

November 21, 2008

Key Metrics

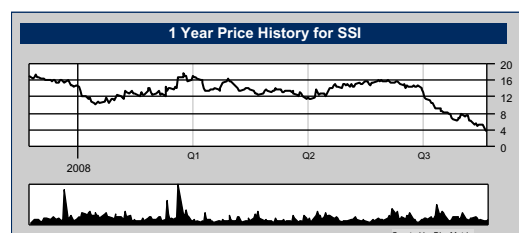
| | |
|------------------------------|----------------|
| SSI - NYSE | \$3.65 |
| Pricing Date | 11/20/2008 |
| Price Target | NA |
| 52-Week Range | \$17.99-\$3.60 |
| Shares Outstanding (mm) | 38.7 |
| Market Capitalization (\$mm) | \$141.2 |
| 3-Mo Average Daily Volume | 524,828 |
| Institutional Ownership | 100% |
| Debt/Total Capital | 21.5% |
| ROE | 7.2% |
| Book Value/Share | \$11.10 |
| Price/Book | 0.3x |
| Dividend Yield | 5.0% |
| LTM EBITDA Margin | 7.79% |

EPS(\$) FY: January

| | 2008A | Prior 2009E | Curr. 2009E | Prior 2010E | Curr. 2010E |
|--------|-------|-------------|-------------|-------------|-------------|
| 1Q-Apr | 0.16 | -- | 0.06A | -- | (0.02)E |
| 2Q-Jul | 0.23 | -- | 0.25A | -- | 0.17E |
| 3Q-Oct | 0.06 | (0.20)E | (0.19)E | -- | (0.07)E |
| 4Q-Jan | 0.78 | 0.68E | 0.67E | -- | 0.73E |
| FY | 1.20 | 0.79E | 0.77E | -- | 0.81E |
| P/E | 3.0x | | 4.7x | | 4.5x |

Revenue(\$mm)

| | 2008A | Prior 2009E | Curr. 2009E | Prior 2010E | Curr. 2010E |
|--------|---------|-------------|-------------|-------------|-------------|
| 1Q-Apr | 358.2 | -- | 353.5A | -- | 344.7E |
| 2Q-Jul | 359.2 | -- | 372.7A | -- | 368.4E |
| 3Q-Oct | 355.1 | -- | 333.8A | -- | 338.0E |
| 4Q-Jan | 473.0 | 473.9E | 455.6E | -- | 488.1E |
| FY | 1,545.6 | 1,533.9E | 1,515.6E | -- | 1,539.2E |



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 of (\$0.19) - In-Line with Pre-Released Results

Investment Highlights:

- **Stage Stores reported F3Q09 EPS of (\$0.19), in-line with pre-released guidance.** Stage Stores reported F3Q09 EPS of (\$0.19), down \$0.25 Y/Y and in line with recently released guidance of between (\$0.19) to (\$0.20).
- **Non-cash goodwill impairment charge of \$95mm, or (\$2.47) per share.** The company's reported (\$0.19) EPS result excludes a \$95mm, or (\$2.47) per share, non-cash goodwill impairment charge related to a total write-off of the goodwill related to the Peebles and B.C. Moore acquisitions.
- **Weak economy/hurricane depresses 3Q sales 6% Y/Y.** F3Q09 sales declined Y/Y 6% to \$333.8mm on (10.3%), (7.6% ex-hurricane impact) comparable store sales results. Two hurricanes negatively impacted results by an estimated \$10mm with the remaining decrease attributable to a challenging economic environment.
- **Little relief expected in Q4 - comps projected down high single digits.** Similar trends should continue into 4Q with comps expected to be down in the high single digits. November could be the most challenging month as it includes only 2 post Thanksgiving shopping days versus 9 LY. We are reducing our 4Q sales estimate roughly \$18mm on lower projected comps.
- **Margins weaken on lower sales leverage/promotional activity - offset by reduced operating costs.** Gross margins declined 410bps on reduced sales leverage and higher promotional activity. Cost cutting initiative reduced SG&A costs Y/Y \$2.2mm. Promotional activity should keep 4Q gross margins down but not nearly as significantly as 3Q and adjusted margins should offset lower projected sales.
- **New store growth projected at 30 to 40 new units in 2009 - capex expected to decline roughly \$25mm.** Stage stores opened 17 new stores in 3Q with 56 projected for 2008 and 30 to 40 expected in 2009. The reduced expansion should reduce FY09 capital expenditures roughly \$25mm. FY08 also included roughly \$9mm in capex related to a new distribution center.
- **Positive free cash flow expected - \$185mm available under revolver.** Stage Stores currently has approximately \$185mm available under its credit facility with YE availability projected over \$200mm. FY08 and FY09 should generate positive free cash flow with lower inventory levels aiding FY08 and lower capital expenditures benefiting FY09.
- **Maintaining FY 09 EPS est. - Reducing FY08 EPS est. \$0.02 - Maintain Hold rating.** Although trading well below its tangible book value and projected to generate positive free cash flow in FY08 and FY09, economic weakness continues to limit top and bottom line growth while limiting visibility for any near term catalysts.

