The members of the Audit Committee are Messrs. Freedman (Chairman), Grunebaum and Carver. Messrs. Freedman and Grunebaum, attended all meetings of the Audit Committee for the period noted above. Mr. Carver attended all meetings that were held during his tenure on the board. The primary responsibilities of the Audit Committee are to assist the Board of Directors in its general oversight of our financial reporting, internal controls and audit functions, and it is directly responsible for the appointment, retention, compensation and oversight of the work of our independent auditors. Messrs. Freedman, Carver and Grunebaum each qualify as independent under applicable standards established by the SEC and Nasdaq for members of audit committees.

In addition, the Audit Committee includes at least one member who is determined by the Board of Directors to meet the qualifications of an audit committee financial expert in accordance with SEC rules, including that the person meets the relevant definition of an independent director. Mr. Freedman is the independent director who has been determined to be an audit committee financial expert. Unitholders should understand that this designation is a disclosure requirement of the SEC related to Mr. Freedman s experience and understanding with respect to certain accounting and auditing matters. The designation does not impose on Mr. Freedman any duties, obligations or liability that are greater than are generally imposed on him as a member of the Audit Committee and Board of Directors, and his designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Audit Committee or Board of Directors. Our audit committee met a disproportional number of times due to the resolution of the material weakness we discovered during the audit of our 2005 financial statements.

Conflicts Committee (2 meetings). The members of the Conflicts Committee are Messrs. Freedman (Chairman), Carver and Grunebaum. The primary responsibility of the Conflicts Committee is to review matters that the directors believe may involve conflicts of interest. The Conflicts Committee determines if the resolution of the conflict of interest is fair and reasonable to us. The members of the Conflicts Committee may not be officers or employees of our general partner or directors, officers, or employees of its affiliates and must meet the independence standards to serve on an audit committee of a board of directors established by Nasdaq and certain

Table of Contents

other requirements. Any matters approved by the Conflicts Committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners, and not a breach by our general partner of any duties it may owe us or our unitholders.

Conflicts of interest may arise between us and our unitholders, on the one hand, and our general partner and its affiliates, including the McCown De Leeuw funds, on the other hand. These conflicts include decisions made by our general partner (such as the amount and timing of borrowings or whether to acquire additional cemeteries) that may result in our general partner receiving incentive distributions or the conversion of subordinated units (which are owned by affiliates of our general partner) into common units.

Nominating, Compensation and Corporate Governance Committee (4 meetings). The members of the Nominating, Compensation and Corporate Governance Committee are Messrs. Talbott (Chairman), Hellman, and Lautman. All the members attended all meetings of the Committee for the period noted above. The primary responsibility of the Nominating, Compensation and Corporate Governance Committee is to oversee compensation decisions for the outside directors of our general partner and executive officers of our general partner (in the event they are to be paid by our general partner) as well as our long-term incentive plan, and to select and recommend nominees for election to the Board of Directors of our general partner.

Trust and Compliance Committee (4 meetings). The members of the Trust and Compliance Committee are Messrs. Talbott (Chairman), Freedman, Grunebaum and Carver. Funds that are held in merchandise trusts and perpetual care trusts are managed by third-party investment managers within specified investment guidelines adopted by the Trust and Compliance Committee of our board of directors and standards imposed by state law. These investment managers are monitored by third-party investment advisors selected by our Trust and Compliance Committee who advise the Trust and Compliance Committee on the determination of asset allocations, evaluate the investment managers and provide detailed monthly reports on the performance of each merchandise and perpetual care trust. All the members attended all meetings of the Committee for the period noted above.

Code of Ethical Conduct for Financial Managers

We have adopted a Code of Ethical Conduct applicable to all of our financial managers. The Code of Ethical Conduct for Financial Managers incorporates guidelines designed to deter wrongdoing and to promote honest and ethical conduct and compliance with applicable laws and regulations. The Code of Ethical Conduct for Financial Managers is publicly available on our website under the Investor Relations section (at www.stonemor.com). If any amendments are made to the Code of Ethical Conduct for Financial Managers or if StoneMor or its general partner grants any waiver, including any implicit waiver, from a provision of the code to any of its financial managers, we will disclose the nature of such amendment or waiver on our website or in a report on Form 8-K.

Section 16(a) Beneficial Ownership Reporting Compliance

Our general partner s directors, officers and beneficial owners of more than 10 percent of a registered class of our equity securities are required to file reports of ownership and reports of changes in ownership with the SEC. Directors, officers and beneficial owners of more than 10% of our equity securities are also required to furnish us with copies of all such reports that are filed. Based on our review of copies of such forms and amendments, we believe that all of our directors, executive officers and greater than 10% beneficial owners complied with all filing requirements under Section 16(a) of the Exchange Act, except through inadvertence, during the year ended December 31, 2006.

Table of Contents

Item 11. Executive Compensation

COMPENSATION DISCUSSION AND ANALYSIS

Our Compensation Process

Our business is managed by the directors, officers and employees of StonMor GP LLC, our general partner. We have no employees of our own. Accordingly, all decisions relating to compensation of the executive officers and directors of our general partner and our executive officers are made by the board of directors of our general partner, which we refer to as the board. The compensation, nominating and governance committee of the board, which we refer to as the compensation committee, is responsible for making recommendations to the board regarding the compensation of executive officers and for overseeing all executive officer compensation programs, plans and policies, including those involving the issuance of equity securities.

Our general partner does not receive any management fee or other compensation for managing our business, but is reimbursed by us for all expenses incurred on our behalf. These expenses include all expenses necessary or appropriate to the conduct of our business and allocable to us. The partnership agreement provides that our general partner will determine in good faith the expenses that are allocable to us. All items of cash compensation reflected in the tables below were incurred on our behalf by our general partner and reimbursed by us.

Objectives and Overview of Our Compensation Programs

Our compensation programs are designed by the board and compensation committee to attract and retain high quality executive officers, to motivate them to achieve our business goals and to maximize the value of our unitholders investment by aligning the interests of our executive officers with the interests of our unitholders. Our business goals are to increase our revenues, profits and cash distributions from existing operations, facilitate our growth through acquisitions, promote a cohesive team effort and provide a workplace environment that fosters compliance with the laws and regulations applicable to our business. Our compensation programs include short-term elements, such as annual base salary and annual incentive cash bonus, as well as longer term elements such as equity based awards. Our executive officers also receive health, disability and life insurance benefits and automobile allowances, and are entitled to defer a portion of their compensation pursuant to our 401(k) retirement plan. We do not match any contributions under that plan.

Our general partner has entered into written employment agreements with four of our executive officers, Messrs. Miller, Shane, M. Stache and R. Stache. Each agreement is for an initial term of one-year and automatically extends for successive one year terms unless either party gives a 90 day written notice of non-renewal.

How the Elements of Our Executive Compensation Program Further Our Business Goals

The primary elements of our executive compensation program are described below. We have no formula for allocating between long or short-term compensation, cash or non-cash compensation, or among different forms of non-cash compensation, all of which allocations are determined in the discretion of the board and compensation committee.

Base Salary. Base salary is the guaranteed element of our executive officers compensation. The amount of base salary reflects the subjective assessment of the compensation committee and board, taking into consideration, the experience of the executive, the competitive market for similarly skilled executives, the complexity of the executive s job, and our size, financial capabilities and business goals.

Annual Cash Incentive Bonus. Our annual cash incentive bonus program is designed to motivate our executives to achieve our short-term earnings growth and cash distribution goals. For 2006, our goal was to exceed a pre-determined level of earnings before depreciation interest, taxes and amortization, or EBITDA. The amount earned under this program by each of our executive officers named in the Summary Compensation Table

Table of Contents

is set forth under the caption Non-Equity Incentive Plan Compensation in that table. The aggregate bonus available for our executive officers in 2006 was allocated in proportion to their base salaries. The minimum EBITDA goal, the other elements of our annual cash incentive bonus program and the identity of the participants in the program were determined in the discretion of the board and compensation committee, after considering the recommendations of our chief executive officer.

Long- Term Incentive Plan. Awards under our long-term incentive plan are designed to motivate our executives to remain employed by us for a sufficient period of time to achieve our longer term business goals and increase unitholder values. Unvested awards under our long-term incentive plan are forfeited if employment terminates for any reason other than a change of control, death, permanent disability or retirement at age 65, or other age approved by the compensation committee. The grant of awards under our long-term incentive plan are made at the discretion of the board after considering recommendations of the compensation committee and our chief executive officer.

