

August 22, 2008

Key Metrics

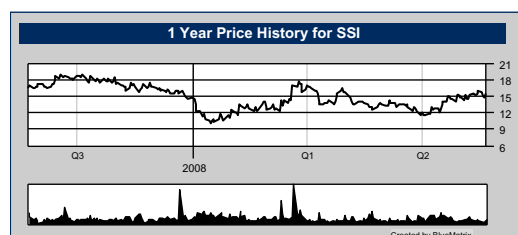
SSI - NYSE	\$15.38
Pricing Date	08/21/2008
Price Target	NA
52-Week Range	\$19.96-\$9.90
Shares Outstanding (mm)	38.3
Market Capitalization (\$mm)	\$589.6
3-Mo Average Daily Volume	423,427
Institutional Ownership	100%
Debt/Total Capital	12.0%
ROE	8.7%
Book Value/Share	\$13.70
Price/Book	1.1x
Dividend Yield	1.3%
LTM EBITDA Margin	8.54%

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	0.25A	--	0.23E
3Q-Oct	0.06	0.08E	0.03E	--	0.08E
4Q-Jan	0.78	0.80E	0.85E	--	0.88E
FY	1.20	1.17E	1.19E	--	1.29E
P/E	12.8x		12.9x		11.9x

Revenue(\$mm)

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	358.2	--	353.5A	--	378.3E
2Q-Jul	359.2	--	372.7A	--	391.0E
3Q-Oct	355.1	363.6E	365.6E	--	387.7E
4Q-Jan	473.0	486.6E	491.5E	--	514.8E
FY	1,545.6	1,576.2E	1,583.3E	--	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

Q2 EPS \$0.02 Above LY and our Est. - 2H Guidance Maintained

Investment Highlights:

- **Stage Stores reported F2Q09 EPS of \$0.25, \$0.02 above LY and our \$0.23 estimate.** Stage Stores reported F2Q09 EPS of \$0.25, up \$0.02 Y/Y. The better-than-expected results were generated through improved operating cost efficiencies. Management maintained 2H guidance for EPS between \$0.81 and \$0.95, in line with our \$0.88 projection.
- **New unit expansion offsets (1.4%) comparable sales decline - revenues up 3.8%.** F2Q09 sales expanded Y/Y 3.8% as 51 net new store openings offset comparable store sales of (1.4%). Same store sales continued to be challenged by lower consumer traffic as average ticket (up 0.03%) and items purchased (down 0.04%) remained relatively flat Y/Y. Management reaffirmed our belief that 2H09 will continue to present a difficult operating environment and maintained its same store sales guidance between (1.0%) and (3.0%), which is in line with our (1.5%) projection.
- **Small town locations comps improve slightly Y/Y.** Comparable store sales within small markets expanded slightly Y/Y with mid size and larger markets showing Y/Y declines. While overall comp results were down, Stage's small town format continued outperforming larger populated territories.
- **New store growth remains on track for roughly 55-60 new units in FY09.** In Q209, the company opened 5 new stores, closed 2, and relocated 3, while expanding its geographic presence to 36 states with 2 entries in Idaho. The ongoing roll-out of new Estee Lauder (5 new) and Clinique (1 new) counters continued to bear fruit with cosmetics comps up 12.6% Y/Y. The company remains on track for roughly 55 to 60 net new store openings in FY09. 3Q openings appears to be a bit higher than previously modeled with changes reflecting slightly higher sales expectations.
- **EBIT margins slightly above our projection on improved operating cost efficiencies.** Gross margins declined 80 basis points Y/Y as higher occupancy/component and store impairment costs offset improved merchandising margins, which benefited from improved inventory levels and corresponding reductions in clearance items. Operating costs, as a percentage of sales, declined Y/Y 70 bps. with improved comparable store, corporate, and advertising expenses. We are maintaining our 2H EPS estimates, yet shifting \$0.05 from 3Q to 4Q to reflect slightly more challenging Y/Y gross margin comparisons.
- **Macro conditions remain challenged - maintain Hold rating.** Stage Stores continued executing its long term strategy, which should benefit the company long term, of expansion within small towns; however, a slowing economy could continue to limit top-line growth and near-term catalysts.

