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

MORGAN JOSEPH

Company Update / Estimates Change

EQUITY RESEARCH

November 11, 2008

Key Metrics

SSI - NYSE	$5.50
Pricing Date	11/11/2008
Price Target	NA
52-Week Range	$17.99-$5.10
Shares Outstanding (mm)	39.0
Market Capitalization ($mm)	$214.5
3-Mo Average Daily Volume	529,376
Institutional Ownership	100%
Debt/Total Capital	12.0%
ROE	8.7%
Book Value/Share	$13.70
Price/Book	0.4x
Dividend Yield	3.9%
LTM EBITDA Margin	8.66%

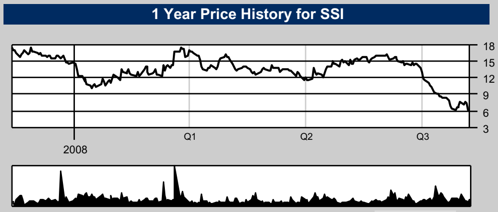
EPS($) FY: January

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	0.16	--	0.06A	0.08E	(0.02)E
2Q-Jul	0.23	--	0.25A	0.24E	0.17E
3Q-Oct	0.06	--	(0.20)E	0.05E	(0.07)E
4Q-Jan	0.78	0.77E	0.68E	0.80E	0.73E
FY	1.20	0.88E	0.79E	1.18E	0.81E
P/E	4.6x		7.0x		6.8x

Revenue($mm)

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	358.2	--	353.5A	364.1E	344.7E
2Q-Jul	359.2	--	372.7A	379.1E	368.4E
3Q-Oct	355.1	340.0E	333.8A	357.9E	338.0E
4Q-Jan	473.0	477.5E	473.9E	496.5E	488.1E
FY	1,545.6	1,543.7E	1,533.9E	1,597.6E	1,539.2E

1 Year Price History for SSI



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

Q3 EPS Expected In-Line; Comps Could Remain Pressured; Lowering Estimates

Investment Highlights:

- **3Q sales down 6% Y/Y; comps decline 10.3%, ex-hurricane - down 7.6%.** Stage Stores reported October comparable store sales of (8.4%) versus a (2.9%) comp LY. Third quarter sales declined 6% to $333.8mm, versus our $340mm estimate, on quarterly comps of (10.3%), (7.6%) ex-hurricane's impact. Slightly less than expected store expansion and comparable store quarterly results led to the lower-than-expected sales.
- **As expected, store expansion plans reduced, but growth ongoing.** Stage Stores opened 7 new stores in October and 17 in 3Q, which was slightly below our expectation for 23. In 2009, the company expects to open between 30 to 40 new stores, which is at the high end of our previous estimate of 40 additions. We are adjusting our model to the low end of current store expansion guidance, which, coupled with lower 2009 comp expectations, projected at (3.3%) in FY10E with lower declines expected in 2H10, reduces our FY10 sales estimate by $58mm to $1.54bn.
- **Gross margin pressure could continue, apparently—clean inventories should help.** Traffic levels continue to decline and we believe pricing pressures are likely to continue in Q4 and FY10. The lower sales leverage could continue pressuring gross margins and EPS with expected F3Q10 gross margin gains, which we expect to be down 250bps Y/Y due partly to the hurricane impact, projected to offset expected declines in Q1, Q2, and Q4 of FY10. Reduced inventory levels, down roughly 13% at the end of the month on a comparable store basis, appear to be in good shape and could limit some discounting.
- **Balance sheet/cash flow could improve in FY09.** While FY09 and FY10 could be challenging periods for EPS, cash from operations is expected to exceed FY08's result of $125mm. With capital expenditures trending toward $100mm, free cash flow should materialize in FY09. While $125mm in cash from operations (CFO) might not be achievable in FY10, potential declines in CFO could be offset by lower capital expenditures associated with reduced store openings.
- **Lowering EPS estimates to reflect lower sales and gross margin expectations.** We are lowering our FY09 and FY10 EPS estimates to $0.79 and $0.81, respectively, which are down $0.09 in FY09 and $0.37 in FY10 from our previous projections. Our F3Q09 EPS estimate remains unchanged at a loss of $0.20 per share.
- **Maintain our Hold rating on the shares.**