In 2006, the awards under our long-term incentive plan made to our executive officers were awards of restricted phantom units or unit appreciation rights, the vesting of which is dependent upon achievement of performance goals relating to future cash distributions made to our unitholders. In order to align the interests of our executives with the interests of all unitholders, the vesting conditions are identical to those required for the conversion of our subordinated units into common units. See Notes 2 and 3 to the Grants of Plan-Based Awards Table.

The board does not have a program, plan or practice to time grants of awards in coordination with release of material non-public information. In 2006, the grants of awards to our named executive officers were made at the same time as grants to other employees, and the timing of such awards was determined in the discretion of the board and compensation committee.

Severance Payments. The employment agreements for each of Messrs. Miller, Shane, M. Stache and R. Stache, which were entered into in 2004, provide for severance payments in the amount of 2.5 times base salary in the event an executive s employment is terminated by our general partner without cause or by the executive for good reason. In that circumstance, all of the executive s unvested equity awards will vest and the executive will be entitled to the continuation of insurance benefits for an agreed period, or a cash equivalent (see Employment Agreements). The amount of the severance payment and other benefits provided for in the employment agreements were determined by negotiation between the board and each of the executives, and reflects the board s belief at the time such agreements were entered into that the amounts of such payments and benefits and the circumstances under which they would be paid or provided were reasonable. We do not provide cash payments to executives that are triggered by a change of control of our company or our general partner, but upon such a change of control all of our executives unvested equity awards will vest.

Perquisites. The perquisites provided to our executive officers are described in Footnote 4 to the Summary Compensation Table. All such perquisites are provided in accordance with the executives employment agreements, except that Mr. Strom, who does not have a written employment agreement, receives perquisites that are identical to those provided to M. Stache and R. Stache.

Executive Pay Parity. We provide each of Messrs. Miller (our Founder, CEO, President and Chairman) and Shane (our Founder, Executive Vice President and Chief Financial Officer) with identical salaries, bonuses, long-term incentives and perquisites, and we provide each of Messrs. M. Stache (our Senior Vice President and Chief Operating Officer) and R. Stache (our Senior Vice President Sales) with identical salaries, bonuses and long-term incentives and perquisites. The board and compensation committee believe that pay parity among similar level executives fosters team work and minimizes internal dissension.

Other Matters. The compensation committee and board did not engage outside compensation consultants for advice in 2006 but did consider available comparable company data in making compensation related

Table of Contents

decisions in 2006. The board has not established a policy for the adjustment of any compensation award or payment if the relevant performance measures on which they are based are restated or adjusted. The board has not established any security ownership guidelines for executive officers and did not consider the existing equity ownership levels of recipients or prior fully vested awards in making awards for 2006. The board considered the impact of accounting and tax treatments to us and the recipients in granting awards in 2006 under our long-term incentive plan.

COMPENSATION COMMITTEE REPORT

The Compensation, Nominating and Governance Committee of the board of directors of our general partner has reviewed and discussed with management the Compensation Discussion and Analysis for the year ended December 31, 2006. Based on such reviews and discussions, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this annual report as Form 10-K for filing with the SEC.

By the Committee.

Fenton R. Talbott, Chairman

Robert B. Hellman, Jr.

Martin R. Lautman

Table of Contents

SUMMARY COMPENSATION TABLE

The following table includes information for 2006 with respect to our chief executive officer, our chief financial officer and our three other most highly compensated executive officers

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards (2) ($)	Option Awards (2) ($)	Non-Equity Incentive Plan Compensa-tion (3) ($)	Non-qualified Deferred Compensa-tion Earnings	All Other Compensa-tion (4) ($)	Total ($)
Lawrence Miller, Chief Executive Officer, President and Chairman of the Board	2006	$ 364,000(5)	(1)	$ 125,022		$ 258,289		$ 13,200	$ 760,511(6)
William R. Shane, Executive Vice President, Chief Financial Officer and Director	2006	$ 364,000(5)	(1)	$ 125,022		$ 258,289		$ 13,200	$ 760,511(6)
Michael L. Stache, Senior Vice President and Chief Operating Officer	2006	$ 260,000(5)	$ 29,790	$ 90,463		$ 111,032		$ 12,000	$ 503,285(6)
Robert Stache, Senior Vice President Sales	2006	$ 260,000(5)	$ 29,790	$ 90,463		$ 111,032		$ 12,000	$ 503,285(6)
Gregg Strom, Vice President Business Development	2006	$ 225,312	$ 69,510	$ 24,395	$ 2,366			$ 12,000	$ 333,583(6)

(1) No bonus was paid in 2006 except as part of our non-equity incentive plan.
(2) A discussion of the assumptions used in calculating these values may be found in Note 12 to our 2006 Consolidated Financial Statements.
(3) Non-equity incentive compensation is payable pursuant to our annual cash incentive bonus program, which provides that certain of our employees, including the named executive officers, will be paid a bonus if our EBITDA exceeds a goal established by the board. For purposes of our annual cash incentive bonus program, we use internally generated non-GAAP financial information which is not derived from our audited consolidated financial statements.
(4) Amount of car allowance.
(5) Base salary is payable pursuant to the terms of an employment agreement effective as of September 20, 2004. (See Employment Agreements).
(6) For information regarding cash distributions that may be received by our named executive officers by reason of their ownership interests in our general partner or its affiliates see Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters and Item 13. Certain Relationships and Related Transactions, and Director Independence.

Table of Contents

GRANTS OF PLAN-BASED AWARDS

The following table sets forth information for 2006 with respect to grants of restricted phantom units and unit appreciation rights made under our long-term incentive plan to our chief executive officer, our chief financial officer and our three other most highly compensated executive officers

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Stock Awards: Number of Securities Underlying	Exercise or Base Price of Option Awards	Closing Price of Common Stock Units on Date of	Grant Date Fair Value of Stock and Option
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold ($)	Target ($)	Maximum (#)	(#)	Options (#)	($/Sh)	Grant ($)	Awards (1)
Lawrence Miller	11/8/2006						61,500 Units(2)					$ 1,305,030
William R. Shane	11/8/2006						61,500 Units(2)					$ 1,305,030
Michael L. Stache	11/8/2006						44,500 Units(2)					$ 944,290
Robert Stache	11/8/2006						44,500 Units(2)					$ 944,290
Gregg Strom	11/8/2006						12,000 Units(2)					$ 254,640
Gregg Strom	11/27/2006								10,000 UARs(3)	$ 24.14	$ 23.40	$ 24,700

(1) A discussion of the assumptives used in calculating these values may be found in Note 12 to our 2006 Consolidated Financial Statements.

(2) Pursuant to key employee restricted unit agreements entered into under our long-term incentive plan (see Long-Term Incentive Plan), on November 8, 2006, Messrs. Miller and Shane each received 61,500 phantom units, of which 21,500 units are time vested and 40,000 are performance vested, Messrs. M. Stache and R. Stache each received 44,500 phantom units, of which 16,500 units are time vested and 28,000 are performance vested, and Mr. Strom received 12,000 phantom units, of which 5,000 are time vested and 7,000 are performance vested. Time vested units vest at a percentage rate which is equal to the smaller of (i) the percentage of our outstanding subordinated units which have converted into our common units on a one-for-one basis under Section 5.8 of our partnership agreement (see Item 5, Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Cash Distribution Policy Subordination Period), or (ii) the percentage which is equal to a fraction, the numerator of which is the number of months which have elapsed since September 20, 2004, and the denominator of which is 48. Performance units vest at a percentage rate which is equal to the percentage of our outstanding subordinated units which have converted into our common units on a one-for-one basis under Section 5.8 of our partnership agreement. All phantom units vest on a change of control as defined in our long-term incentive plan (see Long-Term Incentive Plan). Distributions with respect to phantom units will be made in common units, except that the board may elect to make such distributions in cash.

(3) Pursuant to a unit appreciation rights agreement entered into under our long-term incentive plan, on November 27, 2006, Mr. Strom was granted 10,000 performance vested unit appreciation rights. The UARs entitle him to receive, in our whole common units, the excess of the fair market value of the common unit on the exercise date over the base exercise price of $24.14, which was the last trading price according to Yahoo.Finance.com of a common unit immediately preceding the grant. Performance vested UARs vest at a percentage rate equal to the percentage of our outstanding subordinated units which have converted into our common units on a one-for-one basis under our partnership agreement. All of the UARs vest on a change of control as defined in the long-term incentive plan.

