

August 27, 2008

Key Metrics

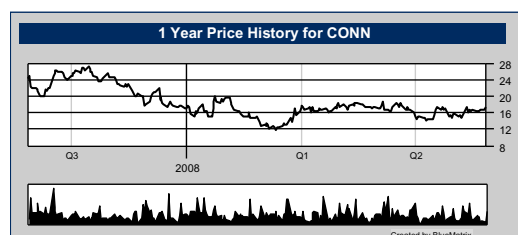
CONN - NASDAQ	\$17.35
Pricing Date	08/26/2008
Price Target	NA
52-Week Range	\$28.54-\$11.50
Shares Outstanding (mm)	22.4
Market Capitalization (\$mm)	\$388.7
3-Mo Average Daily Volume	234,674
Institutional Ownership	49%
Debt/Total Capital	6.6%
ROE	14.0%
Book Value/Share	\$13.25
Price/Book	1.3x
Dividend Yield	NM
LTM EBITDA Margin	9.10%

EPS(\$) FY: January

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	0.54	--	0.56A	--	--
2Q-Jul	0.40	--	0.38E	--	--
3Q-Oct	0.28	--	0.32E	--	--
4Q-Jan	0.58	--	0.57E	--	--
FY	1.80	--	1.83E	--	2.06E
P/E	9.6x	--	9.5x	--	8.4x

Revenue(\$mm)

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	205.3	--	221.6A	--	--
2Q-Jul	203.5	--	215.4E	--	--
3Q-Oct	193.4	--	210.0E	--	--
4Q-Jan	226.3	--	245.0E	--	--
FY	828.5	--	892.0E	--	987.9E



Company Description: Conn's Inc. (www.conns.com) operates as a specialty retailer of home appliances and consumer electronics in the United States. It sells appliances, consumer electronics, lawn and garden, furniture, and mattresses. Conn's Inc. was founded in 1890 and is headquartered in Beaumont, Texas.

Conn's Inc.

Rating: Hold

F2Q09 Preview: EPS Should Decline \$0.02 Y/Y

Investment Highlights:

- **Conn's Inc. is scheduled to report F2Q09 results on Thursday, August 28th, before the market opens.** We are forecasting EPS of \$0.38, \$0.02 below last year's comparable period yet \$0.01 above the Street consensus. A conference call is scheduled the same day at 11:00 AM EST.
- **F2Q09 product sales previously released; up 7% Y/Y on (1.4%) comp sales.** Strong growth in consumer electronics and track sales increased net sales by \$11.6mm to \$190.6mm for the quarter, a 6.5% increase over the same period last year. The results do not include finance charges/other, which we project to be up 1% Y/Y. Primary F2Q09 results indicated net charge-off rates below 3%, which falls in-line with expectations and historical trends.
- **Product mix expected to pressure gross margins with SG&A expected to fall as a percent of sales.** Competitive pricing pressures and an increasing percent of lower margined electronic sales should continue to reduce Y/Y gross margins. We expect gross margins to fall 120 bps Y/Y with some offset generated by projected SG&A costs, as a percentage of sales.
- **Near-term adjustments to credit could add to future interest payments.** Conn's recently expanded its revolving credit facility from \$100mm to \$210mm. With the company expected to begin carrying a portion of its receivables on its balance sheet, potentially higher financing costs could make our 2H09 EPS estimates somewhat aggressive. Higher financing costs were apparently factored into previous guidance for EPS ranging from \$1.76 to \$1.86 and management maintains it has the capital needed to continue its growth for at least 16 to 18 months.
- **Maintain Hold rating due to economic uncertainties.** While we believe the company's primarily Texas-based store locations provide some shelter from current economic conditions, Conn's does not appear immune as comparable store sales growth has slowed recently. We maintain our Hold rating.