EQUITY RESEARCH

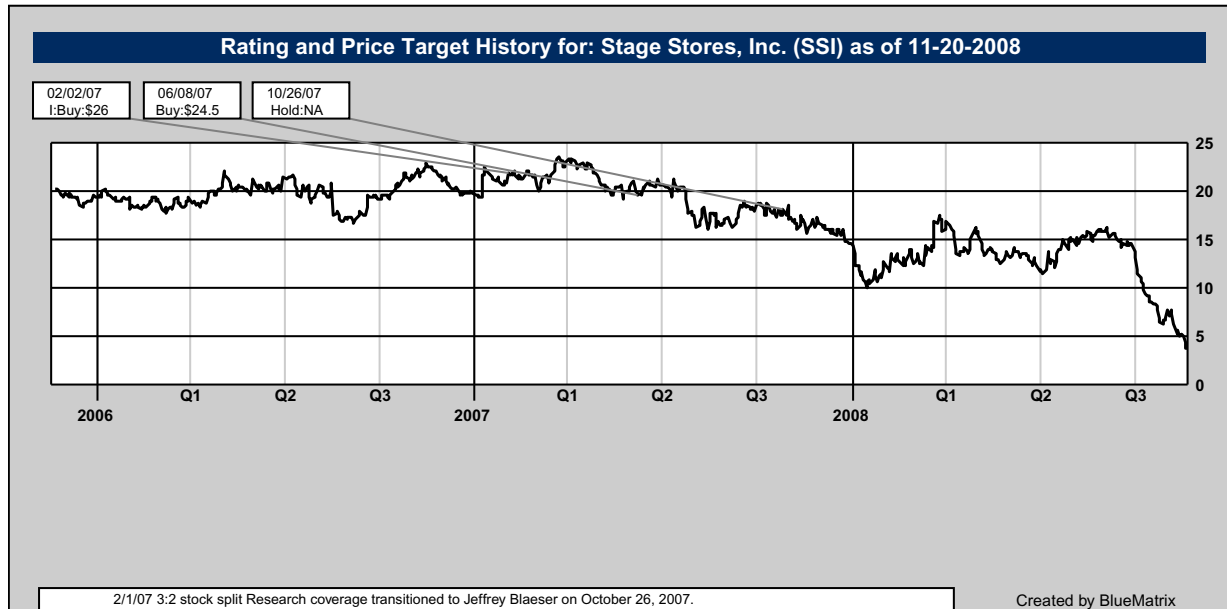
Stage Stores (SSI)