Table of Contents

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth information with respect to outstanding equity awards at December 31, 2006 for our chief executive officer, our chief financial officer and our three other most highly compensated executive officers

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(1)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(2)
Lawrence Miller								61,500	$ 1,538,115
William R. Shane								61,500	$ 1,538,115
Michael L. Stache								44,500	$ 1,112,945
Robert Stache								44,500	$ 1,112,945
Gregg Strom								12,000	$ 300,120
Gregg Strom			$ 10,000(3)	24.14	11/27/11(4)				

(1) See Note 2 to the Grants of Plan-Based Awards Table.
(2) The value set forth in this column has been computed by multiplying the closing price of a common unit on December 31, 2006 by the number of unvested units.
(3) See Note 3 to the Grant of Plan-Based Awards Table.
(4) The expiration date will be extended for an additional two years if UARs are not fully vested by November 27, 2011.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

The following table describes the potential payments and benefits under our employment agreements and agreements relating to awards granted under our long-term incentive plan to which the named executive officers would be entitled upon termination of employment if we terminated their employment without cause or if the executive terminates for good reason, assuming the termination took place on December 31, 2006. A change of control of our general partner or of us would not trigger severance payments but would accelerate the vesting of the outstanding unvested awards granted under our long-term incentive plan.

Name	Cash Severance Payment (1) ($)	Continuation of Medical/ Welfare Benefits Present Value) ($)	Acceleration and Continuation of Equity Awards (Unamortized Expense as of 12/31/06) ($)	Excise Tax Gross Up ($)	Total Termination Benefits ($)
Lawrence Miller	$ 910,000	$ 19,500	$ 1,390,763		$ 2,320,263
William R. Shane	$ 910,000	$ 19,500	$ 1,390,763		$ 2,320,263
Michael L. Stache	$ 650,000	$ 19,500	$ 1,006,325		$ 1,675,825
Robert Stache	$ 650,000	$ 19,500	$ 1,006,325		$ 1,675,825

Gregg Strom	$ 271,368	$ 271,368

(1) See Employment Agreements.

Table of Contents

DIRECTOR COMPENSATION

The following table sets forth compensation information for 2006 for each member of our general partner s board of directors who is not also an executive officer. Our executive officers do not receive additional compensation for serving on the board. See Summary Compensation Table and Grants of Plan-Based Awards Table for disclosures related to our executive-officer directors, Lawrence Miller and William R. Shane.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
Howard Carver (1)	$ 33,500	$ 77,126(2)					$ 110,626
Allen Freedman (1)	$ 42,500	$ 78,125(2)					$ 120,625
Peter Grunebaum (1)	$ 41,250	$ 77,782(2)					$ 119,032
Robert B. Hellman, Jr. (3)	$ 25,000						$ 25,000
Martin R. Lautman		$ 78,125(2)					$ 78,125
Fenton R. Talbott (1)	$ 44,500	$ 78,125(2)					$ 122,625
Jeffrey Zawadsky (3)	$ 25,000						$ 25,000

(1) Each of Messrs. Carver, Freedman, Grunebaum and Talbott receive an annual cash retainer of $12,500, an annual retainer in deferred restricted units of $12,500, a meeting fee of $1,000 for each meeting of the board of directors attended in person and $750 for each committee meeting attended in person, a fee of $500 for participation in each telephone board call that is greater than one hour, but less than two hours, and $1,000 for participation in each telephone board call that is two hours or more.

(2) On November 8, 2006, each of Messrs. Carver, Freedman, Grunebaum, Lautman and Talbott were awarded 3,000 phantom units pursuant to director restricted phantom unit agreements adopted under our long-term incentive plan. In addition, each of such persons received a total of 594 phantom units in payment of the portion of their annual retainer payable in deferred restrictive units. The phantom units are credited to a mandatory deferred compensation account established for each such person. For each phantom unit in such account, we credit the account, solely in additional phantom units, an amount of distribution equivalent rights so as to provide the phantom unit holders a means of participating on a one-for-one basis in distributions made to holders of our common units. Messrs. Freedman, Lautman and Talbott each own an additional 929 phantom units, Mr. Grunebaum owns an additional 753 phantom units and Mr. Carver owns an additional 296 phantom units, in each case received in connection with their annual directors compensation for years prior to 2006. In 2006, Messrs. Freedman, Lautman and Talbott were each credited with an additional 93 phantom units, Mr. Grunebaum was credited with an additional 77 phantom units and Mr. Carver was credited with an additional 35 phantom units pursuant to their distribution equivalent rights. Payments to participants of the participant s mandatory deferred compensation account will be made on the earlier of (i) separation of the participant from service as a director, (ii) disability, (iii) unforeseeable emergency, (iv) death, (v) change of control of our company or our general partner or (vi) the occurrence of certain other events specified in Section 409A of the Internal Revenue Code. Participants will be paid at our election in our common units or cash. See Note 12 of our Consolidated Financial Statements regarding assumptions we used underlying the valuation of equity awards. The full award date fair value of the awards received in 2006 by each director, computed in accordance with the FAS 123R, was $78,125 for each of Messrs. Freedman, Lautman and Talbott, $77,782 for Mr. Grunebaum and $77,126 for Mr. Carver. At December 31, 2006, the aggregate number of awards outstanding for each of our non-employee directors was 4,452 for each of Messrs. Freedman, Lautman and Talbott, 4,266 for Mr. Grunebaum and 3,776 for Mr. Carver.

(3) Each of Messrs. Hellman and Zawadsky receive $25,000 in annual retainer for their services as directors.

Table of Contents

EMPLOYMENT AGREEMENTS

The following is a summary of the material provisions of the employment agreements between our general partner and Messrs. Miller, Shane, M. Stache and R. Stache.

The employment agreements contemplate that each employee will serve as an officer of our general partner and other affiliates. Each of the employment agreements have an initial term that expires one year from the effective date, but are automatically extended for successive one-year terms unless either party gives written notice of non-renewal 90 days prior to the end of the term.

The employment agreements provide for a base annual salary of $350,000 for each of Messrs. Miller and Shane and $250,000 for each of Messrs. M. Stache and R. Stache, subject to increase in the discretion of our general partner. In addition, each employee is eligible to receive an annual bonus award based upon satisfaction of mutually agreed upon targets established by our general partner and approved by the board of directors of our general partner or the compensation committee of our general partner on or around January 31 of each year. If no targets are established, the employee may, at the discretion of our general partner, receive a bonus of up to 50% of base salary for meeting budgeted goals. The employee is also entitled to participate in other discretionary bonus or performance-based bonus programs for senior executives, as determined by the compensation committee of our general partner, including unit incentive plans adopted by our general partner.

If the employee s employment is terminated without cause or if the employee resigns for good reason, the employee will be entitled to severance in an amount equal to the product of employee s base salary at the time of termination or resignation and 2.5. The employment agreements define cause as (a) fraud, willful misconduct or gross negligence by the employee that materially adversary affects our reputation or the reputation of our general partner and continues after notice and, if requested by the employee, an opportunity to be heard, or (b) any chemical dependence that materially adversely affects the employee s performance of his duties and responsibilities and for which the employee fails to undertake and maintain treatment. An employee will be deemed to have terminated his employment for good reason if, among other things, such employee resigns after the location of the principal office of our general partner is moved outside a 75-mile radius of its current location in Bristol, Pennsylvania; the employee is removed from his executive position; the employee has a material change in duties or compensation, or our general partner willfully breaches the employment agreement.

During the employee s employment period and for one year thereafter, the employee is generally prohibited from engaging in any business that competes with us or our affiliates in areas in which we conduct business as of the date of termination. During the employee s employment period and for two years thereafter, the employee is generally prohibited from soliciting or inducing any of our employees to terminate their employment with us or accept employment with anyone else or interfere in a similar manner with our business. The non-competition period may terminate earlier as determined by the board of directors of our general partner if (a) the employee is terminated other than for cause and (b) such termination does not occur within 30 days after a change in control. The employment agreements define a change in control as including (i) a bona fide sale of all or substantially all of the assets of our general partner to any person or entity other than an affiliate, (ii) a merger, reorganization, consolidation or other transaction where more than 50% of the combined voting power of the equity interests in our general partner ceases to be owned by certain persons who own such interests at the effective date of the employment agreement or (iii) the acquisition of 40% or more of the equity interests in our general partner by any person not currently part of the ownership of our general partner, except where the person is an employee benefit fund or one who effects the purchase at the request of or with the approval of the board of directors of our general partner.

