

August 29, 2008

Key Metrics

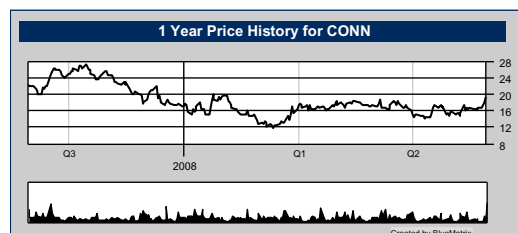
CONN - NASDAQ	\$19.43
Pricing Date	08/28/2008
Price Target	NA
52-Week Range	\$28.54-\$11.50
Shares Outstanding (mm)	22.4
Market Capitalization (\$mm)	\$435.2
3-Mo Average Daily Volume	235,028
Institutional Ownership	49%
Debt/Total Capital	0.0%
ROE	12.1%
Book Value/Share	\$14.47
Price/Book	1.3x
Dividend Yield	NM
LTM EBITDA Margin	8.50%

EPS(\$) FY: January

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	0.54	0.56A	0.47A	--	0.59E
2Q-Jul	0.40	0.38E	0.45A	--	0.49E
3Q-Oct	0.17	0.32E	0.28E	--	0.35E
4Q-Jan	0.57	0.57E	0.55E	--	0.63E
FY	1.68	1.83E	1.75E	--	2.06E
P/E	11.6x		11.1x		9.4x

Revenue(\$mm)

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	205.3	221.6A	218.5A	--	240.5E
2Q-Jul	203.5	215.4E	218.5A	--	231.9E
3Q-Oct	189.4	210.0E	211.5E	--	228.7E
4Q-Jan	225.9	245.0E	245.8E	--	263.6E
FY	824.1	892.0E	894.4E	987.9E	964.7E



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

EPS Upside (ex-non-cash-charge) of \$0.11; Reports 2Q09 EPS of \$0.49

Investment Highlights:

- **F2Q09 EPS (ex-non-cash-charge) of \$0.49 was \$0.11 above our Street-high estimate.** Conn's reported F2Q09 EPS, excluding a \$1.2mm non-cash adjustment, of \$0.49. The results exceeded our expectations by \$0.11 on higher finance/other sales and lower SG&A, versus our expectations. If you include the non-cash adjustment, EPS were \$0.45 versus \$0.40 LY.
- **Sales up 7%; finance revenues better than expected .** Product sales, which were previously reported, increased 6.5% to \$191mm, and while that was slightly lower than we previously projected, improved sales from finance/other came in roughly \$4mm above our projection.
- **Credit portfolio appears in good shape - net charge offs at 2.8%.** While up slightly Y/Y on an annualized basis, net write-offs and 60 day delinquency rates remain in-line with expectations at 3.0% and 7.0%, respectively.
- **Headcount reduction/cost controls leveraging SG&A costs.** Similar to Q1 results, SG&A, as a percentage of sales, declined 170 bps Y/Y as performance reviews/personnel reductions kept SG&A relatively flat in dollars. The reductions appear sustainable and should offset declining gross margins, which have been and should continue to be negatively impacted by product mix and pricing pressures.
- **Increased borrowing costs to impact EPS, reducing est. slightly.** Conn's recently expanded its asset-based loan facility from \$100mm to \$210mm and renewed its \$100mm 364 day variable funding note. While the expanded/renewed facilities should give the company ample room for near-term receivables growth, overall borrowing costs are expected to expand. Accordingly, we are adjusting our 2H EPS estimates slightly. We are maintaining our FY10 EPS estimate as reduced SG&A expenses should offset the increased costs.
- **On balance sheet receivables to alter look of income statement.** While we do not expect the transferring of some receivables onto the balance sheet to impact overall results, the look of the income statement may change as some costs should now be reflected under interest expense and provisions for bad debt.
- **Adjusting historical EPS to reflect First Call posted results.** Previously, we excluded one-time non-cash adjustments to finance charges and other from our EPS. To correlate our EPS results with the majority on First Call, we are adjusting historical results accordingly.
- **Positive results yet challenging environment remains; Maintain Hold rating.** While we believe the company has done a good job reducing costs and navigating through a difficult environment. With 2H sales comparisons more challenging, an expanding percentage of lower margined electronic sales, and limited visibility for economic improvements, we maintain our Hold.

