

September 3, 2008

Key Metrics

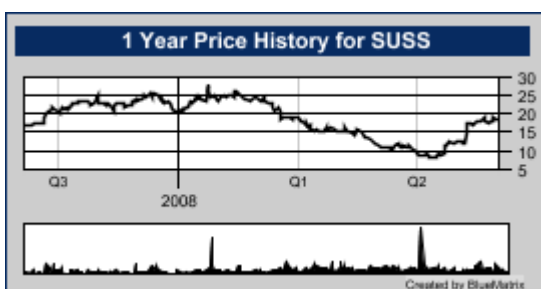
SUSS - NASDAQ (as of 9/02/08)	\$19.00
Price Target	NA
52-Week Range	\$7.68-\$28.49
Shares Outstanding (mm)	17.0
Market Cap. (\$mm)	\$323.7
3-Mo. Average Daily Volume	76,865
Institutional Ownership	41.60%
Debt/Total Capital (6/08)	69.1%
ROE (6/08)	5.0%
Book Value/Share (6/08)	\$11.09
Price/Book Value	1.7x
Dividend Yield	NA
TEV/ LTM EBITDA	2.11%

EPS FY 12/31

	F2007A	Prior F2008E	Curr. F2008E	Prior F2009E	Curr. F2009E
1Q	(\$0.14)		(\$0.20)A		(\$0.15)E
2Q	\$0.37		\$0.39A		\$0.41E
3Q	\$0.29		\$0.32E		\$0.35E
4Q	\$0.06		\$0.07E		\$0.08E
Year	\$0.57		\$0.58E		\$0.68E
P/E	33.1x		32.7x		28.0x

Revenue (\$mm)

	F2007A	Prior F2008E	Curr. F2008E	Prior F2009E	Curr. F2009E
1Q	\$528.7		\$1000.7A		\$1109.9E
2Q	\$692.8		\$1230.2A		\$1297.4E
3Q	\$674.0		\$1167.3E		\$1299.7E
4Q	\$821.9		\$1080.5E		\$1143.7E
Year	\$2717.4		\$4478.6E		\$4850.6E



Company Description: Susser Holdings Corporation (www.susser.com) is a convenience store operator and motor fuels distributor based in Corpus Christi, Texas. The company's retail arm consists of retail convenience stores (some of which include Laredo Taco Company restaurants), while the wholesale arm is the largest independent motor fuels distributor in Texas. Susser went public and priced its IPO on October 18, 2006.

Susser Holdings Corporation

SUSS – NASDAQ – HOLD

Susser Motoring Along; Transitioning Coverage with a Hold Rating

Investment Highlights

- We are transitioning coverage of Susser Holdings Corp with a Hold rating.** With over 500 retail and 380 wholesale dealer locations, Susser is the largest non-refiner convenience store operator and motor fuels distributor in Texas. Susser is currently trading at 7.5x and 7.3x our 2008 and 2009 EBITDA estimates. While we believe Susser should trade at a premium to its peer group due to expectations for strong population growth, we believe the shares are fairly valued at these levels.
- Recent acquisition nearly doubles projected EBITDA...** Susser recently acquired 169 units, which increases its retail stores, fuel sold, and EBITDA by nearly 50%. At a cost of \$356mm (roughly \$240mm in owned real estate value), Susser's 10th multi-store acquisition since 1988 looks like a solid addition.
- ...and adds potential cost synergies, growth opportunities.** The acquisition expands the company's penetration base north and west, potentially adding purchasing power (est. \$8mm annualized savings), cost efficiencies (est. \$2mm annualized savings), and untapped dealership contacts.
- Merchandising margins showing strong growth.** While roughly 16% of total sales, merchandise sales generate over 50% of gross profit. Merchandising gross margins have expanded from 32% to over 34% through acquisition, improved purchasing power, and product mix improvements; placing Susser's merchandising margins well above the industry average of 29.3%.
- Location, Location, Location.** According to the US Census Bureau, the U.S. population should expand roughly 19% between the years of 2000 and 2020. During that same period, Texas is expected to grow 34%, with key Susser counties looking at potential expansion upwards of 77%.
- Store expansion virtually free.** It costs Susser roughly \$2.5mm to build-out a new C-store. Once operational, the company typically executes a sale-leaseback transaction on the new property in order to recoup the costs. Average sale-leaseback return has been \$2.8mm per unit, virtually returning upfront costs to Susser. Excluding the sale leaseback, cash on cash returns over a three-year basis on new unit expansion have been running at roughly 18% to 22%.

Investment Thesis

We are transitioning coverage of SUSS with a Hold Rating. We believe the firm's businesses model, which includes retail/wholesale gasoline distribution and higher margined in-store merchandise sales, creates operational synergies and superior purchasing power that allow Susser to outperform its peer group. A key to the company's strong growth rates, retail gallons sold per store are up roughly 4.8% and 5.9% in 2006 and 2007, respectively, appears to be its dominant southern Texas presence. Texas has experienced above national average (5th fastest state as of 2006 consensus) population growth with stronger expansion seen within its core territories; specifically: Brownsville (over 49% population growth projected from 2000 to 2020); McAllen (over 69% growth projected from 2000 to 2020); and Laredo (nearly 78% projected growth from 2000 to 2020). We believe these strong demographics have and should continue to sustain positive and above average comparable store growth rates (merchandising same store sales up 7.7% in 2007 and retail gallons sold per store up 5.9% in 2007) going forward. In addition to strong population expansion, the company has benefited from merchandising initiatives, such as the ongoing roll-out of its private label food service offering called the Laredo Taco company, and what appears to be a solid acquisition in Town and Country (TC). The TC acquisition, which closed last year, should be able to expand merchandising margins (merchandising account for over 50% of gross profits), while increasing, based off of trailing twelve month (TTM) results, Susser's retail store base, merchandise sales, retail fuel volumes, and estimated EBITDA by roughly 50% each. Our estimates do not factor in any near-term acquisitions, although we continue to expect the company to seek out strategic additions. Sales growth should be derived from comparable store sales gains, slightly higher Y/Y gasoline per store sales growth, as well as projected net new store openings and dealer signings in a range of 12 to 14, and 25 to 30, respectively. Based off of our FTM EBITDA projection of \$98.6mm, the company currently trades at an enterprise value to EBITDA (EV/EBITDA) multiple of 7.4x, which is above its current peer group multiple of roughly 7.2x. Due to the company's dominant market position within high growth territories, we believe a slight premium is warranted; however, the company's shares appear to be fairly valued at these levels and we would look to accumulate at lower levels.

