STONEMOR PARTNERS LP

FORM 10-Q/A
(Amended Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from _______to _______.

Commission File Number: 000-50910

STONEMOR PARTNERS L.P.
(Exact name of registrant as specified in its charter)

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

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

The number of the registrant's outstanding common units at November 9, 2007 was 5,855,725.

Explanatory Note

We are filing this Amendment No. 1 on Form 10-Q/A (" Amended 10-Q ") to our quarterly report on Form 10-Q for the quarter ended September 30, 2007, initially filed with the Securities and Exchange Commission (" SEC ") on November 9, 2007 (" Original 10-Q "), along with amendments to our annual report on Form 10-K for the year ended December 31, 2006, initially filed with the SEC on March 19, 2007 and subsequently amended on April 30, 2007, and amendments to our quarterly reports on Forms 10-Q for the quarterly periods ended March 31, 2007 and June 30, 2007 (such Forms 10-K and 10-Q as amended, together with this Amended 10-Q, the " Amended Reports "), to correct immaterial errors recently discovered in these previously filed reports.

With respect to the Amended 10-Q, we are making immaterial corrections to the following information in Item 2., Management's Discussion and Analysis of Financial Condition and Results of Operations, of Part I of the Original 10-Q:

Description of Corrected Item	Previously Reported Number	Corrected Number
Interment rights (net of cancellations) sold during the nine months ended September 30, 2007	16,500	18,500
Interment rights (net of cancellations) sold during the nine months ended September 30, 2006	11,900	15,400
Increase in cemetery maintenance, as a component of cemetery expense, during the three months ended September 30, 2007 compared to the three months ended September 30, 2006	$0.7 million	$0.4 million
Increase in deferred cemetery revenues, net, during the three months ended September 30, 2006	$16.1 million, or 9.2%, from $175.3 million as of June 30, 2006	$17.2 million, or 9.9%, from $174.2 million as of June 30, 2006
Revenues recognized, net of costs, as a component in the description of the change in deferred cemetery revenue net, during the three months ended September 30, 2007	$13.6 million	$13.2 million
Sales commission and other compensation expenses, as a percentage of pre-need sales, during the nine months ended September 30, 2006	31.9%	30.8%
Increase in outstanding borrowings on the acquisition line of credit, as a component in the description of the change in interest expense, during the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006	$9.9 million	$14.3 million
Increase in borrowings on the revolving line of credit, as a component in the description of the change in interest expense, during the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006	$4.5 million	$7.4 million
Increase in deferred cemetery revenues, net, during the nine months ended September 30, 2006 as compared to December 31, 2005	$23.6 million, or 14.1%	$24.4 million, or 14.6%
Approximate aggregate purchase price of two cemeteries acquired in the third quarter of 2007	$25 million	$2.5 million

With respect to the Amended 10-Q, we are making corrections to the following information in Item 3., Quantitative and Qualitative Disclosures About Market Risk, of Part I of the Original 10-Q:

Description of Corrected Item	Previously Reported Number	Corrected Number
Marketable equity securities, as a percentage of funds held in perpetual care trusts, as of September 30, 2007	50.3%	41.1%
Aggregate fair market value of marketable equity securities in merchandise trusts as of September 30, 2007	$84.4 million	$84.9 million

We believe that the corrections made in the Amended Reports, including those corrections described above, are not, individually or in the aggregate, material to our business, financial condition or results of operations. Accordingly, we believe that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective to provide reasonable assurance that information we are required to disclose in our reports 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 our management as appropriate to allow timely decisions regarding required disclosure. Nonetheless, in light of the foregoing, we are reviewing our disclosure controls and procedures and intend to implement additional controls and procedures that we believe will enhance the effectiveness of our disclosure controls and procedures, including hiring an outside consultant to assist in the preparation of our annual report on Form 10-K for the year ending December 31, 2007 as well as hiring additional employees to assist with the preparation and filing of our financial statements and SEC reports.

We are also correcting the number of outstanding units at November 9, 2007 to 5,855,725 from 5,945,821 as reported on the cover page of the Original 10-Q.

In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original 10-Q has been amended to contain currently dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(a) under the Securities Exchange Act of 1934, which certifications are filed herewith as Exhibits 31.1 and 31.2, respectively.

This Amended 10-Q only amends and restates the number of outstanding units on the cover page, Items 2 and 3 of Part I and Item 6 of Part II of the Original 10-Q to the extent described above, and no other information in the Original 10-Q is amended hereby. None of the items restated herein nor any other item in the Original 10-Q has been updated to reflect events, results or developments concerning our business, financial condition or results of operations occurring after the Original 10-Q or to modify or update those disclosures affected by subsequent events. Except for the foregoing amended items, this Amended 10-Q continues to describe conditions as of the date of the Original 10-Q. Among other things, and without limiting the foregoing, forward looking statements made in the Original 10-Q have not been revised to reflect events, results or developments that occurred or facts that became known to us after the date of the Original 10-Q, and such forward looking statements should be read in their historical context.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The words "we," "us," "our," "StoneMor," the "Partnership," "Company" and similar words, when used in a historical context prior to the closing of the initial public offering of StoneMor Partners L.P. on September 20, 2004, refer to Cornerstone Family Services, Inc. ("Cornerstone") (and, after its conversion, CFSI LLC) and its subsidiaries and thereafter refer to StoneMor Partners L.P. and its subsidiaries.

This discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q (including the notes thereto).

Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, including, but not limited to, information regarding the status and progress of StoneMor's operating activities, the plans and objectives of StoneMor's management, assumptions regarding StoneMor'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 "predict," and similar expressions identify these forward-looking statements. These forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated, including, but not limited to, the following: future revenue and revenue growth; the impact of StoneMor's significant leverage on its operating plans; the ability of StoneMor to service its debt; StoneMor'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; StoneMor'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, information disclosed within this Quarterly Report on Form 10-Q; and various other uncertainties associated with the deathcare industry and StoneMor's operations in particular.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2006. 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 Partners L.P. was created to own and operate the cemetery and funeral home business conducted by Cornerstone Family Services, Inc. ("Cornerstone") and its subsidiaries. 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. Since that time, Cornerstone, succeeded by StoneMor, acquired 57 additional cemeteries and 22 funeral homes, built two funeral homes, exited from one management contract and sold one cemetery and one funeral home.

We are an owner and operator of cemeteries in the United States of America. As of September 30, 2007, the Company operated 178 cemeteries in 21 states, located primarily in the eastern United States of America. The Company owns 172 of these cemeteries and operates the remaining 6 under long-term management agreements with cemetery associations that own the cemeteries. As a result of the agreements and other control arrangements, StoneMor consolidates the results of the 6 managed cemeteries in our historical consolidated financial statements.

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 first nine months of 2007, StoneMor performed approximately 21,700 burials and sold more than 18,500 interment rights (net of cancellations) compared to 18,700 and 15,400, respectively, for the same period of 2006.

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 that sale. 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.

Funeral Home Operations

We also derive revenues 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. These services and merchandise are sold by us almost exclusively at the time of need by salaried licensed funeral directors.

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.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on the historical consolidated financial statements of StoneMor. We prepared these financial statements in conformity with Accounting Principles Generally Accepted in the United States of America. The preparation of these financial statements required us to make estimates, judgments and assumptions that affected the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We based our estimates, judgments and assumptions on historical experience and known facts and other assumptions that we believed to be reasonable under the circumstances. In future periods, we expect to make similar estimates, judgments and assumptions on the same basis as we have historically. Our actual results in future periods may differ from these estimates under different assumptions and conditions. We believe that the following accounting policies or estimates had or will have the greatest potential impact on our consolidated financial statements for the periods discussed and for future periods.

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 and lawn 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.

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 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. Until that time, direct costs are reflected on our balance sheet in deferred cemetery revenues, net.

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

Impairment of Long-Lived Assets. We monitor the recoverability of long-lived assets, including cemetery property, property and equipment, merchandise and perpetual care trusts, 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 be 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.

As of December 31, 2006, the Company's taxable corporate subsidiaries had a federal net operating loss carryover of approximately $40.9 million, which will begin to expire in 2019. As of December 31, 2006, the Company also had a state net operating loss carry-forward of approximately $74.2 million, a portion of which expires annually. 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.

For additional information about, among other things, our pre-need sales, at-need sales, trusting requirements, cash flow, expenses and operations, please see Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in our annual report on Form 10-K/A for the fiscal year ended December 31, 2006 and our other reports and statements filed with the SEC.

Recent Accounting Pronouncements

In July 2006, the FASB Interpretation 48, *"Accounting for Uncertainty in Income Taxes: an Interpretation of FASB Statement No. 109" ("Interpretation 48")* . Interpretation 48, which clarifies Statement 109, *Accounting for Income Taxes* , establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Company's financial statements. On initial application, Interpretation 48 was 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 were reported as an adjustment to retained earnings at the beginning of the period in which it is adopted. The adoption of Interpretation 48 as of January 31, 2007 did not have a significant effect on the Company's financial statements or its ability to comply with its current debt covenants. See Note 8 to Notes to Condensed Consolidated Financial Statements.

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

In February 2007, the FASB issued SFAS No. 159, " *Establishing the Fair Value Option for Financial Assets and Liabilities* " (FAS 159), to permit all entities to choose to elect to measure eligible financial instruments at fair value. FAS 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 its consolidated financial statements.

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

	Three months ended September 30, 2006	Three months ended September 30, 2007	Nine months ended September 30, 2006	Nine months ended September 30, 2007
	(in thousands)		(in thousands)	
Statement of Operations Data:				
Revenues:				
Cemetery :				
Merchandise	$13,303	$19,477	$41,458	$ 57,338
Services	6,182	7,188	18,524	21,523
Investment and other	6,185	6,438	18,043	19,913
Funeral home :				
Merchandise	477	1,110	1,656	3,442
Services	638	1,163	2,048	4,364
Total	26,785	35,376	81,729	106,580
Costs and Expenses:				
Cost of goods sold:				
Perpetual care	794	845	2,377	2,685
Merchandise and services	2,735	4,054	8,287	11,802
Cemetery expense	5,983	7,933	17,985	22,593
Selling expense	5,270	7,145	16,689	21,860
General and administrative expense	3,105	4,031	9,255	11,462
Corporate overhead	3,772	5,821	12,006	16,054
Depreciation and amortization	842	1,111	2,588	2,900
Funeral home expense:				
Merchandise	186	344	589	1,198
Services	426	1,041	1,374	3,057
Other	330	556	1,033	1,833
Expenses related to refinancing	0	157	0	157
Interest expense	1,860	2,263	5,375	6,441
Income taxes	423	82	1,091	533
Net income	$ 1,059	$ (7)	$ 3,080	$ 4,005

