

September 18, 2008

Key Metrics

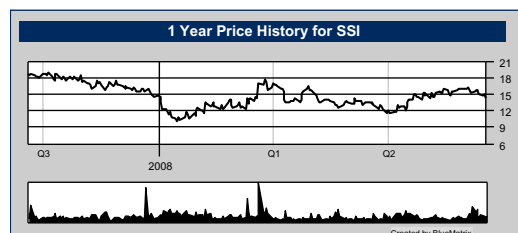
SSI - NYSE	\$14.18
Pricing Date	09/17/2008
Price Target	NA
52-Week Range	\$19.96-\$9.90
Shares Outstanding (mm)	38.7
Market Capitalization (\$mm)	\$548.6
3-Mo Average Daily Volume	469,200
Institutional Ownership	100%
Debt/Total Capital	12.0%
ROE	8.7%
Book Value/Share	\$13.70
Price/Book	1.0x
Dividend 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	--	0.25A	--	0.23E
3Q-Oct	0.06	0.03E	0.01E	--	0.08E
4Q-Jan	0.78	--	0.85E	--	0.88E
FY	1.20	1.19E	1.17E	--	1.29E
P/E	11.8x		12.1x		11.0x

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	365.6E	360.0E	--	387.7E
4Q-Jan	473.0	--	491.5E	--	514.8E
FY	1,545.6	1,583.3E	1,577.7E	--	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

Hurricane Ike's Impact: Roughly 100 Initial Closures; 40 Preparing to Open

Investment Highlights:

- **Roughly 100 stores closed over the weekend with 40 still down, yet preparing to open.** Of Stage Stores' current base of roughly 700 stores, roughly 227 units are located within the State of Texas. Of those stores, we believe approximately 100 were closed prior to Hurricane Ike with roughly 40 units still closed, yet preparing to open.
- **Little damage impact expected; large majority of units are leased; new openings should not be altered.** As of the company's last 10K, all but three of the company's store base were leased, with its Houston, Texas, headquarters also operating under a lease; therefore, we do not expect Stage Stores to incur any significant property damage costs. We also do not believe Stage was targeting any store openings within the hurricane impacted areas and we still expect roughly 20 3Q unit openings.
- **Hurricane Rita comparisons - similar closings - weak initial sales yet rebounded the next month.** Following Hurricane Rita in September of 2005, Stage Stores closed 118 units from Wednesday Sept. 21st to Saturday, Sept. 24th. All but 47 were opened as of Sunday, the 25th. September comparable store sales declined 2.6% yet rebounded, and most likely benefited from a rebound within impacted areas, with a 14.9% comp sales increase in October. In FY06, Stage received roughly \$4mm from insurance for hurricane related losses, or roughly \$0.06 per share, which could be an indicator for potential future relief.
- **Trimming EPS/sales estimates slightly to reflect potential hurricane impact.** We are lowering our 3Q sales and EPS estimates slightly to account for the potential impact of Hurricane Ike. While we acknowledge that a similar (to that of Rita) rebound in comp sales could occur in October, weaker than expected August sales coupled with the near-term impact of Hurricane Ike leads us to reduce our 3Q sales estimate roughly \$5mm to \$360mm and our EPS estimate by \$0.02 to \$0.01. We do not expect any long-term impact and therefore, are maintaining our F4Q09 and FY10 estimates.

