STONEMOR PARTNERS LP
Form 424B5
September 17, 2010
Table of Contents

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-144453 and 333-169435

PROSPECTUS SUPPLEMENT

(To Prospectus dated December 7, 2007)

1,500,000

Common Units

StoneMor Partners L.P.

Representing Limited Partner Interests

We are selling 1,500,000 of our common units representing limited partner interests in us. All of the common units offered pursuant to this prospectus supplement and the accompanying prospectus are being sold by us.

Our common units are traded on the NASDAQ Global Market under the symbol STON. On September 16, 2010, the last reported sale price of our common units on the NASDAQ Global Market was $24.55 per unit.

You should consider the risks which we have described in Risk Factors beginning on page S-15 of this prospectus supplement and in the documents incorporated by reference in this prospectus supplement before buying our common units.

	Per Common Unit	Total
Public offering price	$ 24.00	$ 36,000,000
Underwriting discount	$ 1.10	$ 1,650,000
Proceeds, before expenses, to us	$ 22.90	$ 34,350,000

The underwriter may purchase up to an additional 225,000 common units from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus to which it relates is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriter expects to deliver the common units to purchasers on or about September 22, 2010.

RAYMOND JAMES

The date of this prospectus supplement is September 16, 2010.

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

We are providing information to you about this offering of our common units in two parts. The first part is this prospectus supplement, which provides the specific details regarding this offering. The second part is the accompanying prospectus, which provides general information. Generally, when we refer to this prospectus, we are referring to both documents combined, as well as to the documents incorporated by reference in this prospectus supplement and the accompanying prospectus. Some of the information in the accompanying prospectus may not apply to this offering. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement.

Any statement made in this prospectus or in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document that is also incorporated by reference into this prospectus modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus. The sections captioned Where You Can Find More Information and Information Regarding Forward-Looking Statements in the accompanying base prospectus are superseded in their entirety by the similarly titled sections included in this prospectus supplement.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriter has not, authorized anyone to provide you with information that is different from that contained in this prospectus supplement and the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell common units and seeking offers to buy common units only in jurisdictions where offers and sales are permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus, as well as information we previously filed with the Securities and Exchange Commission, or the SEC, and incorporated herein by reference, is accurate only as of their respective dates or on other dates which are specified in those documents, regardless of the time of delivery of this prospectus supplement or of any sale of the common units. Our business, financial condition, results of operations and prospects may have changed since those dates.

Table of Contents

FORWARD-LOOKING STATEMENTS

Some statements contained or incorporated by reference in this prospectus supplement, including, but not limited to, information regarding the status and progress of our operating activities, the plans and objectives of our management, assumptions regarding our future performance and plans, and any financial guidance provided are forward-looking statements. The words believe, may, will, estimate, continue, anticipate, project, expect, predict and similar expressions identify these forward-looking statements. Our actual results of operations could differ materially from those expressed or implied by forward-looking statements contained in or incorporated by reference in this prospectus supplement. Important factors that could cause or contribute to such differences include those factors discussed in Risk Factors and elsewhere in this prospectus supplement and the documents incorporated by reference herein, as well as the following:

- uncertainties associated with future revenue and revenue growth;
- the effect of the current economic downturn;
- the impact of our significant leverage on our operating plans;
- our ability to service our debt and pay distributions;
- the decline in the fair value of certain equity and debt securities held in our trusts;
- our ability to attract, train and retain an adequate number of sales people;
- uncertainties associated with the volume and timing of pre-need sales of cemetery services and products;
- increased use of cremation;
- changes in the political or regulatory environments, including potential changes in tax accounting and trusting policies;
- our ability to successfully implement a strategic plan relating to operating improvement, strong cash flows and further deleveraging;
- uncertainties associated with the integration or the anticipated benefits of our recent acquisitions and any future acquisitions;
- our ability to complete and fund additional acquisitions;
- various other uncertainties associated with the death care industry and our operations in particular; and

other risks set forth in Risk Factors in this prospectus supplement and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed with the SEC on March 16, 2010, or the 2009 Form 10-K, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010 filed with the SEC May 10, 2010, or the First Quarter 2010 Form 10-Q, our Quarterly Report on Form 10-Q/A for the fiscal quarter ended June 30, 2010 filed with the SEC September 13, 2010, or the Second Quarter 2010 Form 10-Q/A, each of which is incorporated herein by reference.

Forward-looking statements contained or incorporated by reference in this prospectus supplement present our views only as of the date of this prospectus supplement. Except as required under applicable law, we do not intend to issue updates concerning any revisions of our views to reflect events or circumstances occurring after the date of this prospectus supplement. See Where You Can Find More Information.

Table of Contents

SUMMARY

This summary highlights information about our business and about this offering contained elsewhere in this prospectus supplement. It does not contain all of the information that you should consider before making an investment decision. You should read this entire prospectus supplement and the accompanying prospectus, as well as the documents incorporated by reference herein and therein in their entirety, including the risk factors and our financial statements and related notes, before making an investment decision. You should carefully consider the information set forth under Risk Factors beginning on page S-15 of this prospectus supplement about important risks that you should consider before buying common units in this offering.

In this prospectus supplement, unless the context otherwise requires, references to we, us or our are to StoneMor Partners L.P., its subsidiaries and its general partner, collectively. References to underwriter refer to Raymond James & Associates, Inc.

StoneMor Partners

We are the third largest owner and operator of cemeteries in the United States. As of June 30, 2010, we operated 252 cemeteries. We own 236 of these cemeteries, and we operate the remaining 16 under long-term agreements. As of June 30, 2010, we also owned and operated 63 funeral homes. Twenty-six of these funeral homes are located on the grounds of the cemeteries we own.

We were formed as a Delaware limited partnership in April 2004. Unlike certain of our competitors that are not treated as partnerships for federal income tax purposes, our primary business objective is to increase distributable cash flow over time for our unitholders. We aim to set unitholder distributions at a level that can be sustained over time, while maintaining resources sufficient for the ongoing stability and growth of our business.

We are the only one of the four publicly-traded U.S. deathcare companies that derives a majority of its revenue from cemetery operations rather than funeral home services. In the six months ended June 30, 2010, our total revenues were approximately $89.4 million.

The cemetery products and services that we sell include the following:

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	other service items
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. We market our products and services through an experienced staff of commissioned sales representatives. We had approximately 721 of these representatives on staff as of June 30, 2010. 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.

Table of Contents

In 2009, we performed 37,782 burials and sold 25,842 interment rights (net of cancellations). Based upon the ratio of the number of interment rights sold to total spaces available, at December 31, 2009 our cemeteries had a weighted average estimated remaining sales life of 226 years. In the first six-months of 2010, we performed 19,401 burials and sold 14,037 interment rights (net of cancellations). We do not believe that there has been any material change to the weighted average estimated remaining sales life since December 31, 2009.

Our cemetery properties are located in Alabama, California, Colorado, Delaware, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Missouri, New Jersey, North Carolina, Ohio, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Tennessee, Virginia, Washington and West Virginia. In 2009 and in the six months ended June 30, 2010, our cemetery revenues accounted for approximately 87.1% and 87.0% of our total revenues, respectively.

Our primary funeral home products are caskets and related items. Our funeral home services include consultation, the removal and preparation of remains, and the use of funeral home facilities for visitation and prayer services.

Our 63 funeral homes are located in Alabama, Arkansas, California, Florida, Illinois, Kansas, Maryland, Missouri, Ohio, Oregon, Pennsylvania, Puerto Rico, South Carolina, Tennessee, Virginia, Washington and West Virginia. In 2009 and in the six months ended June 30, 2010, our funeral home revenues accounted for approximately 12.9% and 12.1% of our total revenues, respectively.

Competitive Strengths

We believe that the following competitive strengths contribute to our position as a leading cemetery operator:

Long-lived and Geographically Diverse Cemeteries. We have a large portfolio of cemetery properties, which will enable us to offer cemetery products and services in the markets we serve for many years. Because we operate cemeteries in multiple states, we have not historically been materially affected by localized economic downturns or changes in laws regulating cemetery operations in any one state. Our portfolio consists of 236 cemetery properties with a total of more than 9,800 acres as of December 31, 2009. Our cemeteries have an aggregated weighted average remaining sales life of 226 years based upon interment spaces sold in 2009. In addition, we increase capacity in our cemeteries by building mausoleum crypts and lawn crypts as the number of unsold lots decreases.

Highly Trained and Professional Sales Force. Our highly trained and professional sales force is the key to our success in executing our pre-need sales strategy. We had approximately 721 commissioned sales representatives as of June 30, 2010.

Ability to Successfully Execute and Integrate Acquisitions. Our acquisitions have been based on targeted guidelines that include projected cash flow and profitability, location, heritage and reputation, physical size, market value and volume of pre-need business. We believe our targeted approach, combined with our management team s industry contacts and experience will allow us to continue to maintain a competitive advantage in executing and integrating acquisitions. Since inception, we have successfully acquired and integrated an additional 129 cemeteries and 59 funeral homes into our operations.

Table of Contents

Diversified Product Mix. Our mix of pre-need cemetery merchandise and services and at-need cemetery and funeral home merchandise and services represents a diversified product mix and allows us to provide customers with a comprehensive product offering. These products and services provide us with a presence in the major segments of the death care industry.

Operating Efficiencies Attributable to Our Size. Due to our size, we are able to generate economies of scale and operating efficiencies. These include shared best practices in the area of pre-need marketing, lower purchasing costs for cemetery and funeral home merchandise through volume purchasing, lower operating expenses through centralized administrative functions, shared maintenance equipment and personnel and more effective strategic and financial planning. As a result, we are able to compete favorably in the areas we serve and to potentially improve the profitability of cemetery operations we acquire.

Oversight and Management of Trust Assets to Preserve Capital and Generate Income. While our business model calls for us to release funds from our merchandise trusts on an accelerated basis, at any point in time we will have a significant corpus of invested assets. We have employed an investment strategy that focuses on a balanced approach to preserving capital while generating returns in excess of current inflation rates. We invest the funds held in merchandise trusts and perpetual care trusts in investments in intermediate term, investment grade, fixed income securities, high-yield fixed income securities, real estate investment trusts, master limited partnerships and, to a lesser extent, other types of equity securities and cash. The funds that are held in trusts are managed by third-party professional investment managers within specified investment guidelines adopted by the Trust and Compliance Committee of the Board of Directors of our general partner and standards imposed by state law. Our merchandise trusts had an aggregate market value of approximately $266.9 million as of June 30, 2010. Our perpetual care trusts had an aggregate market value of approximately $215.4 million as of June 30, 2010.

Experienced Management Team. We believe that we have one of the most experienced management teams in the death care industry, led by Lawrence Miller, our President and Chief Executive Officer, and William R. Shane, our Executive Vice President and Chief Financial Officer, who have extensive senior-level experience in managing large death care companies. Our 11 senior officers have an average industry experience of over 28 years.

Business Strategies

Our primary business objective is to increase distributable cash flow over time for our unitholders. We attempt to achieve this objective by employing the following core strategies:

Develop and Maintain a Diversified Revenue Stream. Our business model is constructed so that sales revenues are generated from pre-need sales of cemetery merchandise and services as well as at-need sales of cemetery merchandise and services and sales of funeral home merchandise and services. This diverse revenue stream should prove to be more stable over economic cycles than a more concentrated revenue stream.

Sales of pre-need merchandise and services allow us to focus on sales to new customers and sales of additional merchandise to existing customers in order to establish a loyal customer base. These sales tend to generate additional pre-need sales and at-need sales to close family members of our pre-need customers. We have developed a sales force and marketing platform dedicated to this revenue stream. This marketing platform is built around direct response marketing programs and relationship marketing. This has improved the quality of our company generated sales leads which

Table of Contents

in turn has led to improved sales from these sources. We have also established an inside sales department to create an additional avenue for customers to purchase our products and services. The inside sales representatives work hand-in-hand with their counterparts in the field and their joint efforts have helped to increase the amount of sales to each customer.

Sales of at-need cemetery merchandise and services and funeral home merchandise and services are a complement to our pre-need sales program. From a strategic standpoint, they also provide us with a revenue stream that is less sensitive to changes in economic cycles and do not require considerable upfront sales and marketing resources.

Consistently Review and Improve Operating Efficiencies. We have a dedicated senior executive team that actively monitors our operating costs and efficiently executes cost-containment and operational improvement strategies. We believe this team is quick to react to changes in the marketplace and implement both long- and short-term strategies that allow us to meet our primary objective on a continuing basis.

Purchase Products and Perform Services That Are Subject to Trusting Requirements in Advance of the Time of Need. We are required by various state laws to deposit a portion of funds that we receive from our pre-need sales of cemetery merchandise and services into merchandise trusts to ensure that we will have sufficient funds in the future to purchase these products and perform these services. In many cases, we are allowed to release these funds from the trust once we have purchased the product or performed the service. We have instituted a program wherein we purchase these products or perform these services in advance of the time of need, thereby allowing us to release the funds from trust and relieve ourselves of the obligation of trusting any additional funds. This in turn makes cash available to pay operating expenses, pursue investment opportunities, service debt and make distributions.

Acquire and Integrate Additional Cemeteries and Funeral Homes. One of our core strategies has been to grow our business through the acquisition of additional properties. We plan to continue to evaluate potential acquisitions and identify properties that we believe complement our existing portfolio.

Use of Proceeds

We intend to use the net proceeds from this offering and the related capital contribution by our general partner to (i) prepay approximately $22.5 million of the borrowings outstanding under our existing acquisition credit facility and (ii) pay down approximately $11.8 million of the borrowings outstanding under our existing revolving credit facility. If the underwriter exercises its option to purchase additional common units in full, we will use the additional net proceeds and related capital contribution by our general partner to pay down approximately $5.3 million of the borrowings outstanding under our existing revolving credit facility. See Use of Proceeds.

Structure and Management

Our operations are conducted through, and our operating assets are owned by, our direct and indirect subsidiaries. We have one direct subsidiary, StoneMor Operating LLC, a limited liability company that owns equity interests in a number of our subsidiary operating companies.

Our general partner, StoneMor GP LLC, manages our operations and activities. Our general partner does not receive any management fee or other compensation in connection with its management of our business, but is reimbursed for expenses that it incurs on our behalf and holds incentive distribution rights in us. Members of our management hold direct and indirect interests in our general partner.

Our principal executive offices are located at 311 Veterans Highway, Suite B, Levittown, Pennsylvania 19056 and our phone number is (215) 826-2800. Our website is located at http://www.stonemor.com. Information on the website is not incorporated by reference into this prospectus supplement and does not constitute a part of this prospectus supplement.