EQUITY RESEARCH

Conn's Inc. (CONN)

(In Millions, Except Per Share Data)

Quarter end	FY 2007	Q1 Apr-07	Q2 Jul-07	Q3 Oct-07	Q4 Jan-08	FY 2008	Q1 Apr-08	Q2 Jul-08	Q3E Oct-08	Q4E Jan-09	FYE 2009	Q1E Apr-09	Q2E Jul-09	Q3E Oct-09	Q4E Jan-10	FYE 2010
Sales	760.7	205.3	203.5	189.4	225.9	824.1	218.6	218.5	211.5	245.8	894.4	240.5	231.9	228.7	263.6	964.7
<i>% Increase</i>	8.4%	6.8%	11.7%	9.0%	6.3%	8.3%	6.5%	7.4%	11.7%	8.8%	8.5%	10.0%	6.1%	8.1%	7.2%	7.9%
Cost of Goods Sold	473.1	126.3	127.4	120.4	143.0	517.2	141.4	139.1	135.1	157.3	572.9	149.6	146.3	144.1	167.4	607.4
<i>As % Sales</i>	62.2%	61.5%	62.6%	63.6%	63.3%	62.8%	64.7%	63.6%	63.9%	64.0%	64.1%	62.2%	63.1%	63.0%	63.5%	63.0%
<i>% Increase</i>	4.3%	5.1%	11.6%	13.7%	7.7%	9.3%	12.0%	9.1%	12.2%	10.0%	10.8%	5.8%	5.2%	6.6%	6.4%	6.0%
Gross Profit	287.6	79.1	76.1	68.9	82.9	307.0	77.2	79.5	76.4	88.5	321.5	90.9	85.6	84.6	96.2	357.3
<i>Margin</i>	37.8%	38.5%	37.4%	36.4%	36.7%	37.2%	35.3%	36.4%	36.1%	36.0%	35.9%	37.8%	36.9%	37.0%	36.5%	37.0%
<i>% Increase</i>	16.0%	9.7%	11.8%	1.7%	4.0%	6.7%	-2.4%	4.4%	10.8%	6.8%	4.7%	17.8%	7.7%	10.8%	8.7%	11.1%
SG&A	225.0	59.2	62.1	61.9	62.1	245.3	60.4	62.9	63.2	66.4	252.9	67.3	64.9	68.6	69.6	270.5
<i>As % Sales</i>	29.6%	28.8%	30.5%	32.7%	27.5%	29.8%	27.6%	28.8%	29.9%	27.0%	28.3%	28.0%	28.0%	30.0%	26.4%	28.0%
<i>% Increase</i>	23.1%	10.0%	12.1%	10.2%	4.3%	9.0%	1.9%	1.3%	2.1%	6.9%	3.1%	11.6%	3.2%	8.5%	4.9%	7.0%
Provision for bad debt	1.5	0.6	0.3	0.6	0.4	1.9	0.3	0.3	1.9	0.9	3.4	0.7	1.0	1.2	1.5	4.4
<i>As % Sales</i>	0.2%	0.3%	0.2%	0.3%	0.2%	0.2%	0.1%	0.2%	0.9%	0.4%	0.4%	0.3%	0.4%	0.5%	0.6%	0.5%
Operating Profit	61.1	19.3	13.6	6.4	20.4	59.7	16.5	16.2	11.2	21.2	65.2	22.9	19.6	14.8	25.1	82.4
<i>Margin</i>	8.0%	9.4%	6.7%	3.4%	9.0%	7.2%	7.6%	7.4%	5.3%	8.6%	7.3%	9.5%	8.5%	6.5%	9.5%	8.5%
<i>% Increase</i>	-3.7%	6.0%	11.5%	-41.8%	3.6%	-2.3%	-14.2%	19.1%	75.0%	4.0%	9.2%	38.2%	20.9%	32.1%	18.4%	26.4%
Interest Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	1.5	2.7	1.8	2.0	2.2	2.4	8.4
Other Income	1.4	1.1	0.3	0.1	-0.1	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Profit	62.6	20.3	14.0	6.6	20.3	61.2	16.6	16.2	10.0	19.7	62.5	21.1	17.6	12.6	22.7	74.0
<i>Margin</i>	8.2%	9.9%	6.9%	3.5%	9.0%	7.4%	7.6%	7.4%	4.7%	8.0%	7.0%	8.8%	7.6%	5.5%	8.6%	7.7%
<i>% Increase</i>	-0.7%	10.6%	6.1%	-41.3%	2.4%	-2.2%	-18.5%	16.2%	52.8%	-3.1%	2.2%	27.1%	8.8%	25.9%	15.2%	18.4%
Taxes(benefit)	22.3	7.4	4.3	2.5	7.3	21.5	6.0	6.0	3.7	7.3	23.0	7.8	6.5	4.7	8.4	27.4
<i>Rate</i>	35.6%	36.4%	30.8%	38.6%	35.8%	35.1%	36.1%	37.0%	37.0%	37.0%	36.8%	37.0%	37.0%	37.0%	37.0%	37.0%
<i>Less Preferred Div.</i>																
Net Income--Oper.	40.3	12.9	9.7	4.0	13.1	39.7	10.6	10.2	6.3	12.4	39.5	13.3	11.1	7.9	14.3	46.6
<i>Margin</i>	5.3%	6.3%	4.7%	2.1%	5.8%	4.8%	4.8%	4.7%	3.0%	5.1%	4.4%	5.5%	4.8%	3.5%	5.4%	4.8%
<i>% Increase</i>	-1.3%	8.3%	13.0%	-43.8%	3.1%	-1.6%	-18.2%	5.8%	56.9%	-4.9%	-0.4%	25.3%	8.8%	25.9%	15.2%	18.0%
EPS--Operations	1.66	0.54	0.40	0.17	0.57	1.68	0.47	0.45	0.28	0.55	1.75	0.59	0.49	0.35	0.63	2.06
<i>% Increase</i>	-1.7%	9.8%	14.4%	-43.8%	10.1%	1.0%	-12.5%	12.5%	67.7%	-3.3%	4.4%	25.1%	8.9%	25.9%	15.2%	17.9%
Shares Out. Diluted	24.3	24.1	24.1	24.2	23.0	23.7	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6