EQUITY RESEARCH

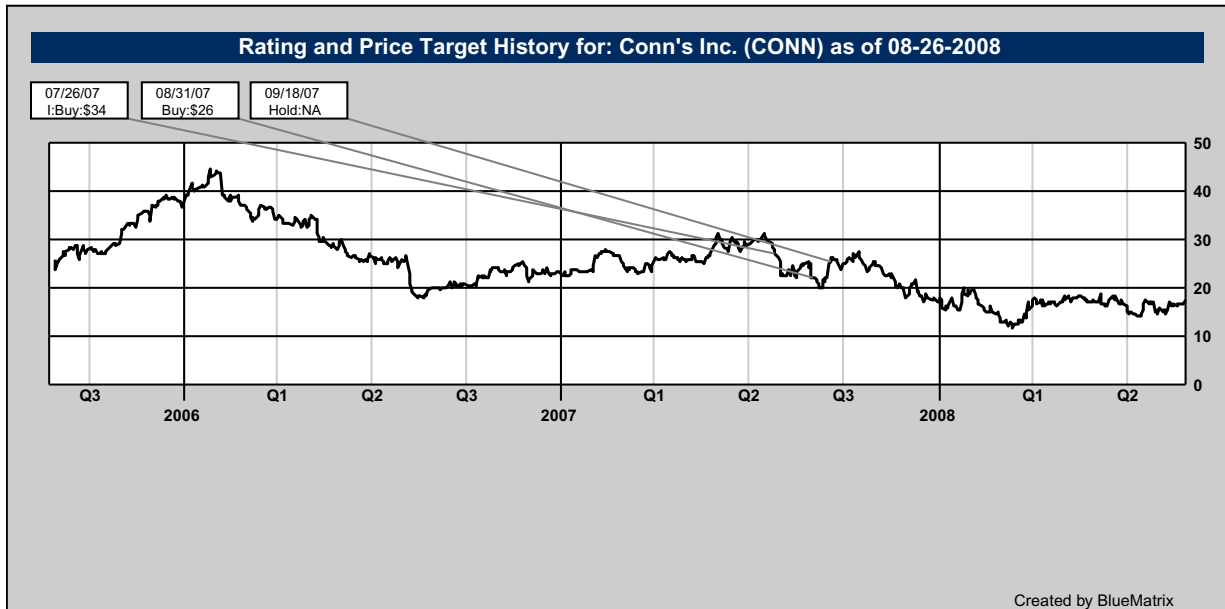
Conn's Inc. (CONN)

(In Millions, Except Per Share Data)