Recent Developments

Through July of 2010, we completed two acquisitions and executed one long term operating agreement.

In the first acquisition, which was completed at the end of the first quarter of 2010, we acquired nine cemeteries in Michigan for an aggregate of $14 million in cash. As part of the acquisition, we received merchandise trusts totaling approximately $46 million, while assuming only $23 million in merchandise liabilities at current cost. We also received approximately $15 million in perpetual care trust funds. While we are not entitled to the corpus of the perpetual care trust, we are entitled to the income generated by these assets. These cemeteries conducted approximately 2,400 burials in 2009.

In the second acquisition, which was completed at the end of the second quarter of 2010, we acquired eight cemeteries and five funeral homes in Indiana, Michigan, and Ohio from state court-appointed receiverships. We paid an aggregate of approximately $10.4 million in cash, issued 303,800 of our common units and incurred approximately $4.0 million in debt and other liabilities to complete this transaction. In addition, we advanced approximately $14.8 million to fund a combination of merchandise and perpetual care trust shortfalls. These properties conducted approximately 2,500 burials and 900 funeral services in 2009.

During July 2010, we executed a long-term operating agreement with the Catholic Archdiocese of Detroit. Under this agreement, we will assist in managing and operating the three large cemeteries owned by the Archdiocese. These cemeteries are located in Detroit, Southfield and Southgate, Michigan.

Concurrent Transactions

Concurrently with the closing of this offering, we are amending our senior secured debt obligations, consisting of the credit agreement that provides for our acquisition credit facility and revolving credit facility, the note purchase agreement relating to our Series B and Series C senior secured notes due 2012 and ancillary agreements related thereto. Subject to the closing of this offering, we expect the amendments to provide that, upon our prepayment of approximately $22.5 million of the borrowings outstanding under our existing acquisition credit facility and pay down of approximately $11.8 million of the borrowings outstanding under our existing revolving credit facility as described under Use of Proceeds, the maximum aggregate principal amount available under our acquisition credit facility will be reinstated to $54,125,000. In addition, we expect that the amendments will provide that, upon consummation of this offering and the use of the net proceeds as described under Use of Proceeds, the aggregate commitment under each of our existing acquisition credit facility and existing revolving credit facility will be increased by $875,000, providing us with an acquisition credit facility of $55,000,000 and a revolving credit

Table of Contents

facility of $45,000,000. We expect that both the amended credit agreement and amended note purchase agreement will continue to have terms and conditions substantially similar to the terms and conditions of our existing credit agreement and note purchase agreement. See Management s Discussion and Analysis of Financial Condition and Results of Operation Liquidity and Capital Resources Long-Term Debt included in our Current Report on Form 8-K dated September 14, 2010 and the Second Quarter 2010 Form 10-Q/A, each of which is incorporated by reference into this prospectus supplement.

This offering of common units and the related capital contribution by our general partner, and the use of proceeds herefrom and the amendment of our senior secured debt obligations are collectively referred to in this prospectus supplement as the Transactions.

Table of Contents

Organizational Structure

The following diagram depicts our organizational structure and ownership giving effect to the offering of common units contemplated by this prospectus supplement (assuming no exercise of the underwriter s over-allotment option):

Table of Contents

The Offering

Common units offered by us	1,500,000 common units or 1,725,000 common units if the underwriter exercises in full its option to purchase an additional 225,000 common units.
Common units outstanding after this offering	15,341,135 common units, or 15,566,135 common units if the underwriter exercises in full its option to purchase an additional 225,000 common units.
Use of proceeds	We estimate net proceeds from this offering will be approximately $33.6 million, after deducting underwriting discounts and offering expenses ($38.8 million if the underwriter exercises in full its option to purchase additional common units), plus a related capital contribution of approximately $0.7 million by our general partner to maintain its 2.0% general partner interest in us ($0.8 million if the underwriter exercises in full its option to purchase additional common units).

We intend to use the net proceeds from this offering of common units and the related contribution by our general partner to:

(i) prepay approximately $22.5 million of the borrowings outstanding under our acquisition credit facility; and

(ii) pay down approximately $11.8 million of the borrowings outstanding under our revolving credit facility.

If the underwriter exercises its option to purchase additional common units in full, we will use the additional net proceeds and related capital contribution by our general partner to pay down approximately $5.3 million of the borrowings outstanding under our revolving credit facility.

Cash distributions	Within 45 days after the end of each quarter, we distribute our available cash from operations, after we have paid our expenses, funded merchandise and perpetual care trusts and established necessary cash reserves, to unitholders of record on the applicable record date. In general, we will pay any cash distributions we make each quarter in the following manner:

first, 98% to the common units and 2% to our general partner, until each common unit has received a minimum quarterly distribution of $0.4625; and

second, 98% to all units, pro rata, and 2% to our general partner, until each unit has received a distribution of $0.5125.

Table of Contents

If cash distributions per unit exceed $0.5125 in any quarter, our general partner will receive increasing percentages, up to a maximum of 50%, of the cash we distribute in excess of that amount. We refer to these distributions in excess of distributions on our 2% general partner interest as incentive distributions. For a discussion of our cash distribution policy, see Cash Distribution Policy in the accompanying prospectus.

Issuance of additional units	We may issue an unlimited number of limited partner interests of any type without the approval of the unitholders.
Limited voting rights	Our general partner manages and operates us. Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our general partner or its directors on an annual or other continuing basis. Our general partner may not be removed except by a vote of the holders of at least 66 $^{2}/3$% of the outstanding units, including any units owned by our general partner and its affiliates, voting together as a single class. After giving effect to this offering, affiliates of our general partner will own approximately 17.2% of the common units. See Description of the Common Units Voting Rights in the accompanying prospectus.
Limited call right	If at any time our general partner and its affiliates own more than 80% of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a price not less than the then-current market price of the common units.
Estimated ratio of taxable income to distributions	We estimate that if you hold the common units that you purchase in this offering through December 31, 2012, you will be allocated, on a cumulative basis, an amount of taxable income for that period that will be less than 80% of the cash distributed to you with respect to that period. Thereafter, we anticipate that the ratio of allocable taxable income to cash distributions to the unitholders will increase. See Tax Considerations in this prospectus supplement.
Material tax consequences	For a discussion of other material federal income tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States, see Tax Considerations in this prospectus supplement and Material Tax Considerations in the accompanying prospectus.

Table of Contents

Risk factors	You should refer to the section entitled Risk Factors in this prospectus supplement, the 2009 Form 10-K, the First Quarter 2010 Form 10-Q and the Second Quarter 2010 Form 10-Q/A for an explanation of certain risks of investing in our common units.
NASDAQ Global Market symbol	STON.
Conflict of Interest	Because affiliates of Raymond James & Associates, Inc. will receive more than 5% of the net proceeds of this offering, not including underwriting compensation, Raymond James & Associates, Inc. is deemed to have a conflict of interest within the meaning of NASD Rule 2720 of FINRA, or Rule 2720. However, because there is a bona fide public market (as defined in Rule 2720) for our common units, Rule 2720 does not require that there be a qualified independent underwriter (as defined in Rule 2720) with respect to this offering. Therefore, this offering is being conducted in compliance with Rule 2720. See Underwriting Conflicts of Interest in this prospectus supplement.

Table of Contents

Summary Historical and Consolidated Financial and Operating Data

The following tables present our summary historical and consolidated financial and operating data for the periods and as of the dates indicated. Our summary historical consolidated financial data as of and for the years ended December 31, 2007, 2008 and 2009 are derived from our audited consolidated financial statements. Our audited consolidated financial statements as of December 31, 2008 and 2009 and for the years ended December 31, 2007, 2008 and 2009 are incorporated by reference into this prospectus supplement. Our summary historical consolidated financial data as of and for the six months ended June 30, 2009 and 2010 are derived from our unaudited condensed consolidated financial statements. Our unaudited condensed consolidated financial statements as of June 30, 2010 and for the six months ended June 30, 2009 and 2010 are incorporated by reference into this prospectus supplement.

In the opinion of our management, our unaudited historical consolidated financial statements have been prepared on the same basis as our audited historical consolidated financial statements and contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our financial position and results of operations for the relevant periods.

The results of operations for the interim periods are not necessarily indicative of the operating results for the entire year or any future period. The following table should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the audited and unaudited historical consolidated financial statements and accompanying notes thereto incorporated by reference into this prospectus supplement.

	As of and for the Year Ended December 31,			As of and for the Six Months Ended June 30,	
	2007	2008	2009	2009	2010
	(dollars in thousands)				
Statement of Operations Data:					
Cemetery revenues:					
Merchandise	$ 74,509	$ 90,968	$ 87,836	$ 42,732	$ 42,826
Services	28,547	36,984	36,947	18,772	18,025
Investment and Other	31,476	31,623	33,055	16,865	16,905
Funeral home revenues:					
Merchandise	4,655	9,249	9,701	4,929	4,862
Services	6,127	14,714	13,665	7,102	6,789
Total revenues	145,314	183,448	181,203	90,400	89,407
Cost of goods sold (exclusive of depreciation shown separately below):					
Perpetual care	3,553	4,326	4,727	2,428	2,357
Merchandise	16,118	18,556	17,120	8,531	7,422
Cemetery expense	30,767	41,651	41,246	19,851	21,333
Selling expense	29,245	34,806	34,123	16,444	17,083
General and administrative expense	15,684	21,372	22,498	10,890	11,759
Corporate overhead (1)	24,991	21,293	22,370	10,863	10,694
Depreciation and amortization	3,891	5,029	6,390	3,018	3,657

Table of Contents

	As of and for the Year Ended December 31, 2007	2008	2009	As of and for the Six Months Ended June 30, 2009	2010
	(dollars in thousands, except per unit data)				
Funeral home expense:					
Merchandise	1,575	3,684	3,716	1,911	1,866
Services	4,198	9,073	9,275	4,702	4,335
Other	2,649	6,308	6,014	2,899	2,872
Acquisition related costs			2,292	2,128	2,656
Total costs and expenses	132,671	166,098	169,772	83,665	86,034
Operating profit (loss)	12,643	17,350	11,431	6,735	3,373
Other income and expense:					
Expenses related to refinancing (2)	157		2,242		
Gain on sale of funeral homes			434	475	
Gain on purchase of acquired assets			8,607	4,583	23,312
Increase (decrease) in fair value of interest rate swap			(2,681)		3,239
Interest expense	9,075	12,714	14,409	6,371	10,097
Income before income taxes	3,411	4,636	1,140	5,422	19,827
Income taxes (benefit):					
State	398	304	808	201	55
Federal	227	(224)	(2,762)	(136)	(909)
Total income taxes (benefit)	625	80	(1,954)	65	(854)
Net income (loss)	$ 2,786	$ 4,556	$ 3,095	$ 5,357	$ 20,681
Net income per limited partner unit (basic and diluted)	$ 0.30	$ 0.38	$ 0.25	$ 0.44	$ 1.04
Weighted average number of limited partner units (basic and diluted)	9,107	11,809	12,034	11,891	13,448
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 13,800	$ 7,068	$ 13,479	$ 11,275	$ 13,450
Accounts receivable, net of allowance	32,063	33,090	37,113	37,507	43,102
Long-term accounts receivable, net of allowance	40,081	42,309	48,015	47,874	59,685
Cemetery property	187,552	228,499	240,277	236,297	294,120
Property and equipment, net	53,929	49,615	51,520	49,147	85,448
Merchandise trusts, restricted, at fair value	228,615	161,605	203,829	175,507	266,909
Perpetual care trusts, restricted, at fair value	208,579	152,797	196,275	168,561	215,429
Total assets	811,757	738,240	862,659	798,489	1,064,816
Total debt	146,164	160,934	183,199	180,763	237,709
Merchandise liability	79,574	75,977	65,883	76,160	104,076
Total partners capital	136,746	119,389	119,420	111,120	134,486

Table of Contents

	As of and for the Year Ended December 31, 2007	2008	2009	As of and for the Six Months Ended June 30, 2009	2010
	(dollars in thousands)				
Other Financial Data:					
Net cash provided by operating activities	$ 18,973	$ 21,144	$ 13,498	$ 8,104	$ 2,587
Net cash used in investing activities, including business acquisitions	(86,777)	(17,046)	(10,949)	(5,553)	(40,522)
Net cash provided by (used in) financing activities	71,690	(10,830)	3,862	1,656	37,906
Depreciation and amortization	3,891	5,029	6,390	3,018	3,657
Additions to cemetery property	2,589	4,376	4,759	2,240	903
Cash distributions	18,724	25,658	27,253	13,626	15,410

	As of and for the Year Ended December 31, 2007	2008	2009	As of and for the Six Months Ended June 30, 2009	2010
Operating Data:					
Interments performed	29,380	38,863	37,782	19,063	19,401
Interment rights sold (3):					
Lots	17,509	22,552	22,637	12,267	12,364
Mausoleum crypts (including pre-construction)	2,314	1,881	2,316	1,162	1,152
Niches	602	864	889	457	521
Net interment rights sold (3)	20,425	25,297	25,842	13,886	14,037
Number of contracts written	63,026	80,144	83,043	42,131	43,956
Aggregate contract amount, in thousands (excluding interest)	$ 138,588	$ 187,093	$ 197,787	$ 100,708	$ 106,981
Average amount per contract (excluding interest)	$ 2,199	$ 2,334	$ 2,382	$ 2,390	$ 2,434
Number of pre-need contracts written	29,546	35,599	39,043	19,708	21,764
Aggregate pre-need contract amount, in thousands (excluding interest)	$ 89,486	$ 115,024	$ 124,997	$ 63,143	$ 69,442
Average amount per pre-need contract (excluding interest)	$ 3,029	$ 3,231	$ 3,202	$ 3,204	$ 3,191
Number of at-need contracts written	33,480	44,545	44,000	22,423	22,192
Aggregate at-need contract amount, in thousands	$ 49,102	$ 72,068	$ 72,790	$ 37,565	$ 37,539
Average amount per at-need contract	$ 1,467	$ 1,618	$ 1,654	$ 1,675	$ 1,692

(1) Includes a write-off of $571,000 in 2007 incurred in connection with a potential acquisition of a group of cemeteries in Michigan that we determined were unlikely to take place. Also includes bonuses of $3.2 million in 2007, unit-based compensation of $4.7 million, $2.3 million and $1.6 million in the years ended December 31, 2007, 2008 and 2009, respectively, and $757,000 and $353,000 in unit-based compensation for the six months ended June 30, 2009 and June 30, 2010, respectively.

(2) Represents write-downs in previously capitalized debt issuance costs.