LONG-TERM INCENTIVE PLAN

Our general partner has adopted the StonMor Partners L.P. Long-Term Incentive Plan for its employees, consultants and directors, who perform services for us. The long-term incentive plan permits the grant of awards covering an aggregate of 624,000 common units in the form of unit options, unit appreciation rights, restricted

units and phantom units. The plan is administered by the compensation committee of our general partner s board of directors. The plan will continue in effect until the earliest of (i) the date determined by the board of directors of our general partner; (ii) the date that common units are no longer available for payment of awards under the plan; or (iii) the tenth anniversary of the plan.

Our general partner s board of directors or compensation committee may, in their discretion, terminate, suspend or discontinue the long-term incentive plan at any time with respect to any units for which a grant has not yet been made. Our general partner s board of directors also has the right to alter or amend the long-term incentive plan or any part of the plan from time to time, including increasing the number of units that may be delivered in accordance with awards under the plan, subject to any approvals if required by the exchange upon which the common units are listed at that time. No change in any outstanding grant may be made, however, that would materially impair the rights of the participant without the consent of the participant.

Restricted Units and Phantom Units. A restricted unit is a common unit that is subject to forfeiture. Upon vesting, the grantee receives a common unit that is not subject to forfeiture. A phantom unit is a notional unit that entitles the grantee to receive a common unit upon the vesting of the phantom unit, or, in the discretion of the compensation committee, cash equivalent to the fair market value of a common unit. The compensation committee may make grants of restricted units and phantom units under the plan to employees, consultants and directors containing such terms as the compensation committee shall determine under the plan, including the period over which restricted units and phantom units granted will vest. The committee may, in its discretion, base its determination on the grantee s period of service or upon the achievement of specified financial objectives. In addition, the restricted and phantom units will vest upon a change of control of us, or our general partner, subject to additional or contrary provisions in the award agreement.

If a grantee s employment, consulting arrangement or membership on the board of directors terminates for any, the grantee s restricted units and phantom units will be automatically forfeited unless, and to the extent, the compensation committee provides otherwise or unless otherwise provided in an award agreement. Common units to be delivered with respect to these awards may be common units acquired by our general partner in the open market, common units already owned by our general partner, common units acquired by our general partner directly from us or any other person or any combination of the foregoing. Our general partner will be entitled to reimbursement by us for the cost incurred in acquiring common units. If we issue new common units with respect to these awards, the total number of common units outstanding will increase.

Distributions on restricted units may be subject to the same vesting requirements as the restricted units, in the compensation committee s discretion. The compensation committee, in its discretion, may also grant tandem distribution-equivalent rights with respect to phantom units. These are rights that entitle the grantee to receive cash equal to the case distributions made on the common units.

We intend for the issuance of the common units upon vesting of the restricted units and phantom units under the plan to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation of the common units. Therefore, plan participants will not pay any consideration for the common units they receive, and we will receive no remuneration for the units.

Unit Options and Unit Appreciation Rights. The long-term incentive plan permits the grant of options and unit appreciation rights (UARs) covering common units. A UAR entitles the grantee to a payment in cash or units, in the discretion of the compensation committee, equal to the appreciation of the unit price between the grant date and the exercise date. The compensation committee may make grants under the plan to employees, consultants and directors containing such terms, as the committee shall determine, including the grant of tandem distribution-equivalent rights. It is our intention not to issue Unit Options and UARs with an exercise price less than the fair market value of the units on the date of the grant. In general, unit options and UARs granted will become exercisable over a period determined by the compensation committee and, in the compensation committee s discretion, may provide for accelerated vesting upon the achievement of specified performance

Table of Contents

objectives. In addition, unless otherwise provided in an award agreement, the unit options and UARs will become exercisable upon a change in control of us or our general partner. Unless otherwise provided in an award agreement, unit options and UARs may be exercised only by the participant during his lifetime or by the person to whom the participant s right will pass by will or the laws of descent and distribution.

If a grantee s employment, consulting arrangement or membership on the board of directors terminates for any reason, the grantee s unvested options and UARs will be automatically forfeited unless, and to the extent, the compensation committee provides otherwise or unless otherwise provided in an award agreement. Upon exercise of a unit option or UAR, the general partner will acquire common units in the open market or directly from us or any other person or use common units already owned by our general partner or any combination of the foregoing. The general partner will be entitled to reimbursement by us for the difference between the cost incurred by it in acquiring these common units and proceeds it receives from a grantee at the time of exercise. Thus, the cost of the unit options and UARs above the proceeds from grantees will be borne by us. If we issue new common units upon exercise of the unit options, the total number of common units outstanding will increase, and our general partner will pay us the proceeds it received from the grantee upon exercise of the unit option.

The plan has been designed to furnish additional compensation to our employees, consultants and directors and to align their economic interests with those of common unit holders. Awards may be granted under the plan in substitution of similar awards held by individuals who become our employees, consultants or directors as a result of an acquisition. These substitute awards may have exercise prices less than the fair market value of a common unit on the date of substitution.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the persons who served as members of the Compensation, Nominating and Governance Committee (Fenton R. Talbott, Robert B. Hellman, Jr. or Martin R. Lautman) in 2006 has ever been an officer or employee of our company, or has any relationship requiring disclosure under Item 404 of Regulation S-K other than as described in Item 13. Certain Relationships and Related Transactions, and Director Independence.

Table of Contents

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth, as of March 1, 2007, the beneficial ownership of the common and subordinated units of StoneMor as of March 1, 2007 held by beneficial owners of 5% or more of the units, by directors and named executive officers of our general partner and by all directors and executive officers of our general partner as a group. Unless otherwise indicated, the address for each unitholder is c/o StoneMor Partners L.P., 155 Rittenhouse Circle, Bristol, Pennsylvania 19007. Unless otherwise indicated, the beneficial owner named in the table is deemed to have sole voting and sole dispositive power of the units set forth opposite such beneficial owner s name.

Name of Beneficial Owner	Common Units Beneficially Owned	Percentage of Common Units Beneficially Owned	Subordinated Units Beneficially Owned	Percentage of Subordinated Units Beneficially Owned	Percentage of Total Units Beneficially Owned
CFSI LLC (1)(2) 155 Rittenhouse Circle Bristol, PA 19007	13,532	*	4,239,782	100.0%	47.1%
MDC Management Company IV, LLC (1)(2)(3) 525 Middlefield Road, Suite 210 Menlo Park, CA 94025	13,532	*	4,239,782	100.0%	47.1%
George McCown (2)(4) 525 Middlefield Road, Suite 210 Menlo Park, CA 94025	18,532	*	4,239,782	100.0%	47.1%
David De Leeuw (2)(4) 525 Middlefield Road, Suite 210 Menlo Park, CA 94025	13,532	*	4,239,782	100.0%	47.1%
McCown De Leeuw & Co. IV, L.P. and affiliated funds (1)(2)(5) 525 Middlefield Road, Suite 210 Menlo Park, CA 94025	13,532	*	4,239,782	100.0%	47.1%
Neuberger Berman, LLC 605 Third Avenue New York, NY 10158	512,004	10.7%		*	5.7%
Lawrence Miller		*		*	*
William R. Shane		*		*	*
Michael Stache		*		*	*
Gregg Strom		*		*	*
Robert Stache		*		*	*
Allen R. Freedman (6)	4,454	*		*	*
Robert B. Hellman, Jr. (4)	18,532	*	4,239,782	100.0%	47.1%
Martin R. Lautman (6)	54,454	1.1%		*	*
Fenton R. Talbot (6)	6,454	*		*	*
Jeffrey A. Zawadsky	1,000	*		*	*
Peter Grunebaum (6)	5,766	*		*	*
Howard L. Carver	3,776	*		*	*

All directors and executive officers as a group (12 persons)		*		*	*
	94,436	2.0%	4,239,782	100.0%	48.0%

* Less than one percent

Table of Contents

(1) The GP LLC Agreement provides that the directors of our general partner will be elected by a plurality vote of Class A units in our general partner; provided however, that so long as Mr. Miller serves as the Chief Executive officer of our general partner, he will also serve as a director of our general partner, so long as Mr. Shane serves as Chief Financial Officer of our general partner, he will also serve as a director of our general partner. CFSI LLC holds all of the outstanding class A units in our general partner. CFSI LLC is controlled by the McCown De Leeuw funds. See note (5).