(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 | Q3 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 | 455.6 | 1515.6 | 344.7 | 368.4 | 338.0 | 488.1 | 1539.2 |
| <i>% Increase</i> | 15.3% | 4.3% | -0.8% | 0.5% | -3.7% | -0.3% | -1.3% | 3.8% | -6.0% | -3.7% | -1.9% | -2.5% | -1.2% | 1.3% | 7.1% | 1.6% |
| Cost of Goods Sold | 1096.7 | 259.9 | 253.7 | 260.9 | 326.4 | 1100.9 | 257.9 | 266.1 | 259.0 | 316.6 | 1099.8 | 254.2 | 265.2 | 250.1 | 345.1 | 1114.7 |
| <i>As % Sales</i> | 70.7% | 72.6% | 70.6% | 73.5% | 69.0% | 71.2% | 73.0% | 71.4% | 77.6% | 69.5% | 72.6% | 73.8% | 72.0% | 74.0% | 70.7% | 72.4% |
| <i>% Increase</i> | 15.1% | 6.6% | -4.8% | 3.1% | -2.1% | 0.4% | -0.8% | 4.9% | -0.7% | -3.0% | -0.1% | -1.4% | -0.3% | -3.4% | 9.0% | 1.4% |
| Gross Profit | 453.5 | 98.3 | 105.5 | 94.2 | 146.7 | 444.7 | 95.6 | 106.6 | 74.7 | 139.0 | 415.8 | 90.5 | 103.2 | 87.9 | 143.0 | 424.5 |
| <i>Margin</i> | 29.3% | 27.4% | 29.4% | 26.5% | 31.0% | 28.8% | 27.0% | 28.6% | 22.4% | 30.5% | 27.4% | 26.3% | 28.0% | 26.0% | 29.3% | 27.6% |
| <i>% Increase</i> | 15.9% | -1.3% | 10.4% | -6.0% | -7.1% | -1.9% | -2.8% | 1.0% | -20.7% | -5.2% | -6.5% | -5.3% | -3.2% | 17.6% | 2.9% | 2.1% |
| SG&A | 352.9 | 84.9 | 88.0 | 86.7 | 93.4 | 352.9 | 88.3 | 88.5 | 84.4 | 94.8 | 356.0 | 89.0 | 90.0 | 90.0 | 95.5 | 364.5 |
| <i>As % Sales</i> | 22.8% | 23.7% | 24.5% | 24.4% | 19.7% | 22.8% | 25.0% | 23.8% | 25.3% | 20.8% | 23.5% | 25.8% | 24.4% | 26.6% | 19.6% | 23.7% |
| <i>% Increase</i> | 19.0% | 1.5% | 2.0% | -4.2% | 0.9% | 0.0% | 4.0% | 0.6% | -2.6% | 1.5% | 0.9% | 0.7% | 1.7% | 6.6% | 0.8% | 2.4% |
| Store opening costs | 7.8 | 0.8 | 0.5 | 2.5 | 1.0 | 4.7 | 2.3 | 1.2 | 2.3 | 1.5 | 7.4 | 1.0 | 1.0 | 1.0 | 1.0 | 4.0 |
| <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% | 0.3% | 0.3% | 0.3% | 0.2% | 0.3% |
| <i>% Increase</i> | 143.8% | -7.4% | -74.7% | -39.0% | -7.3% | -40.2% | 205.7% | 153.3% | -4.8% | 53.4% | 57.7% | -56.7% | -18.8% | -57.3% | -33.3% | -45.8% |
| Operating Expense | 360.7 | 85.7 | 88.4 | 89.1 | 94.3 | 357.6 | 90.6 | 89.8 | 86.8 | 96.3 | 363.4 | 90.0 | 91.0 | 91.0 | 96.5 | 368.5 |
| <i>As % Sales</i> | 23.3% | 23.9% | 24.6% | 25.1% | 19.9% | 23.1% | 25.6% | 24.1% | 26.0% | 21.1% | 24.0% | 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 | (12.0) | 42.7 | 52.4 | 0.5 | 12.2 | (3.1) | 46.5 | 56.0 |
| <i>Margin</i> | 6.0% | 3.5% | 4.7% | 1.4% | 11.1% | 5.6% | 1.4% | 4.5% | -3.6% | 9.4% | 3.5% | 0.1% | 3.3% | -0.9% | 9.5% | 3.6% |