Investment Positives

Susser is led by an experienced management team with a solid track record for growth: TC Acquisition looking like a solid addition.

Sam Susser, President and Chief Executive Officer, continues the Susser family legacy within the motor fuel retailing and distribution business, which has been in operation since 1930. Since joining the firm in 1988, Mr. Susser has grown the business from five stores and \$8.4mm in revenues to over five hundred units with total sales expected to eclipse \$4bn in 2008. As mentioned above, the growth has been generated through internal store development as well as by ten multi-store acquisitions since 1988. The latest acquisition, Town and Country (TC), is projected, based off of TTM TC's results, to increase Susser's retail store base (168 acquired TC stores in West Texas and East New Mexico), merchandise sales (roughly \$200mm in merchandise sales), retail fuel volumes (approximately 200mm gallons), and estimated EBITDA (roughly \$50mm TTM), by roughly 40% to 50% each. The acquisition appears to complement its store presence with strong representation in northern and western Texas, markets previously not serviced by Susser. With virtually no dealer presence in these areas, ample opportunities for dealer signings could materialize. Immediate gains were recognized in 2Q through improved Y/Y merchandising margins (34.3% in 2Q08 versus 32.6% in 2Q07), and some G&A expense reductions. While we believe TC, due to a less competitive pricing environment, generates higher comparable merchandising margins, a significant portion of the growth, in our opinion, came from improved purchasing power generated from an expanded sales base. At a cost of \$356mm, the company paid roughly 7.2x times TTM EBITDA but does not factor in 134 properties owned with a value at \$260mm. Initial anticipated synergies are for the company to realize approximately \$5mm in savings through a combination of consolidated IT, finance, and share services departments, plus additional benefits

generated from improved purchasing power and merchandising mix. Now, expectations are for a total of \$10mm in annualized savings with roughly half expected to be achieved during 2008. Considering the fragmented nature of the business, we expect Susser to continue to actively seek out strategic acquisitions, which could potentially add upside to current sales and EBITDA estimates.

New store openings typically provide positive cash on cash return; sale/leaseback program has offset initial costs

Outside of land costs, we estimate it costs Susser roughly \$2.5mm to build out a new store from scratch, with a three year estimated maturation (time to reach average unit productivity levels). Factoring \$2.5mm in up-front costs and gradually improving store productivity, we estimate the three- year return on new unit expansion to be roughly 18% to 22%.

In 2Q08, the company completed \$19.8mm in sale-leaseback transactions on seven retail stores (average return of \$2.8mm per store). We do not believe the sale leasebacks are designed to monetize the roughly 250 owned Susser stores and 134 TC properties; rather, they represent a mechanism for virtually eliminating build-out costs while reducing net capital spending. Projected gross capital spending is expected to range from \$65mm to \$85mm with a net impact, less expected sale/leaseback returns, of \$25mm to \$35mm. Without the sale leasebacks included, we estimate free cash flow in 2008 would be negligible; however, if you include anticipated proceeds from the transactions, free cash flow could expand to roughly \$30mm to \$50mm annually. While the program, in our opinion, makes for a very economically friendly expansion effort, further deterioration within the credit markets could increase the company's capitalization rate, which we estimate to be currently running around 9%, and reduce the attractiveness of the program, while potentially limiting future transactions and net free cash flow expectations.

Table 1: Build Out Costs and Cash Flow Impact (\$ in mms)

	2008 Est.	YTD Results
Minimum Cap X (\$35k per store)	\$20.2	\$10.1
New Store Costs - 13 New	\$39.0	\$18.0
Other	\$15.8	\$9.2
Total Cap X	\$75.0	\$37.3
Est. Returns Sale Leasebacks	\$40.0	\$26.8
Net Cap X Spending	\$35.0	\$10.5

Source: Company reports and Morgan Joseph estimates

Wholesale and retail gas business allows for greater purchasing power and improved comparable profitability

We believe Susser's unique retail and wholesale gas business model is a significant differentiator from its competitors and allows the company to leverage its infrastructure investments by supporting both businesses. In 2007, Susser/TC sold over 1.1bn gallons of gasoline with roughly 60% generated at retail. This ratio, retail versus wholesale gasoline sales, is actually higher than previous years due primarily to the recent TC acquisition and its retail-only focus. While profit margins (retail at roughly \$0.15 penny profit per gallon versus wholesale at roughly \$0.05 penny per gallon profit) are higher, the volatility within the margins is more extreme. Profit penny per gallon is predominantly fixed at wholesale versus a somewhat moving target in retail. Retail store gasoline inventories are replenished roughly every three to four days with gasoline purchases made daily and corresponding prices paid adjusted daily. The fluctuations in prices and profits occur as retail price points are not as easily adjusted on a day-to-day basis, so corresponding margins fluctuate in kind. Typically, large fluctuations in daily gasoline prices benefit Susser; however, a gradual increase in costs could limit near-term profits as slight retail price adjustments are less profitable. Longer term, however, lost margins can

be recouped as gasoline prices retreat, with prices remaining relatively constant at the pumps until profits are restored to the company. We say “typically” as the above scenario does not always reflect the competitive landscape and potential for other retailers’ attempts to gain market share. If portions of the market decide to lower prices more aggressively than Susser, the company would need to follow suit; thus reducing penny per gallon profits. This scenario does present a more volatile reporting process and can impact the company's stock price in kind.

Wholesale margins, as mentioned above, are less profitable yet more consistent and generate positive cash flow and improved purchasing power for the company. Typically, Susser receives a per gallon fee equal to the rack cost plus transportation costs, taxes, and a fixed margin. Roughly 79% of third-party gallons sold is on a fixed fee per gallon rate. The remaining portion lies within consignment arrangements, wherein Susser provides and controls motor fuel inventory and price at the site in return for the actual retail selling price, less a commission paid to the dealer. Susser serves 384 dealers with expectations for 25 to 30 additions expected in 2008. A key advantage to Susser's wholesale delivery is that the company does not actually handle the gasoline. Instead, it coordinates the delivery and terms from its home office. We believe this is important as, unlike store development, dealer growth is not predicated upon logistics, capital expenditure restraints, or cannibalization, and we see no limits, outside of obtaining the business, to adding dealers annually. With no dealership service currently operating within the TC territories, this could be fertile ground for the company's dealer growth in the future.