(2) CFSI, LLC, McCown De Leeuw & Co. IV, L.P., McCown De Leeuw & Co. IV Associates, L.P., Delta Fund LLC, MDC Management Company IV, LLC, Robert Hellman, Jr., George McCown and David De Leeuw filed a Schedule 13 D with the SEC on September 30, 2004. The information included in this table for such persons is based on the information disclosed in this schedule 13 D.

(3) MDC Management Company IV, LLC is the general partner of McCown De Leeuw & Co. IV, L.P. and McCown De Leeuw & Co. IV Associates, L.P. and therefore may be deemed to beneficially own all units beneficially owned by these entities See note (5). Certain key investment decisions are made by the unanimous consent of the managing members of MDC Management Company IV, LLC, who are George McCown, David De Leeuw and Robert B. Hellman, Jr.

(4) Includes 13,532 common units and 4,239,782 subordinated units beneficially owned by McCown De Leeuw & Co. IV, L.P. and its affiliated funds, of which Messrs. Hellman, McCown and De Leeuw may be deemed to be the beneficial owners as managing members of MDC Management Company IV, LLC, which controls McCown De Leeuw & Co. IV, L.P. and McCown De Leeuw & Co. IV Associates, L.P. Therefore, Messrs. Hellman, McCown and De Leeuw may be deemed to have shared voting power and shared dispositive power with respect to such units. See note (5). Pursuant to Rule 13d-4 under the Exchange Act, Messrs. Hellman, McCown and De Leeuw each disclaim beneficial ownership of the 13,532 common units and 4,239,782 subordinated units beneficially owned by McCown De Leeuw & Co. IV, L.P. and MDC Management Company IV, LLC.

(5) Includes 13,532 common units and 4,239,782 subordinated units held by CFSI LLC, which is controlled by the McCown De Leeuw funds. McCown De Leeuw & Co. IV, L.P., together with its affiliate funds (McCown De Leeuw & Co. IV Associates, L.P. and Delta Fund, LLC), has the right to designate for election a majority of the managers of the board of managers of CFSI LLC pursuant to the limited liability company agreement of CFSI LLC.

(6) Includes 4,454 deferred restricted phantom units issued to Messrs. Freedman, Lautman and Talbott in connection with their annual directors compensation, 4,266 deferred restricted units for Mr. Grunebaum in connection with his annual directors compensation and 3,776 deferred restricted units for Mr. Carver in connection with his annual directors compensation. Each unit of restricted phantom units representing limited partner interests is the economic equivalent of one common unit representing limited partner interests. Restricted phantom units become payable, in cash or common units, at the election of the issuer, upon the separation of the reporting person from service as a director or upon the occurrence of certain other events specified in Section 409A of the Internal Revenue Code of 1986, as amended. The distribution equivalent rights accrue on restricted phantom units representing limited partner interests and become payable, in cash or common units, at the election of the issuer, upon the separation of the reporting person from service as a director or upon the occurrence of certain other events specified in Section 409A of the Internal Revenue Code of 1986, as amended. Each distribution equivalent right is the economic equivalent of one common unit representing limited partner interests.

Table of Contents

Equity Compensation Plan Information

The following table details information regarding our existing equity compensation plans as of December 31, 2006:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	501,903	$ 24.12	122,097
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	501,903	$ 24.12	122,097

(1) The Long-Term Incentive Plan was adopted by the Board of Directors of our general partner in 2004 amended in November 2005. Under this plan, the Board of Directors of our general partner may award to our employees, consultants and directors up to 624,000 common units in the form of unit options, unit appreciation rights, restricted units and phantom units. See Item 11, Executive Compensation Long-Term Incentive Plan.

Item 13. Certain Relationships and Related Transactions
Distributions and Payments to our General Partner and its Affiliates

We were formed as a Delaware limited partnership to own and operate cemetery and funeral home properties previously owned and operated by Cornerstone. The following table summarizes the distributions and payments to be made by us to our general partner and its affiliates in connection with the formation, ongoing operation and any liquidation of StoneMor. These distributions and payments were determined by and among affiliated entities and, consequently, are not the result of arm s-length negotiations.

The consideration received by our general partner and its affiliates for the contribution of the assets and liabilities to us	2% general partner interest; the incentive distribution rights; 564,782 common units; and 4,239,782 subordinated units
Distributions of available to our general partner and its affiliates	We will generally make cash distributions 98% to the unitholders, including our general partner, in respect of the common and subordinated units that it owns, and 2% to our general partner.

If distributions exceed the target distribution levels, our general partner will be entitled to increasing percentages of the distributions, up to 50% of the distributions above the highest target level.

Table of Contents

Payments to our general partner and its affiliates	Our general partner and its affiliates do not receive any management fee or other compensation for the management of our business and affairs, but they are reimbursed for all expenses that they incur on our behalf, including general and administrative expenses and corporate overhead. As the sole purpose of the general partner is to act as our general partner, substantially all of the expenses of our general partner are incurred on our behalf and reimbursed by us or our subsidiaries. Our general partner determines the expenses that are allocable to us in good faith. All expenses of the nature historically incurred by Cornerstone, other than fees paid to MDC Management Company IV, LLC, will be incurred and paid by us or, if incurred and paid by our general partner, reimbursed by us or our subsidiaries. In 2004, Cornerstone incurred general and administrative expenses of $9.8 million and corporate overhead of $12.5 million, which included a payment of $434,000 to MDC Management Company IV, LLC under an advisory services agreement. In 2005, StoneMor incurred general and administrative expenses of $10.6 million and corporate overhead of $16.3 million and paid no fees to MDC Management Company IV, LLC. . In 2006, StoneMor incurred general and administrative expenses of $12.8 million and corporate overhead of $18.9 million and paid no fees to MDC Management Company IV, LLC. We do not expect to incur additional fees payable to MDC Management Company IV, LLC because our advisory services agreement with them has been terminated.
Withdrawal or removal of our general	Partner If our general partner withdraws or is removed, its general partner interest and its incentive distribution rights will either be sold to the new general partner for cash or converted into common units, in each case for an amount equal to the fair market value of those interests.
Liquidation	Upon our liquidation, the unitholders and our general partner will be entitled to receive liquidating distributions according to their respective capital account balances.

Ownership Interests in our General Partner

Our general partner owns our 2% general partner interest and our incentive distribution rights. The following table shows the owners of our general partner:

Name	Ownership of Outstanding Class A Units of StoneMor GP LLC	Ownership of Outstanding Class B Units of StoneMor GP LLC
CFSI LLC	100%(1)	
Lawrence Miller		50%
William R. Shane		50%

(1) In connection with the conversion of Cornerstone into CFSI LLC, all of the outstanding shares of Cornerstone common stock were converted into Class B units of CFSI LLC, and all of the outstanding shares of Cornerstone preferred stock were converted into Class A units of CFSI LLC. CFSI LLC is owned directly by Cornerstone Family Services LLC (85% of the Class B units), the McCown De Leeuw funds (10.1% of the Class B units and 96.3% of the Class A units), Messrs. Miller and Shane (each of whom owns

Table of Contents

1.2% of the Class B units), and other individuals, including the following directors and executive officers of our general partner, each of whom owns less than 1% of the Class B units: M. Stache, R. Stache, Strom, Waimberg, Talbott, Lautman and Freedman. Each of Messrs. Shane and Miller owns 1.5% of the Class A units of CFSI LLC through entities that they own, and Mr. Lautman owns less than 1% of the Class A units of CFSI LLC. Cornerstone Family Services LLC is, in turn, owned directly by the McCown De Leeuw funds (90.8% membership interest), institutional investors (5.3% aggregate membership interest) and other individuals, including the following directors and executive officers of our general partner: Messrs. Miller, Shane and Lautman. Each of Messrs. Shane and Miller owns a 1.6% membership interest in Cornerstone Family Services LLC through entities that they own, and Mr. Lautman owns less than a 1% membership interest in Cornerstone Family Services LLC. As a result of their ownership interests in CFSI LLC and Cornerstone Family Services LLC, each of these executive officers and directors of our general partner holds an indirect interest in the Class A units of our general partner, which are described below.