(3) Net of cancellations. Sales of double-depth burial lots are counted as two sales.

Table of Contents

RISK FACTORS

An investment in our common units is subject to risks and uncertainties. You should carefully consider the risks described below, as well as the section titled Risk Factors included in the 2009 Form 10-K, the First Quarter 2010 Form 10-Q and the Second Quarter 2010 Form 10-Q/A, each of which is incorporated herein by reference, as well as the other documents incorporated herein by reference, before making an investment decision. Realization of these risks could materially adversely affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business operations. In such case, you may lose all or part of your original investment.

Risk Factors Related to an Investment in Our Common Units

We may not have sufficient cash from operations to continue paying distributions at their current level, or at all, 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 and general and administrative 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 continue paying distributions at their current level, the market price of our common units may decline materially. We expect that we will need working capital borrowings of approximately $24.5 million during the twelve-month period ending December 31, 2010 in order to have sufficient operating surplus to pay distributions at their current level on all of our common units for that period, although the actual amount of working capital borrowings could be materially more or less. These working capital borrowings enable us to finance the build up in our accounts receivables, and to construct mausoleums and purchase products for our pre-need sales in advance of the time of need which, in turn, allows us to generate available cash for operating surplus over time by accessing the funds held in trust for the products purchased.

Our substantial level of indebtedness could materially adversely affect our ability to generate sufficient cash for distribution to our unitholders, to fulfill our debt obligations and to operate our business.

We have now, and after giving effect to the Transactions, will continue to have, a substantial amount of debt, which requires significant interest and principal payments. As of June 30, 2010, after giving effect to the Transactions, we would have had approximately $207.1 million of total debt outstanding and approximately $13.5 million in cash and cash equivalents, and we would have had approximately $40.0 million of available borrowing capacity under our acquisition

Table of Contents

credit facility and approximately $41.3 million of available borrowing capacity under our revolving credit facility. 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 unitholders 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, limit our ability to obtain additional financing, if necessary, for working capital expenditures, acquisitions or other purposes, 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 debt obligations, we may incur additional debt in the future, for acquisitions or otherwise, and servicing this debt could further limit our cash flow available for operations and distribution to our unitholders.

Restrictions in our existing and future debt agreements could limit our ability to make distributions to you or capitalize on acquisition and other business opportunities.

The operating and financial restrictions and covenants in our senior notes and senior secured debt obligations and any future financing agreements could restrict our ability to finance future operations or capital needs or to expand or pursue our business activities. For example, our senior notes and senior secured debt obligations contain covenants that restrict or limit our ability 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 transactions with affiliates; and
- make voluntary payments or modifications of indebtedness.

In addition, our secured debt obligations contain covenants requiring us to maintain certain financial ratios and tests. These restrictions may also limit our ability to obtain future financings. Our ability to comply with the covenants and restrictions contained in our senior notes and senior secured debt obligations may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions continue to deteriorate, our ability to comply with these covenants may be impaired. If we violate any of the restrictions, covenants, ratios or tests in our debt obligations, the lenders will be able to accelerate the maturity of all borrowings thereunder and demand repayment of amounts outstanding, and our lenders commitment to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. Any subsequent replacement of our obligations or any new indebtedness could have similar or greater restrictions.

Table of Contents

In addition, our debt obligations limit our ability to make distributions to our unitholders. Our senior notes and senior secured debt obligations prohibit us from making such distributions if we are in default, including with regard to our senior secured debt obligations as a result of our failure to maintain specified financial ratios. We cannot assure you that we will maintain these specified ratios and satisfy these tests for distributing available cash from operating surplus.

If we violate any of the restrictions, covenants, ratios or tests in our senior secured debt obligations or senior notes indenture, the applicable lenders will be able to accelerate the maturity of all borrowings thereunder and demand repayment of amounts outstanding, and our lenders commitment to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. Any subsequent replacement of our senior debt obligations or any new indebtedness could have similar or greater restrictions.

A material weakness was identified in our internal controls over financial reporting as of June 30, 2010.

Due to a material weakness in our internal control over financial reporting, management concluded that our disclosure controls and procedures and internal control over financial reporting were not effective as of June 30, 2010, based on the criteria in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 weaknesses in our assessment of the effectiveness of internal control over financial reporting:

- We did not design and implement adequate controls related to the implementation of a new accounting standard relating to a material class of transactions, specifically in this instance, accounting for final adjustments to provisional amounts recorded in a business combination. Such adjustments should be recognized in the period in which the business combination took place and provisional amounts were recorded. We originally recorded final adjustments in the period in which such final adjustments became known.

In September 2010, we restated previously issued financial statements to present the second quarter 2010 financial statements in accordance with generally accepted accounting principles.

To remediate the material weakness, we have implemented a series of controls designed to help ensure that all new accounting pronouncements are sufficiently researched and that our conclusions relative to the effect of such pronouncements on us are communicated to management, the Audit Committee of the Board of Directors of our general partner, or the Audit Committee, and our auditors. These controls include the following procedures:

- Once it has been determined that a new accounting pronouncement that impacts us has been adopted, our Director of Financial Reporting will disseminate the relevant authoritative literature to our senior members of the accounting department, including the Vice President of Financial Reporting and Investor Relations and the Chief Financial Officer.

- The pronouncement and its impact on the accounting policies and disclosure will be discussed amongst such senior members of the accounting department.

- The Director of Financial reporting will prepare an analysis which will include a paragraph by paragraph assessment of the guidance and its potential impact on us and circulate this analysis to senior accounting management, the Audit Committee and our external auditor for discussion and review.

Once consensus has been formed as to the appropriate accounting treatment, the new standard will be adopted and implemented. Management believes that the procedures described above will serve to remediate the material weakness identified, once implemented and operating effectively.

If we fail to maintain adequate internal controls over financial reporting, current unitholders and potential investors could lose confidence in our financial reporting, which would harm our business prospects and the trading price of our common units.

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 June 30, 2010, CFSI LLC owned an aggregate 15.3% 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. By purchasing common units, unitholders will be deemed to have consented to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable law.

- 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 or sell assets outside of the ordinary course of business in order to permit the payment of distributions, even if the purpose or effect of the borrowing is to make distributions in respect of incentive distribution rights.

Table of Contents

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors, which could reduce the price at which the common units will trade.

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. The board of directors of our general partner, including the independent directors, are chosen entirely by the owners of our general partner and not our unitholders. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

Our partnership agreement restricts the voting rights of unitholders owning 20% or more of our common units.

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.

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;

- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline; and
- the ratio of taxable income to distributions may increase.

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.

Subject to the limitations on restricted payments contained in the indenture governing the 10.25% Senior Notes due 2017 and other indebtedness, the master partnership distributes all of our available cash each quarter to its limited partners and general partner. Available cash is defined in the master partnership s partnership agreement, and it generally means, for each fiscal quarter, all cash and cash equivalents on hand on the date of determination for that quarter less the amount of cash reserves established at the discretion of the general partner to:

- provide for the proper conduct of our business;
- comply with applicable law, the terms of any of our debt instruments or other agreements; or
- provide funds for distributions to its unitholders and general partner for any one or more of the next four calendar quarters.

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 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.

Risk Factors Related to Our Business

Any reduction in the principal or the earnings of the investments held in merchandise and perpetual care trusts could adversely affect our revenues and cash flow.

A substantial portion of our revenue is generated from investment returns that we realize from merchandise and perpetual care trusts. The 2008 and early 2009 decline in the prices of most corporate debt and equity securities significantly reduced the fair value of the assets held in these trusts. Future cash flows could be negatively impacted if we are forced to liquidate assets that are in impaired positions.

We invest primarily for current income. We rely on the interest and dividends paid by the assets in our trusts to provide both revenue and cash flow. Interest income from fixed-income securities is particularly susceptible to changes in interest rates and declines in credit worthiness while dividends from equity securities are susceptible to the issuer s ability to make such payments.

Any decline in the interest rate environment or the credit worthiness of our debt issuers or any suspension or reduction of dividends could have a material adverse effect on our financial condition and results of operations.

In addition, any significant or sustained unrealized investment losses could result in merchandise trusts having insufficient funds to cover our cost of delivering products and services. In this scenario, 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.

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

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 payable 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 sales to customers through 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 sales, 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 make distributions to our unitholders could be adversely affected.

Table of Contents

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. If 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.

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. Historically, we have funded a significant portion of our acquisitions through borrowings 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. As of June 30, 2010, after giving effect to the Transactions, we would have had approximately $40.0 million of available borrowing capacity under our acquisition credit facility and approximately $41.3 million of available borrowing capacity under our revolving credit facility.

In, addition, if we complete acquisitions, we may encounter various associated risks, including the possible inability to integrate an acquired business into our operations, diversion of management s attention and unanticipated problems or liabilities, some or all of which could have a material adverse effect on our operations and financial performance. 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 purchased 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.

Table of Contents

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 has steadily increased and that cremations are expected to represent approximately 38% of the United States deathcare market by the year 2010. 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.

Declines in the number of deaths in our markets can cause a decrease in revenues.

Declines in the number of deaths could cause at-need sales of cemetery and funeral home merchandise and services to decline and could cause a decline in the number of pre-need sales, both of which could decrease revenues. Changes in the number of deaths can vary among local markets and from quarter to quarter, and variations in the number of deaths in our markets or from quarter to quarter are not predictable. However, generally, the number of deaths fluctuates with the seasons with more deaths occurring during the winter months primarily resulting from pneumonia and influenza. These variations can cause revenues to fluctuate.

The financial condition of third-party insurance companies that fund our pre-need funeral contracts may impact our financial condition, results of operations, or cash flows.

Where permitted, customers may arrange their pre-need funeral contract by purchasing a life insurance or annuity policy from third-party insurance companies. The customer/policy holder assigns the policy benefits to our funeral home to pay for the pre-need funeral contract at the time of need. If the financial condition of the third-party insurance companies were to deteriorate materially because of market conditions or otherwise, there could be an adverse effect on our ability to collect all or part of the proceeds of the life insurance policy, including the annual increase in the death benefit. Failure to collect such proceeds could have a material adverse effect on our financial condition, results of operations, or cash flows.

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 most 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 generally proceeds from our pre-need sales of cemetery and funeral home 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.

Table of Contents

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 require cemeteries to be organized in the nonprofit form but permit those nonprofit entities to contract with for-profit companies for management services. If state laws change or new laws are enacted that prohibit us from managing cemeteries in those states, then 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, the 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 rely heavily 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 laws and 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 laws and regulations. We may become subject to liability for the removal of hazardous substances and solid waste under CERCLA and other federal and state laws. Under CERCLA and similar state laws, strict, 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 or state laws and thus may give rise to liability if released to the environment through a spill or release. 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 were more stringent than existing requirements, new permits or capital expenditures may be required.

Our funeral home operations are generally subject to federal and state laws and regulations regarding the disposal of medical waste, and are also subject to regulation by federal, state or local authorities under the EPCRA. We are required by EPCRA to maintain, and report, if applicable thresholds are met, a list of any hazardous chemicals and extremely hazardous substances, which are stored or used at our facilities, we use to state, federal, and local agencies.

Our crematory operations may be 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 could increase our costs of operation and compliance.

Table of Contents

Tax Risks

Audit adjustments to the taxable income of our corporate subsidiaries for prior taxable years may reduce the net operating loss carryforwards of such subsidiaries and thereby increase their tax liabilities for future taxable periods.

Our business was conducted by an affiliated group of corporations during periods prior to the completion of our initial public offering and, since the initial public offering, continues to be conducted in part by corporate subsidiaries. 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. 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 audit adjustments with respect to prior taxable years.

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 Family Services, Inc., or 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 was 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 may result in annual limitations on our corporate subsidiaries ability to use their net operating loss carryforwards, which could increase their tax liabilities and decrease cash available for distribution in future taxable periods.

Our corporate subsidiaries ability to use their net operating loss carryforwards may be limited if changes in the ownership of our units causes our corporate subsidiaries to undergo 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 running three-year period. Recent changes in our ownership, along with additional changes that will result from this equity offering, may result in an ownership change. Even if no ownership change results from this equity offering, our corporate subsidiaries will be close to the threshold for an ownership change and may experience one in the future. A future ownership change may result from issuances of our units, sales or other dispositions of our units by certain significant unitholders, certain acquisitions of our units, and issuances, sales or other dispositions or acquisitions of interests in significant unitholders, and we will have little to no control over any such events. To the extent that an annual net operating loss limitation for any one year does restrict the ability of our corporate subsidiaries to use their net operating loss carryforwards, an increase in tax liabilities of our corporate subsidiaries could result, which would reduce the amount of cash available for distribution to you.

Table of Contents

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

Despite the fact that we are a limited partnership under Delaware law, it is possible in certain circumstances for a partnership such as ours to be treated as a corporation for federal income tax purposes. Although we do not believe based upon our current operations that we are so treated, if our view is incorrect or if there is a change in our business (or a change in current law) we could be treated as a corporation for federal income tax purposes or otherwise subject us to taxation as an entity.

If we were treated as a corporation for federal income tax purposes for any taxable year for which the statue of limitations remains open or for any future taxable year, we would pay federal income tax on our taxable income for such year(s) 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, treatment of us 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. Moreover, treatment of us as a corporation could materially and adversely affect our ability to make payment on our debt.

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 and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, 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 further reduced.

If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted, 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

Table of Contents

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 some or 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 actual tax liability that results from that income.

Tax gain or loss on disposition of our 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. Because distributions in excess of your allocable share of our net taxable income decrease your tax basis in your common units, the amount, if any, of such prior excess distributions with respect to the units you sell will, in effect, become taxable income to you if you sell such units at a price greater than your tax basis in those units, even if the price you receive is less than your original cost. Furthermore, a substantial portion of the amount realized, whether or not representing gain, may be taxed as ordinary income due to potential recapture items, including depreciation recapture. In addition, because the amount realized includes a unitholder s share of our nonrecourse liabilities, 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 non- U.S. 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 employee benefit plans 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 IRA s 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 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 non-U.S. person, you should consult your tax advisor before investing in our common units.

We 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.

Due to a number of factors, including our inability to match transferors and transferees of common units, we 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.

Table of Contents

We have adopted certain valuation methodologies that may result in a shift of income, gain, loss and deduction between the general partner and the unitholders. The IRS may challenge this treatment, which could adversely affect the value of the common units.

When we issue additional units or engage in certain other transactions, we will determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of our unitholders and our general partner. Our methodology may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and the general partner, which may be unfavorable to such unitholders. Moreover, under our valuation methods, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of income, gain, loss and deduction between the general partner and certain of our unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our unitholders. It also could affect the amount of gain from our unitholders sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders tax returns without the benefit of additional deductions.