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

	Three months ended September 30, 2006	Three months ended September 30, 2007	Nine months ended September 30, 2006	Nine months ended September 30, 2007
Operating Data:				
Interments Performed	6,116	6,992	18,704	21,740
Cemetery revenues per interment performed	$ 4,197	$ 4,734	$ 4,172	$ 4,543
Interment rights sold (1):				
Lots	3,495	4,082	9,971	14,214
Mausoleum crypts (including pre-construction)	522	599	1,706	1,861
Niches	88	130	317	463
Total interment rights sold	4,105	4,811	11,994	16,538
Number of contracts written	12,689	15,281	39,998	47,305
Aggregate contract amount, in thousands (excluding interest)	$27,126	$33,797	$85,390	$104,178
Average amount per contract (excluding interest)	$ 2,138	$ 2,212	$ 2,135	$ 2,202
Number of pre-need contracts written	5,743	7,222	18,540	22,191
Aggregate pre-need contract amount, in thousands (excluding interest)	$17,272	$21,762	$54,976	$ 67,605
Average amount per pre-need contract (excluding interest)	$ 3,007	$ 3,013	$ 2,965	$ 3,047
Number of at-need contracts written	6,946	8,059	21,458	25,114
Aggregate at-need contract amount, in thousands	$ 9,854	$12,036	$30,414	$ 36,572
Average amount per at-need contract	$ 1,419	$ 1,493	$ 1,417	$ 1,456

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

Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

Cemetery Revenues. Cemetery revenues were $33.1 million in the third quarter of 2007, an increase of $7.4 million, or 28.8%, as compared to $25.7 million in the third quarter of 2006. Cemetery revenues from pre-need sales, including interest income from pre-need installment contracts and investment income from trusts, were $21.9 million in the third quarter of 2007, an increase of $5.2 million, or 31.1%, as compared to $16.7 million in the third quarter of 2006. The increase primarily resulted from increased lot sales ($0.3 million), additional vault deliveries ($0.3 million), additional marker and marker base deliveries ($3.5 million), additional casket deliveries ($0.2 million) and additional crypt sales ($0.2 million). Total revenues from merchandise and perpetual care trusts for the third quarter of 2007 were $4.0 million, an increase of $0.1 million, or 2.6%, as compared to $3.9 million during the same period in 2006. The increase in trust revenues is a result of the increased product deliveries, as indicated above.

Cemetery revenues from at-need sales in the third quarter of 2007 were $10.9 million, an increase of $2.3 million, or 26.7%, as compared to $8.6 million in the third quarter of 2006. The increase in cemetery revenues from at-need sales was primarily attributable to higher sales of openings and closings of $0.6 million, higher sales of monument bases and markers of $0.9 million, higher sales of lots of $0.2 million, higher sales of mausoleums of $0.3 million and higher sales of vaults of $0.2 million.

Other cemetery revenues were $0.4 million in the third quarter of 2007, essentially unchanged from the third quarter of 2006

Costs of Goods Sold. Cost of goods sold was $4.9 million in the third quarter of 2007, an increase of $1.4 million, or 40.0%, as compared to $3.5 million in the third quarter of 2006 due to the composition of the items serviced during the period. As a percentage of cemetery revenues, cost of goods sold was 14.8% in the third quarter of 2007 an increase of 1.2% from 13.6% in the third quarter of 2006. The increase in cost of goods sold as a percentage of cemetery revenue was attributable to a change in product mix delivered in the third quarter of 2007.

Selling Expense. Total selling expense was $7.1 million in the third quarter of 2007, an increase of $1.8 million, or 34.0%, as compared to $5.3 million in the third quarter of 2006 due to the increase in sales commissions and other compensation expenses. Sales commissions and other compensation expenses contributed $6.0 million to total selling expense during the third quarter of 2007, an increase of $.5 million, or 9.1%, compared to $5.5 million in the third quarter of 2006. As a percentage of pre-need sales, sales commissions and other compensation expenses were 27.4% in the third quarter of 2007, a decrease of 5.5% from the third quarter of 2006. This decrease in percentage is attributable to the fixed cost component of our selling expense being leveraged over a greater sales volume.

Cemetery Expense . Cemetery expense was $7.9 million in the third quarter of 2007, an increase of $1.9 million, or 31.7%, as compared to $6.0 million in the third quarter of 2006. This increase was primarily due to an increase in cemetery labor costs of $0.9 million, an increase in cemetery maintenance of $0.4 million and an increase in utilities of $0.1 million.

General and Administrative Expense . General and administrative expense was $4.0 million in the third quarter of 2007, an increase of $0.9 million, or 29.0%, as compared to $3.1 million in the third quarter of 2006. The increase was primarily attributable to an increase in office salaries of $0.5 million and moderate increases in all other general and administrative expenses.

Funeral Home Revenues and Expenses. Funeral home revenues were $2.3 million in the third quarter of 2007, an increase of $1.2 million, or 109.1%, as compared to $1.1 million in the third quarter of 2006. The primary reason for the increase was an increase in the number of services performed, 669 in the third quarter of 2007 compared to 264 in the third quarter of 2006. Funeral home expenses were $1.9 million in the third quarter of 2007, an increase of $1.0 million, or 111.1%, as compared to $0.9 million in the third quarter of 2006. The majority of all increases in funeral home revenues and expenses were attributable to our acquisition of 14 funeral homes from Service Corporation International in September 2006.

Corporate Overhead. Corporate overhead was $5.8 million in the third quarter of 2007, an increase of $2.0 million, or 52.6%, as compared to $3.8 million in the third quarter of 2006. The increase was primarily attributable to $1.8 million in additional non-cash expenses resulting from a grant of unit-based compensation under our Long-Term Incentive Plan in November of 2006 which will be expensed over the vesting term in accordance with FAS 123R.

