HARDLINE/LEISURE
Jeffrey Blaeser
212-218-3739
jblaeser@morganjoseph.com

Company Update

EQUITY RESEARCH

August 20, 2008

Key Metrics

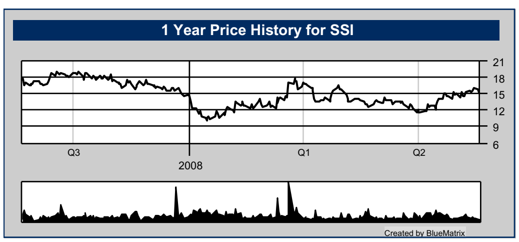
SSI - NYSE	$14.99
Pricing Date	08/19/2008
Price Target	NA
52-Week Range	$19.96-$9.90
Shares Outstanding (mm)	38.3
Market Capitalization ($mm)	$574.7
3-Mo Average Daily Volume	430,435
Institutional Ownership	100%
Debt/Total Capital	16.9%
ROE	8.7%
Book Value/Share	$13.47
Price/Book	1.1x
Dividend Yield	1.3%
LTM EBITDA Margin	8.29%

EPS($) FY: January

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	0.16	--	0.06A	--	0.10E
2Q-Jul	0.23	--	0.23E	--	0.23E
3Q-Oct	0.06	--	0.08E	--	0.08E
4Q-Jan	0.78	--	0.80E	--	0.88E
FY	1.20	--	1.17E	--	1.29E
P/E	12.5x		12.8x		11.6x

Revenue($mm)

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	358.2	--	353.5A	--	378.3E
2Q-Jul	359.2	372.5A	372.7A	--	391.0E
3Q-Oct	355.1	--	363.6E	--	387.7E
4Q-Jan	473.0	--	486.6E	--	514.8E
FY	1,545.6	--	1,576.2E	--	1,671.8E



Company Description: *Stage Stores Inc. (www.stagestores.com) is a small-format department store chain with units in small and mid-sized markets in the southern, midwestern, and eastern parts of the US. Its stores operate under the names: Stage, Bealls, Palais Royal, and Peebles. The company is based in Houston, Texas.*

Stage Stores, Inc.

Rating: Hold

F2Q09 Preview: Flat Y/Y EPS Expected

Investment Highlights:

- **Stage Stores scheduled to report F2Q09 EPS Thursday morning before the market opens.** Stage Stores is expected to report F2Q09 EPS on Thursday, August 21st, before the market opens. We are projecting EPS of $0.23, which would come in flat Y/Y and in line with the Street consensus. On August 7th, the company announced 2Q sales and reaffirmed its guidance that it would meet or exceed the high end of EPS ranging between $0.17 to $0.23 per share. A conference call is scheduled for 8:30AM EST.
- **Sales already reported, up Y/Y 3.8% to $372.7mm.** Stage Stores reported a 3.7% increase in Y/Y F2Q09 sales to $372.5mm. Comparable store sales declined 1.4% Y/Y versus an increase of 0.5% for the same period last year. Early relative strength in May and June was offset by slower back to school sales in July.
- **51 net new stores opened Y/Y - roughly 50 expected for FY.** The company opened 5 new stores in the quarter with 2 closing. Stage Stores has opened 25 net new units in 1H09 and remains on track for roughly 50 net new openings in 2009.
- **Promotional activity could reduce Y/Y gross margins to 28.9%.** Sales in the quarter appeared to be strongest during holiday/promotional weekends such as Fathers and Mothers day. Coupled with a more competitive pricing environment, we expect gross margins to decline Y/Y 50 bps to 28.9%. Higher store opening costs should also impact EBIT margins as we expect EBIT margins to decline 40 bps Y/Y 4.3%. Offsetting lower projected profits should be offset by an approximate 4.5mm reduction in share count.
- **Economy limiting top line growth - Maintain Hold rating.** We are maintaining our Hold rating on the shares as current economic conditions remain challenging and could continue to limit near term top and bottom line growth.