While strong sales growth looks good on paper and conversely, appears discouraging when declining, sales mean very little, in our opinion, to profitability. When you consider that embedded within the price of gas are crude oil, distribution, refining costs and over \$0.40 per gallon in taxes, Susser's piece of the pie is quite small, and large increases in sales do not necessarily translate into higher profits. We believe more important metrics are gallons sold and penny profits, or margins, per gallon. For example, in Q307, retail sales volumes increased Y/Y 15% yet retail gross profits declined in dollars as quarterly penny per profits declined Y/Y from \$0.21 per gallon to \$0.17. Conversely, in Q207 sales expanded 10% with retail gasoline profits increasing 18% Y/Y as penny per profits increased Y/Y nearly \$0.02 per gallon. Over the past two years, Susser has been able to expand those two numbers, gallons sold per unit and profit per gallon, by roughly 7% annually within each category. While Texas does provide some insulation from current economic conditions, gallon per store growth has slowed somewhat in 2008 (up 5% in Q108 yet down 2% in Q208), while improving gasoline trends coupled with strong population gains should be able to provide 2% Y/Y gallon per store growth and relatively constant, after factoring in seasonality, penny per store profitability. Considering recent growth patterns and currently declining gasoline prices, these estimates could prove conservative. A wildcard and potential catalyst/detriment to company profits is credit card costs. In 2008 YTD, credit card costs increased 34.5% Y/Y with a 31% increase in 2Q08. Credit card fees are based off of total sales and as gasoline prices expand, so to do credit card fees, which eat into margins, albeit this is factored into operating expenses.

Merchandise sales/margins continue to flourish; up 170 bps Y/Y in 2Q08 to 34.3%

Even in the currently challenging economic environment, Susser merchandise sales growth has been strong. Comparable store merchandise sales have expanded every year since 2001, with the smallest growth generated in 2005 at 3.6%. In 2006 and 2007, same store sales expanded 6.1% and 7.7%, respectively, and that trend has continued in 2008 with Q1 and Q2 comparable merchandise comps up 8.9% and 6.6%, respectively. While a relatively small percentage of Susser's overall sales base, merchandising sales are and have been a key ingredient of the company's profits, with roughly 55% of gross profits generated from the categories. Merchandise inside a Stripe's branded store consists of more than 2,800 items including cigarettes, alcohol, non-alcoholic beverages, energy drinks, candy, snacks, etc. Although margins have remained relatively consistent at approximately 32% since 2005, the company's merchandise profit margins have exceeded the industry average by nearly 300 basis points and have begun to accelerate to upwards of 34% in 2008. Outside of improved purchasing power and a more profitable mix

generated from the TC acquisition, Susser operates a wide variety of higher margined home grown brands and the ongoing roll-out of Susser's in-house, proprietary restaurant operations, specifically the Laredo Taco Company (appears ideal considering the majority of the population growth is stemming from Hispanics) and Country Cookin' restaurant (acquired in the TC acquisition). In addition to driving complimentary purchases, such as beverages and snacks, in roughly 70% of all transactions, the restaurants provide higher than average margins. Food service has increased to over 20% of merchandise sales and continues to grow. The Laredo Taco Company offers items for breakfast, lunch, and dinner and current plans are to build a Laredo Taco Company unit in nearly every new store. The company's growing percentage of food sales (20% of 2007 total merchandising sales versus 18% in 2006) has offset reduced industry-wide reductions in cigarette margins. While the company's sales of cigarettes has expanded Y/Y, industry-wide margins appear to be falling due to rising costs associated with increased taxes on the product. As Susser is not immune to the problem, its expanding restaurant profit contribution appears to be offsetting the impact while limiting the company's exposure, versus other convenience store chains, to potential further declines. In fact, gross profit contribution from Susser's restaurants eclipsed that of cigarettes in 2005 and currently represents nearly two times more gross profit dollars than that of cigarettes. For example, restaurant gross profit dollars accounted for 1.5%, 12.4%, and 16.2% of total gross profit dollars in 2000, 2005, and 2008, respectively, whereas, cigarette gross profit dollars were 18.5%, 12.4%, and 8.2%, respectively, within those same years.

Table 2: Comparable Merchandising Results

Foodservice as % of merchandise Gross Profit	
Susser/TC	25.1%
Industry	20.5%
Cigarettes & Tobacco as percent of Merchandise Gross Profit	
Susser/TC	8.7%
Industry	24.8%
Merchandise Gross Margins	
Susser/TC	32.3%
Industry	29.3%
Merchandise Gross Profit per Store	
Susser/TC	\$426
Industry	\$335
Source: Company data and NACS Industry Data - 2006 Data	

Source: Company presentations

Location, location, location - Texas market rapidly expanding

While Susser has operations in New Mexico, and Oklahoma, the firm's strongest foothold is in Texas, and more specifically, southern Texas. We believe, that, geographically, Susser is in a prime market to benefit from footprint expansion. As of July 2006, Texas had the fifth fastest growing population year-over-year of all states and had the highest numeric population gain (579,275) as well. Additionally, several of Susser's key Texan markets have and are projected to experience even greater growth, namely Laredo City (Webb County), Rio Grande Valley (includes Cameron and Hidalgo Counties) and Corpus Christi (Nueces County), which accounted for 33, 156, and 95, respectively, of Susser's store population at the end of FY07. Further, Rio Grande Valley and Laredo's

proximity to the Mexican border has provided a steady stream of customers at both the gas pumps and the convenience stores. In 2007, 3.2mm trucks and 10.7mm cars, 51% and 18% of the respective totals crossing the U.S. border into and out of Texas, went through Laredo. One negative factor associated with Susser's current market is the close proximity to Mexico and its lower gasoline prices. While we do not believe it is a major issue at this point due to the inconvenience and distance required to cross the border, increasing U.S. gasoline prices could incentivize some customers to cross the border to purchase gasoline. Based upon data collected from the Texas State Data center, population growth from 2000 to 2020 within Cameron County, Hidalgo County, Nueces County, and Webb County is expected to expand (assuming one-half of the migration patterns experienced between 1990 and 2000) their respective populations by 49%, 69%, 26%, and 78%, respectively.