Depreciation and Amortization. Depreciation and amortization was $1.1 million in the third quarter of 2007, an increase of $0.3 million, or 37.5%, as compared to $0.8 million in the third quarter of 2006.

Interest Expense. Interest expense was $2.3 million in the third quarter of 2007, an increase of $0.4 million, or 21.1%, as compared to $1.9 million in the third quarter of 2006. This increase was attributable to $13.2 million increase in debt outstanding at September 30, 2007.

Provision (Benefit) for Income Taxes. Provision for income taxes was $0.2 million in the third quarter of 2007, a decrease of approximately $0.2 million, or 50.0%, as compared to $0.4 million in the third quarter of 2006. The change in provision for income taxes was primarily due to a decrease in operating profit in our non-qualified entities attained during the first nine months of 2007.

Net Income(loss). Net loss was $0.1 million during the third quarter of 2007, a decrease of $1.2 million, or 109.1%, as compared to a net income of $1.1 million during the third quarter of 2006. The decrease was primarily attributable to $1.8 million in non-cash expenses resulting from an equity grant under our Long-Term Incentive Plan in November of 2006 and $0.6 million in accumulated acquisition costs for locations that we did not ultimately acquire which were written off during the quarter. We incurred no similar expense in the third quarter of 2006.

Deferred Cemetery Revenue, net. Deferred cemetery revenues, net, decreased $3.6 million, or 1.8% in the third quarter of 2007, from $205.4 million as of June 30, 2007 to $201.8 million as of September 30, 2007. In the comparable period in 2006, deferred cemetery revenues, net, increased $17.2 million, or 9.9%, from $174.2 million as of June 30, 2006 to $191.4 million as of September 30, 2006. The net decrease in the quarter ended September 30, 2007 was primarily attributable to an increase in delivery of products and services that were sold in previous quarters. In the three months ended September 30, 2007, we added $9.2 million in pre-need sales of cemetery merchandise and services, net of deferred costs and cancellations, to our pre-need sales backlog which was offset by revenues recognized, net of costs, of $13.2 million, including accumulated merchandise trust earnings related to the delivery and performance of pre-need cemetery merchandise and services. In the three months ended September 30, 2006, we added $15.2 million in pre-need sales of cemetery merchandise and services, net of deferred costs and cancellations, to our pre-need sales backlog which was offset by revenues recognized, net of costs, of $9.4 million, including accumulated merchandise trust earnings related to the delivery and performance of pre-need cemetery merchandise and services.

Segment Discussion. Revenues for the Southeast and West increased significantly due to the acquisition of 21 cemeteries and 14 funeral homes in September of 2006. For the third quarter of 2007, the company owned these locations for the entire third quarter. This also accounted for the significant increase in operating earnings recognized. Revenue and operating earnings for the Northeast decreased during the third quarter of 2007 when compared to the same period in 2006 due to decreased investment performance in our merchandise and perpetual care trusts.

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

Cemetery Revenues. Cemetery revenues were $98.8 million in the first nine months of 2007, an increase of $20.8 million, or 26.7%, as compared to $78.0 million in the first nine months of 2006. Cemetery revenues from pre-need sales, including interest income from pre-need installment contracts and investment income from trusts, were $64.6 million in the first nine months of 2007, an increase of $15.5 million, or 31.6%, as compared to $49.1 million in the first nine months of 2006. The increase primarily resulted from additional lot sales ($1.4 million), additional vault deliveries ($1.6 million), additional marker and marker base sales ($7.0 million), additional casket deliveries ($2.0 million), additional crypt sales ($1.0 million) and additional document fees ($0.2 million). An additional contribution to the increase in cemetery revenues from pre-need sales was higher accumulated earnings from merchandise trusts allocated to the pre-need products delivered during the first nine months of 2007. Total revenues from merchandise and perpetual care trusts for the first nine months of 2007 were higher by $2.2 million than the same period in 2006. The increase in trust revenues is a result of the increased product deliveries, as indicated above, and improved investment return of our trusts.

Cemetery revenues from at-need sales in the first nine months of 2007 were $33.4 million, an increase of $6.2 million, or 22.8%, as compared to $27.2 million in the first nine months of 2006. The increase in cemetery revenues from at-need sales was primarily attributable to higher sales of monument bases and markers of $2.4 million, higher sales of at-need interment rights of $1.9 million, higher mausoleum sales of $0.5 million, higher sales of burial vaults of $0.5 million and higher sales of lots of $0.5 million.

Other cemetery revenues were $0.8 million in the first nine months of 2007, a decrease of $0.9 million, or 52.9%, from $1.7 million in the first nine months of 2006. The decrease in other cemetery revenues was primarily attributable to a decrease in sales of undeveloped land for net proceeds of $0.7 million.

Costs of Goods Sold. Cost of goods sold was $14.5 million in the first nine months of 2007, an increase of $3.8 million, or 35.5%, as compared to $10.7 million in the first nine months of 2006. As a percentage of cemetery revenues, cost of goods sold increased to 14.7% in the first nine months of 2007 from 13.7% in the first nine months of 2006. The increase in cost of goods sold as a percentage of cemetery revenue was attributable to the change in product mix delivered in the first nine months of 2007.

Selling Expense. Total selling expense was $21.9 million in the first nine months of 2007, an increase of $5.2 million, or 31.1%, as compared to $16.7 million in the first nine months of 2006. Sales commissions and other compensation expenses contributed $18.7 million to total selling expense during the first nine months of 2007, an increase of $3.6 million, or 23.8%, compared to $15.1 million in the first nine months of 2006. As a percentage of pre-need sales, sales commissions and other compensation expenses were 28.9% in the first nine months of 2007, as compared to 30.8% in the first nine months of 2006. This decrease in percentage is attributable to the fixed cost component of our selling expense being leveraged over a greater sales volume.