The sale or exchange of 50% or more of our capital and profits interests during any twelve-month period will result in the termination of our partnership for federal income tax purposes.

We will be considered to have terminated our partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. For purposes of determining whether the 50% threshold has been met, multiple sales of the same interest will be counted only once. Our termination would, among other things, result in the closing of our taxable year for all unitholders which would result in our filing two tax returns for one fiscal year and could result in a deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year other than a calendar year, the closing of our taxable year may result in more than twelve months of our taxable income or loss being includable in his taxable income for the year of termination. Our termination currently would not affect our classification as a partnership for federal income tax purposes, but instead, we would be treated as a new partnership for tax purposes. If treated as a new partnership, we must make new tax elections and could be subject to penalties if we are unable to determine that a termination occurred. The IRS has recently announced a relief procedure whereby if a publicly traded partnership that has technically terminated requests and the IRS grants special relief, among other things, the partnership will be required to provide only a single Schedule K-1 to unitholders for the tax years in which the termination occurs.

You will likely be subject to state and local taxes and filing requirements in jurisdictions 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 own assets or conduct business in a majority of states and in Puerto Rico. Most of these various jurisdictions currently impose, or may in the future impose, an income tax on individuals, corporations and other entities. 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.

A unitholder whose units are loaned to a short seller to cover a short sale of units may be considered as having disposed of those units. If so, the unitholder would no longer be treated for tax purposes as a partner with respect to those units during the period of the loan and may recognize gain or loss from the disposition.

Because a unitholder whose units are loaned to a short seller to cover a short sale of units may be considered as having disposed of the loaned units, the unitholder may no longer be treated for tax purposes as a partner with respect to those units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of our income, gain, loss or deduction with respect to those units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those units could be fully taxable as ordinary income. Unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.

We generally prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. Nonetheless, we allocate certain deductions for depreciation of capital additions based upon the date the underlying property is put in service. The use of this proration method may not be permitted under existing Treasury Regulations. Recently, however, the U.S. Treasury Department issued proposed Treasury Regulations that provide a safe harbor pursuant to which publicly traded partnerships may use a similar monthly simplifying convention to allocate tax items among transferor and transferee unitholders. Nonetheless, the proposed regulations do not specifically authorize the use of the proration method we have adopted. If the IRS were to challenge our proration method, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders.

The tax treatment of publicly traded partnerships or an investment in our common units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time. For example, members of Congress have recently considered substantive changes to the existing federal income tax laws that would have affected certain publicly traded partnerships. Any modification to the federal income tax laws and interpretations thereof may or may not be applied retroactively. Although the recently considered legislation would not have appeared to affect our federal income tax treatment as a partnership, we are unable to predict whether any of these changes, or other proposals, will be reconsidered or will ultimately be enacted. Any such changes could negatively impact the value of an investment in our common units.

Table of Contents

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately $33.6 million from this offering, after deducting underwriting discounts and offering expenses ($38.8 million if the underwriter exercises in full its option to purchase additional common units), plus a related capital contribution of approximately $0.7 million by our general partner to maintain its 2.0% general partner interest in us ($0.8 million if the underwriter exercises in full its option to purchase additional common units). We intend to use the net proceeds from this offering and the related contribution by our general partner to:

(i) prepay approximately $22.5 million of the borrowings outstanding under our acquisition credit facility, which had a balance of approximately $37.5 million as of June 30, 2010; and

(ii) pay down approximately $11.8 million of the borrowings outstanding under our revolving credit facility, which had a balance of approximately $15.5 million as of June 30, 2010.

If the underwriter exercises its option to purchase additional common units in full, we will use the additional net proceeds and related capital contribution by our general partner to pay down approximately $5.3 million of the borrowings outstanding under our revolving credit facility.

Amounts to be repaid under our acquisition credit facility were incurred for acquisitions and amounts to be repaid under our revolving credit facility were incurred for general partnership purposes, including for working capital needs and to fund our capital expenditure program.

Our existing acquisition credit facility and revolving credit facility will both mature on August 15, 2012, and the average interest rate paid on amounts outstanding under our acquisition credit facility and our revolving credit facility for the six-month period ended June 30, 2010 was 6.5%, in each case. See Management s Discussion and Analysis of Financial Condition and Results of Operation included in our Current Report on Form 8-K filed with the SEC on September 14, 2010 and our Second Quarter 2010 Form 10-Q/A, each of which is incorporated by reference into this prospectus supplement.

Table of Contents

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2010:

on an actual basis; and

on an as adjusted basis to reflect:

this offering of common units and the related capital contribution by our general partner to maintain its 2.0% general partner interest in us;

the application of net proceeds of this offering and the related capital contribution by our general partner in the manner described under Use of Proceeds.

This table should be read in conjunction with, and is qualified in its entirety by reference to, Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Current Report on Form 8-K filed with the SEC on September 14, 2010 and our Second Quarter 2010 Form 10-Q/A, and our historical audited and unaudited financial statements and the accompanying notes, each of which is incorporated by reference into this prospectus supplement. This table does not reflect the issuance of up to an additional 225,000 common units that we may sell to the underwriter pursuant to the underwriter s over-allotment option.

	As of June 30, 2010	
	Actual	As Adjusted
	(in thousands)	
	(unaudited)	
Cash and cash equivalents	$ 13,450	$ 13,450
Long-term debt, including current portion:		
Acquisition credit facility (1)	37,500	15,000
Revolving credit facility (1)	15,500	3,665
Note Payable-Greenlawn acquisition	1,400	1,400
Note Payable-Nelms acquisition	926	926
10.25% Senior notes due 2017	150,000	150,000
Series B Senior secured notes due 2012	17,500	17,500
Series C Senior secured notes due 2012	17,500	17,500
Other debt	1,156	1,156
Total long-term debt, including current portion	241,482	207,147
Partners capital:		
Common units	126,132	159,732
General partner incentive distribution rights	6,199	6,199
General partner interest	2,155	2,890
Total partners capital	134,486	168,821
Total capitalization	$ 375,968	$ 375,968

(1) Concurrently with the closing of this offering, we are amending our senior secured debt obligations to, among other things, increase the aggregate committment under each of our acquisition credit facility and our revolving credit facility by $875,000. See Summary Concurrent Transactions.

Table of Contents

PRICE RANGE OF OUR COMMON UNITS AND DISTRIBUTIONS

As of September 15, 2010, we had 13,841,135 common units outstanding, held by 57 holders of record. The cash distribution to unitholders with respect to the second quarter of 2010 was paid on August 13, 2010 to all unitholders of record as of the close of business on August 6, 2010. Our common units are traded on the NASDAQ Global Market under the symbol STON.

The following table sets forth, for the periods indicated, the high and low sales prices for our common units based on the daily composite listing of common unit transactions for the NASDAQ Global Market and quarterly declared cash distributions per unit. The last reported sales price of our common units on the NASDAQ Global Market on September 16, 2010 was $24.55 per common unit.

	Price Range		Declared Distributions Per Common Unit (1)
	High	Low	
Year ended December 31, 2010:			
Third quarter (through September 16, 2010)	$ 26.95	$ 19.75	
Second quarter	21.20	18.22	$ 0.5550
First quarter	21.44	18.01	0.5550
Year ended December 31, 2009:			
Fourth quarter	20.00	16.50	0.5550
Third quarter	18.00	14.50	0.5550
Second quarter	17.15	11.15	0.5550
First quarter	15.42	9.55	0.5550
Year ended December 31, 2008:			
Fourth quarter	14.84	8.69	0.5550
Third quarter	18.73	13.50	0.5550
Second quarter	19.85	16.65	0.5350
First quarter	20.22	16.60	0.5150

(1) Distributions were declared and paid within 45 days of the close of each quarter.

Table of Contents

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING DATA

The following tables present our selected historical consolidated financial and operating data for the periods and as of the dates indicated. Our selected historical consolidated financial data as of and for the years ended December 31, 2005, 2006, 2007, 2008 and 2009 are derived from our audited consolidated financial statements. Our audited consolidated financial statements as of December 31, 2008 and 2009 and for the years ended December 31, 2007, 2008 and 2009 are incorporated by reference into this prospectus supplement. Our selected historical consolidated financial data as of and for the six months ended June 30, 2009 and 2010 are derived from our unaudited condensed consolidated financial statements. Our unaudited condensed consolidated financial statements as of June 30, 2010 and for the six months ended June 30, 2009 and 2010 are incorporated by reference into this prospectus supplement.

In the opinion of our management, our unaudited consolidated financial statements have been prepared on the same basis as our audited historical consolidated financial statements and contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our financial position and results of operations for the relevant periods.

The results of operations for the interim periods are not necessarily indicative of the operating results for the entire year or any future period. The following table should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited and unaudited historical consolidated financial statements and accompanying notes thereto incorporated by reference into this prospectus supplement.

	As of and for the Year Ended December 31,					As of and for the Six Months Ended June 30,	
	2005	2006	2007	2008	2009	2009	2010
	(dollars in thousands)						
Statement of Operations Data:							
Cemetery revenues:							
Merchandise	$ 54,421	$ 58,219	$ 74,509	$ 90,968	$ 87,836	$ 42,732	$ 42,826
Services	19,346	25,555	28,547	36,984	36,947	18,772	18,025
Investment and Other	24,095	25,221	31,476	31,623	33,055	16,865	16,905
Funeral home revenues:							
Merchandise	1,200	2,696	4,655	9,249	9,701	4,929	4,862
Services	1,598	3,422	6,127	14,714	13,665	7,102	6,789
Total revenues	100,660	115,113	145,314	183,448	181,203	90,400	89,407

Table of Contents

	As of and for the Year Ended December 31,					As of and for the Six Months Ended June 30,	
	2005	2006	2007	2008	2009	2009	2010
	(dollars in thousands, except per unit data)						
Cost of goods sold (exclusive of depreciation shown separately below):							
Perpetual care	2,575	3,109	3,553	4,326	4,727	2,428	2,357
Merchandise	11,323	11,583	16,118	18,556	17,120	8,531	7,422
Cemetery expense	20,942	24,344	30,767	41,651	41,246	19,851	21,333
Selling expense	20,072	23,186	29,245	34,806	34,123	16,444	17,083
General and administrative expense	10,553	12,801	15,684	21,372	22,498	10,890	11,759
Corporate overhead (1)	16,304	19,795	24,991	21,293	22,370	10,863	10,694
Depreciation and amortization	3,510	3,501	3,891	5,029	6,390	3,018	3,657
Funeral home expense:							
Merchandise	397	1,004	1,575	3,684	3,716	1,911	1,866
Services	1,082	2,285	4,198	9,073	9,275	4,702	4,335
Other	903	1,547	2,649	6,308	6,014	2,899	2,872
Acquisition related costs					2,292	2,128	2,656
Total costs and expenses	87,661	103,155	132,671	166,098	169,772	83,665	86,034
Operating profit (loss)	12,999	11,958	12,643	17,350	11,431	6,735	3,373
Other income and expense:							
Expenses related to refinancing (2)			157		2,242		
Gain on sale of funeral homes					434	475	
Gain on purchase of acquired assets					8,607	4,583	23,312
Increase (decrease) in fair value of interest rate swap					(2,681)		3,239
Interest expense	6,457	7,491	9,075	12,714	14,409	6,371	10,097
Income before income taxes	6,542	4,467	3,411	4,636	1,140	5,422	19,827
Income taxes (benefit):							
State	587	438	398	304	808	201	55
Federal	1,250	989	227	(224)	(2,762)	(136)	(909)
Total income taxes (benefit)	1,837	1,427	625	80	(1,954)	65	(854)
Net income (loss)	$ 4,705	$ 3,040	$ 2,786	$ 4,556	$ 3,095	$ 5,357	$ 20,681
Net income per limited partner unit (basic and diluted)	$ 0.54	$ 0.34	$ 0.30	$ 0.38	$ 0.25	$ 0.44	$ 1.04
Weighted average number of limited partner units (basic and diluted)	8,526	8,831	9,107	11,809	12,034	11,891	13,448

Table of Contents

	As of and for the Year Ended December 31,					As of and for the Six Months Ended June 30,	
	2005	2006	2007	2008	2009	2009	2010
	(dollars in thousands)						
Balance Sheet Data (at period end):							
Cash and cash equivalents	$ 6,925	$ 9,914	$ 13,800	$ 7,068	$ 13,479	$ 11,275	$ 13,450
Accounts receivable, net of allowance	29,991	22,968	32,063	33,090	37,113	37,507	43,102
Long-term accounts receivable, net of allowance	33,672	36,878	40,081	42,309	48,015	47,874	59,685
Cemetery property	164,772	171,714	187,552	228,499	240,277	236,297	294,120
Property and equipment, net	27,091	29,027	53,929	49,615	51,520	49,147	85,448
Merchandise trusts, restricted, at fair value	113,432	147,788	228,615	161,605	203,829	175,507	266,909
Perpetual care trusts, restricted, at fair value	136,719	168,631	208,579	152,797	196,275	168,561	215,429
Total assets	550,641	627,025	811,757	738,240	862,659	798,489	1,064,816
Total debt	86,945	103,492	146,164	160,934	183,199	180,763	237,709
Merchandise liability	42,621	45,805	79,574	75,977	65,883	76,160	104,076
Total partners capital	109,600	101,288	136,746	119,389	119,420	111,120	134,486
Other Financial Data:							
Net cash provided by operating activities	$ 17,589	$ 18,339	$ 18,973	$ 21,144	$ 13,498	$ 8,104	$ 2,587
Net cash used in investing activities, including business acquisitions	(15,286)	(14,625)	(86,777)	(17,046)	(10,949)	(5,553)	(40,522)
Net cash provided by (used in) financing activities	(9,852)	(725)	71,690	(10,830)	3,862	1,656	37,906
Depreciation and amortization	3,510	3,501	3,891	5,029	6,390	3,018	3,657
Additions to cemetery property	2,850	3,398	2,589	4,376	4,759	2,240	903
Cash distributions	16,442	17,346	18,724	25,658	27,253	13,626	15,410

S-35

Table of Contents

	As of and for the Year Ended December 31,					As of and for the Six Months Ended June 30,	
	2005	2006	2007	2008	2009	2009	2010
Operating Data:							
Interments performed	22,263	26,003	29,380	38,863	37,782	19,063	19,401
Interment rights sold (3)(4):							
Lots (3)	12,758	13,769	17,509	22,552	22,637	12,267	12,364
Mausoleum crypts (including pre-construction)	2,163	2,361	2,314	1,881	2,316	1,162	1,152
Niches	409	440	602	864	889	457	521
Net interment rights sold (3)(4)	15,330	16,570	20,425	25,297	25,842	13,886	14,037
Number of contracts written	46,510	54,675	63,026	80,144	83,043	42,131	43,956
Aggregate contract amount, in thousands (excluding interest)	$ 96,642	$ 116,407	$ 138,588	$ 187,093	$ 197,787	$ 100,708	$ 106,981
Average amount per contract (excluding interest)	$ 2,078	$ 2,129	$ 2,199	$ 2,334	$ 2,382	$ 2,390	$ 2,434
Number of pre-need contracts written	21,306	24,999	29,546	35,599	39,043	19,708	21,764
Aggregate pre-need contract amount, in thousands (excluding interest)	$ 63,415	$ 74,301	$ 89,486	$ 115,024	$ 124,997	$ 63,143	$ 69,422
Average amount per pre-need contract (excluding interest)	$ 2,976	$ 2,972	$ 3,029	$ 3,231	$ 3,202	$ 3,204	$ 3,191
Number of at-need contracts written	25,204	29,676	33,480	44,545	44,000	22,423	22,192
Aggregate at-need contract amount, in thousands	$ 33,227	$ 42,106	$ 49,102	$ 72,068	$ 72,790	$ 37,565	$ 37,539
Average amount per at-need contract	$ 1,318	$ 1,419	$ 1,467	$ 1,618	$ 1,654	$ 1,675	$ 1,692

(1) Includes a write-off of $571,000 in 2007 incurred in connection with a potential acquisition of a group of cemeteries in Michigan that we determined were unlikely to take place. Also includes bonuses of $2.0 million and $3.2 million in 2006 and 2007 respectively, unit-based compensation of $1.2 million, $4.7 million, $2.3 million and $1.6 million in the years ended December 31, 2006, 2007, 2008 and 2009, respectively, and $757,000 and $353,000 in unit-based compensation for the six months ended June 30, 2009 and June 30, 2010, respectively. Also includes an $883,000 reserve for the write-off of our investment in a management agreement in 2006 for an agreement that was subsequently terminated.