Table 3: Key State and County Population Growth Rates

Population Growth Rates Estimates from 2000					
	2000	2005	2010	2015	2020
Texas	0.0%	8.2%	16.7%	25.4%	34.3%
Cameron County	0.0%	11.7%	23.9%	36.4%	49.0%
Hidalgo County	0.0%	15.6%	32.2%	50.1%	50.1%
Nueces County	0.0%	6.3%	13.2%	19.6%	25.5%
Webb County	0.0%	17.6%	36.3%	56.4%	77.5%
Source: Texas State Data Center					

Source: Texas State Data Center

Investment Risks

Increases in crude oil prices can shrink profits: Susser's core business relies highly on the ability to sell motor fuel. As crude oil prices rise, and subsequently gasoline prices, consumer confidence falls in suit and lower consumption patterns can follow. Additionally, as more previously disposable income goes to filling up at the pump, Susser's merchandise sales could be affected negatively as the cost of each incremental item becomes a higher percentage of consumers' total remaining income. Further, since penny profit does not increase as fast as retail gas pricing, margins can deteriorate in a competitive market when prices rise gradually. With that said, we do believe many of Susser's product lines, such as beer, cigarettes, and packaged beverages, are relatively non-discretionary and low on consumers' lists to be eliminated. Further benefits could also be derived through more frequent consumer visits for gasoline (\$40 worth of gasoline would not carry the customer too far), and customers seeking lower priced food alternatives such as the Laredo Taco Company.

Convenience store competition is fierce: Current estimates are that nearly 20,000 independent C-store operators currently exist in Texas, Arkansas, Louisiana, New Mexico, and the Oklahoma markets. While we believe that Susser is well positioned in its markets, the ease of entry and potential for heightened competition from both chains and independent operators is significant. Also, with the ever more cost-conscious consumer constantly looking to make the most of his/her money, many high margined discretionary purchases that are usually made at Susser's location could be eliminated as customers turn to mega-stores and discount chains to find better deals on these products.

Highly dependent on few suppliers: Susser purchases over 40% of its merchandise, including most tobacco and grocery items, from McLane Company, Inc. McLane has been the firm's primary supplier since 1992 and delivers products to substantially all of the firm's retail stores. Susser does not maintain additional product inventories other than what is in its stores. As a result, any significant problems McLane may experience could be transferred to Susser's stores and negatively impact business.

In July 2006, Susser entered into a new fuel supply agreement with Valero Marketing and Supply Company. As of December 30, 2007, 63% of branded motor fuel at Susser's retail location was branded under the Valero name. While Susser does sell other brands of fuel, any issue arising in Valero's inability to supply fuel could negatively impact results.

Acquisitions provide potential integration risks: A key vehicle behind Susser's growth has been acquisitions. While this strategy has proved successful, current integration of the TC acquisition could disrupt future business, and similar risks could be associated with future acquisitions, should they develop.

Valuation

Premium multiple warranted; yet currently reflected in present share price. Susser Holdings Corporation is currently trading at a LTM EV/EBITDA multiple of 9.3x. We believe strong population demographics in Susser's markets and growth opportunities inherently generated by its recent TC acquisition, warrant a premium for SUSS relative to its peer group; yet, at 7.4x FTME EV/EBITDA, we believe a premium multiple is already built into the current price and view the shares as appropriately valued at this time.

Table 4: Susser and Peer Group Valuation Multiples (\$ in mms, except per share figures)

Company	TTM			FTM
	Casey's Gen. Store	The Pantry	Susser Holdings	Susser Holdings
Symbol	CASY	PTRY	SUSS	SUSS
Rating	NR	NR	Hold	Hold
Target	NM	NM	NA	NA
Price	\$28.9	\$19.3	\$19.0	\$19.0
Shares Outstanding	50.8	22.2	17.0	17.0
Market Capitalization	\$1,467.8	\$428.9	\$323.7	\$323.7
Cash	\$154.5	\$161.9	\$14.4	\$14.4
Debt	\$215.8	\$1,309.4	\$422.9	\$422.9
EBITDA	\$212.2	\$219.0	\$78.7	\$98.6
EV	\$1,529.1	\$1,576.4	\$732.2	\$732.2
EV/EBITDA	7.2x	7.2x	9.3x	7.4x
2008 EPS	\$1.43	\$0.90	\$0.58	\$0.64
2009 EPS	\$1.54	\$1.68	\$0.68	
2008 P/E	20.2x	21.5x	32.7x	29.6x
2009 P/E	18.8x	11.5x	28.0x	
EPS Growth	7.7%	86.7%	17.1%	19.8%
PEG	2.6x	0.2x	1.9x	1.5x

Source: Company reports and Morgan Joseph estimates

Company Background

Susser Holdings began in 1938 when the founder of the family business, Samuel Susser, began operating two fuel-service locations inherited from his wife. In the 1960s, his sons Jerry and Sam J. joined the company. They are credited with inventing the first credit card payment system for unattended gas stations. In 1988, Sam L. Susser, Sam J.'s son, founded the Southguard Corporation, which merged into Susser Holdings, LLC ten years later. Over the four-year period from 1998-2002, the company completed nine acquisitions to grow its business, greatly increasing its wholesale business with the acquisition of A.N. Rusche Distributing Company. Other significant acquisitions during this time include franchisees of Circle K's, Tex Marts, and Costal/Maverick markets, all of which comprise the company's current retail subsidiary, SSP Holdings. Susser Holdings Corporation was incorporated in May 2006 and priced its IPO on October 18,

2006. On that day, the company issued approximately 7.5mm shares at \$16.50/share, for net proceeds after underwriting fees of \$113.0mm after it went public.

Today, Susser Holdings is the largest non-refiner fuel distributor and convenience store operator in the state of Texas. Susser divides its operations between its two primary subsidiaries, SSP Holdings and Susser Petroleum Company. SSP Holdings, the company's retail arm, operates over 500 retail convenience stores in various locations throughout Texas, Oklahoma, and New Mexico under the Stripes, Town & Country and Village Market banners. Susser Petroleum (formerly the Rusche brand) is the company's wholesale division, which supplies branded motor fuel to over 380 dealer locations. Additionally, Applied Petroleum Technologies, the company's smallest subsidiary, provides environmental consulting services to the petroleum and convenience store industry.

Figure 1: Susser Retail and Wholesale Unit Breakdown



Source: Company presentation

Stripes®. The company's retail stores are located throughout Texas, New Mexico and Oklahoma and offer 2,800 SKUs of food, beverages, snacks and non-food convenience store items. Stripes newer formatted stores are almost double the size of the traditional C-store and focus more on higher-margin beverage selections and Laredo Taco food service vs. lower margin cigarette and motor fuel sales, as is common in typical convenience stores. Susser's merchandise segment accounts for over 50% of gross profits. In addition to the Stripes brand, the company also operates retail stores under the Town & Country brand and Village Market brand. However, stores associated with these other brands are eventually expected to be converted into Stripes locations.