EQUITY RESEARCH

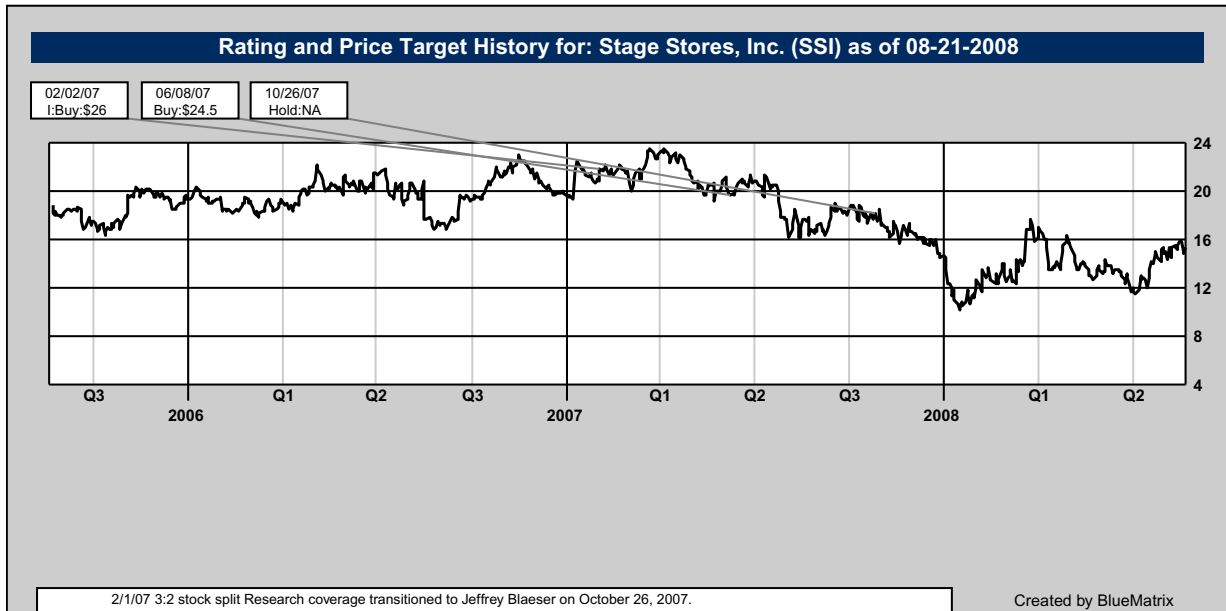
Stage Stores (SSI)