The membership interests in our general partner are represented by two classes of units, the Class A units and the Class B units. Each of Messrs. Miller and Shane owns 24 Class B units, or 50% of the 48 outstanding Class B units. The compensation committee of our general partner may issue up to 52 additional Class B units to other executive officers of our general partner without the consent of Mr. Miller or Mr. Shane. At such time that 100 or more Class B units are issued and outstanding, Messrs. Miller and Shane must consent to any additional issuances of Class B units for so long as both of them are executive officers of our general partner and holders of Class B units. If at that time only one of Messrs. Miller and Shane is both an executive officer of our general partner and a holder of Class B units, then only that one must consent to such additional issuances. If at that time neither of Messrs. Miller and Shane is both an executive officer of our general partner and a holder of Class B units, then holders of a majority of outstanding Class B units must consent to such additional issuances. Additional issuances of Class B units will dilute all outstanding Class B units on a pro rata basis.

The Class B units in the aggregate are entitled to 50% of all quarterly cash distributions that we pay to our general partner with respect to its general partner interest and 25% of all quarterly cash distributions that we pay to our general partner with respect to its incentive distribution rights.

Messrs. Miller, Shane, M. Stache, R. Stache, Strom, Waimberg, Talbott, Lautman and Freedman also indirectly own Class A units of our general partner as a result of their direct and indirect ownership of membership interests in Cornerstone Family Services LLC and CFSI LLC discussed in footnote (1) to the table above. These persons directly hold an aggregate of 4.6% of the Class B units in CFSI LLC. In addition, Messrs. Miller, Shane and Lautman own an aggregate 3.9% membership interest in Cornerstone Family Services LLC, which in turn owns 85% of the Class B units in CFSI LLC, which will initially own all of the Class A units of our general partner. As a result, these persons collectively own, indirectly, an aggregate of 7.9% of the Class A units of our general partner. The Class A units of our general partner are entitled to the remaining 50% interest on distributions that we pay to our general partner with respect to its general partner interest and the remaining 75% of all distributions that we pay to our general partner with respect to its incentive distribution rights.

The Class A and Class B units of our general partner are subject to certain transfer and purchase rights and obligations upon the occurrence of certain events, such as:

- a change of control of CFSI LLC or our general partner;
- transfers by certain holders of Class A units of our general partner; or
- the death or disability of a holder of Class B units of our general partner.

Relationships and Related Transactions with CFSI LLC and Cornerstone Family Services LLC

Agreements Governing the Partnership

We, our general partner, our operating company and other parties have entered into various documents and agreements that effected the initial public offering transactions, including the vesting of assets in, and the

Table of Contents

assumption of liabilities by, us and our subsidiaries, and the application of the proceeds of the initial public offering. These agreements are not the result of arm s-length negotiations, and we cannot assure you that they, or any of the transactions that they provide for, have been effected on terms at least as favorable to the parties to these agreements as could have been obtained from unaffiliated third parties. All of the transaction expenses incurred in connection with these transactions, including the expenses associated with transferring assets into our subsidiaries, have been paid from the proceeds of the initial public offering.

Omnibus Agreement

On September 20, 2004 we entered into an omnibus agreement with McCown De Leeuw, Cornerstone Family Services LLC, CFSI LLC, our general partner and StoneMor Operating LLC.

Noncompetition

Under the omnibus agreement, as long as our general partner is an affiliate of McCown De Leeuw, McCown De Leeuw will agree, and will cause its controlled affiliates to agree, not to engage, either directly or indirectly, in the business of owning and operating cemeteries and funeral homes (including the sales of cemetery and funeral home products and services) in the United States.

Tax Indemnification

CFSI LLC has agreed to indemnify us for all federal, state and local income tax liabilities attributable to the operation of the assets contributed by CFSI LLC to us prior to the closing of the public offering. CFSI LLC has also agreed to indemnify us against additional income tax liabilities, if any, that arise from the consummation of the transactions related to our formation in excess of those believed to result at the time of the closing of our initial public offering. We estimate 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 us against the increase in income tax liabilities of our corporate subsidiaries resulting from any reduction or elimination of our 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 us, or from our 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 our general partner or the common units or subordinated 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 our general partner or the common units or subordinated units held by it if the effect of the proposed transfer would trigger an ownership change under the Internal Revenue Code that would limit our ability to use our federal net operating loss carryovers. Please read Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Income Taxes.

Amendments

The omnibus agreement may not be amended without the prior approval of the conflicts committee if our general partner determines that the proposed amendment will adversely affect holders of our common units. Any action, notice, consent, approval or waiver permitted or required to be taken or given by us under the indemnification provisions of the omnibus agreement must be taken or given by the conflicts committee of our general partner.

Relationship with McCown De Leeuw. McCown De Leeuw is the beneficial owner of approximately 87.8% of the Class B units of CFSI LLC through its direct ownership of approximately 10.6% of the Class B units of CFSI LLC and indirectly through its ownership of approximately 90.8% of the membership interests in

Table of Contents

Cornerstone Family Services LLC, which owns approximately 85% of the Class B units of CFSI LLC. McCown De Leeuw also owns approximately 96.3% of the Class A units of CFSI LLC.

Under the Limited Liability Company Agreement of CFSI LLC, McCown De Leeuw has the right to designate at least three individuals, and such other greater number of individuals, to serve on the board of managers of CFSI LLC. In addition, for so long as Mr. Miller serves as an officer of CFSI LLC, he will also serve as a manager of CFSI LLC, and for so long as Mr. Shane serves as an officer of CFSI LLC, he will also serve as a manager of CFSI LLC. Prior to the conversion of Cornerstone into CFSI LLC, a stockholders agreement among Cornerstone and its stockholders required each stockholder to vote all of its shares of Cornerstone to elect and maintain a board of directors of Cornerstone comprised of at least three, and such other greater number, of individuals designated by the McCown De Leeuw funds.

The Amended and Restated Limited Liability Company Agreement of CFSI LLC contains provisions that require CFSI LLC, through its direct control of our general partner and its indirect control of us and our subsidiaries, to prevent us, our subsidiaries and our general partner from taking certain significant actions without the approval of CFSI LLC. These actions include:

certain acquisitions, borrowings and capital expenditures by us, our subsidiaries or our general partner;

issuances of equity interests in us or our subsidiaries; and

certain dispositions of equity interests in, or assets of, us, our general partner or our subsidiaries.

Under the Amended and Restated Limited Liability Company Agreement of Cornerstone Family Services LLC, McCown De Leeuw has the right to designate at least three individuals, and such other greater number of individuals, to serve on the board of managers of Cornerstone Family Services LLC. In addition, for so long as Mr. Miller serves as an officer of Cornerstone Family Services, LLC, he will also serve as a manager of Cornerstone Family Services LLC, and for so long as Mr. Shane serves as an officer of Cornerstone Family Services LLC, he will also serve as a manager of Cornerstone Family Services, LLC.

Under the Amended and Restated Limited Liability Company Agreement of Cornerstone Family Services LLC and the Limited Liability Company Agreement of CFSI LLC, each manager of Cornerstone Family Services LLC and each manager of CFSI LLC have agreed to cause Cornerstone Family Services LLC, CFSI LLC and any of their respective subsidiaries, as the case may be, to designate at least three individuals, and such other greater of individuals designated by McCown De Leeuw to serve as members of the board of managers of StoneMor Operating LLC; and to take such actions as may be necessary to cause the election of additional persons designated by McCown De Leeuw as managers of StoneMor Operating LLC and to amend the limited liability company agreement of StoneMor Operating LLC as necessary.

In 1999, Cornerstone entered into an advisory services agreement with MDC Management Company IV, LLC pursuant to which MDC Management Company IV, LLC provides various services to CFSI LLC. The agreement requires Cornerstone to pay MDC Management Company IV, LLC annually an amount equal to the greater of 0.5% of Cornerstone s defined annual revenues or $500,000, but in no event more than $750,000, plus specified out-of-pocket expenses. Cornerstone paid MDC Management Company IV, LLC approximately $400,000, $800,000 and $600,000 in 2004, 2003 and 2002, respectively, as a result of this agreement. This agreement has been terminated.