Laredo Taco Company. Laredo Taco Company is Susser's proprietary, in house, fast-food concept. Laredo Taco is a quick service Mexican restaurant located in the back of many of Susser's convenience stores. The restaurants serve high quality, made-from-scratch Mexican food that is prepared from fresh ingredients everyday. Laredo Taco has offerings for breakfast, lunch, and dinner. Additionally, Laredo Taco provides some of Susser's highest margin items and growth is driven through new menu additions. According to current expansion initiatives, Susser plans to open a Laredo Taco Company unit within nearly every new store opened going forward.

Susser Petroleum. The wholesale arm of the company operates as a motor fuel distributor, catering to over 380 independent dealers. Through Susser Petroleum, the company buys both branded and unbranded fuel. Currently, Susser Petroleum is the largest independent motor fuels distributor in Texas, spanning the entire state and delivering all grades of motor fuel.

Competition

The convenience store industry is extremely competitive and highly fragmented. Additionally, only very few operators in the space are public companies and there are a tremendous number of independent dealers in the market. However, while no other public company conducts operations directly in Susser's primary markets, two of Susser's most relevant public competitors are Casey's General Store (CASY-\$28.91-NASDAQ) and The Pantry (PTRY-\$19.31-NASDAQ). While both Casey's and The Pantry are significantly larger than Susser (both operate well over 1000 stores), we do not believe either one of these two operators is a threat to Susser given the fact that all three of these companies essentially have unique geographic footprints. Casey's store base is primarily located in the Midwest (IA, MO, IL) while The Pantry's operations are located in the Southeast (FL, NC, SC, and GA). While we do not believe that either operator has any plans to enter into Susser's primary markets, competition would most likely become heightened.

As previously mentioned, a large number of independent operators occupy the convenience store market and many of these operators have locations within Susser's main markets. Approximately 20,000 independent operators currently exist in Texas, Arkansas, Louisiana, New Mexico, and Oklahoma. Overall, while an increased presence of independent operators likely increases competition, we believe that Susser's brand recognition among customers gives the company a significant advantage over any of these independent operators.

Finally, we note that Susser also competes with the supermarket and hypermarket industry. Retailers such as H-E-B, and Wal-Mart (WMT-\$59.65-NYSE) offer virtually all of the products that Susser stocks in its C-stores and often at lower prices. While more of these types of competitors could enter the retail gas market, which would only heighten competition, hypermarket retailers have been competing with Susser for over ten years; therefore, a dramatic change within Susser's competitive landscape appears unlikely at this point, in our view. However, we believe the convenience provided by Susser's locations, and the unnecessary extra time to shop at a food market, will both serve to continue to drive customers towards Susser's stores.

Financial Discussion

Income Statement

3Q08

We currently project 3Q08 sales to expand 73% Y/Y to \$1.2bn. On a pro-forma basis, which factors in the TC acquisition in last year's comparable period, sales should expand 27.1% Y/Y based off of our expectations for 2% retail fuel per store expansion, 14 net new store openings, 18 net new dealer signings, and the retail gasoline price per gallon increasing to \$3.50 from \$2.77 a year ago. While current gasoline trends bode well for margins, we expect relatively flat penny per gallon profits as 3Q07 profits were strong and roughly in line with the robust 2Q08 reported margins. We believe improved purchasing power should be able to sustain merchandising margins at current 34% levels. Operating costs should expand roughly 6% Y/Y, but are expected to fall below our projected gross profit growth rate of 9.7%. Offsetting some of the gains should be higher interest expense costs associated with increased levels of debt following the TC acquisition, resulting in EPS estimated to grow just under 10% Y/Y to \$0.32.

2008

We currently project 2008 sales to expand 64.8% Y/Y to \$4.5bn. On a pro-forma basis, sales should expand 28% with retail gallons per store up 3% Y/Y, net new retail openings up 15 units, 25 net new dealer signings, and the average price per gallon expanding to \$3.38 from \$2.70. Penny profit should remain relatively constant at \$0.165 per gallon with the strong 2Q results offsetting comparably weaker 1Q margins. Operating costs are expected to expand 5.6% with interest expense climbing to \$38mm from \$16mm. EPS

are projected at \$0.58, which reflects Y/Y growth of 1.1%, with EBITDA projected to expand 75% to \$98mm from \$55.7mm in 2007.

Balance Sheet

Susser currently maintains a balance sheet with \$14mm in cash and \$423mm in total debt (debt to capital ratio of 69%). The debt primarily consists of a \$300mm 10.6% senior note, due 2013, a \$103mm term loan facility, and \$15mm within a revolving credit facility. In May of 2008, the company increased availability under its revolving credit facility to \$120mm, which is determined by various multiples of its account receivable base, inventory levels, and fair market value of real property value, to name a few. As of 2Q08 end, roughly \$75mm was available under the revolver and should be sufficient to fund near-term growth.

Management Team

Sam L. Susser; President & Chief Executive Officer. Mr. Susser has served as the company's President and Chief Executive Officer since 1992 and as director since 1988. From 1988 to 1992, Mr. Susser served as General Manager and Vice President for Susser Holdings. From 1985 through 1987, Mr. Susser served in the M&A department of Salomon Brothers Inc., and prior to that received his BBA in finance from the University of Texas at Austin. Mr. Susser currently serves as a Director of a number of charitable, educational, and civic organizations. Sam L. Susser is the son of Sam J. Susser, who is also a member of the Board of Directors.

Mary E. Sullivan; Executive Vice President, CFO, and Treasurer. Ms. Sullivan has served as Executive Vice President, Chief Financial Officer and Treasurer since November 2005. Ms. Sullivan served as Vice President of Finance since joining Susser in February 2000. Ms. Sullivan served as Director of Finance for the City of Corpus Christi from 1999 to 2000. Ms. Sullivan's previous experience includes serving as the Controller and member of the board of directors of Elementis Chromium, a producer of chromium chemicals, from 1993 to 1999, and various positions with Central Power and Light Company, culminating in Treasurer, over the 13 year period from 1979 to 1992.

E.V. Bonner Jr.; Executive Vice President and General Counsel. E.V. Bonner has served as Executive Vice President and General Counsel since March 2000. Prior to joining Susser, Mr. Bonner was a stockholder in the law firm of Porter, Rogers, Dahlman & Gordon, P.C. from 1986 to 2000. He is board certified in commercial real estate law by the Texas board of legal specialization. Mr. Bonner has been involved in numerous charitable, educational and civic organizations.