Cemetery Expense. Cemetery expense was $22.6 million in the first nine months of 2007, an increase of $4.6 million, or 25.6%, as compared to $18.0 million in the first nine months of 2006. This increase was primarily due to an increase in cemetery labor costs of $2.2 million, an increase in cemetery maintenance of $0.8 million, an increase in real estate taxes of $0.2 million, an increase in utilities of $0.3 million and an increase in building repairs and maintenance of $0.4 million.

General and Administrative Expense. General and administrative expense was $11.5 million in the first nine months of 2007 an increase of $2.2 million, or 23.7%, as compared to $9.3 million in the first nine months of 2006. The increase was primarily attributable to an increase in office salaries of $1.1 million and an increase in taxes, licenses of $0.1 million, regional overhead of $0.2 million and an increase in data processing costs of $0.3 million.

Funeral Home Revenues and Expense. Funeral home revenues were $7.8 million in the first nine months of 2007, an increase of $4.1 million, or 110.8%, as compared to $3.7 million in the first nine months of 2006. The primary reason for the increase was an increase in the number of services performed, 2,284 in the first nine months of 2007 compared to 888 in the first nine months of 2006. Funeral home expenses were $6.1 million in the first nine months of 2007, an increase of $3.1 million, or 103.3%, as compared to $3.0 million in the first nine months of 2006. The majority of all increases in funeral home revenue and expenses are attributable to our acquisition of 14 funeral homes from Service Corporation International in September 2006.

Corporate Overhead. Corporate overhead was $16.1 million in the first nine months of 2007, an increase of $4.1 million, or 34.2%, as compared to $12.0 million in the first nine months of 2006. The increase was primarily attributable to $4.1 million in additional non-cash expenses resulting from a grant of unit-based compensation under our Long-Term Incentive Plan in November of 2006 which will be expensed over the vesting term in accordance with FAS 123R.

Depreciation and Amortization . Depreciation and amortization was $2.9 million in the first nine months of 2007, an increase of $0.3 million, or 11.5%, as compared to $2.6 million in the first nine months of 2006.

Interest Expense. Interest expense was $6.4 million in the first nine months of 2007, an increase of $1.0 million, or 18.5%, as compared to $5.4 million in the first nine months of 2006. This increase is attributable to an increase in outstanding borrowings on our acquisition line of credit of $14.3 million and an increase in borrowings on our revolving line of credit of $7.4 million. This increase was attributable to $13.2 million increase in debt outstanding at September 30, 2007.

Provision (Benefit) for Income Taxes. Provision for income taxes was $0.7 million in the first nine months of 2007 as compared to a provision for income taxes of $1.1 million during the first nine months of 2006. The change in provision for income taxes was primarily due to a decrease in operating profit in our non-qualified entities attained during the first nine months of 2007.

Net Income(Loss). Net income was $3.9 million during the first nine months of 2007, an increase of $0.8 million, or 25.8%, as compared to net income of $3.1 million during the first nine months of 2006. The increase was primarily attributable to a $1.6 million increase in operating profit attained and is net of $4.1 million in non-cash expenses resulting from an equity grant under our Long-Term Incentive Plan in November of 2006 which we did not incur in the first nine months of 2006.

Deferred Cemetery Revenue. Deferred cemetery revenues, net, increased $5.6 million, or 2.9%, in the first nine months of 2007, from $196.1 million as of December 31, 2006 to $201.7 million as of September 30, 2007. In the comparable period in 2006, deferred cemetery revenues, net, increased $24.4 million, or 14.6% in the first nine months of 2006, from $167.0 million as of December 31, 2005 to $191.4 million as of September 30, 2006. The net increase in the first nine months of 2007 was primarily attributable to an increase in sales of pre-need cemetery products and services that were not delivered or performed in the first nine months of 2007. We added $46.2 million in pre-need sales of cemetery merchandise and services, net of deferred costs and cancellations, to our pre-need sales backlog during the first nine months of 2007 as compared to $40.3 million added during the first nine months of 2006. These increases were offset by revenues recognized, net of costs, of $39.3 million, including accumulated merchandise trust earnings, during the first nine months of 2007 related to the delivery and performance of pre-need cemetery merchandise and services as compared to $28.0 million of revenues recognized in the first nine months of 2006.

Segment Discussion. Revenues for the Southeast and West increased significantly due to the acquisition of 21 cemeteries and 14 funeral homes in September of 2006. For the nine month period ended September 30, 2007, the company owned these locations for the entire nine months. This also accounted for the significant increase in operating earnings recognized. Revenue and operating earnings in the Northeast increased during the nine month period ended September 30, 2007 when compared to the same period in 2006 due to increased year-to-date investment performance in our merchandise and perpetual care trusts.