Source: Company reports and Morgan Joseph estimates

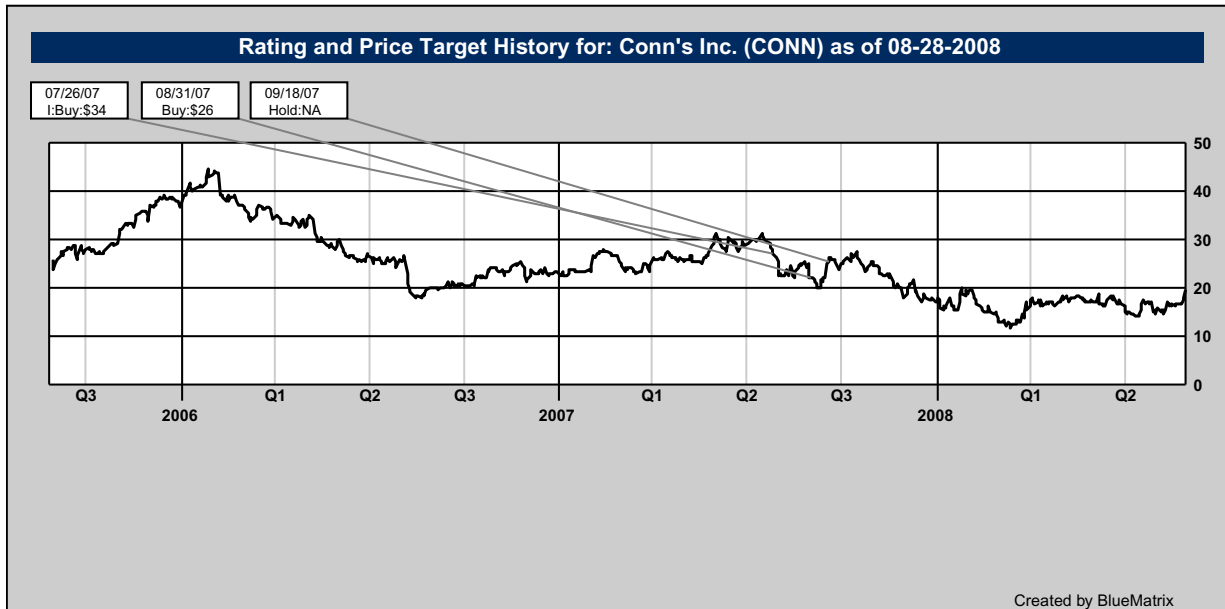
Conn's Inc. (CONN) ex-non-cash-charge

(In Millions, Except Per Share Data)