Rocky B. Dewbre; President and COO – Wholesale. Rock B. Dewbre has served as Executive Vice President and President/Chief Operating Officer-Wholesale since January 2005. Mr. Dewbre served as Executive Vice President and Chief Operating Officer-Wholesale from 1999 to 2005, as Vice President from 1995 to 1999 and as Manager of Finance and Administration from 1992 to 1995. Before joining Susser in 1992, Mr. Dewbre was a corporate internal auditor with Atlantic Richfield Corporation, a petroleum/chemical company, from 1991 to 1992 and an auditor and consultant at Deloitte & Touche LLP from 1988 to 1991.

Table 5: SUSS Quarterly and Annual Income Statements 2006-2009E (\$ in millions)

Quarter End	FY 2006	Q1 Apr-07	Q2 Jul-07	Q3 Sep-07	Q4 Dec-07	FY 2007	Q1 Mar-08	Q2 Jun-08	Q3E Oct-08	Q4E Dec-08	FYE 2008	Q1E Apr-09	Q2E Jul-09	Q3E Oct-09	Q4E Dec-09	FYE 2009
Total Sales	2,265.2	528.7	692.8	674.0	821.9	2,717.4	1000.7	1230.2	1167.3	1080.5	4,478.6	1109.9	1297.4	1299.7	1143.7	4,850.6
% Increase	19.5%	1.0%	6.7%	11.4%	68.6%	20.0%	89.3%	77.6%	73.2%	31.5%	64.8%	10.9%	5.5%	11.3%	5.8%	8.3%
Cost of Goods Sold	2,044.4	476.3	628.2	607.5	744.2	2,456.2	909.2	1117.8	1054.4	976.2	4,057.6	1011.1	1175.3	1177.6	1034.3	4,398.3
% increase	20.6%	0.3%	6.6%	12.3%	69.3%	20.1%	90.9%	77.9%	73.6%	31.2%	65.2%	11.2%	5.1%	11.7%	6.0%	8.4%
% sales	90.3%	90.1%	90.7%	90.1%	90.5%	90.4%	90.9%	90.9%	90.3%	90.3%	90.6%	91.1%	90.6%	90.6%	90.4%	90.7%
Gross Profit	220.8	52.4	64.6	66.5	77.7	261.1	91.5	112.3	112.9	104.3	421.0	98.7	122.0	122.1	109.4	452.2
% increase	9.5%	7.6%	8.2%	3.3%	61.6%	18.3%	74.7%	74.0%	69.8%	34.2%	61.2%	7.9%	8.6%	8.1%	4.9%	7.4%
% sales	9.7%	9.9%	9.3%	9.9%	9.5%	9.6%	9.1%	9.1%	9.7%	9.7%	9.4%	8.9%	9.4%	9.4%	9.6%	9.3%
Personnel	69.3	18.3	19.6	19.8	24.7	82.5	30.3	34.5	35.0	34.0	133.8	32.4	36.8	37.5	36.4	143.0
% increase	11.3%	9.2%	11.4%	14.1%	40.9%	19.0%	66.0%	75.7%	76.5%	37.5%	62.3%	7.0%	6.5%	7.0%	7.0%	6.9%
% sales	3.1%	3.5%	2.8%	2.9%	3.0%	3.0%	3.0%	2.8%	3.0%	3.1%	3.0%	2.9%	2.8%	2.9%	3.2%	2.9%
Operating Expense	62.0	14.7	16.8	17.2	20.3	68.9	27.9	30.4	31.0	29.0	118.3	31.1	35.0	35.1	29.7	130.9
% increase	15.6%	-0.4%	1.8%	-0.1%	50.0%	11.3%	90.2%	81.3%	80.5%	42.8%	71.7%	11.2%	15.3%	13.2%	2.5%	10.6%
% sales	2.7%	2.8%	2.4%	2.5%	2.5%	2.5%	2.8%	2.5%	2.7%	2.7%	2.6%	2.8%	2.7%	2.7%	2.6%	2.7%
Rent	22.7	6.0	6.1	6.1	7.6	25.8	8.4	8.7	9.5	10.0	36.6	8.9	10.4	10.5	11.0	40.8
% increase	133.0%	8.2%	10.5%	10.2%	25.2%	13.8%	39.9%	42.1%	54.8%	32.2%	41.7%	5.6%	19.6%	10.5%	10.0%	11.4%
% sales	1.0%	1.1%	0.9%	0.9%	0.9%	1.0%	0.8%	0.7%	0.8%	0.9%	0.8%	0.8%	0.8%	0.8%	1.0%	0.8%
Royalties	3.6	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% sales	0.2%	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%
G&A	19.3	6.2	6.0	7.3	8.4	27.9	9.1	8.0	8.5	9.0	34.6	10.0	8.8	9.3	9.8	37.9
% increase	-47.2%	38.7%	22.2%	42.2%	75.3%	44.5%	45.6%	33.6%	16.7%	7.0%	23.9%	10.2%	9.3%	9.4%	8.9%	9.5%
% sales	0.9%	1.2%	0.9%	1.1%	1.0%	1.0%	0.9%	0.7%	0.7%	0.8%	0.8%	0.9%	0.7%	0.7%	0.9%	0.8%
Loss/(Gain) on Assets Disp.	0.0	0.0	-0.2	0.3	0.1	0.2	0.1	0.1	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
D, A & Accretion	23.6	6.4	7.0	8.0	8.5	29.8	10.7	10.3	10.5	10.5	42.1	11.0	10.7	11.0	11.0	43.7
% increase	-22.0%	12.5%	18.1%	30.6%	43.7%	26.4%	69.0%	48.1%	31.5%	23.9%	41.2%	2.5%	3.4%	4.8%	4.8%	3.8%
% sales	1.0%	1.2%	1.0%	1.2%	1.0%	1.1%	1.1%	0.8%	0.9%	1.0%	0.9%	1.0%	0.8%	0.8%	1.0%	0.9%
Operating Profit	20.4	0.8	9.2	7.8	8.1	25.9	5.0	20.3	18.4	11.8	55.4	5.4	20.4	18.7	11.5	55.9
% increase	216.9%	22.3%	8.6%	-34.8%	-1223.4%	27.3%	537.4%	119.4%	136.2%	45.1%	113.8%	8.1%	0.4%	1.9%	-2.7%	0.9%
% sales	0.9%	0.1%	1.3%	1.2%	1.0%	1.0%	0.5%	1.6%	1.6%	1.1%	1.2%	0.5%	1.6%	1.4%	1.0%	1.2%
Interest Expense	16.3	3.0	2.9	2.9	6.9	15.8	9.9	9.5	9.5	9.5	38.4	9.0	9.0	9.0	9.0	36.0
Other Income	-0.4	-0.1	-0.1	-0.1	-0.1	-0.4	-0.1	0.0	-0.1	-0.1	-0.4	-0.1	-0.1	-0.1	-0.1	-0.4
Pretax Profit	4.5	(2.1)	6.4	5.0	1.3	10.5	(4.7)	10.8	9.0	2.4	17.4	(3.5)	11.5	9.8	2.6	20.3
% increase	-121.7%	-45.8%	70.1%	-32.6%	-147.6%	134.4%	121.6%	69.6%	80.3%	86.1%	66.1%	-25.7%	5.7%	9.9%	7.5%	16.6%
% sales	0.2%	-0.4%	0.9%	0.7%	0.2%	0.4%	-0.5%	0.9%	0.8%	0.2%	0.4%	-0.3%	0.9%	0.8%	0.2%	0.4%
Taxes(benefit)	-0.9	0.3	0.1	0.1	0.3	0.8	-1.4	4.2	3.6	1.2	7.6	-0.9	4.5	3.9	1.3	8.8
Rate	-20.0%	-12.1%	1.9%	2.5%	26.8%	8.1%	29.2%	38.6%	40.1%	50.2%	43.5%	26.9%	39.5%	40.0%	49.9%	43.2%
Net Income--Oper.	5.4	(2.4)	6.3	4.8	0.9	9.7	(3.4)	6.7	5.4	1.2	9.9	(2.6)	6.9	5.9	1.3	11.5
% increase	-340.3%	-39.2%	66.9%	-34.2%	-152.1%	79.6%	39.9%	6.2%	10.7%	26.6%	2.1%	-23.3%	4.2%	10.0%	8.2%	17.2%
% sales	0.2%	-0.5%	0.9%	0.7%	0.1%	0.4%	-0.3%	0.5%	0.5%	0.1%	0.2%	-0.2%	0.5%	0.5%	0.1%	0.2%
EPS--Operations	0.50	(0.14)	0.37	0.29	0.06	0.57	(0.20)	0.39	0.32	0.07	0.58	(0.15)	0.41	0.35	0.08	0.68
% Increase	-409.4%	-66.4%	-7.5%	-63.5%	-151.2%	14.6%	38.5%	4.5%	9.3%	26.8%	1.1%	-23.8%	4.4%	10.0%	8.2%	17.1%
Shares Out. Diluted	10.7	16.7	16.8	16.8	17.0	16.8	16.9	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0