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 are cash flow from operations and income from perpetual care trusts. Our primary source of funds for long-term liquidity needs are 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 $2.8 million for the construction of mausoleums. Additionally, we anticipate ongoing annual capital expenditure requirements of between approximately $1.7 million and $2.9 million for the foreseeable future, of which between $1.1 million and $2.1 million is for maintenance of our existing cemeteries and between $0.6 million and 0.8 million is for mausoleum and lawn crypt construction and other expansion, excluding acquisitions. 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 common units representing limited partner interests, 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 28, 2006, we completed the acquisition of 21 cemeteries and 14 funeral homes from Service Corporation International (NYSE: SCI) and certain other entities for $11.8 million. We paid $5.9 million in cash and 275,046 in common units representing limited partner interests, 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 and two cemeteries in the third quarter of 2007 with an aggregate purchase price of approximately $2.5 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 provided by operating activities were $14.6 million in the first nine months of 2007 compared to cash flows provided by operating activities of $16.4 million during the first nine months of 2006. Cash flows provided by operating activities in the first nine months of 2007 decreased from the cash flows provided by operating activities in the first nine months of 2006 primarily due to an increase in cash used for accounts receivable of $12.8 million associated with an increase in pre-need contracts written during the first nine months of 2007, partially offset by an increase in net income of $0.8 million which is net of $4.1 million unit-based compensation, a $1.2 million increase in deferred cemetery revenue, a decrease in cash used to satisfy merchandise liabilities of $2.6 million, and a decrease in net contributions to the merchandise trust of $1.3 million.

Cash Flow from Investing Activities . Net cash used in investing activities was $6.7 million in the first nine months of 2007, a decrease of $5.1 million, as compared to cash used in investing activities of $11.8 million in the first nine months of 2006. This decrease in cash used in investing activities was primarily attributable to a $6.7 million decrease in net cash used to purchase subsidiaries, partially offset by the net proceeds of $2.1 million related to the sale of one of our funeral homes in the first nine months of 2006. We did not sell any locations in the first nine months of 2007.

Cash Flow from Financing Activities. Net cash used in financing activities was $4.6 million in the first nine months of 2007 as compared to cash provided by financing activities of $2.9 million in the first nine months of 2006. The cash flow used in financing activities in the first nine months of 2007 was primarily attributable to the February, May and August unit holder distributions of $14.0 million and $2.8 million in financing costs related to our third quarter 2007 refinancing partially offset by increased net borrowings from our long-term debt facilities of $12.2 million. The cash flow used in financing activities in the first nine months of 2006 was primarily attributable to the February, May and August unit holder distributions of $12.8 million offset by increased borrowings from our revolving credit facility of $16.2 million.

Credit Facility. On September 20, 2004, concurrent with the closing of the Partnership’s initial public offering, StoneMor Operating LLC (the “Operating Company”) and its subsidiaries issued and sold $80.0 million aggregate principal amount of senior secured notes. 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, the general partner of the Partnership and any future subsidiaries of the 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 of the senior secured notes, whether then owned or thereafter acquired, other than specified receivable rights and a third party 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, the Operating Company and its subsidiaries entered into a $35.0 million credit facility with a group of banks. This credit facility consisted of a $12.5 million revolving credit line and a $22.5 million acquisition line of credit. Borrowings under the revolving credit line were originally due and payable on September 20, 2007, and borrowings under the acquisition line of credit were originally 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. On May 7, 2007, the Company entered into a third amendment of the credit facility which adjusted the credit facility by increasing the revolving credit line to $17.5 million and reducing the acquisition line of credit to $17.5 million until June 29, 2007. On June 29, 2007, the Company entered into a fourth amendment of the credit facility which extended the adjustment period of the third amendment from June 29, 2007 to July 31, 2007. On July 31, 2007, the Company entered into a fifth amendment of the credit facility which extended the adjustment period of the third amendment from June 29, 2007 to August 15, 2007. Depending on the type of loan, this credit facility bore 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 in the credit agreement. 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 was determined by the administrative agent according to the credit facility.

Borrowings under the credit facility ranked 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. Borrowings under the credit facility are guaranteed by the Partnership and the general partner of the Partnership.

Our obligations under the revolving facility were 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 third party 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 were 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 third party priority lien and security interest in those specified receivable rights of the borrower and the guarantors. The senior secured notes shared pari passu in the collateral securing the acquisition facility.

On August 15, 2007, the Operating Company and certain of its subsidiaries, collectively, as Borrowers, and the Company and StoneMor GP LLC ("StoneMor GP"), the general partner of StoneMor, collectively, as Guarantors, entered into the Amended and Restated Credit Agreement (the "Credit Agreement") with Bank of America, N.A. ("Bank of America"), other lenders, and Banc of America Securities LLC ("BAS"). Bank of America was the administrative agent and one of the lenders under a Credit Agreement by and among the Company, StoneMor GP, the Operating Company, certain other borrowers and lending institutions, dated September 20, 2004, as amended (the "2004 Credit Agreement").

On August 15, 2007, StoneMor GP, the Company, the Operating Company, and certain subsidiaries of the Operating Company (collectively, the "Issuers") entered into the Amended and Restated Note Purchase Agreement (the "Note Purchase Agreement") with Prudential Investment Management Inc., The Prudential Insurance Company of America, Prudential Retirement Insurance and Annuity Company, certain Affiliates of Prudential Investment Management Inc., iStar Financial Inc., SFT I, Inc., and certain Affiliates of iStar Financial Inc. (collectively, "Note Purchasers").

The following is a summary of the material provisions of the Credit Agreement and the Note Purchase Agreement. This summary is qualified in its entirety by reference to the Credit Agreement, the Note Purchase Agreement, and the Notes issued under the Note Purchase Agreement. Capitalized terms which are not defined in this Current Report on Form 10-Q shall have the meanings assigned to such terms in the Credit Agreement and Note Purchase Agreement.