Quarter end	FY 2007	Q1 Apr-07	Q2 Jul-07	Q3 Oct-07	Q4 Jan-08	FY 2008	Q1 Apr-08	Q2 Jul-08	Q3E Oct-08	Q4E Jan-09	FYE 2009	Q1E Apr-09	Q2E Jul-09	Q3E Oct-09	Q4E Jan-10	FYE 2010
Sales	760.7	205.3	203.5	193.4	226.3	828.5	221.6	219.7	211.5	245.8	898.7	240.5	231.9	228.7	263.6	964.7
<i>% Increase</i>	8.4%	6.8%	11.7%	11.3%	6.5%	8.9%	7.9%	8.0%	9.4%	8.6%	8.5%	8.5%	5.5%	8.1%	7.2%	7.3%
Cost of Goods Sold	473.1	126.3	127.5	120.4	143.0	517.3	141.4	139.1	135.1	157.3	572.9	149.6	146.3	144.1	167.4	607.4
<i>As % Sales</i>	62.2%	61.5%	62.7%	62.3%	63.2%	62.4%	63.8%	63.3%	63.9%	64.0%	63.7%	62.2%	63.1%	63.0%	63.5%	63.0%
<i>% Increase</i>	4.3%	5.1%	11.7%	13.7%	7.7%	9.3%	12.0%	9.1%	12.2%	10.0%	10.8%	5.8%	5.2%	6.6%	6.4%	6.0%
Gross Profit	287.6	79.1	76.0	72.9	83.3	311.3	80.2	80.7	76.4	88.5	325.8	90.9	85.6	84.6	96.2	357.3
<i>Margin</i>	37.8%	38.5%	37.3%	37.7%	36.8%	37.6%	36.2%	36.7%	36.1%	36.0%	36.3%	37.8%	36.9%	37.0%	36.5%	37.0%
<i>% Increase</i>	16.0%	9.7%	11.7%	7.7%	4.5%	8.2%	1.5%	6.2%	4.7%	6.2%	4.7%	13.3%	6.0%	10.8%	8.7%	9.7%
SG&A	225.0	59.2	62.1	61.9	62.1	245.3	60.4	62.9	63.2	66.4	252.9	67.3	64.9	68.6	69.6	270.5
<i>As % Sales</i>	29.6%	28.8%	30.5%	32.0%	27.4%	29.6%	27.2%	28.6%	29.9%	27.0%	28.1%	28.0%	28.0%	30.0%	26.4%	28.0%
<i>% Increase</i>	23.1%	10.0%	12.1%	10.2%	4.3%	9.0%	1.9%	1.3%	2.1%	6.9%	3.1%	11.6%	3.2%	8.5%	4.9%	7.0%
Provision for bad debt	1.5	0.6	0.3	0.6	0.4	1.9	0.3	0.3	1.9	0.9	3.4	0.7	1.0	1.2	1.5	4.4
<i>As % Sales</i>	0.2%	0.3%	0.2%	0.3%	0.2%	0.2%	0.1%	0.2%	0.9%	0.4%	0.4%	0.3%	0.4%	0.5%	0.6%	0.5%
Operating Profit	61.1	19.3	13.6	10.4	20.8	64.0	19.6	17.5	11.2	21.2	69.5	22.9	19.6	14.8	25.1	82.4
<i>Margin</i>	8.0%	9.4%	6.7%	5.4%	9.2%	7.7%	8.8%	7.9%	5.3%	8.6%	7.7%	9.5%	8.5%	6.5%	9.5%	8.5%