(2) Represents write-downs in previously capitalized debt issuance costs.

(3) Excludes the sale of a tract of land equivalent to 1,881 burial lots at $1.7 million in 2005.

(4) Net of cancellations. Sales of double-depth burial lots are counted as two sales.

Table of Contents

BUSINESS

Overview

We are the third largest owner and operator of cemeteries in the United States. As of June 30, 2010, we operated 252 cemeteries in 26 states and Puerto Rico. We own 236 of these cemeteries, and we operate the remaining 16 under long-term agreements with non-profit corporations that own the cemeteries. As of June 30, 2010, we also owned and operated 63 funeral homes in 16 states and Puerto Rico. Twenty-six of these funeral homes are located on the grounds of the cemeteries we own.

We are the only one of the four publicly-traded U.S. deathcare companies that derives a majority of its revenue from cemetery operations rather than funeral home services. In the twelve months ended June 30, 2010 our total revenues were approximately $180.2 million.

The cemetery products and services that we sell include the following:

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	other service items
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. We market our products and services through an experienced staff of commissioned sales representatives. We had approximately 721 of these representatives on staff as of June 30, 2010. 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 the master partnership to be treated as a partnership for federal income tax purposes.

In 2009, we performed 37,782 burials and sold 25,842 interment rights (net of cancellations). Based upon the ratio of the number of interment rights sold to total spaces available, at June 30, 2020 our cemeteries had a weighted average estimated remaining sales life of 226 years. Through the first six-months of 2010, we performed 19,401 burials and sold 14,037 interment rights (net of cancellations). We do not believe that there has been any material change to the weighted average estimated remaining sales life since December 31, 2009.

Our cemetery properties are located in Alabama, California, Colorado, Delaware, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Missouri, New Jersey, North Carolina, Ohio, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Tennessee, Virginia, Washington and West Virginia. In 2009 and in the six months ended June 30, 2010, our cemetery revenues accounted for approximately 87.1% and 87.0% of our total revenues, respectively.

Our primary funeral home products are caskets and related items. Our funeral home services include consultation, the removal and preparation of remains, and the use of funeral home facilities for visitation and prayer services.

Our 62 funeral homes are located in Alabama, Arkansas, California, Florida, Illinois, Kansas, Maryland, Missouri, Ohio, Oregon, Pennsylvania, Puerto Rico, South Carolina, Tennessee, Virginia, Washington and West Virginia. In 2009 and in the twelve months ended June 30, 2010, our funeral home revenues accounted for approximately 12.9% and 12.8% of our total revenues, respectively.

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 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.

Managed Cemeteries. As of June 30, 2010, we provide management services to 16 cemeteries under long-term agreements with the nonprofit corporations that own the cemetery properties. These nonprofit cemeteries are organized as such either because state law requires cemetery properties to be owned by nonprofit entities, such as in New Jersey, or because they were originally established as nonprofit entities. We have voting rights, along with member owners of burial spaces, in the five New Jersey nonprofit cemeteries as a result of owning all of their outstanding certificates of indebtedness or interest. To obtain the benefit of professional management services, the remaining 11 nonprofit cemeteries have entered into agreements with us. The agreements under which we operate these 16 nonprofit cemeteries generally have terms ranging from 3 to 40 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.

Funeral Home Operations. We own and operate 63 funeral homes as of June 30, 2010, 26 of which are located on the grounds of cemetery properties that we own. 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. 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.

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 gives Thacker Caskets, Inc. the right of first refusal on all of our casket purchases. We do not have minimum purchase requirements under this supply agreement.

Cremation Products and Services. We operate crematories on some of our cemeteries or funeral homes, 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.

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.

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.

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.

Sales Personnel, Training and Marketing

As of June 30, 2010, we employed approximately 721 commissioned salespeople. We have eight regional sales managers covering our cemeteries, who report to our Senior Vice President of Sales. Individual salespersons are typically located at the cemeteries they serve and report directly

Table of Contents

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 and to ensure compliance with all applicable requirements. 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 5% to 20% of the total contract price for pre-need sales and is generally equal to 5% of the total contract price for at-need sales.

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. We believe these activities comply in all material respects with legal requirements.

Table of Contents

Properties

Cemeteries and Funeral Homes

The following table summarizes the distribution of our cemetery and funeral home properties by state as of December 31, 2009 and the weighted average estimated remaining sales life in years for our cemeteries based on number of interment spaces sold during 2009:

	Cemeteries	Funeral Homes	Total Net Acres	Weighted Average Estimated Remaining Sales Life	Number of Interment Spaces Sold in 2009
Alabama	9	6	305	200	1,308
Arkansas		2			
California	7	9	270	44	1,787
Colorado	2		12	471	30
Delaware	1		12	206	23
Florida		1			
Georgia	7		135	125	1,004
Hawaii	1		6	201	
Illinois	7	2	243	204	787
Indiana	6		422	338	732
Iowa	1		89	300	108
Kansas	2	1	35	163	250
Kentucky	2		59	102	296
Maryland	10	1	716	131	1,870
Michigan	3		87	494	209
Missouri	3	1	116	298	333
New Jersey	6		341	44	1,785
North Carolina	13		331	149	2,246
Ohio	12	2	875	204	2,248
Oregon	7	8	181	228	807
Pennsylvania	51	8	2,479	525	2,737
Puerto Rico	2	1	64	110	517
Rhode Island	2		70	1,067	24
South Carolina	8	3	395	162	1,166
Tennessee	8	5	428	285	1,077
Virginia	29	2	773	169	2,385
Washington	3	2	33	56	161
West Virginia	33	4	1,404	389	1,954
Total	235	58	9,881	226	25,842

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, 2009. We defined interment spaces sold in 2009 as:

- the number of burial lots sold, net of cancellations;

Table of Contents

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 the weighted average estimated 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 2009, we estimate that our cemeteries have an aggregate weighted average remaining sales life of 226 years. While we only evaluate this information on an annual basis and accordingly have not reassessed this calculation currently, nothing has come to our attention that would cause us to believe that nay of this information has materially changed.

The following table shows the cemetery properties that we owned or operated as of December 31, 2009, grouped by estimated remaining sales life:

	0-25 years	26-49 years	50-100 years	101-150 years	151-200 years	Over 200 years
Alabama			3	2	1	3
California	3	1	2			1
Colorado						2
Delaware						1
Georgia	1		2	2		2
Hawaii						1
Illinois			1	2	2	2
Indiana		1				5
Iowa						1
Kansas			1			1
Kentucky		1			1	
Maryland	1	1	4			4
Michigan						3
Missouri				1		2
New Jersey	1	3	2			
North Carolina			2	3	5	3
Ohio		1	3			8
Oregon			1	3		3
Pennsylvania	3	2	1	7	3	35
Puerto Rico			1			1
Rhode Island						2
South Carolina		2		2	1	3
Tennessee					1	7
Virginia	2	1	3	3	4	16
Washington	1		2			
West Virginia	4	2	2		4	21
Total	16	15	30	25	22	127

While we only evaluate this information on an annual basis and accordingly have not reassessed this calculation currently, nothing has come to our attention that would cause us to believe that any of this information has materially changed.

We believe that we have either satisfactory title to or valid rights to use all of our cemetery properties. The cemetery properties that we operate under long-term agreements have no legal owners. We believe that these cemeteries have either satisfactory title to or valid rights to use these cemetery properties and that we have valid rights to use these properties under the long-term 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 37,000 square foot leased office space in Levittown, Pennsylvania. The lease has a term expiring in 2020, 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.

Acquisitions

Through July of 2010, we completed two acquisitions and executed one long term operating agreement.

In the first acquisition, which was completed at the end of the first quarter of 2010, we acquired nine cemeteries in Michigan for an aggregate of $14 million in cash. As part of the acquisition, we received merchandise trusts totaling approximately $46 million, while assuming only $23 million in merchandise liabilities at current cost. We also received approximately $15 million in perpetual care trust funds. While we are not entitled to the corpus of the perpetual care trust, we are entitled to the income generated by these assets. These cemeteries conducted approximately 2,400 burials in 2009.

In the second acquisition, which was completed at the end of the second quarter of 2010, we acquired eight cemeteries and five funeral homes in Indiana, Michigan, and Ohio from state court-appointed receiverships. We paid an aggregate of approximately $10.6 million in cash, issued 303,800 of our common units and incurred approximately $4.1 million in debt and other liabilities to complete this transaction. In addition, we advanced approximately $14.8 million to fund a combination of merchandise and perpetual care trust shortfalls. These properties conducted approximately 2,500 burials and 900 funeral services in 2009.

During July 2010, we executed a long-term operating agreement with the Catholic Archdiocese of Detroit. Under this agreement, we will assist in managing and operating the three large cemeteries owned by the Archdiocese. These cemeteries are located in Detroit, Southfield and Southgate, Michigan.

Table of Contents

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 same local 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 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 believe that we are the only public death care company that focuses a significant portion of their efforts on cemetery operations.

Regulation

General. Our operations are subject to regulation, supervision and licensing under federal, state and local laws which impacts the goods and services that we may sell and the manner in which we may furnish goods and services.

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 (and some states permit cancellation and require refund beyond that time).

Trusting. Sales of cemetery interment rights and pre-need sales of cemetery and funeral home merchandise and services are generally subject to trusting requirements imposed by state laws in most of the states where we operate. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Trusting included in our 2009 Form 10-K incorporated by reference into this prospectus supplement.

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 consumers.

Other Consumer Credit-Related Laws and Regulations. As a provider of consumer credit and a business that generally deals with consumers, we are subject to various other state and federal laws covering matters, such as credit discrimination, the use of credit reports, identity theft, the handling of consumer information, consumer privacy, debt collection, extensions of credit to service members, and prohibitions on unfair or deceptive trade practices.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank. Dodd-Frank, signed into law by President Obama on July 21, 2010, authorizes the creation of a new federal Bureau of Consumer Financial Protection, or the Bureau. In addition to transferring to the Bureau rule-writing authority for nearly all federal consumer finance-related laws and giving the Bureau rule-writing authority in other areas, Dodd-Frank empowers the Bureau to conduct examinations and bring enforcement actions against certain consumer credit providers and other entities offering consumer financial products or services. The full impact of these provisions on us may not be known until regulations are promulgated. However, we could be subject to examination by the Bureau in connection with extending credit to consumers. We also could be subject to enforcement actions by the Bureau for alleged violations of Federal consumer financial laws, which would include the Bureau s ability to seek penalties and other relief on behalf of consumers that are substantially in excess of the remedies available under such laws prior to Dodd-Frank.

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 largely mirror the FTC s no-call rules. Primarily as a result of implementation of the do not call legislation and regulations, the percentage of our pre-need sales generated from telemarketing leads has decreased from 24% in 1999 to 10% in 2009. We are also subject to similar telemarketing consumer protection laws in all states in which we currently operate. These states statutes similarly permit consumers to prevent unwanted telephone solicitations. In addition, in cases where telephone solicitations are permitted, there are various restrictions and requirements under state and federal law in connection with such calls.

Occupational Safety and Health Act and Environmental Law Requirements. 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 Emergency Planning and Community Right-to-Know Act, or EPCRA, and similar state statutes require us to report information about hazardous materials used or produced in our operations to state, federal and local authorities. We may also be subject to Tier 1 or Tier 2 Emergency and Hazardous Chemical Inventory reporting requirements under EPCRA depending on the amounts of hazardous materials maintained on-site. 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 FTC 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 FTC 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.

In addition, our pre-need installment contracts for sales of cemetery and funeral home merchandise and services are subject to the FTC s Holder Rule, which requires disclosure in the installment contract that any holder of the contract is subject to all claims and defenses that the consumer could assert against the seller of the goods or services, subject to certain limitations.

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 is located in California, Pennsylvania, New Jersey, 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 or similar state laws, (2) funeral homes for the handling of hazardous materials and medical wastes and (3) cemeteries and funeral homes for the management of wastes, underground and above-ground storage tanks and discharges to wastewater treatment systems and/ or 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 may be 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.

Emergency Planning and Community Right-to-Know Act. As noted above, 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 and reports in compliance with EPCRA or similar state statutes.