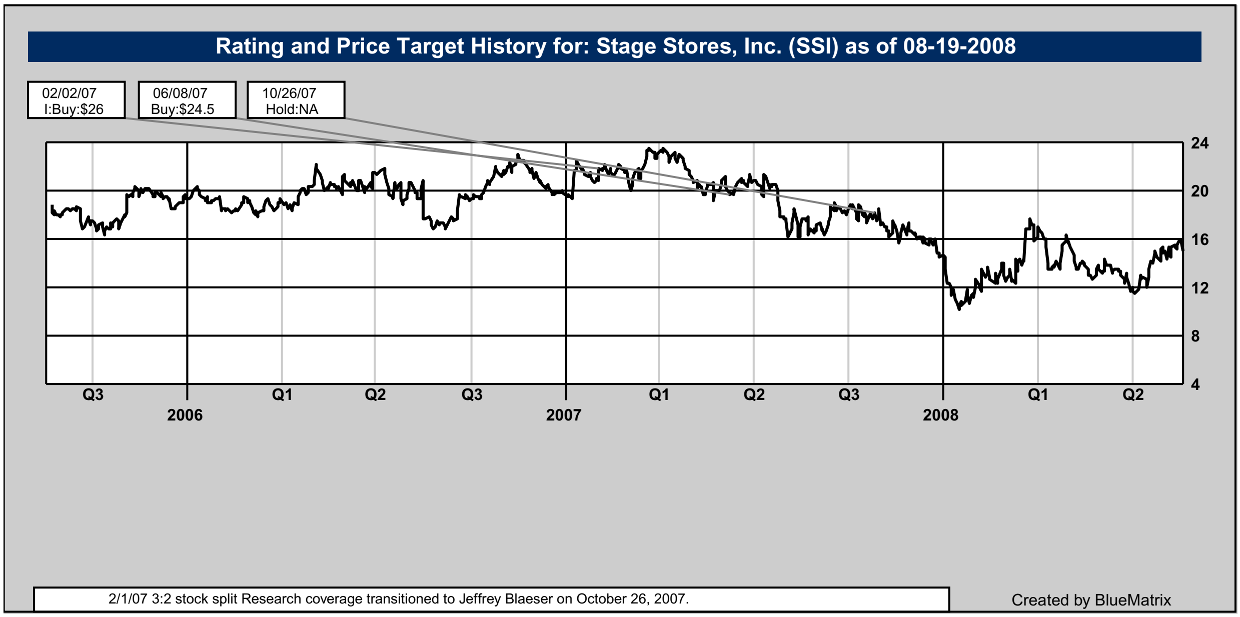
The Disclosure section may be found on pages 3 - 4 of this report.

Stage Stores (SSI)
(In Millions, Except Per Share Data)