The Credit Agreement provides for two credit facilities: (1) the Acquisition Facility, with a maximum principal amount of $40,000,000 (with an option to increase such facility by an additional $15,000,000 on an uncommitted basis) and the term of 5 years, and (2) the Revolving Credit Facility, with a maximum principal amount of $25,000,000 (with an option to increase such facility by up to $10,000,000 on an uncommitted basis) and a term of 5 years. Amounts borrowed under the Acquisition Facility and repaid or prepaid may not be reborrowed. Amounts borrowed under the Revolving Credit Facility and repaid or prepaid during the term may be reborrowed. In addition, Bank of America has agreed to provide to the borrowers Swing Line Loans with a maximum limit of $5,000,000, which is a part of the Revolving Credit Facility.

Loans outstanding under the Acquisition Facility and the Revolving Credit Facility bear interest at a per annum rate based upon the Base Rate or the Eurodollar Rate, as selected by Borrowers, plus an applicable margin ranging from 0% to 0.75% for Base Rate Loans and 2.25% to 3.25% for Eurodollar Rate Loans, depending on the ratio of consolidated funded debt to consolidated EBITDA of the Company. The Base Rate is a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 0.5% and (b) the "prime rate" as set by Bank of America. The Eurodollar Rate equals the British Bankers Association LIBOR Rate.

The Credit Agreement requires the Borrowers to pay an unused commitment fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments. The Borrowers are also required to pay certain additional fees to Bank of America as Administrative Agent, and BAS as Arranger.

The proceeds of the Acquisition Loans may be used by the Borrowers to finance (i) Permitted Acquisitions, as defined in the Credit Agreement, and (ii) the purchase and construction of mausoleums. The proceeds of the Revolving Credit Loans and Swing Line Loans may be utilized to finance working capital requirements, Capital Expenditures, as defined in the Credit Agreement, and for other general corporate purposes.

Borrowings under the Credit Agreement rank pari passu with all other senior secured debt of the Borrowers, including the senior secured notes issued pursuant to the Note Purchase Agreement.

The Borrowers' 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 guarantors, excluding trust accounts and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, StoneMor GP's general partner interest in the Company and StoneMor GP's incentive distribution rights under the Company's partnership agreement. The specified receivable rights include all accounts and other rights to payment arising under customer contracts or agreements or management agreements, and all inventory, general intangibles and other rights reasonably related to the collection and performance of these accounts and rights to payment.

The Borrowers' obligations under the Acquisition 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, StoneMor GP's general partner interest in the Company and StoneMor GP's incentive distribution rights under the Company's partnership agreement, and a secondary priority lien and security interest in those specified receivable rights. These assets secure the Acquisition Facility and the Notes described below. The priority of the liens and security interests securing the Acquisition Facility is pari passu with the liens and security interests securing Notes described below.

The Borrowers' obligations under the Credit Agreement are guaranteed by StoneMor and StoneMor GP.

Subject to certain exceptions, the Borrowers agreed under the Credit Agreement to certain customary affirmative and negative covenants, which include, among other matters, covenants restricting the incurrence of indebtedness, the making of investments and acquisitions, the issuance of certain types of equity securities, the making of dispositions and the making of certain fundamental changes in equity structure.

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 September 30, 2007, the Company was in compliance with all debt covenants.

Senior Secured Notes

Pursuant to the Note Purchase Agreement, the Issuers and the Note Purchasers agreed to (a) exchange certain Series A Notes issued pursuant to that certain Note Purchase Agreement dated as of September 20, 2004, as amended, for new Series A Notes, as defined in the Note Purchase Agreement, due September 20, 2009, in the maximum aggregate amount of $80,000,000; and (b) issue Series B Notes, as defined in the Note Purchase Agreement, due August 15, 2012 in the aggregate amount of $35,000,000, subject to the option, on an uncommitted basis, to issue/purchase additional secured Shelf Notes in the aggregate amount of up to $35,000,000, and to issue/purchase additional secured Shelf Notes to refinance the Series A Notes (Series A Notes, Series B Notes and the Shelf Notes are referred to collectively as the "Notes"). The Series A Notes bear an interest rate of 7.66% per annum, and the Series B Notes bear an interest of 9.34% per annum.

The Notes are guaranteed by the Company and StoneMor GP. The Notes rank pari passu with all other senior secured debt, including the Revolving Credit Facility and the Acquisition Facility. Obligations under the 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 of the Issuers, whether then owned or thereafter acquired. These assets secure the Notes and the Acquisition Facility described above. The priority of the liens and security interests securing the Notes is pari passu with the liens and security interests securing the Acquisition Facility described above.

The agreements governing the Notes and the Credit Agreement 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 September 30, 2007, the Company was in compliance with all debt covenants.

Intercreditor and Collateral Agency Agreement. In connection with the closing of the credit facility and the private placement of the senior secured notes, our general partner, the partnership, our operating company, our other subsidiaries, the lenders under the new credit facility, the holders of the senior secured notes and Fleet National Bank, as collateral agent, entered into an intercreditor and collateral agency agreement setting forth the rights and obligations of the parties to the agreement as they relate to the collateral securing the new credit facility and the senior secured notes.

Capital Expenditures

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

	Nine Months Ended September 30,	
	2006	2007
Maintenance capital expenditures	$ 1,778	$1,223
Expansion capital expenditures	18,029	5,500
Total capital expenditures	$19,807	$6,723

Pursuant to our partnership agreement, in connection with determining operating cash flows available for distribution, costs to construct mausoleum crypts and lawn crypts may be considered to be a combination of maintenance capital expenditures and expansion capital expenditures depending on the purposes for construction. Our general partner, with the concurrence of its conflicts committee, has the discretion to determine how to allocate a capital expenditure for the construction of a mausoleum crypt or a lawn crypt between maintenance capital expenditures and expansion capital expenditures. In addition, maintenance capital expenditures for the construction of a mausoleum crypt or a lawn crypt are not subtracted from operating surplus in the quarter incurred but rather 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.