Comprehensive Environmental Response, Compensation, and Liability Act. CERCLA and similar state laws affect our cemetery and funeral home operations by, among other things, imposing remediation obligations for threatened or actual releases of regulated materials that may endanger public health or welfare or the environment. CERCLA and similar state laws impose strict, and under certain circumstances, strict joint and several liability on waste generators, site owners and operators. Our operations include the use of some materials subject to those laws 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 under CERCLA or similar state laws. We may become involved in proceedings, litigation or investigations at one or more sites where releases of regulated materials 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, or ASTs, which are located at some of our facilities as well as the management and disposal of solid waste. Most of the 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 capital costs and expenses 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 cannot 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 site assessment 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 June 30, 2010, our general partner and its affiliates employed approximately 2,411 full-time and approximately 76 part-time employees. A total of six full-time employees at two of our cemeteries located in New Jersey are represented by a union and are subject to collective bargaining agreements, one of which expired in December 2009 and another that will expire in June 2011. The collective bargaining agreement that expired in December of 2009 is currently being renegotiated. Twenty-three employees at 11 of our cemeteries located in Pennsylvania are represented by three different unions and are subject to collective bargaining agreements that expired in December 2009 and June 2010 and are currently being renegotiated. Three employees at one of our cemeteries located in Illinois are represented by a union and are subject to a collective bargaining agreement that is currently being renegotiated. Seven of our employees at one of our cemeteries in Ohio are represented by a union and are subject to a collective bargaining agreement that expired in December of 2009 and is currently being renegotiated. An additional 12 employees at one of our locations in California are represented by one union and are subject to a collective bargaining agreement that expired in January 2010 and is currently being renegotiated. We believe that our relationship with our employees is good.

Table of Contents

TAX CONSIDERATIONS

The tax consequences to you of an investment in common units will depend in part on your own tax circumstances. Although this section updates information related to certain tax considerations, it should be read in conjunction with Material Tax Considerations in the accompanying base prospectus and Tax Risks to Common Unitholders in our Annual Report on Form 10-K for the year ended December 31, 2009. You are urged to consult with your tax advisor about the federal, state, local and foreign tax consequences particular to your circumstances.

Ratio of Taxable Income to Distributions

We estimate that a purchaser of common units in this offering who owns those common units from the date of closing of this offering through the record date for distributions for the period ending December 31, 2012, will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be 80% or less of the cash distributed with respect to that period. Thereafter, we anticipate that the ratio of allocable taxable income to cash distributions to the unitholders will increase. These estimates are based upon the assumption that gross income from operations will approximate the amount required to make current quarterly distribution on all units and other assumptions with respect to capital expenditures, cash flow, net working capital and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory, legislative, competitive and political uncertainties beyond our control. Further, the estimates are based on current tax law and tax reporting positions that we will adopt and with which the IRS could disagree. Accordingly, we cannot assure you that these estimates will prove to be correct. The actual percentage of distributions that will constitute taxable income could be higher or lower than expected, and any differences could be material and could materially affect the value of the common units. For example, the ratio of allocable taxable income to cash distributions to a purchaser of common units in this offering will be greater, and perhaps substantially greater, than our estimate with respect to the period described above if:

- gross income from operations exceeds the amount required to make current quarterly distributions on all units, yet we only distribute the current quarterly distributions on all units; or

- we make a future offering of common units and use the proceeds of the offering in a manner that does not produce substantial additional deductions during the period described above, such as to repay indebtedness outstanding at the time of this offering or to acquire property that is not eligible for depreciation or amortization for federal income tax purposes or that is depreciable or amortizable at a rate significantly slower than the rate applicable to our assets at the time of this offering.

Please read Material Tax Considerations in the accompanying base prospectus and Tax Risks to Common Unitholders in our Annual Report on Form 10-K for the year ended December 31, 2009.

Tax Rates

Under current law, the highest marginal U.S. federal income tax rate applicable to ordinary income of individuals is 35% and the highest marginal U.S. federal income tax rate applicable to long-term capital gains (generally, capital gains on certain assets held for more than 12 months) of individuals is 15%. However, absent new legislation extending the current rates, beginning January 1, 2011, the highest marginal U.S. federal income tax rate applicable to ordinary income and long-term capital gains of individuals will increase to 39.6% and 20%, respectively. Moreover, these rates are subject to change by new legislation at any time.

Table of Contents

The recently enacted Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act of 2010 will impose a 3.8% Medicare tax on certain investment income earned by individuals for taxable years beginning after December 31, 2012. For these purposes, investment income generally includes a unitholder s allocable share of our income and gain realized by a unitholder from a sale of units. The tax will be imposed on the lesser of (i) the unitholder s net income from all investments, and (ii) the amount by which the unitholder s modified adjusted gross income exceeds $250,000 (if the unitholder is married and filing jointly) or $200,000 (if the unitholder is unmarried).

Accuracy-Related Penalties

The final paragraph in the section Accuracy-Related Penalties on page 45 of the accompanying base prospectus is deleted and restated in its entirety as follows:

A substantial valuation misstatement exists if (a) the value of any property, or the adjusted tax basis of any property, claimed on a tax return is 150% or more of the amount determined to be the correct amount of the valuation or adjusted tax basis, (b) the price for any property or services (or for the use of property) claimed on any such return with respect to any transaction between persons described in Internal Revenue Code Section 482 is 200% or more (or 50% or less) of the amount determined under Section 482 to be the correct amount of such price, or (c) the net Internal Revenue Code Section 482 transfer price adjustment for the taxable year exceeds the lesser of $5 million or 10% of the taxpayer s gross receipts. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds $5,000 ($10,000 for most corporations). The penalty is increased to 40% in the event of a gross valuation misstatement. We do not anticipate making any valuation misstatements.

Tax-Exempt Organizations & Other Investors

Ownership of common units by tax-exempt entities, including employee benefit plans and individual retirement accounts (known as IRAs), and non-U.S. investors raises issues unique to such persons. Please read Material Tax Considerations Tax-Exempt Organizations and Other Investors in the accompanying base prospectus.

Foreign Account Tax Compliance Act

United States unitholders that hold their interests through a foreign intermediary should consult their own advisors regarding the effect of possible withholding requirements pursuant to the recently enacted Foreign Account Tax Compliance Act.

Table of Contents

UNDERWRITING

Raymond James & Associates, Inc., or Raymond James, is acting as the sole underwriter of this common units offering. Subject to the terms and conditions contained in an underwriting agreement dated September 16, 2010 between us and Raymond James, the underwriter has agreed to purchase, and we have agreed to sell to the underwriter, 1,500,000 common units representing limited partner interests in us.

The underwriter has agreed to purchase all of the common units sold under the underwriting agreement if any of these common units are purchased.

We have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriter may be required to make in respect of those liabilities.

Commissions and Discounts

The underwriter has advised us that it proposes initially to offer the common units to the public at the public offering price on the cover page of this prospectus supplement and to dealers at that price less a concession not in excess of $0.66 per common unit. After the public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the underwriter of its overallotment option to purchase additional common units from us:

	Per Common Unit	No Exercise Option	Full Exercise Option
Public offering price	$ 24.00	$ 36,000,000	$ 41,400,000
Underwriting discount	$ 1.10	$ 1,650,000	$ 1,897,500
Proceeds, before expenses, to us.	$ 22.90	$ 34,350,000	$ 39,502,500

The expenses of the offering, not including the underwriting discount, are estimated to be $750,000 and are payable by us.

Overallotment Option

We have granted to the underwriter an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to an aggregate of 225,000 additional common units from us at the public offering price listed on the cover page of this prospectus supplement, less underwriting discounts. The underwriter may exercise this option solely for the purpose of covering overallotments, if any, made in connection with the offering of the common units offered by this prospectus supplement. If the underwriter s option is exercised in full, the total price to the public would be approximately $41.4 million and the total proceeds to us, including our general partner s capital contribution of $0.8 million, would be approximately $39.6 million after deducting underwriting discounts and estimated offering expenses.

Table of Contents

No Sales of Similar Securities

We, and each of the directors and officers of our general partner have agreed, with exceptions, not to sell or transfer any common units for 90 days after the date of this prospectus supplement, subject to an extension of up to 18 days without first obtaining the written consent Raymond James. Specifically, we and these other individuals have agreed not to directly or indirectly:

- offer, pledge, sell, contract to sell, sell any common units;
- sell any option or contract to purchase any common units;
- purchase any option or contract to sell any common units;
- grant any option, right or warrant for the sale of any common units;
- lend or either dispose of or transfer any common units;
- request or demand that we file a registration statement related to the common units; or
- enter into any swap or other arrangement that transfers, in whole or in part, the economic consequences of ownership of any common units, whether any transaction swap or transaction is to be settled by delivery of common units or other securities, in cash or otherwise.

These restrictions do not apply to:

- the sale of common units to the underwriter;
- issuances under our employee benefit plans; or
- issuances of common units as consideration in acquisitions (provided the acquirer agrees to be bound by the lock-up for the unexpired term).

This lock-up provision applies to common units and to securities convertible into or exchangeable or exercisable for or repayable with common units. It also applies to common units owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

The NASDAQ Global Market

Our common units are listed on the NASDAQ Global Market under the symbol STON.

Price Stabilization and Short Positions

Until the distribution of the common units is completed, SEC rules may limit the underwriter from bidding for and purchasing our common units. However, the underwriter may engage in transactions that stabilize the price of our common units, such as bids or purchases to peg, fix or maintain that price.

Short sales involve syndicate sales of common units in excess of the number of units to be purchased by the underwriter in the offering, which creates a syndicate short position. Covered short sales are sales of common units made in an amount up to the number of units represented by

Table of Contents

the underwriter s overallotment option. In determining the source of common units to close out the covered syndicate short position, the underwriter will consider, among other things, the price of common units available for purchase in the open market as compared to the price at which they may purchase units through the overallotment option. Transactions to close out the covered syndicate short involve either purchases of the common units in the open market after the distribution has been completed or the exercise of the overallotment option. The underwriter may also make naked short sales of common units in excess of the overallotment option. The underwriter must close out any naked short position by purchasing common units in the open market. A naked short position is more likely to be created if the underwriter is concerned that there may be downward pressure on the price of the common units in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of common units in the open market while the offering is in progress. Purchases of the common units to stabilize its price or to reduce a short position may cause the price of the common units to be higher than it might be in the absence of such purchases.

Neither we nor the underwriter make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common units. In addition, neither we nor the underwriter make any representation that the underwriter will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Passive Market Making

In connection with this offering, the underwriter may engage in passive market making transactions in the common units on the NASDAQ Global Market in accordance with Rule 103 of Regulation M under the Securities Exchange Act of 1934, or the Exchange Act, during a period before the commencement of offers or sales of common units and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker s bid, such bid must then be lowered when specified purchase limits are exceeded.

FINRA Conduct Rules

Because FINRA views the common units offered hereby as interests in a direct participation program, this offering is being made in compliance with Rule 2310 of the FINRA Rules. Investor suitability with respect to the common units should be judged similarly to the suitability with respect to other securities that are listed for trading on a national securities exchange.

Conflicts of Interest

As described in Use of Proceeds, we expect to use the net proceeds of this offering to repay a portion of our outstanding indebtedness under our acquisition credit facility and our revolving credit facility. Because affiliates of Raymond James & Associates, Inc. will receive more than 5% of the net proceeds of this offering, not including underwriting compensation, Raymond James & Associates, Inc. is deemed to have a conflict of interest within the meaning of Rule 2720. However, because there is a bona fide public market (as defined in Rule 2720) for our common units, Rule 2720 does not require that there be a qualified independent underwriter (as defined in Rule 2720) with respect to this offering. Therefore, this offering is being conducted in compliance with Rule 2720.

Discretionary Sales

The underwriter does not expect sales to discretionary accounts to exceed five percent of the total number of common units offered.

Electronic Distribution

A prospectus in electronic format will be made available on the website maintained by Raymond James & Associates, Inc. Other than the electronic prospectus, the information on the website is not part of this prospectus.

Other Relationships

The underwriter and its affiliates perform various financial advisory, investment banking and commercial banking services from time to time for us and our affiliates, for which they received or will receive customary fees and expense reimbursement.

LEGAL MATTERS

The validity of the common units will be passed upon for us by Vinson & Elkins L.L.P., New York, New York. Certain legal matters relating to the offering of the common units will be passed upon for the underwriter by Cahill Gordon & Reindel LLP, New York, New York.

EXPERTS

The consolidated financial statements of StoneMor Partners L.P. as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007 and the effectiveness of StoneMor Partners L.P. s internal control over financial reporting as of December 31, 2009 incorporated into this prospectus supplement by reference from the Company s Current Report on Form 8-K dated September 14, 2010, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference. Such financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and other reports and other information with the SEC under the Exchange Act. You may read and copy any reports, statements or other information filed by us at the SEC s public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of such materials can be obtained by mail at prescribed rates from the Public Reference Room of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings with the SEC are also available to the public from commercial document retrieval services and at the SEC s web site at http://www.sec.gov.

We incorporate by reference information into this prospectus supplement, which means that we disclose important information to you by referring you to other documents filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus supplement, except for any information superseded by information contained expressly in this prospectus supplement, and the information we file later with the SEC will automatically supersede this information until the termination of this offering (other than information furnished and not filed with the SEC). You should not assume that the information in this prospectus supplement is current as of any date other than the date on the front page of this prospectus supplement.

We incorporate by reference the documents listed below filed by us and any future filings made after the date of the initial filing of the registration statement of which this prospectus supplement is a part with the SEC under sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until the termination of each offering under this prospectus supplement (other than information furnished and not filed with the SEC).

- Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2010, filed September 13, 2010;

- Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, filed May 10, 2010;

- Current Reports on Form 8-K, dated January 21, 2010, March 30, 2010, May 5, 2010, May 7, 2010, May 27, 2010, June 25, 2010, July 14, 2010, September 13, 2010, September 14, 2010 and September 14, 2010;

Table of Contents

Current Report on Form 8-K/A, dated June 15, 2010;

Annual Report on Form 10-K for the year ended December 31, 2009, filed March 16, 2010; and

The description of the common units contained in the Registration Statement on Form 8-A, initially filed on August 23, 2004, and any subsequent amendment thereto filed for the purpose of updating such description.

You may request a copy of any document incorporated by reference in this prospectus supplement and any exhibit specifically incorporated by reference in those documents, at no cost, by writing or telephoning us at the following address or phone number:

StoneMor Partners L.P.

311 Veterans Highway, Suite B

Levittown, PA 19056

(215) 826-2800

Attn: Investor Relations

We also make available free of charge on our internet website at http://www.stonemor.com our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and Section 16 reports, and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Table of Contents

PROSPECTUS

$115,000,000

StoneMor Partners L.P.