(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	Q2 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	365.6	491.5	1583.3	378.3	391.0	387.7	514.8	1671.8
<i>% Increase</i>	15.3%	4.3%	-0.8%	0.5%	-3.7%	-0.3%	-1.3%	3.8%	2.9%	3.9%	2.4%	7.0%	4.9%	6.0%	4.7%	5.6%
Cost of Goods Sold	1096.7	259.9	253.7	260.9	326.4	1100.9	257.9	266.1	269.4	339.1	1132.7	275.4	278.4	283.8	353.7	1191.3
<i>As % Sales</i>	70.7%	72.6%	70.6%	73.5%	69.0%	71.2%	73.0%	71.4%	73.7%	69.0%	71.5%	72.8%	71.2%	73.2%	68.7%	71.3%
<i>% Increase</i>	15.1%	6.6%	-4.8%	3.1%	-2.1%	0.4%	-0.8%	4.9%	3.3%	3.9%	2.9%	6.8%	4.6%	5.3%	4.3%	5.2%
Gross Profit	453.5	98.3	105.5	94.2	146.7	444.7	95.6	106.6	96.2	152.4	450.6	102.9	112.6	103.9	161.1	480.5
<i>Margin</i>	29.3%	27.4%	29.4%	26.5%	31.0%	28.8%	27.0%	28.6%	26.3%	31.0%	28.5%	27.2%	28.8%	26.8%	31.3%	28.7%
<i>% Increase</i>	15.9%	-1.3%	10.4%	-6.0%	-7.1%	-1.9%	-2.8%	1.0%	2.0%	3.9%	1.3%	7.7%	5.7%	8.1%	5.8%	6.6%
SG&A	352.9	84.9	88.0	86.7	93.4	352.9	88.3	88.5	90.3	95.8	363.0	93.8	95.4	95.8	103.0	387.9
<i>As % Sales</i>	22.8%	23.7%	24.5%	24.4%	19.7%	22.8%	25.0%	23.8%	24.7%	19.5%	22.9%	24.8%	24.4%	24.7%	20.0%	23.2%
<i>% Increase</i>	19.0%	1.5%	2.0%	-4.2%	0.9%	0.0%	4.0%	0.6%	4.2%	2.7%	2.9%	6.2%	7.8%	6.0%	7.4%	6.9%
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
<i>As % Sales</i>	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%
<i>% Increase</i>	143.8%	-7.4%	-74.7%	-39.0%	-7.3%	-40.2%	205.7%	153.3%	1.7%	53.4%	61.2%	-35.0%	21.9%	-40.0%	-33.3%	-27.0%
Operating Expense	360.7	85.7	88.4	89.1	94.3	357.6	90.6	89.8	92.8	97.3	370.5	95.3	96.9	97.3	104.0	393.4
<i>As % Sales</i>	23.3%	23.9%	24.6%	25.1%	19.9%	23.1%	25.6%	24.1%	25.4%	19.8%	23.4%	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	16.8	3.3	55.0	80.1	7.6	15.7	6.6	57.2	87.1
<i>Margin</i>	6.0%	3.5%	4.7%	1.4%	11.1%	5.6%	1.4%	4.5%	0.9%	11.2%	5.1%	2.0%	4.0%	1.7%	11.1%	5.2%
<i>% Increase</i>	1.2%	-16.9%	128.8%	-11.4%	-18.7%	-6.1%	-61.1%	-1.4%	-34.8%	5.2%	-8.1%	54.2%	-6.6%	98.3%	3.9%	8.7%
Interest Expense	5.0	0.8	1.1	1.2	1.7	4.8	1.3	1.2	1.5	1.7	5.7	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	15.6	1.8	53.4	74.4	6.1	14.2	5.1	55.4	80.8
<i>Margin</i>	5.7%	3.3%	4.4%	1.1%	10.7%	5.3%	1.0%	4.2%	0.5%	10.9%	4.7%	1.6%	3.6%	1.3%	10.8%	4.8%
<i>% Increase</i>	-1.0%	-17.6%	160.3%	-11.9%	-19.4%	-6.2%	-69.6%	-2.5%	-52.9%	5.5%	-9.6%	68.2%	-8.9%	178.0%	3.7%	8.6%
Taxes(benefit)	32.5	4.5	6.1	1.5	18.9	31.0	1.4	5.9	0.7	20.3	28.3	2.3	5.4	2.0	21.0	30.7
<i>Rate</i>	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	9.7	1.1	33.1	46.1	3.8	8.8	3.2	34.3	50.1
<i>Margin</i>	3.6%	2.1%	2.7%	0.7%	6.7%	3.3%	0.6%	2.6%	0.3%	6.7%	2.9%	1.0%	2.3%	0.8%	6.7%	3.0%
<i>% Increase</i>	-1.0%	-18.4%	156.3%	-12.6%	-20.1%	-7.1%	-69.8%	-2.2%	-53.1%	4.5%	-10.2%	69.2%	-8.9%	178.0%	3.7%	8.6%
EPS--Operations	1.25	0.16	0.23	0.06	0.78	1.20	0.06	0.25	0.03	0.85	1.19	0.10	0.23	0.08	0.88	1.29
<i>% Increase</i>	-1.2%	-20.7%	157.3%	-8.2%	-11.2%	-4.1%	-65.3%	8.9%	-49.1%	8.7%	-1.4%	69.3%	-8.7%	178.0%	3.7%	8.7%
Shares Out. Diluted	44.1	44.8	43.4	42.3	40.5	42.7	38.9	39.0	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9

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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