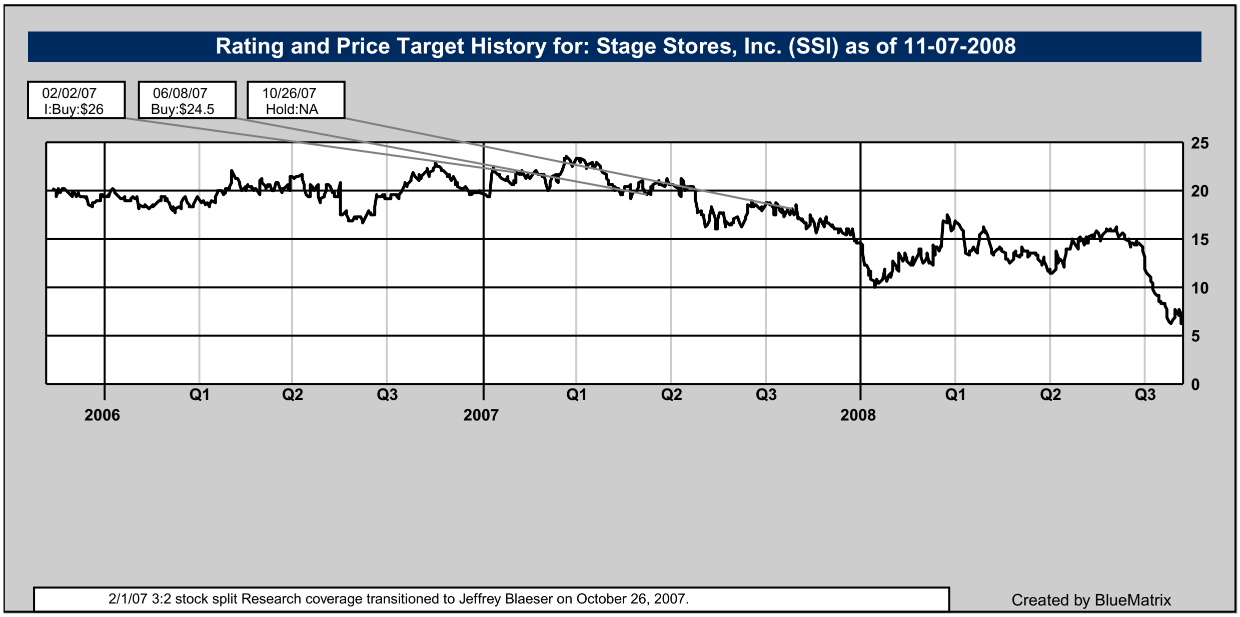
The Disclosure section may be found on pages 3 - 4 of this report.