<i>% Increase</i>	-3.7%	6.0%	10.7%	-5.4%	5.6%	4.8%	1.7%	28.8%	7.7%	2.0%	8.5%	16.6%	12.5%	32.1%	18.4%	18.6%
Interest Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	1.5	2.7	1.8	2.0	2.2	2.4	8.4
Other Income	1.4	1.1	0.3	0.1	-0.1	1.5	0.5	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Pretax Profit	62.6	20.3	13.9	10.6	20.7	65.5	20.1	17.4	10.0	19.7	67.2	21.1	17.6	12.6	22.7	74.0
<i>Margin</i>	8.2%	9.9%	6.8%	5.5%	9.2%	7.9%	9.1%	7.9%	4.7%	8.0%	7.5%	8.8%	7.6%	5.5%	8.6%	7.7%
<i>% Increase</i>	-0.7%	10.6%	5.4%	-5.5%	4.4%	4.7%	-1.4%	25.6%	-5.1%	-4.9%	2.6%	5.0%	1.3%	25.9%	15.2%	10.2%
Taxes(benefit)	22.3	7.4	4.3	3.7	7.4	22.8	7.2	6.4	3.7	7.3	24.6	7.8	6.5	4.7	8.4	27.4
<i>Rate</i>	35.6%	36.4%	31.0%	35.4%	35.6%	34.8%	36.0%	36.9%	37.0%	37.0%	36.7%	37.0%	37.0%	37.0%	37.0%	37.0%
<i>Less Preferred Div.</i>																
Net Income--Oper.	40.3	12.9	9.6	6.8	13.4	42.7	12.8	11.0	6.3	12.4	42.6	13.3	11.1	7.9	14.3	46.6
<i>Margin</i>	5.3%	6.3%	4.7%	3.5%	5.9%	5.2%	5.8%	5.0%	3.0%	5.1%	4.7%	5.5%	4.8%	3.5%	5.4%	4.8%
<i>% Increase</i>	-1.3%	8.3%	12.0%	-4.7%	5.5%	5.9%	-0.8%	14.9%	-7.5%	-7.0%	-0.3%	3.4%	1.1%	25.9%	15.2%	9.6%
EPS--Operations	1.66	0.54	0.40	0.28	0.58	1.80	0.56	0.49	0.28	0.55	1.88	0.59	0.49	0.35	0.63	2.06
<i>% Increase</i>	-1.7%	9.8%	13.3%	-4.7%	12.7%	8.7%	4.0%	22.2%	-1.1%	-5.5%	4.4%	5.2%	1.2%	25.9%	15.2%	9.6%
Shares Out. Diluted	24.3	24.1	24.1	24.2	23.0	23.7	23.0	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6

Source: Company reports and Morgan Joseph estimates

Required Disclosures



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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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