Robert B. Hellman Jr., who serves as one of our directors, as the Chief Executive Officer and Managing Director of McCown De Leeuw & Co., LLC and in various other positions with McCown De Leeuw, has applied for a U.S. patent on a technology entitled, Apparatus and Method for Operating a Death Care Business as a Master Limited Partnership. The computer-implemented method defines death care master limited partnership assets based upon qualifying death care business income sources and non-qualifying death care business income sources. The pending patent application was filed on November 27, 2002, and claims priority to an earlier patent

Table of Contents

application filed November 30, 2001. The United States Patent and Trademark Office has not issued a communication regarding the substantive merits of the application. In February 2003, Mr. Hellman assigned the patent application to McCown De Leeuw & Co. IV, L.P. and recorded the assignment in the United States Patent and Trademark Office in March 2003. McCown De Leeuw & Co. IV, L.P. assigned a 50% ownership interest in the patent application and, if issued, the patent to the partnership. If a patent is issued relating to this patent application, no other entity will be able to practice the claimed invention without the consent of McCown De Leeuw & Co. IV, L.P. and us. We cannot assure you that the patent will be issued or, if it is issued and subsequently challenged, that it will be determined to be valid.

Other Relationships. During February 2002, a partnership of 11 executives of Cornerstone purchased Cornerstone s corporate headquarters building. The partnership entered into a lease with Cornerstone for a ten-year term. Cornerstone paid the partnership approximately $0.4 million in 2002 and $0.3 million in 2003 under the lease. In January 2004, the partnership sold the building to an independent third party. At the time of the sale, the lease was assigned to the purchaser with a reduction in the annual lease expense.

In 2002, we paid Martin Lautman, who serves as one of our directors, marketing consulting fees of approximately $75,000.

Item 14. Principal Accounting Fees and Services

The following table sets forth the aggregate fees paid or accrued for professional services rendered by Deloitte & Touche LLP for the audit of our annual financial statements for fiscal years 2005 and 2006 and the aggregate fees paid or accrued for audit-related services and all other services rendered by Deloitte & Touche LLP for fiscal years 2005 and 2006.

	Fiscal Year	
	2005	**2006**
Audit fees	$ 897,700	$ 1,290,820
Audit-related fees	990,015	559,300
Tax fees	652,908	485,400
All other fees		
	$ 2,540,623	$ 2,335,520

The category of Audit fees includes fees for our annual audit, quarterly reviews and services rendered in connection with regulatory filings with the SEC, such as the issuance of comfort letters and consents.

The category of Audit-related fees includes employee benefit plan audits, internal control reviews, accounting consultation and fees related to assistance in the conversion of our corporate structure to a master limited partnership.

The category of Tax fees includes consultation and preparation of federal state and local tax returns.

All above audit services, audit-related services and tax services were pre-approved by the Audit Committee, which concluded that the provision of such services by Deloitte & Touche LLP was compatible with the maintenance of that firm s independence in the conduct of its auditing functions. The Audit Committee s outside auditor independence policy provides for pre-approval of all services performed by the outside auditors.

Table of Contents

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements and Financial Schedules

(1) The following financial statements of StoneMor Partners L.P. and its predecessor Cornerstone Family Services, Inc. are included in Part II, Item 8:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2005 and 2006

Consolidated Statement of Operations for the years ended December 31, 2004, 2005 and 2006

Consolidated Statement of Common Stockholders / Partners Equity for the years ended December 31, 2005 and 2006

Consolidated Statement of Cash Flows for the years ended December 31, 2004, 2005, and 2006

Notes to the Consolidated Financial Statements

(c) Exhibits

3.1*	Certificate of Limited Partnership of StoneMor Partners L.P. (incorporated by reference to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 9, 2004 (Exhibit 3.1)).
3.2*	First Amended and Restated Agreement of Limited Partnership of StoneMor Partners L.P., dated as of September 20, 2004 (incorporated by reference to Exhibit 3.2 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)
4.1*	Note Purchase Agreement by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, each of the subsidiaries listed on the signature pages thereof and SFT I, Inc., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company, dated as of September 20, 2004 (incorporated by reference to Exhibit 4.1 of Registrants Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)
4.1.1	First Amendment to Note Purchase Agreement by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, each of the subsidiaries listed on the signature pages thereof and SFT I, Inc., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company, dated as of November 12, 2004 (incorporated by reference to Exhibit 4.1.1 of Registrant s Annual Report on Form 10-K for its year ended December 31, 2004)
10.1*	Credit Agreement by and among StoneMor Operating LLC, StoneMor GP LLC, StoneMor Partners L.P., various additional borrowers, various lending institutions and Fleet National Bank, dated September 20, 2004. (incorporated by reference to Exhibit 10.1 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)
10.2*	Contribution, Conveyance and Assumption Agreement, by and among StoneMor Partners L.P., StoneMor GP LLC, CFSI LLC, StoneMor Operating LLC, dated as of September 20, 2004 (incorporated by reference to Exhibit 10.2 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)
10.3*	StoneMor Partners L.P. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)

10.4*	Omnibus Agreement by and among McCown De Leeuw & Co. IV, L.P., McCown De Leeuw & Co. IV Associates, L.P., MDC Management Company IV, LLC, Delta Fund LLC, Cornerstone Family Services LLC, CFSI LLC, StoneMor Partners L.P., StoneMor GP LLC, StoneMor Operating LLC, dated as of September 20, 2004 (incorporated by reference to Exhibit 10.4 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)

Table of Contents

10.5*	Employment Agreement by and between StoneMor GP LLC and Lawrence Miller, effective as of September 20, (incorporated by reference to Exhibit 10.2 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)
10.6*	Employment Agreement by and between StoneMor GP LLC and William R. Shane, effective as of September 20, 2004 (incorporated by reference to Exhibit 10.6 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)
10.7*	Employment Agreement by and between StoneMor GP LLC and Michael L. Stache, effective as of September 20, 2004 (incorporated by reference to Exhibit 10.7 of Registrants Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)
10.8*	Employment Agreement by and between StoneMor GP LLC and Robert Stache, effective as of September 20, 2004 (incorporated by reference to Exhibit 10.8 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)
10.9*	Form of Indemnification Agreement by and between StoneMor GP LLC and Lawrence Miller, Robert B. Hellman, Jr., Fenton R. Talbott, Jeffery A. Zawadsky, Martin R. Lautman, William R. Shane, Allen R. Freedman, effective September 20, 2004 (incorporated by reference to Exhibit 10.9 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)
10.10*	Intercreditor and Collateral Agency Agreement by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, various subsidiaries, various lenders and noteholders and Fleet National Bank, dated September 20, 2004(incorporated by reference to Exhibit 10.10 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)
10.11*	Directors compensation (incorporated by reference to Item 1.01 of Registrant s Current Report on Form 8-K filed on August 9, 2005)
10.12*	Amendment to StoneMor Partners L.P. Long-Term Incentive Plan (incorporated by reference to Item 8.01 of Registrant s Current Report on Form 8-K filed on November 18, 2005)
10.13*	Asset purchase and Sale Agreement by and between StoneMor Partners L.P. and SCI Funeral Services, Inc., an Iowa corporation (SCI) and a wholly-owned subsidiary of Service Corporation International, a Texas corporation, joined by certain of SCI s direct and indirect subsidiary entities, effective October 13, 2005 (incorporated by reference to Item 1.01 of Registrant s Current Report on Form 8-K filed on October 13, 2005)
10.14*	Registration Rights Agreement by and between StoneMor Partners L.P. and SCI Funeral Services, Inc., an Iowa corporation (SCI) and a wholly-owned subsidiary of Service Corporation International, a Texas corporation, joined by certain of SCI s direct and indirect subsidiary entities, effective November 1, 2005 (incorporated by reference to Item 1.01 of Registrant s Current Report on Form 8-K filed on November 2, 2005)
21.1	Subsidiaries of Registrant
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)

* Incorporated by reference, as indicated
Management contract, compensatory plan or arrangement

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

March 16, 2007

By: /s/ LAWRENCE MILLER
Lawrence Miller
Chief Executive Officer, President and Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, 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	Title	Date
/s/ LAWRENCE MILLER **Lawrence Miller** **(Principal Executive Officer)**	Chief Executive Officer, President and Chairman of the Board	March 16, 2007
/s/ WILLIAM R. SHANE **William R. Shane** **(Principal Financial Officer)**	Executive Vice President, Chief Financial Officer and Director	March 16, 2007
/s/ PAUL WAIMBERG **Paul Waimberg** **(Principal Accounting Officer)**	Vice President Finance	March 16, 2007
/s/ ALLEN R. FREEDMAN	Director	March 16, 2007
/s/ PETER K. GRUNEBAUM	Director	March 16, 2007
/s/ ROBERT B. HELLMAN, JR. **Robert B. Hellman, Jr.**	Director	March 16, 2007
/s/ MARTIN R. LAUTMAN, PH.D.	Director	March 16, 2007

Martin R. Lautman, Ph.D.