Seasonality. The death care business is relatively stable and predictable. Although we experience seasonal increases in deaths due to extreme weather conditions and winter flu, these increases have not historically had any significant impact on our results of operations. In addition, we perform fewer initial openings and closings in the winter when the ground is frozen.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The information presented below should be read in conjunction with the notes to our unaudited condensed consolidated financial statements included under Part 1 “Item 1 – Financial Statements” in this Quarterly Report on Form 10-Q.

The market risk inherent in our market risk sensitive instruments and positions is the potential change arising from increases or decreases in interest rates and the prices of marketable equity securities, as discussed below. Our exposure to market risk includes forward-looking statements and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates or 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 September 30, 2007, fixed-income securities represented 34.5% of the funds held in merchandise trusts and 50.3% of the funds held in perpetual care trusts. The aggregate quoted market value of these fixed-income securities was $50.9 million and $83.7 million in merchandise trusts and perpetual care trusts, respectively, as of September 30, 2007. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately $0.5 million and $0.8 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 September 30, 2007, these investments accounted for approximately 8.2% and 8.6% of the funds held in merchandise trusts and perpetual care trusts, respectively. The fair market value of these investments was $12.1 million and $14.3 million in merchandise trusts and perpetual care trusts, respectively, as of September 30, 2007. Each 10% change in average interest rates applicable to these investments would result in changes of approximately $1.2 million and $1.4 million, 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. As of September 30, 2007, marketable equity securities represented 57.2% of funds held in merchandise trusts and 41.1% of funds held in perpetual care trusts. The aggregate fair market value of these marketable equity securities was $84.9 million and $68.3 million in merchandise trusts and perpetual care trusts, respectively, as of September 30, 2007, 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 $8.4 million and $6.8 million in the fair market value of securities held in merchandise trusts and perpetual care trusts, respectively.

Investment Strategies and Objectives . Our internal investment strategies and objectives for funds held in merchandise trusts and perpetual care trusts are specified in an Investment Policy Statement which requires us to do the following:

- State in a written document our expectations, objectives, tolerances for risk and guidelines in the investment of our assets;
- Set forth a disciplined and consistent structure for managing all trust assets. This structure is based on a long-term asset allocation strategy, which is diversified across asset classes, investment styles and strategies. We believe this structure is likely to meet our stated objectives within our tolerances for risk and variability. This structure also includes ranges around the target allocations allowing for adjustments when appropriate to reduce risk or enhance returns. It further includes guidelines for the selection of investment managers and vehicles through which to implement the investment strategy;
- Provide specific guidelines for each investment manager. These guidelines control the level of overall risk and liquidity assumed in their portfolio;
- Appoint first-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 which is likely to maximize returns and earnings without experiencing overall declines in value in excess of 3% over any 12-month period.

In order to consistently achieve the stated return objectives within our tolerance for risk, we use a strategy of allocating appropriate portions of our portfolio to a variety of asset classes with attractive risk and return characteristics, and low to moderate correlations of returns. See the notes to our unaudited condensed consolidated financial statements for a breakdown of the assets held in our merchandise trusts and perpetual care trusts by asset class.

Debt Instruments . Our 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 September 30, 2007, we had no outstanding borrowings under our revolving credit line or our acquisition line of credit.

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Item 6. Exhibits

Exhibit Number	Description
4.1	Form of 7.66% Senior Secured Note Due 2009, dated June 20, 2007 (incorporated by reference to Exhibit 4.1 of Registrant’s Current Report on Form 8-K filed on August 15, 2007).
4.2	Form of 9.34% Series B Senior Secured Note Due 2012, dated August 15, 2007 (incorporated by reference to Exhibit 4.2 of Registrant’s Current Report on Form 8-K filed on August 15, 2007).
10.1	Amended and Restated Credit Agreement, dated August 15, 2007, among StoneMor Operating LLC, as a Borrower, various subsidiaries thereof, as additional Borrowers, StoneMor Partners L.P. and StoneMor GP LLC, as Guarantors, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the other Lenders Party Hereto, and Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Manager (incorporated by reference to Exhibit 10.1 of Registrant’s Current Report on Form 8-K filed on August 15, 2007).

10.2	Amended and Restated Note Purchase Agreement, dated as of August 15, 2007, by StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, and each of the Subsidiary Issuers listed on the signature pages hereof. (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed on August 15, 2007).
10.3	First Amendment to the Amended and Restated Limited Liability Company Agreement of StoneMor GP LLC, dated as of September 14, 2007 (incorporated by reference to Exhibit 99.1 of Registrant's Current Report on Form 8-K filed on September 19, 2007).
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
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

* Previously furnished.

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SIGNATURES

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

	STONEMOR PARTNERS L.P. By: StoneMor GP LLC its general partner
December 13, 2007	/s/ Lawrence Miller
	Lawrence Miller Chief Executive Officer, President and Chairman of the Board of Directors (Principal Executive Officer)
December 13, 2007	/s/ William R. Shane
	William R. Shane Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Exhibit Index

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* Previously furnished.

Exhibit 31.1

CERTIFICATION

I, Lawrence Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of StoneMor Partners L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 13, 2007

By: /s/ Lawrence Miller
Lawrence Miller
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, William R. Shane, certify that:

1. I have reviewed this quarterly report on Form 10-Q of StoneMor Partners L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 13, 2007

By: /s/ William R. Shane
William R. Shane
Executive Vice President and Chief Financial Officer