Quarter end	FY 2006	Q1 Apr-06	Q2 Jul-06	Q3 Oct-06	Q4* Jan-07	FY 2007	Q1 Apr-07	Q2 Jul-07	Q3 Oct-07	Q4 Jan-08	FY 2008	Q1 Apr-08	Q2E Jul-08	Q3E Oct-08	Q4E Jan-09	FYE 2009	FYE 2010
Sales	701.4	192.2	182.2	173.7	212.6	760.7	205.3	203.5	193.4	226.3	828.5	221.6	215.4	210.0	245.0	892.0	987.9
<i>% Increase</i>	23.7%	21.5%	10.7%	0.6%	3.2%	8.4%	6.8%	11.7%	11.3%	6.5%	8.9%	7.9%	5.8%	8.6%	8.3%	7.7%	10.7%
Cost of Goods Sold	453.4	120.1	114.1	106.0	132.8	473.1	126.3	127.5	120.4	143.0	517.3	141.4	137.7	132.8	157.3	569.2	627.2
<i>As % Sales</i>	64.6%	62.5%	62.6%	61.0%	62.5%	62.2%	61.5%	62.7%	62.3%	63.2%	62.4%	63.8%	63.9%	63.3%	64.2%	63.8%	63.5%
<i>% Increase</i>	26.0%	17.6%	8.9%	-4.8%	-1.6%	4.3%	5.1%	11.7%	13.7%	7.7%	9.3%	12.0%	8.0%	10.3%	10.0%	10.0%	10.2%
Gross Profit	248.0	72.1	68.1	67.7	79.7	287.6	79.1	76.0	72.9	83.3	311.3	80.2	77.8	77.1	87.7	322.8	360.6
<i>Margin</i>	35.4%	37.5%	37.4%	39.0%	37.5%	37.8%	38.5%	37.3%	37.7%	36.8%	37.6%	36.2%	36.1%	36.7%	35.8%	36.2%	36.5%
<i>% Increase</i>	19.6%	28.6%	13.9%	10.6%	12.3%	16.0%	9.7%	11.7%	7.7%	4.5%	8.2%	1.5%	2.3%	5.8%	5.3%	3.7%	11.7%
SG&A	182.7	53.8	55.4	56.2	59.5	225.0	59.2	62.1	61.9	62.1	245.3	60.4	64.0	65.6	67.1	257.0	286.8
<i>As % Sales</i>	26.1%	28.0%	30.4%	32.4%	28.0%	29.6%	28.8%	30.5%	32.0%	27.4%	29.6%	27.2%	29.7%	31.2%	27.4%	28.8%	29.0%
<i>% Increase</i>	19.5%	35.5%	23.3%	19.2%	17.0%	23.1%	10.0%	12.1%	10.2%	4.3%	9.0%	1.9%	3.0%	5.9%	8.1%	4.8%	11.6%
Provision for bad debt	1.8	0.0	0.4	0.5	0.5	1.5	0.6	0.3	0.6	0.4	1.9	0.3	0.3	0.3	0.3	1.2	1.2
<i>As % Sales</i>	0.3%	0.0%	0.2%	0.3%	0.2%	0.2%	0.3%	0.2%	0.3%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
<i>% Increase</i>	-67.8%	-96.3%	NA	58.9%	9.8%	-18.8%	NA	-10.8%	10.6%	-19.1%	29.3%	-53.8%	-13.8%	-48.5%	-28.2%	-39.3%	3.5%
Operating Profit	63.5	18.2	12.2	11.0	19.7	61.1	19.3	13.6	10.4	20.8	64.0	19.6	13.5	11.2	20.3	64.6	72.7
<i>Margin</i>	9.0%	9.5%	6.7%	6.3%	9.3%	8.0%	9.4%	6.7%	5.4%	9.2%	7.7%	8.8%	6.3%	5.4%	8.3%	7.2%	7.4%
<i>% Increase</i>	29.9%	20.3%	-18.0%	-20.0%	0.2%	-3.7%	6.0%	10.7%	-5.4%	5.6%	4.8%	1.6%	-0.5%	8.1%	-2.5%	0.9%	12.5%
Interest Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Income	-0.5	0.2	0.9	0.2	0.2	1.4	1.1	0.3	0.1	-0.1	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Profit	63.0	18.4	13.2	11.2	19.9	62.6	20.3	13.9	10.6	20.7	65.5	19.6	13.5	11.2	20.3	64.6	72.7
<i>Margin</i>	9.0%	9.6%	7.2%	6.4%	9.3%	8.2%	9.9%	6.8%	5.5%	9.2%	7.9%	8.9%	6.3%	5.4%	8.3%	7.2%	7.4%
<i>% Increase</i>	35.5%	24.6%	-11.4%	-18.5%	0.9%	-0.7%	10.6%	5.4%	-5.5%	4.4%	4.7%	-3.6%	-2.7%	6.6%	-2.2%	-1.3%	12.4%
Taxes(benefit)	22.2	6.5	4.6	4.0	7.2	22.3	7.4	4.3	3.7	7.4	22.8	7.0	4.9	4.0	7.3	23.2	26.2
<i>Rate</i>	35.2%	35.1%	35.0%	35.9%	36.2%	35.6%	36.4%	31.0%	35.4%	35.6%	34.8%	35.6%	36.0%	36.0%	36.0%	35.9%	36.0%
<i>Less Preferred Div.</i>																	
Net Income--Oper.	40.8	11.9	8.5	7.2	12.7	40.3	12.9	9.6	6.8	13.4	42.7	12.6	8.6	7.2	13.0	41.4	46.5
<i>Margin</i>	5.8%	6.2%	4.7%	4.1%	6.0%	5.3%	6.3%	4.7%	3.5%	5.9%	5.2%	5.7%	4.0%	3.4%	5.3%	4.6%	4.7%
<i>% Increase</i>	35.1%	24.7%	-10.9%	-19.2%	-1.2%	-1.3%	8.3%	12.0%	-4.7%	5.5%	5.9%	-2.4%	-9.8%	5.5%	-2.9%	-2.9%	12.2%
EPS--Operations	1.69	0.49	0.35	0.30	0.52	1.66	0.54	0.40	0.28	0.58	1.80	0.56	0.38	0.32	0.57	1.83	2.06
<i>% Increase</i>	32.6%	21.7%	-12.1%	-18.9%	-1.3%	-1.7%	9.8%	13.3%	-4.7%	12.7%	8.7%	4.4%	-4.0%	12.8%	-1.2%	1.7%	12.2%
Shares Out. Basic	23.4	23.6	23.7	23.7	23.7	23.7	23.6	23.5	23.7	22.7	23.2	22.4	22.4	22.4	22.4	22.4	22.4
Shares Out. Diluted	24.2	24.4	24.3	24.2	24.5	24.3	24.1	24.1	24.2	23.0	23.7	22.6	22.6	22.6	22.6	22.6	22.6

Source: Company reports and Morgan Joseph estimates

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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [B]	55.68	36.73
HOLD [H]	43.18	28.95
SELL [S]	1.14	0.00

Meaning of Ratings

- A) Buy means reasonable outperformance relative to the market over 12-18 months.
- B) Hold means market-type risk adjusted performance; potential source of funds.
- C) Sell means expected to underperform the market.

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