/s/ Fenton R. Talbott	Director	March 16, 2007
/s/ Jeffrey A. Zawadsky	Director	March 16, 2007

Jeffrey A. Zawadsky

/s/ Howard L. Carver	Director	March 16, 2007

Howard L. Carver

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
3.1	Certificate of Limited Partnership of StoneMor Partners L.P. (incorporated by reference to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 9, 2004 (Exhibit 3.1)).
3.2	First Amended and Restated Agreement of Limited Partnership of StoneMor Partners L.P., dated as of September 20, 2004 (incorporated by reference to Exhibit 3.2 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004).
3.2.1	Amendment No. 1 to First Amended and Restated Agreement of Limited Partnership of StoneMor Partners L.P., effective as of February 27, 2007 (incorporated by reference to Exhibit 3.3 of Registrant s Current Report on Form 8-K filed on February 28, 2007).
4.1	Note Purchase Agreement by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, each of the subsidiaries listed on the signature pages thereof and SFT I, Inc., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company, dated as of September 20, 2004 (incorporated by reference to Exhibit 4.1 of Registrants Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004).
4.1.1	First Amendment to Note Purchase Agreement by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, each of the subsidiaries listed on the signature pages thereof and SFT I, Inc., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company, dated as of November 12, 2004 (incorporated by reference to Exhibit 4.1.1 of Registrant s Annual Report on Form 10-K for its year ended December 31, 2004).
4.2	Registration Rights Agreement by and between StoneMor Partners L.P. and SCI Funeral Services, Inc., an Iowa corporation (SCI) and a wholly-owned subsidiary of Service Corporation International, a Texas corporation, joined by certain of SCI s direct and indirect subsidiary entities, effective November 1, 2005 (incorporated by reference to Exhibit 10.1 of Registrant s Current Report on Form 8-K filed on November 2, 2005).
4.3	Registration Rights Agreement, dated as of September 28, 2006, by and between StoneMor Partners L.P. acting by its General Partner, StoneMor GP LLC, and SCI New Mexico Funeral Services, Inc. (incorporated by reference to Exhibit 10.4 to Registrant s Current Report on Form 8-K filed on October 4, 2006).
10.1	Credit Agreement by and among StoneMor Operating LLC, StoneMor GP LLC, StoneMor Partners L.P., various additional borrowers, various lending institutions and Fleet National Bank, dated September 20, 2004 (Incorporated by reference to Exhibit 10.1 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004.)
10.1.1	Second Amendment to Credit Agreement, dated September 28, 2006, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC and its subsidiaries set forth on the signature page to the Second Amendment to the Credit Agreement, the Lenders party to the Second Amendment to the Credit Agreement and Bank of America, N.A., as Administrative Agent for the benefit of the Lenders, as Collateral Agent for the benefit of the Lenders and other Secured Creditors, as Swingline Lender and as Letter of Credit Issuer (incorporated by reference to Exhibit 10.5 to Registrant s Current Report on Form 8-K filed on October 4, 2006).
10.2	Contribution, Conveyance and Assumption Agreement, by and among StoneMor Partners L.P., StoneMor GP LLC, CFSI LLC, StoneMor Operating LLC, dated as of September 20, 2004 (incorporated by reference to Exhibit 10.2 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)
10.3	StoneMor Partners L.P. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004)

Table of Contents

Exhibit Number	Description
10.3.1	Amendment to StoneMor Partners L.P. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 of Registrant s Current Report on Form 8-K filed on November 18, 2005)
10.3.2	Long-Term Incentive Plan, as amended on November 8, 2006 (incorporated by reference to Exhibit 10.3 of Registrant s Current Report on Form 8-K filed on November 15, 2006).
10.3.3	Form of the Director Restricted Phantom Unit Agreement Under the StoneMor Partners L.P. Long-Term Incentive Plan, dated November 8, 2006 (incorporated by reference to Exhibit 10.1 of Registrant s Current Report on Form 8-K filed on November 15, 2006).
10.3.4	Form of the Key Employee Restricted Phantom Unit Agreement Under the StoneMor Partners L.P. Long-Term Incentive Plan, dated November 8, 2006 (incorporated by reference to Exhibit 10.2 of Registrant s Current Report on Form 8-K filed on November 15, 2006).
10.3.5	Form of the Unit Appreciation Rights Agreement Under the StoneMor Partners L.P. Long-Term Incentive Plan, dated as of November 27, 2006 (incorporated by reference to Exhibit 10.1 of Registrant s Current Report on Form 8-K filed on December 1, 2006).
10.4	Omnibus Agreement by and among McCown De Leeuw & Co. IV, L.P., McCown De Leeuw & Co. IV Associates, L.P., MDC Management Company IV, LLC, Delta Fund LLC, Cornerstone Family Services LLC, CFSI LLC, StoneMor Partners L.P., StoneMor GP LLC, StoneMor Operating LLC, dated as of September 20, 2004 (incorporated by reference to Exhibit 10.4 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004).
10.5	Employment Agreement by and between StoneMor GP LLC and Lawrence Miller, effective as of September 20, 2004 (incorporated by reference to Exhibit 10.2 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004).
10.6	Employment Agreement by and between StoneMor GP LLC and William R. Shane, effective as of September 20, 2004 (incorporated by reference to Exhibit 10.6 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004).
10.7	Employment Agreement by and between StoneMor GP LLC and Michael L. Stache, effective as of September 20, 2004 (incorporated by reference to Exhibit 10.7 of Registrants Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004).
10.8	Employment Agreement by and between StoneMor GP LLC and Robert Stache, effective as of September 20, 2004 (incorporated by reference to Exhibit 10.8 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004).
10.9	Form of Indemnification Agreement by and between StoneMor GP LLC and Lawrence Miller, Robert B. Hellman, Jr., Fenton R. Talbott, Jeffery A. Zawadsky, Martin R. Lautman, William R. Shane, Allen R. Freedman, effective September 20, 2004 (incorporated by reference to Exhibit 10.9 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004).
10.10	Intercreditor and Collateral Agency Agreement by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, various subsidiaries, various lenders and noteholders and Fleet National Bank, dated September 20, 2004 (incorporated by reference to Exhibit 10.10 of Registrant s Quarterly Report on Form 10-Q for its quarterly period ended September 30, 2004).
10.11	Directors compensation (incorporated by reference to Item 1.01 of Registrant s Current Report on Form 8-K filed on August 9, 2005).
10.12	Asset purchase and Sale Agreement by and between StoneMor Partners L.P. and SCI Funeral Services, Inc., an Iowa corporation (SCI) and a wholly-owned subsidiary of Service Corporation International, a Texas corporation, joined by certain of SCI s direct and indirect subsidiary entities, effective October 13, 2005 (incorporated by reference to Exhibit 10.1 of Registrant s Current Report on Form 8-K filed on October 17, 2005).

Table of Contents

Exhibit Number	Description
10.13	Asset Purchase and Sale Agreement, dated September 28, 2006, by and among StoneMor Operating LLC, joined by its direct and indirect subsidiary entities listed in Exhibit A to the Asset Purchase and Sale Agreement, and SCI Funeral Services, Inc., joined by its direct and indirect subsidiary entities listed in Exhibit B to the Asset Purchase and Sale Agreement (incorporated by reference to Exhibit 10.1 to Registrant s Current Report on Form 8-K filed on October 4, 2006).
10.14	Asset Purchase and Sale Agreement, dated September 28, 2006, by and among StoneMor Operating LLC, joined by StoneMor Michigan LLC and StoneMor Michigan Subsidiary LLC, and SCI Funeral Services, Inc., SCI Michigan Funeral Services, Inc. and Hawes, Inc. (incorporated by reference to Exhibit 10.2 to Registrant s Current Report on Form 8-K filed on October 4, 2006).
10.15	Asset Purchase and Sale Agreement, dated September 28, 2006, by and among StoneMor Operating LLC, joined by StoneMor Michigan LLC and StoneMor Michigan Subsidiary LLC, and SCI Funeral Services, Inc., and SCI Michigan Funeral Services, Inc. and Hillcrest Memorial Company (incorporated by reference to Exhibit 10.3 to Registrant s Current Report on Form 8-K filed on October 4, 2006).
21.1	Subsidiaries of Registrant.
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).