	FY 2007	Q1 May-07	Q2 Aug-07	Q3 Nov-07	Q4 Feb-08	FY 2008	Q1 May-08	Q2E Aug-08	Q3E Nov-08	Q4E Feb-09	FYE 2009	Q1E May-09	Q2E Aug-09	Q3E Nov-09	Q4E Feb-10	FYE 2010
Sales	**1550.2**	**358.2**	**359.2**	**355.1**	**473.0**	**1545.6**	**353.5**	**372.7**	**363.6**	**486.6**	**1576.4**	**378.3**	**391.0**	**387.7**	**514.8**	**1671.8**
% Increase	15.3%	4.3%	-0.8%	0.5%	-3.7%	-0.3%	-1.3%	3.8%	2.4%	2.9%	2.0%	7.0%	4.9%	6.6%	5.8%	6.1%
Cost of Goods Sold	1096.7	259.9	253.7	260.9	326.4	1100.9	257.9	265.0	264.7	336.7	1124.4	275.4	278.4	283.8	353.7	1191.3
As % Sales	70.7%	72.6%	70.6%	73.5%	69.0%	71.2%	73.0%	71.1%	72.8%	69.2%	71.3%	72.8%	71.2%	73.2%	68.7%	71.3%
% Increase	15.1%	6.6%	-4.8%	3.1%	-2.1%	0.4%	-0.8%	4.4%	1.5%	3.2%	2.1%	6.8%	5.1%	7.2%	5.0%	6.0%
Gross Profit	**453.5**	**98.3**	**105.5**	**94.2**	**146.7**	**444.7**	**95.6**	**107.7**	**98.9**	**149.9**	**452.0**	**102.9**	**112.6**	**103.9**	**161.1**	**480.5**
Margin	29.3%	27.4%	29.4%	26.5%	31.0%	28.8%	27.0%	28.9%	27.2%	30.8%	28.7%	27.2%	28.8%	26.8%	31.3%	28.7%
% Increase	15.9%	-1.3%	10.4%	-6.0%	-7.1%	-1.9%	-2.8%	2.1%	4.9%	2.2%	1.6%	7.7%	4.5%	5.1%	7.5%	6.3%
SG&A	352.9	84.9	88.0	86.7	93.4	352.9	88.3	90.6	89.8	96.8	365.5	93.8	95.4	95.8	103.0	387.9
As % Sales	22.8%	23.7%	24.5%	24.4%	19.7%	22.8%	25.0%	24.3%	24.7%	19.9%	23.2%	24.8%	24.4%	24.7%	20.0%	23.2%
% Increase	19.0%	1.5%	2.0%	-4.2%	0.9%	0.0%	4.0%	3.0%	3.6%	3.7%	3.6%	6.2%	5.3%	6.6%	6.3%	6.1%
Store opening costs	7.8	0.8	0.5	2.5	1.0	4.7	2.3	1.2	2.5	1.5	7.5	1.5	1.5	1.5	1.0	5.5
As % Sales	0.5%	0.2%	0.1%	0.7%	0.2%	0.3%	0.7%	0.3%	0.7%	0.3%	0.5%	0.4%	0.4%	0.4%	0.2%	0.3%
% Increase	143.8%	-7.4%	-74.7%	-39.0%	-7.3%	-40.2%	205.7%	136.6%	1.7%	53.4%	59.4%	-35.0%	30.4%	-40.0%	-33.3%	-26.3%
Operating Expense	360.7	85.7	88.4	89.1	94.3	357.6	90.6	91.7	92.3	98.3	373.0	95.3	96.9	97.3	104.0	393.4
As % Sales	23.3%	23.9%	24.6%	25.1%	19.9%	23.1%	25.6%	24.6%	25.4%	20.2%	23.7%	25.2%	24.8%	25.1%	20.2%	23.5%
Operating Profit	**92.8**	**12.6**	**17.1**	**5.1**	**52.3**	**87.1**	**4.9**	**16.0**	**6.6**	**51.5**	**79.0**	**7.6**	**15.7**	**6.6**	**57.2**	**87.1**
Margin	6.0%	3.5%	4.7%	1.4%	11.1%	5.6%	1.4%	4.3%	1.8%	10.6%	5.0%	2.0%	4.0%	1.7%	11.1%	5.2%
% Increase	1.2%	-16.9%	128.8%	-11.4%	-18.7%	-6.1%	-61.1%	-6.2%	28.2%	-1.5%	-9.3%	54.2%	-1.8%	0.8%	10.9%	10.2%
Interest Expense	5.0	0.8	1.1	1.2	1.7	4.8	1.3	1.5	1.5	1.7	5.9	1.5	1.5	1.5	1.8	6.3
Other Income	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
Pretax Profit	**87.8**	**11.9**	**16.0**	**3.9**	**50.6**	**82.4**	**3.6**	**14.5**	**5.1**	**49.9**	**73.1**	**6.1**	**14.2**	**5.1**	**55.4**	**80.8**
Margin	5.7%	3.3%	4.4%	1.1%	10.7%	5.3%	1.0%	3.9%	1.4%	10.3%	4.6%	1.6%	3.6%	1.3%	10.8%	4.8%
% Increase	-1.0%	-17.6%	160.3%	-11.9%	-19.4%	-6.2%	-69.6%	-9.0%	29.5%	-1.3%	-11.2%	68.2%	-2.3%	1.0%	11.0%	10.5%
Taxes(benefit)	32.5	4.5	6.1	1.5	18.9	31.0	1.4	5.5	1.9	19.0	27.8	2.3	5.4	2.0	21.0	30.7
Rate	37.0%	37.8%	38.2%	37.7%	37.4%	37.6%	38.4%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%
Net Income--Oper.	**55.3**	**7.4**	**9.9**	**2.4**	**31.7**	**51.4**	**2.2**	**9.0**	**3.2**	**30.9**	**45.3**	**3.8**	**8.8**	**3.2**	**34.3**	**50.1**
Margin	3.6%	2.1%	2.7%	0.7%	6.7%	3.3%	0.6%	2.4%	0.9%	6.4%	2.9%	1.0%	2.3%	0.8%	6.7%	3.0%
% Increase	-1.0%	-18.4%	156.3%	-12.6%	-20.1%	-7.1%	-69.8%	-8.7%	29.0%	-2.3%	-11.7%	69.2%	-2.3%	1.0%	11.0%	10.5%
EPS--Operations	**1.25**	**0.16**	**0.23**	**0.06**	**0.78**	**1.20**	**0.06**	**0.23**	**0.08**	**0.80**	**1.17**	**0.10**	**0.23**	**0.08**	**0.88**	**1.29**
% Increase	-1.2%	-20.7%	157.3%	-8.2%	-11.2%	-4.1%	-65.3%	1.8%	40.2%	1.7%	-3.1%	69.3%	-2.3%	1.0%	11.0%	10.5%
Shares Out. Diluted	44.1	44.8	43.4	42.3	40.5	42.7	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9

Source: Company reports and Morgan Joseph estimates

Required Disclosures



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		Investment Banking Services/Past 12 Mos.
Rating	**Percent**	**Percent**
BUY [B]	**56.82**	**36.00**
HOLD [H]	**42.05**	**29.73**
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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Morgan Joseph & Co. Inc.
600 Fifth Avenue, 19th Fl
New York, NY 10020
Tel. 212.218.3700
Fax. 212.218.3789

Sales and Trading

New York
Tel. 212.218.3767
Fax. 212.218.3705

Pittsford
Tel. 877.237.6542
Fax. 585.899.6029