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	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**	**333.8**	**473.9**	**1533.9**	**344.7**	**368.4**	**338.0**	**488.1**	**1539.2**
% Increase	15.3%	4.3%	-0.8%	0.5%	-3.7%	-0.3%	-1.3%	3.8%	-6.0%	0.2%	-0.8%	-2.5%	-1.2%	1.3%	3.0%	0.3%
Cost of Goods Sold	1096.7	259.9	253.7	260.9	326.4	1100.9	257.9	266.1	253.7	334.1	1111.9	254.2	265.2	250.1	344.1	1113.7
As % Sales	70.7%	72.6%	70.6%	73.5%	69.0%	71.2%	73.0%	71.4%	76.0%	70.5%	72.5%	73.8%	72.0%	74.0%	70.5%	72.4%
% Increase	15.1%	6.6%	-4.8%	3.1%	-2.1%	0.4%	-0.8%	4.9%	-2.8%	2.4%	1.0%	-1.4%	-0.3%	-1.4%	3.0%	0.2%
Gross Profit	**453.5**	**98.3**	**105.5**	**94.2**	**146.7**	**444.7**	**95.6**	**106.6**	**80.1**	**139.8**	**422.0**	**90.5**	**103.2**	**87.9**	**144.0**	**425.5**
Margin	29.3%	27.4%	29.4%	26.5%	31.0%	28.8%	27.0%	28.6%	24.0%	29.5%	27.5%	26.3%	28.0%	26.0%	29.5%	27.6%
% Increase	15.9%	-1.3%	10.4%	-6.0%	-7.1%	-1.9%	-2.8%	1.0%	-15.0%	-4.7%	-5.1%	-5.3%	-3.2%	9.7%	3.0%	0.8%
SG&A	352.9	84.9	88.0	86.7	93.4	352.9	88.3	88.5	88.5	94.0	359.4	89.0	90.0	90.0	95.5	364.5
As % Sales	22.8%	23.7%	24.5%	24.4%	19.7%	22.8%	25.0%	23.8%	26.5%	19.8%	23.4%	25.8%	24.4%	26.6%	19.6%	23.7%
% Increase	19.0%	1.5%	2.0%	-4.2%	0.9%	0.0%	4.0%	0.6%	2.1%	0.7%	1.8%	0.7%	1.7%	1.7%	1.6%	1.4%
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	1.0	1.0	1.0	1.0	4.0
As % Sales	0.5%	0.2%	0.1%	0.7%	0.2%	0.3%	0.7%	0.3%	0.7%	0.3%	0.5%	0.3%	0.3%	0.3%	0.2%	0.3%
% Increase	143.8%	-7.4%	-74.7%	-39.0%	-7.3%	-40.2%	205.7%	153.3%	1.7%	53.4%	61.2%	-56.7%	-18.8%	-60.0%	-33.3%	-46.9%
Operating Expense	360.7	85.7	88.4	89.1	94.3	357.6	90.6	89.8	91.0	95.5	366.9	90.0	91.0	91.0	96.5	368.5
As % Sales	23.3%	23.9%	24.6%	25.1%	19.9%	23.1%	25.6%	24.1%	27.3%	20.2%	23.9%	26.1%	24.7%	26.9%	19.8%	23.9%
Operating Profit	**92.8**	**12.6**	**17.1**	**5.1**	**52.3**	**87.1**	**4.9**	**16.8**	**(10.9)**	**44.3**	**55.1**	**0.5**	**12.2**	**(3.1)**	**47.5**	**57.0**
Margin	6.0%	3.5%	4.7%	1.4%	11.1%	5.6%	1.4%	4.5%	-3.3%	9.3%	3.6%	0.1%	3.3%	-0.9%	9.7%	3.7%
% Increase	1.2%	-16.9%	128.8%	-11.4%	-18.7%	-6.1%	-61.1%	-1.4%	NM	-15.3%	-36.7%	-90.2%	-27.7%	NM	7.2%	3.4%
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**	**(12.4)**	**42.7**	**49.5**	**(1.0)**	**10.7**	**(4.6)**	**45.7**	**50.7**
Margin	5.7%	3.3%	4.4%	1.1%	10.7%	5.3%	1.0%	4.2%	-3.7%	9.0%	3.2%	-0.3%	2.9%	-1.4%	9.4%	3.3%
% Increase	-1.0%	-17.6%	160.3%	-11.9%	-19.4%	-6.2%	-69.6%	-2.5%	NM	-15.7%	-39.9%	-128.1%	-31.7%	NM	7.1%	2.5%
Taxes(benefit)	32.5	4.5	6.1	1.5	18.9	31.0	1.4	5.9	-4.7	16.2	18.8	-0.4	4.0	-1.8	17.4	19.3
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**	**9.7**	**(7.7)**	**26.4**	**30.7**	**(0.6)**	**6.6**	**(2.9)**	**28.3**	**31.4**
Margin	3.6%	2.1%	2.7%	0.7%	6.7%	3.3%	0.6%	2.6%	-2.3%	5.6%	2.0%	-0.2%	1.8%	-0.8%	5.8%	2.0%
% Increase	-1.0%	-18.4%	156.3%	-12.6%	-20.1%	-7.1%	-69.8%	-2.2%	NM	-16.5%	-40.3%	-128.3%	-31.7%	NM	7.1%	2.6%
EPS--Operations	**1.25**	**0.16**	**0.23**	**0.06**	**0.78**	**1.20**	**0.06**	**0.25**	**(0.20)**	**0.68**	**0.79**	**(0.02)**	**0.17**	**(0.07)**	**0.73**	**0.81**
% Increase	-1.2%	-20.7%	157.3%	-8.2%	-11.2%	-4.1%	-65.3%	8.9%	NM	-13.1%	-34.5%	-128.3%	-31.5%	NM	7.1%	2.6%
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

Required Disclosures



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		Investment Banking Services/Past 12 Mos.
Rating	**Percent**	**Percent**
BUY [B]	**54.26**	**35.29**
HOLD [H]	**44.68**	**33.33**
SELL [S]	**1.06**	**0.00**

Meaning of Ratings

A) Buy means reasonable outperformance relative to the market (S&P500) over 12-18 months.
B) Hold means market-type risk adjusted performance; potential source of funds.
C) Sell means expected to underperform the market (S&P500) over 12-18 months.

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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	***Pittsford***
Tel. 212.218.3767	*Tel. 877.237.6542*
Fax. 212.218.3705	*Fax. 585.899.6029*