Source: Company reports and Morgan Joseph & Co. Inc. estimates

Table 6: SUSS Annual Balance Sheet 2006-2009E (\$ in millions)

Quarter End	FY2006 Dec-07	Q2 Jul-07	FY2007 Dec-07	Q2 Jun-08	FY08E Dec-08	FY09E Oct-09
Assets						
Cash & equivalent	32.9	19.6	7.8	14.4	10.8	31.3
Accounts receivable	44.1	54.6	69.4	109.7	116.4	126.1
Inventories, net	37.3	43.2	69.6	83.4	113.6	123.2
Assets held for sale	0.5	0.5	0.9	0.9	1.0	1.0
Deferred income taxes	0.0	0.0	0.0	0.0	0.0	0.0
Other Current Assets	1.9	2.4	8.2	6.8	7.6	8.2
Total Current Assets	116.7	120.2	155.9	215.2	249.4	289.8
Supply agreements, net	0.0	0.0	0.0	0.0	0.0	0.0
Favorable lease agreements, net	0.0	0.0	0.0	0.0	0.0	0.0
Property, plant and equipment, net	232.5	249.6	410.7	401.3	410.0	415.0
Goodwill and intangible assets	62.3	60.8	274.3	273.6	273.6	273.6
Notes receivable, long-term portion	0.0	0.0	0.0	0.0	0.0	0.0
Other noncurrent assets	10.9	11.5	12.8	12.9	13.0	13.0
Total Assets	422.3	442.1	853.7	902.9	946.1	991.5
Liabilities & Shareholders' Equity						
Accounts payable	71.7	98.7	127.8	163.6	192.6	208.6
Accrued expenses and other current liabilities	33.9	21.2	39.4	34.7	40.0	45.0
Current portion of LT Debt	0.0	0.0	3.9	6.0	3.9	7.2
Deferred purchase price - TCFS acquisition, current	0.0	0.0	10.0	10.0	10.0	10.0
Deferred tax liability	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	105.5	119.9	181.1	214.2	246.5	270.8
Long-Term Debt	120.0	120.0	374.8	401.9	398.0	390.8
Revolving line of credit	0.0	0.0	34.6	15.0	15.0	15.0
Deferred gain, long-term portion	27.1	26.4	31.5	35.1	35.0	35.0
Deferred tax liability, long term portion	0.0	0.0	27.1	24.8	25.0	25.0
Other noncurrent liabilities	7.9	8.8	20.1	22.2	0.0	23.0
Total Liabilities	260.5	275.1	669.2	713.3	719.5	759.6
Minority interests in consolidated subsidiaries	0.6	0.7	0.7	0.7	0.7	0.7
Total Shareholders' Equity	161.2	166.4	183.8	188.9	225.9	231.2
Total Liabilities & Shareholders' Equity	422.3	442.1	853.7	902.9	946.1	991.5
Shares Out, Diluted	16.7	16.8	17.0	17.0	17.0	17.0
Ratio Analysis						
Book Value per Share	9.65	9.92	10.80	11.09	13.29	13.60
Tangible book value per share	5.9	6.3	-5.3	-5.0	-2.8	-2.5
Working Capital	11.2	0.3	-25.2	1.0	2.9	19.0
Current Ratio	1.1	1.0	0.9	1.0	1.0	1.1
Total Debt to Capitalization	42.7%	41.9%	69.2%	69.1%	64.9%	64.1%
Total Debt to Equity	74.5%	72.1%	224.9%	223.8%	184.6%	178.6%
Return on Average Equity (ROAE)	9.5%	6.8%	5.7%	5.0%	6.6%	5.0%
Return on Average Assets (ROAA)	2.7%	2.3%	1.8%	1.2%	1.5%	1.2%