EQUITY RESEARCH

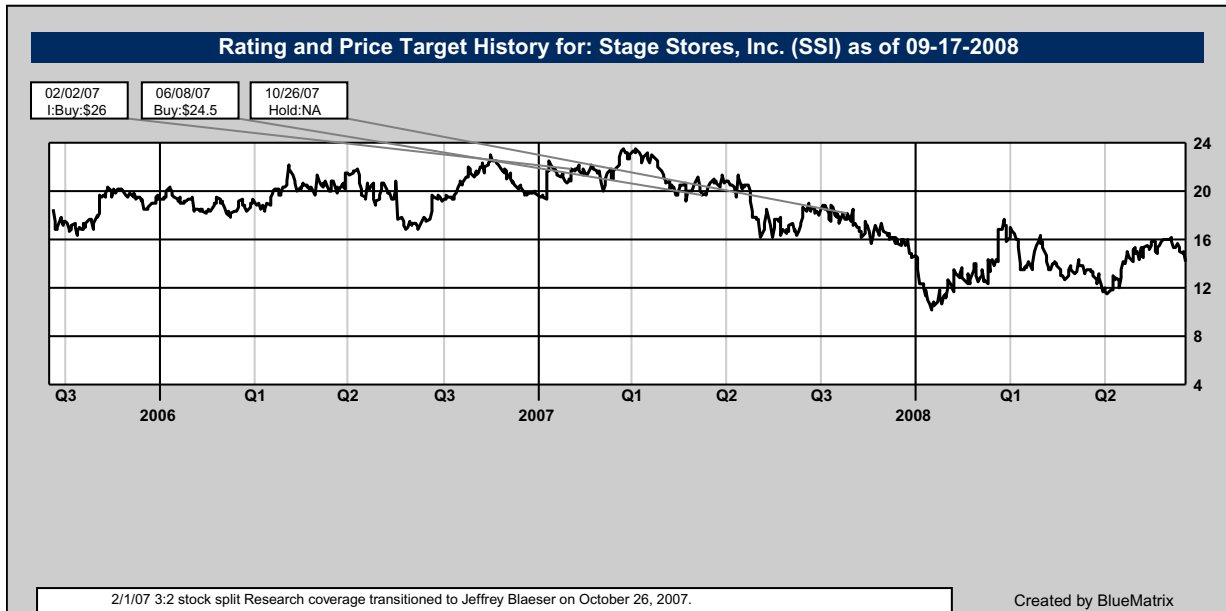
Stage Stores (SSI)

(In Millions, Except Per Share Data)

Quarter End	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	360.0	491.5	1577.7	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%	1.4%	3.9%	2.1%	7.0%	4.9%	7.7%	4.7%	6.0%
Cost of Goods Sold	1096.7	259.9	253.7	260.9	326.4	1100.9	257.9	266.1	265.3	339.1	1128.5	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%	1.7%	3.9%	2.5%	6.8%	4.6%	7.0%	4.3%	5.6%
Gross Profit	453.5	98.3	105.5	94.2	146.7	444.7	95.6	106.6	94.7	152.4	449.2	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%	0.5%	3.9%	1.0%	7.7%	5.7%	9.7%	5.8%	7.0%
SG&A	352.9	84.9	88.0	86.7	93.4	352.9	88.3	88.5	90.0	95.8	362.7	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%	25.0%	19.5%	23.0%	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%	3.9%	2.7%	2.8%	6.2%	7.8%	6.4%	7.4%	7.0%
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	92.5	97.3	370.2	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%	25.7%	19.8%	23.5%	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	2.2	55.0	78.9	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%	0.6%	11.2%	5.0%	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%	-57.6%	5.2%	-9.4%	54.2%	-6.6%	204.7%	3.9%	10.4%
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	0.7	53.4	73.3	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%	0.2%	10.9%	4.6%	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%	-82.7%	5.5%	-11.1%	68.2%	-8.9%	656.1%	3.7%	10.3%
Taxes(benefit)	32.5	4.5	6.1	1.5	18.9	31.0	1.4	5.9	0.3	20.3	27.8	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	0.4	33.1	45.4	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%	0.1%	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%	-82.8%	4.5%	-11.6%	69.2%	-8.9%	656.1%	3.7%	10.3%
EPS--Operations	1.25	0.16	0.23	0.06	0.78	1.20	0.06	0.25	0.01	0.85	1.17	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%	-81.3%	8.7%	-3.0%	69.3%	-8.7%	656.1%	3.7%	10.4%
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]	56.67	33.33
HOLD [H]	42.22	31.58
SELL [S]	1.11	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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