| <i>% Increase</i> | 1.2% | -16.9% | 128.8% | -11.4% | -18.7% | -6.1% | -61.1% | -1.4% | NM | -18.4% | -39.9% | -90.2% | -27.7% | NM | 8.9% | 7.0% |
| Interest Expense | 5.0 | 0.8 | 1.1 | 1.2 | 1.7 | 4.8 | 1.3 | 1.2 | 1.4 | 1.7 | 5.5 | 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 | (13.4) | 41.0 | 46.8 | (1.0) | 10.7 | (4.6) | 44.7 | 49.7 |
| <i>Margin</i> | 5.7% | 3.3% | 4.4% | 1.1% | 10.7% | 5.3% | 1.0% | 4.2% | -4.0% | 9.0% | 3.1% | -0.3% | 2.9% | -1.4% | 9.2% | 3.2% |
| <i>% Increase</i> | -1.0% | -17.6% | 160.3% | -11.9% | -19.4% | -6.2% | -69.6% | -2.5% | NM | -18.8% | -43.1% | -128.1% | -31.7% | NM | 8.9% | 6.2% |
| Taxes(benefit) | 32.5 | 4.5 | 6.1 | 1.5 | 18.9 | 31.0 | 1.4 | 5.9 | -6.0 | 15.6 | 16.9 | -0.4 | 4.0 | -1.8 | 17.0 | 18.9 |
| <i>Rate</i> | 37.0% | 37.8% | 38.2% | 37.7% | 37.4% | 37.6% | 38.4% | 38.0% | 44.6% | 38.0% | 36.1% | 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 | (7.4) | 25.5 | 29.9 | (0.6) | 6.6 | (2.9) | 27.7 | 30.8 |
| <i>Margin</i> | 3.6% | 2.1% | 2.7% | 0.7% | 6.7% | 3.3% | 0.6% | 2.6% | -2.2% | 5.6% | 2.0% | -0.2% | 1.8% | -0.8% | 5.7% | 2.0% |
| <i>% Increase</i> | -1.0% | -18.4% | 156.3% | -12.6% | -20.1% | -7.1% | -69.8% | -2.2% | NM | -19.6% | -41.7% | -128.3% | -31.7% | NM | 8.9% | 3.1% |
| EPS--Operations | 1.25 | 0.16 | 0.23 | 0.06 | 0.78 | 1.20 | 0.06 | 0.25 | (0.19) | 0.67 | 0.77 | (0.02) | 0.17 | (0.07) | 0.73 | 0.81 |
| <i>% Increase</i> | -1.2% | -20.7% | 157.3% | -8.2% | -11.2% | -4.1% | -65.3% | 8.9% | NM | -14.8% | -35.6% | -128.8% | -30.3% | NM | 8.9% | 4.3% |
| Shares Out. Diluted | 44.1 | 44.8 | 43.4 | 42.3 | 40.5 | 42.7 | 38.9 | 39.0 | 38.6 | 38.2 | 38.7 | 38.2 | 38.2 | 38.2 | 38.2 | 38.2 |

Source: Company reports and Morgan Joseph estimates

Required Disclosures



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| Rating | Investment Banking Services/Past 12 Mos. | |
|----------|--|---------|
| | Percent | Percent |
| BUY [B] | 56.52 | 36.54 |
| HOLD [H] | 42.39 | 33.33 |
| SELL [S] | 1.09 | 0.00 |

Meaning of Ratings

- A) Buy means reasonable outperformance relative to the market (Russell 2000) over 12-18 months.
- B) Hold means market-type (Russell 2000) risk adjusted performance; potential source of funds.
- C) Sell means expected to underperform the market (Russell 2000) over 12-18 months.

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