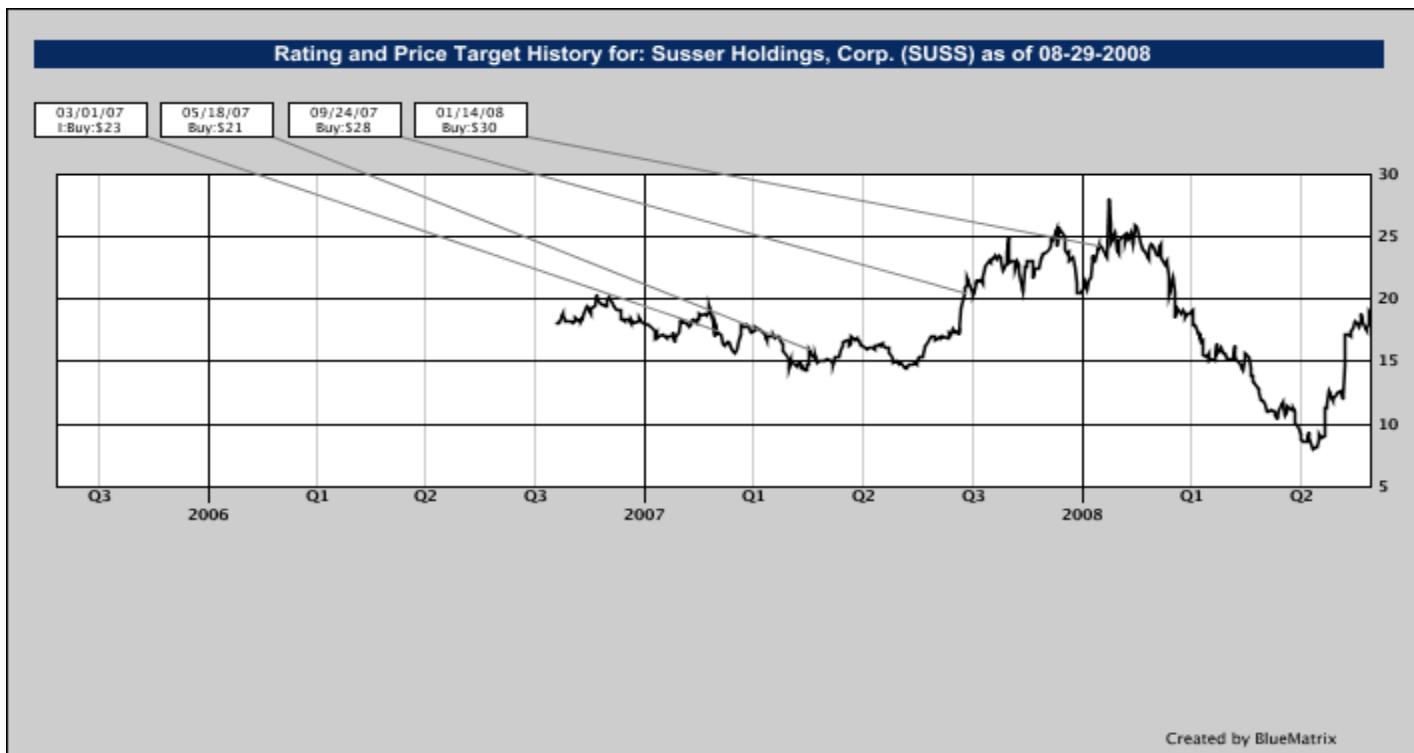
Source: Company reports and Morgan Joseph & Co. Inc. estimates

Table 7: SUSS Annual Cash Flow Statement 2006-2009E (\$ in millions)

	FY 2006	FY 2007	FYE 2008	FYE 2009
Cash Flow From Operations:				
Net Income:	-3.7	16.3	9.9	11.5
Adjustments to reconcile net income:				
Depreciation and amortization	25.4	29.5	42.1	43.7
Loss on disposal of assets	0.0	0.2	0.0	0.0
Non-cash stock based compensation	0.8	2.4	0.0	0.0
Stock-based compensation for options redeemed in acquisition of predecessor	0.0	0.0	0.0	0.0
minority Interest	0.1	0.1	0.0	0.0
Change in fair market value in nonqualifying derivatives	-0.3	-14.3	0.0	0.0
Deferred Income Tax	0.0	0.0	0.0	0.0
Amortization of debt premium	0.0	0.0	0.0	0.0
Changes in assets and liabilities:				
Accounts receivable	0.1	2.4	-47.1	-9.7
Inventories	0.0	-12.1	-44.0	-9.5
Assets held for sale and other current assets	5.5	2.9	-0.1	0.0
Intangible Assets	0.0	1.4	0.0	0.0
Other non-current assets	-6.8	4.2	-0.2	0.0
Accounts payable	8.0	-4.7	64.8	16.0
Accrued liabilities and other non-current liabilities	-3.4	-0.5	0.6	5.7
Other non-current liabilities			0.0	0.0
Cash from Operating Activities (CFO)	25.6	27.7	25.9	57.8
Cash flow from Investing Activities:				
Purchases of property and equipment	-70.2	-89.8	-75.0	-80.0
Proceeds from disposal of property and equipment	5.7	1.1	0.0	0.0
Proceeds from sale/leaseback transactions	14.2	97.3	50.0	50.0
Acquisition of predecessor	0.0	-346.5	0.0	0.0
Cash from Investing Activities (CFI)	-50.2	-338.0	-25.0	-30.0
Cash flows from Financing activities:				
Proceeds from issuance of long-term debt	0.0	258.7	0.0	0.0
Change in notes receivable	-0.2	1.0	0.0	0.0
Payments on long-term debt	-50.0	0.0	-3.9	-7.2
Revolving line of credit, net	-6.2	34.6	0.0	0.0
Loan origination costs	0.0	-12.0	0.0	0.0
Proceeds from issuance of equity	0.0	3.9	0.0	0.0
Proceeds from initial public offering, net of offering costs	112.8	0.0	0.0	0.0
Distributions to members	-3.0	-1.1	0.0	0.0
Cash From Financing Activities (CFF)	53.4	285.2	-3.9	-7.2
Net Increase (Decrease) in Cash	28.8	-25.1	-3.0	20.6
Cash at Beginning of Year	4.1	32.9	13.8	10.8
Cash at End of Quarter/Year	32.9	7.8	10.8	31.3

Source: Company reports and Morgan Joseph & Co. Inc. estimates

Required Disclosures



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