Common Units

4,528,360 Common Units

Offered by

the Selling Unitholders

We may from time to time offer up to $115,000,000 of common units representing limited partner interests in StoneMor Partners L.P. This prospectus describes the general terms of the common units and the general manner in which we will offer the common units. The specific terms of any common units we offer will be included in a supplement to this prospectus. The prospectus supplement will also describe the specific manner in which we will offer the common units.

In addition, up to 4,528,360 common units representing limited partner interests in StoneMor Partners L.P. (including up to 4,239,782 common units that may be issued upon the conversion of 4,239,782 subordinated units into common units on a one-for-one basis upon satisfaction of certain tests described in this prospectus) owned by the selling unitholders named in this prospectus or in any supplement to this prospectus may be offered from time to time. Specific terms of certain offerings by such selling unitholders may be specified in a prospectus supplement to this prospectus. We will not receive any proceeds of any sale of common units by any selling unitholders unless otherwise indicated in a prospectus supplement. For a more detailed discussion of the selling unitholders, please read Selling Unitholders.

Our common units are traded on the Nasdaq Global Market under the symbol STON.

The common units are limited partner interests, which are inherently different from the capital stock of a corporation. You should carefully consider the risks relating to investing in common units and each of the other risk factors described under Risk Factors beginning on page 4 of this prospectus before you make an investment in our common units.

Our principal executive offices are located at 155 Rittenhouse Circle, Bristol, Pennsylvania 19007, and our phone number is (215) 826-2800.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is December 7, 2007

Table of Contents

You should rely only on the information contained or incorporated by reference in this prospectus. Neither we nor the selling unitholders has authorized any other person to provide you with different information. You should not assume that the information incorporated by reference or provided in this prospectus is accurate as of any date other than the date on the front of this prospectus.

TABLE OF CONTENTS

Table of Contents

GUIDE TO READING THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the SEC) using a shelf registration process or continuous offering process. Under this shelf registration process, we may sell up to $115,000,000 in aggregate offering price of the common units described in this prospectus in one or more offerings. In addition, the selling unitholders may, from time to time, sell up to 4,528,360 common units representing limited partner interests in StoneMor Partners L.P. (including up to 4,239,782 common units that may be issued upon conversion of 4,239,782 subordinated units into common units on a one-for-one basis upon the satisfaction of certain tests described herein). This prospectus generally describes StoneMor Partners L.P., the selling unitholders and the common units. Each time we sell common units, and, if required, each time the selling unitholders sell common units with this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of that offering. That prospectus supplement may include additional risk factors or other special considerations applicable to those securities. Any prospectus supplement may also add, update, or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement.

Additional information, including our financial statements and the notes thereto, is incorporated in this prospectus by reference to our reports filed with the SEC. See Where You Can Find More Information. You are urged to read this prospectus, including the Risk Factors, and our SEC reports in their entirety.

Throughout this prospectus, when we use the terms we, us, or StoneMor Partners L.P., we are referring either to StoneMor Partners L.P., the registrant itself, or to StoneMor Partners L.P. and its operating subsidiaries collectively, as the context requires.

Table of Contents

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus, including, but not limited to, information regarding the status and progress of our operating activities, the plans and objectives of our management, assumptions regarding our future performance and plans, and any financial guidance provided, as well as certain information in other filings with the SEC and elsewhere are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E 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-lo 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 our significant leverage on our operating plans; the ability of us to service our debt; our 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; our 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 our acquisitions and various other uncertainties associated with the death care industry and our operations in particular.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth below under Risk Factors Related to Our Business and Regulatory and Legal Risks and in our other SEC filings. 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.

Table of Contents

STONEMOR PARTNERS L.P.

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. 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, 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.

We maintain an Internet website at *http://www.stonemor.com*, which contains information about us. The information on this website is not, and should not be considered, part of this prospectus and it is not incorporated by reference into this prospectus.

Our principal executive offices are located at 155 Rittenhouse Circle, Bristol, Pennsylvania 19007, and our phone number is (215) 826-2800.

Table of Contents

RISK FACTORS

Common units, representing limited partner interests, are inherently different from capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. You should carefully consider the following risk factors together with all of the other information included in this prospectus, any prospectus supplement and the information that we have incorporated herein by reference before investing in the common units.

If any of the following risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. In that case, we may be unable to make distributions to our unitholders, the trading price of our common units could decline and you could lose all or part of your investment.

Risk Factors Related to Our Business

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 and general administrative 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.

Restrictions in our credit facility may prevent us from declaring dividends or making any distributions and may limit our ability to capitalize on acquisition and other business opportunities.

The operating and financial restrictions and covenants in our credit facility and any future financing agreements could restrict our ability to finance future operations or capital needs or to expand or pursue our business activities. For example, our credit facility contains covenants that restrict or limit our ability 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 transactions with affiliates; and
- make voluntary payments or modifications of indebtedness

Furthermore, our credit facility contains covenants requiring us to maintain certain financial ratios and tests. Our ability to comply with the covenants and restrictions contained in our credit facility may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. If we violate any of the restrictions, covenants, ratios or tests in our credit facility, the lenders will be able to accelerate the maturity of all borrowings under the credit facility and demand repayment of amounts outstanding, our lenders commitment to make further loans to us may terminate, and we will be prohibited from declaring dividends or making any distributions. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. Any subsequent replacement of our credit facility or any new indebtedness could have similar or greater restrictions.

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 care trusts are affected by financial market conditions that are not within our control. Because a significant portion 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 sales to customers through 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

5

Table of Contents

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.

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 a robust pre-need sales program, 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.

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

During 2006, we acquired 21 cemeteries and 14 funeral homes from SCI Funeral Services, Inc., certain of its direct and indirect subsidiary entities and certain other parties, which we collectively refer to as SCI.

Table of Contents

Integration of the businesses and operations that we acquired with our existing business and operations has been a complex, time-consuming and costly process, particularly given that the acquisition has significantly increased our size. Failure to successfully integrate the SCI 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 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 and could impact our ability to make cash distributions.

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 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.

Table of Contents

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 require cemeteries to be organized in the nonprofit form but permit those nonprofit entities to contract with for-profit companies for management services. If state laws change or new laws are enacted that prohibit us from managing cemeteries in those states, then 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, the 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 rely heavily 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 and solid waste under the Comprehensive Environmental Response, Compensation, and Liability Act, referred to as CERCLA in this prospectus, 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 were 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, referred to as EPCRA in this prospectus. 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.

Immediately prior to our initial public offering on September 20, 2004, Cornerstone Family Services, Inc., which owned our business and assets prior to our initial offering, converted into CFSI LLC. As of December 31,

Table of Contents

2006, CFSI LLC owned an aggregate 46.1% 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. By purchasing common units, unitholders will have deemed to have consented to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable law.

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 or sell assets outside the ordinary course of business 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.

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, a Delaware limited liability company, 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.

Our partnership agreement limits our general partner s fiduciary duties to holders of our common units and subordinated units and restricts the remedies available to holders of our common units and subordinated units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that reduce the fiduciary standards to which our general partner would otherwise be held by state fiduciary duty laws. For example, our partnership agreement:

permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Examples include the exercise of its limited

Table of Contents

call right, the exercise of its rights to transfer or vote the units it owns, the exercise of its registration rights and its determination whether or not to consent to any merger or consolidation of the partnership or amendment to the partnership agreement;

provides that our general partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as it acted in good faith, meaning it believed the decision was in the best interests of our partnership;

generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of the board of directors of our general partner acting in good faith and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or must be fair and reasonable to us, as determined by our general partner in good faith and that, in determining whether a transaction or resolution is fair and reasonable, our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us;

provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that the general partner or those other persons acted in bad faith or engaged in fraud, willful misconduct or gross negligence or, in the case of a criminal matter, acted with knowledge that the conduct was criminal; and

provides that in resolving conflicts of interest, it will be presumed that in making its decision the general partner or its conflicts committee acted in good faith, and in any proceeding brought by or on behalf of any limited partner or us, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

By purchasing a common unit, a common unitholder will agree to become bound by the provisions in the partnership agreement, including the provisions discussed above.

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 47.1% of all the units as of the date of this prospectus, 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. Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding the general partner liable for actual fraud, gross negligence or willful or wanton misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor management of the business.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors, which could reduce the price at which the common units will trade.

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, and do not have, a majority of independent directors on our board. The board of directors of our general partner, including the independent directors, are chosen entirely by the owners of our general partner and not our unitholders. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

Our partnership agreement restricts the voting rights of unitholders owning 20% or more of our common units.

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.

Increases in interest rates could adversely impact our unit price and our ability to issue additional equity to make acquisitions, incur debt or for other purposes.

In recent years, the U.S. credit markets experienced 50-year record lows in interest rates. If the overall economy strengthens, it is possible that monetary policy will tighten, resulting in higher interest rates to counter possible inflation risk. Interest rates on future credit facilities and debt offerings could be higher than current levels, causing our financing costs to increase accordingly. As with other yield-oriented securities, our unit price is impacted by the level of our cash distributions and implied distribution yield. The distribution yield is often used by investors to compare and rank related yield-oriented securities for investment decision-making purposes. Therefore, changes in interest rates may affect the yield requirements of investors who invest in our units, and a rising interest rate environment could have an adverse impact on our unit price and our ability to issue additional equity to make acquisitions, to incur debt or for other purposes.

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 unitholder 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 unitholder 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 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.

Table of Contents

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 ratio of taxable income to distributions may 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 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

12

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 for a more complete 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 Family Services, Inc., or 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 or this 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 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

Table of Contents

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 up to 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. In the event that the initial public offering did not create an ownership change, our issuance of common units in November of 2005 likely created an ownership change with respect to the shares of our corporate subsidiaries for the purposes of Section 382 of the Internal Revenue Code. However, we do not believe this ownership change will have a material effect on the use by our corporate subsidiaries of their remaining net operating losses. Nonetheless, to the extent that an annual net operating loss limitation for any one year does restrict the ability of our corporate subsidiaries to use their remaining net operating losses, an increase in tax liabilities of our corporate subsidiaries could result, which would reduce the amount of cash available for distribution to you.

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

The 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 taxable 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, treatment of us 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 and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, 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 further reduced.

If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted, 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 conclusions of our counsel expressed in this prospectus or from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of our counsel s conclusions or the positions we take. A court may not agree with some or all of our counsel s conclusions or 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 actual tax liability that results from that income.

Tax gain or loss on disposition of our 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. Because distributions in excess of your allocable share of our net taxable income decrease your tax basis in your common units, the amount, if any, of such prior excess distributions with respect to the units you sell will, in effect, become taxable income to you if you sell such units at a price greater than your tax basis in those units, even if the price you receive is less than your original cost. Furthermore, a substantial portion of the amount realized, whether or not representing gain, may be taxed as ordinary income due to potential recapture items, including depreciation recapture. In addition, because the amount realized includes a unitholder s share of our nonrecourse liabilities, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale. Please read Material Tax Considerations Disposition of Common Units Recognition of Gain or Loss for a further discussion of the foregoing.

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 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 non-U.S. person, you should consult your tax advisor before investing in our common units.

Table of Contents

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. Please read Material Tax Considerations Tax Consequences of Unit Ownership Section 754 Election for a further discussion of the effect of the depreciation and amortization positions we will adopt.

We will adopt certain valuation methodologies that may result in a shift of income, gain, loss and deduction between the general partner and the unitholders. The IRS may challenge this treatment, which could adversely affect the value of the common units.

When we issue additional units or engage in certain other transactions, we will determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of our unitholders and our general partner. Our methodology may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and the general partner, which may be unfavorable to such unitholders. Moreover, under our valuation methods, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of income, gain, loss and deduction between the general partner and certain of our unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our unitholders. It also could affect the amount of gain from our unitholders sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders tax returns without the benefit of additional deductions.

The sale or exchange of 50% or more of our capital and profits interests during any twelve-month period will result in the termination of our partnership for federal income tax purposes.

We will be considered to have terminated for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. Our termination would, among other things, result in the closing of our taxable year for all unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may result in more than twelve months of our taxable income or loss being includable in his taxable income for the year of termination. Our termination currently would not affect our classification as a partnership for federal income tax purposes, but instead, we would be treated as a new partnership for tax purposes. If treated as a new partnership, we must make new tax elections and could be subject to penalties if we are unable to determine that a termination occurred. Please read Material Tax Considerations Disposition of Common Units Constructive Termination for a discussion of the consequences of our termination for federal income tax purposes.

Table of Contents

You will likely be subject to state and local taxes and filing requirements 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 conduct business in Pennsylvania, West Virginia, Virginia, North Carolina, Maryland, New Jersey, Tennessee, Ohio, Rhode Island, Alabama, Delaware, Illinois, Kentucky, Oregon, Washington, Kansas, Michigan, Colorado, Missouri and Georgia. Each of these states currently imposes an income tax on individuals, corporations and other entities. 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.

Table of Contents

USE OF PROCEEDS

Except as otherwise provided in the applicable prospectus supplement, we will use the net proceeds we receive from the sale of the common units covered by this prospectus for general partnership purposes, which may include, among other things, funding acquisitions of assets or businesses, working capital, capital expenditures, the repayment or refinancing of all or a portion of our debt and/or the repurchase of common units or other securities. The actual application of proceeds we receive from the sale of any particular offering of common units using this prospectus will be described in the applicable prospectus supplement relating to such offering.

We will not receive any proceeds from any sale of common units by the selling unitholders.

Table of Contents

DESCRIPTION OF THE COMMON UNITS

We have two classes of limited partner interests in our partnership: common units and subordinated units. The holders of these units are entitled to participate in partnership distributions and exercise the rights or privileges available to limited partners under our partnership agreement. The rights of holders of our subordinated units to participate in distributions to our partners differ from, and are subordinated to, the rights of holders of our common units. As of July 10, 2007, we had outstanding 4,795,780 common units, representing a 52.0% limited partner interest, and 4,239,782 subordinated units, representing a 46.0% limited partner interest. Thus, as of that date our equity consisted of a 98% limited partner interest and a 2% general partner interest.

Partnership Agreement

Our partnership agreement contains additional provisions, many of which apply to holders of our common units. A copy of our partnership agreement is included in our other SEC filings and incorporated by reference in this prospectus.

Issuance of Additional Units

Our partnership agreement authorizes us to issue an unlimited number of additional common units and other equity securities for the consideration and on the terms and conditions determined by our general partner without the approval of the unitholders. During the subordination period, however, except as we discuss in the following paragraph, we may not issue equity securities ranking senior to the common units or an aggregate of more than 2,119,891 additional common units, or 50% of the common units outstanding immediately after our initial public offering, or units on a parity with the common units, in each case, without the approval of the holders of a unit majority.

During the subordination period or thereafter, we may issue an unlimited number of common units without the approval of the unitholders as follows:

- 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 retirement;
- 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;
- upon conversion of the subordinated units;
- upon conversion of units of equal rank with the common units into common units under some circumstances;
- in the event of a combination or subdivision of common units;
- under employee benefit plans; or
- upon conversion of the general partner interests and incentive distribution rights as a result of a withdrawal of our general partner.

It is possible that we will fund acquisitions through the issuance of additional common units, subordinated units or other partnership securities. Holders of any additional common units we issue will be entitled to share equally with the then-existing holders of common units in our distributions of available cash. In addition, the issuance of additional common units or other partnership securities may dilute the value of the interests of the then-existing holders of common units in our net assets.

In accordance with Delaware law and the provisions of our partnership agreement, we may also issue additional partnership securities that, as determined by our general partner, may have special voting rights to which the common units are not entitled.

Upon issuance of additional partnership securities, our general partner will be entitled, but not required, to make additional capital contributions to the extent necessary to maintain its 2% general partner interest in us. The general partner s 2% interest in our 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. Moreover, our general partner will have the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase common units, subordinated units or other partnership securities whenever, and on the same terms that, we issue those securities to persons other than our general partner and its affiliates, to the extent necessary to maintain the percentage interest of the general partner and its affiliates, including such interest represented by common units and subordinated units, that existed immediately prior to each issuance. The holders of common units will not have preemptive rights to acquire additional common units or other partnership securities.

Limited Liability

Participation in the Control of Our Partnership

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Act and that he otherwise acts in conformity with the provisions of our partnership agreement, his liability under the Delaware Act will be limited, subject to possible exceptions, to the amount of capital he is obligated to contribute to us for his common units plus his share of any undistributed profits and assets. If it were determined, however, that the right or exercise of the right by the limited partners as a group:

- to remove or replace the general partner;
- to approve some amendments to our partnership agreement; or
- to take other action under our partnership agreement;

constituted participation in the control of our business for the purposes of the Delaware Act, then the limited partners could be held personally liable for our obligations under Delaware law to the same extent as our general partner. This liability would extend to persons who transact business with us and who reasonably believe that the limited partner is a general partner. Neither our partnership agreement nor the Delaware Act specifically provides for legal recourse against our general partner if a limited partner were to lose limited liability through any fault of the general partner. While this does not mean that a limited partner could not seek legal recourse, we have found no precedent for this type of claim in Delaware case law.

Unlawful Partnership Distributions

Under the Delaware Act, a limited partnership may not make a distribution to a partner if, after the distribution, all liabilities of the limited partnership, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of the assets of the limited partnership. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability. The Delaware Act provides that a limited partner who receives a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Act shall be liable to the limited partnership for the amount of the distribution for three years. Under the Delaware Act, an assignee who becomes a substituted limited partner of a limited partnership is liable for the obligations of his assignor to make contributions to the partnership, except the assignee is not obligated for liabilities that are unknown to him at the time he became a limited partner and that could not be ascertained from the partnership agreement.

Table of Contents

Failure to Comply with the Limited Liability Provisions of Jurisdictions in Which We Do Business

Our subsidiaries conduct business in 21 states and may conduct business in other states in the future. Maintenance of our limited liability, as the sole member of the operating company, may require compliance with legal requirements in the jurisdictions in which the operating company conducts business, including qualifying our subsidiaries to do business there. Limitations on the liability of members for the obligations of a limited liability company have not been clearly established in many jurisdictions. If it were determined that we were, by virtue of our member interest in the operating company or otherwise, conducting business in any state without compliance with the applicable limited partnership, limited liability company or corporation statute, or that the right or exercise of the right by the limited partners as a group to remove or replace our general partner, to approve some amendments to our partnership agreement, or to take other action under our partnership agreement constituted participation in the control of our business for purposes of the statutes of any relevant jurisdiction, then the limited partners could be held personally liable for our obligations under the laws of that jurisdiction to the same extent as the general partner under the circumstances. We will operate in a manner determined by our general partner to be necessary or appropriate to preserve the limited liability of the limited partners.

Voting Rights

Certain actions require the approval of the holders of a majority of our units. During the subordination period, this requires us to secure the approval of a majority of the common units, excluding those common units held by our general partner and its affiliates, and a majority of the subordinated units, voting as separate classes. After the subordination period, this requires us to secure the approval of a majority of the common units. The actions that require the approval of a unit majority include:

- the issuance of additional common units or units of equal rank with the common units during the subordination period, with certain exceptions contained in our partnership agreement, detailed above under Issuance of Additional Units;
- the issuance of units senior to the common units during the subordination period;
- certain amendments to our partnership agreement;
- the merger of our partnership or the sale of all or substantially all of our assets;
- amendments to the limited liability company agreement of our operating company and other actions taken as sole member of our limited liability company if such amendment or other action would adversely affect our limited partners or any particular class of our limited partners in any material respect; and
- the dissolution of our partnership and the reconstitution of our partnership upon dissolution.

Other actions require the unitholder approval described below:

- the withdrawal of our general partner prior to September 30, 2014 in a manner that would cause a dissolution of our partnership, in most circumstances requires the approval of a majority of the common units, excluding common units held by the general partner and its affiliates;
- the removal of our general partner requires not less than 66 $^{2}/_{3}$% of the outstanding units, including units held by our general partner and its affiliates;

the transfer of the general partner interest to a third party prior to September 30, 2014 in most circumstances requires the approval of a majority of the common units, excluding common units held by the general partner and its affiliates; and

the transfer of incentive distribution rights to a third party prior to September 30, 2014 in most circumstances requires the approval of a majority of the common units, excluding common units held by the general partner and its affiliates.

Table of Contents

Limited Call Right

If at any time our general partner and its affiliates own more than 80% of the then-issued and outstanding limited partner interests of any class, our general partner will have the right, but not the obligation, which it may assign in whole or in part to any of its affiliates or to us, to acquire all, but not less than all, of the remaining limited partner interests of the class held by unaffiliated persons as of a record date to be selected by our general partner, on at least 10 but not more than 60 days notice. The purchase price in the event of this purchase is the greater of:

- the highest cash price paid by either of our general partner or any of its affiliates for any limited partner interests of the class purchased within the 90 days preceding the date on which our general partner first mails notice of its election to purchase those limited partner interests; and

- the current market price as of the date three days before the date the notice is mailed.

As a result of our general partner s right to purchase outstanding limited partner interests, a holder of limited partner interests may have his limited partner interests purchased at an undesirable time or price.

The tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of his common units in the market. See Material Tax Considerations Disposition of Common Units.

Meetings; Voting

Except as described below regarding a person or group owning 20% or more of any class of units then outstanding, unitholders or assignees who are record holders of units on the record date are entitled to notice of, and to vote at, meetings of our limited partners and to act upon matters for which approvals may be solicited. Common units that are owned by an assignee who is a record holder, but who has not yet been admitted as a substituted limited partner, shall be voted by our general partner at the written direction of the record holder. Absent direction of this kind, the common units will not be voted, except that, in the case of common units held by our general partner on behalf of non-citizen assignees, our general partner shall distribute the votes on those common units in the same ratios as the votes of limited partners on other units are cast.

Any action that is required or permitted to be taken by the unitholders may be taken either at a meeting of the unitholders or without a meeting if consents in writing describing the action so taken are signed by holders of the number of units as would be necessary to authorize or take that action at a meeting. Meetings of the unitholders may be called by our general partner or by unitholders owning at least 20% of the outstanding units of the class for which a meeting is proposed. Unitholders may vote either in person or by proxy at meetings. The holders of a majority of the outstanding units of the class or classes for which a meeting has been called represented in person or by proxy shall constitute a quorum unless any action by the unitholders requires approval by holders of a greater percentage of the units, in which case the quorum shall be the greater percentage.

Each record holder of a unit has a vote according to his percentage interest in our partnership, although additional limited partner interests having special voting rights could be issued. However, if at any time any person or group, other than our general partner and its affiliates, or a direct or subsequently approved transferee of our general partner or its affiliates or a person or group who acquires the units with the prior approval of the board of directors, acquires, in the aggregate, beneficial ownership of 20% or more of any class of units then outstanding, the person or group will lose voting rights on all of its units and the units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, determining the presence of a quorum or for other similar purposes. Common units held in nominee or street name account will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner unless the arrangement between the beneficial owner and his nominee provides otherwise. Except as otherwise provided in the partnership agreement, subordinated units will vote together with common units as a single class.

Table of Contents

Any notice, demand, request, report or proxy material required or permitted to be given or made to record holders of common units under our partnership agreement will be delivered to the record holder by us or by the transfer agent.

Books and Reports

Our general partner is required to keep appropriate books of our business at our principal offices. The books will be maintained for both tax and financial reporting purposes on an accrual basis. For tax and fiscal reporting purposes, our fiscal year is the calendar year.

We will furnish or make available to record holders of common units, within 120 days after the close of each fiscal year, an annual report containing audited financial statements and a report on those financial statements by our independent public accountants. Except for our fourth quarter, we will also furnish or make available summary financial information within 90 days after the close of each quarter.

We will furnish each record holder of a unit with information reasonably required for tax reporting purposes within 90 days after the close of each calendar year. This information is expected to be furnished in summary form so that some complex calculations normally required of partners can be avoided. Our ability to furnish this summary information to unitholders will depend on the cooperation of unitholders in supplying us with specific information. Every unitholder will receive information to assist him in determining his federal and state tax liability and filing his federal and state income tax returns, regardless of whether he supplies us with information.

Right to Inspect Our Books and Records

Our partnership agreement provides that a limited partner can, for a purpose reasonably related to his interest as a limited partner, upon reasonable demand and at his own expense, have furnished to him:

- a current list of the name and last known address of each partner;
- a copy of our tax returns;
- information as to the amount of cash, and a description and statement of the agreed value of any other property or services, contributed or to be contributed by each partner and the date on which each partner became a partner;
- copies of our partnership agreement, the certificate of limited partnership of the partnership, related amendments and powers of attorney under which they have been executed;
- information regarding the status of our business and financial condition; and
- any other information regarding our affairs as is just and reasonable.

Our general partner may, and intends to, keep confidential from the limited partners trade secrets or other information the disclosure of which our general partner believes in good faith is not in our best interests or that we are required by law or by agreements with third parties to keep confidential.

Listing

Our common units are traded on the Nasdaq Global Market under the symbol STON.

Transfer Agent and Registrar Duties

American Stock Transfer and Trust Company serves as registrar and transfer agent for the common units. We will pay all fees charged by the transfer agent for transfers of common units except the following fees that will be paid by unitholders:

- surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges,
- special charges for services requested by a holder of a common unit, and
- other similar fees or charges.

There will be no charge to unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their shareholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

The transfer agent may resign, by notice to us, or be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its acceptance of the appointment. If no successor has been appointed and accepted the appointment within 30 days after notice of the resignation or removal, our general partner is authorized to act as the transfer agent and registrar until a successor is appointed.

Transfer of Common Units

Any transfer of a common unit will not be recorded by the transfer agent or recognized by us unless the transferee executes and delivers a transfer application. By executing and delivering a transfer application, the transferee of common units:

- becomes the record holder of the common units and is an assignee until admitted into our partnership as a substituted limited partner;
- automatically requests admission as a substituted limited partner in our partnership;
- agrees to be bound by the terms and conditions of, and executes, our partnership agreement;
- represents that the transferee has the capacity, power and authority to enter into our partnership agreement;
- grants powers of attorney to officers of the general partner and any liquidator of our partnership as specified in our partnership agreement; and
- gives the consents and approvals contained in the partnership agreement.

An assignee will become a substituted limited partner of our partnership for the transferred common units automatically upon the recording of the transfer on our books and records. The general partner will cause any unrecorded transfer for which a completed and duly executed transfer application has been received to be recorded on our books and records no less frequently than quarterly.

A transferee s broker, agent or nominee may complete, execute and deliver a transfer application. We may, at our discretion, treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holders rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and are transferable according to the laws governing transfers of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to request admission as a substituted limited partner in our partnership for the transferred common units. A purchaser or transferee of common units who does not execute and deliver a transfer application obtains only:

- the right to assign the common unit to a purchaser or other transferee; and
- the right to transfer the right to seek admission as a substituted limited partner in our partnership for the transferred common units.

Thus, a purchaser or transferee of common units who does not execute and deliver a transfer application:

will not receive cash distributions or federal income tax allocations, unless the common units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application and certification with respect to itself and any beneficial holders; and

24

Table of Contents

may not receive some federal income tax information or reports furnished to record holders of common units.

The transferor of common units will have a duty to provide the transferee with all information that may be necessary to transfer the common units. The transferor will not have a duty to insure the execution of the transfer application and certification by the transferee and will have no liability or responsibility if the transferee neglects or chooses not to execute and forward the transfer application and certification to the transfer agent.

Until a common unit has been transferred on our books, we and the transfer agent may treat the record holder of the unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

Table of Contents

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 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, which was $8.87 million; 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.

As described above, operating surplus is reduced by the amount of our operating expenditures. Our partnership agreement specifically excludes certain items from the definition of operating expenditures, such as cash expenditures made for acquisitions or capital improvements, including, without limitation, all cash expenditures, whether or not expensed or capitalized for tax or accounting purposes, incurred during the first four years following an acquisition in order to bring the operating capacity of the acquisition to the level expected to be achieved in the projections forming the basis on which our general partner approved the acquisition. Examples of such cash expenditures include certain maintenance capital expenditures and cash expenditures that we believe are necessary to develop the pre-need sales programs of businesses or assets we acquire. Where cash expenditures are made in part for acquisitions or capital improvements and in part for other purposes, our general partner, with the concurrence of our conflicts committee, will determine the allocation between the amounts paid for each and the period over which cash expenditures made for other purposes will be subtracted from operating surplus.

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

Table of Contents

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.

	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions			
		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.

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 issued in the initial public offering 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.

Table of Contents

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

- 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 issued in connection with our initial public offering 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 issued in connection with our initial public offering 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.

Table of Contents

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 became inoperative and had 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;
- 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.

Table of Contents

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.

Table of Contents

MATERIAL TAX CONSIDERATIONS

This section is a summary of the material tax considerations that may be relevant to prospective unitholders who are individual citizens or residents of the United States and, unless otherwise noted in the following discussion, is the opinion of Vinson & Elkins L.L.P., counsel to our general partner and us, insofar as it relates to legal conclusions with respect to matters of United States federal income tax law. This section is based upon current provisions of the Internal Revenue Code, existing and proposed regulations and current administrative rulings and court decisions, all of which ar