STAGE STORES INC
Form 10-K
April 01, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 2, 2008

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______

Commission File No. 1-14035

Stage Stores, Inc.
(Exact name of registrant as specified in its charter)

NEVADA	91-1826900
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10201 MAIN STREET, HOUSTON, TEXAS	77025
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (800) 579-2302

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock ($0.01 par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

As of August 4, 2007 (the last business day of the registrant's most recently completed second quarter), the aggregate market value of the voting common stock of the registrant held by non-affiliates of the registrant was $677,564,272 (based upon the closing price of the registrant's common stock as reported by the New York Stock Exchange on August 3, 2007).

As of March 25, 2008, there were 38,206,467 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to the registrant's Annual Meeting of Shareholders to be held on June 5, 2008, which will be filed within 120 days of the end of the registrant's fiscal year ended February 2, 2008 (the "Proxy Statement"), are incorporated by reference into Part III of this Form 10-K to the extent described therein.

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References to a particular year are to Stage Stores, Inc.’s fiscal year, which is the 52 or 53 week period ending on the Saturday closest to January 31st of the following calendar year. For example, a reference to "2005" is a reference to the fiscal year ended January 28, 2006, “2006” is a reference to the fiscal year ended February 3, 2007, "2007" is a reference to the fiscal year ended February 2, 2008, and a reference to “2008” is a reference to the fiscal year ending January 31, 2009. 2005 and 2007 consisted of 52 weeks, 2006 consisted of 53 weeks and 2008 will consist of 52 weeks.

PART I

ITEM 1. BUSINESS

Overview

Stage Stores, Inc. (the “Company” or “Stage Stores”) is a Houston, Texas-based regional, specialty department store retailer offering moderately priced, nationally recognized brand name and private label apparel, accessories, cosmetics and footwear for the entire family. As of February 2, 2008, the Company operated 694 stores located in 35 states. The Company operates under the Stage, Bealls and Palais Royal names throughout the South Central and Southwestern states, and under the Peebles name throughout the Midwestern, Southeastern, Mid-Atlantic and New England states. With an average store size of approximately 18,600 selling square feet, the Company's principal focus is on consumers in small and mid-size markets which the Company believes are under-served and less competitive. Utilizing a ten-mile radius from each store, approximately 69% of the Company's stores are located in small towns and market areas with populations below 50,000 people, while an additional 18% of the Company's stores are located in mid-sized communities and market areas with populations between 50,000 and 150,000 people. The remaining 13% of the Company's stores are located in metropolitan areas, such as Houston and San Antonio, Texas. The Company believes that it is able to differentiate itself from the competition in the small and mid-size communities in which it operates by offering consumers access to basic as well as fashionable, brand name merchandise not typically carried by other retailers in the same market area. In the highly competitive metropolitan markets in which it operates, the Company competes against other national department store chains, which similarly offer moderately priced, brand name and private label merchandise. As a way of differentiating itself from the competition in these larger metropolitan markets, the Company offers consumers a high level of customer service in convenient locations.

Website Access to Reports

The Company makes available, free of charge, through its website, among other things, corporate governance documents, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after they have been electronically filed with the Securities and Exchange Commission ("SEC"). They can be obtained by accessing the Company’s website at www.stagestores.com, clicking on “Investor Relations,” then “SEC filings,” then the report to be obtained. Information contained on the Company’s website is not part of this Annual Report on Form 10-K.

History

The Company was formed in 1988 when the management of Palais Royal, together with several venture capital firms, acquired the family-owned Bealls and Palais Royal chains, both of which were originally founded in the 1920's. At the time of the acquisition, Palais Royal operated primarily larger stores, which were located in and around the Houston metropolitan area, while Bealls operated primarily smaller stores, which were principally located in rural Texas towns. Over the next five years, the Company concentrated on integrating the two businesses, identifying their respective strengths and developing and refining its growth strategy. During this period, the Company developed a growth strategy that was focused on expanding the Company's presence in small markets across the country through new store openings and strategic acquisitions.

On November 4, 2003, the Company acquired Peebles Inc. (“Peebles”), which at the time was a privately held, similarly focused retail company headquartered in South Hill, Virginia (the "Peebles Acquisition"), which then operated 136 stores in seventeen Mid-Atlantic, Southeastern and Midwestern states under the Peebles name. In order to maximize the potential of the Peebles Acquisition, the Company has maintained what it believes is the highly recognizable Peebles name on the stores. With the addition of Peebles, the Company believes that it has strengthened its position as one of the leading retailers of branded family apparel in small town America. The Company further believes that the Peebles Acquisition created new opportunities for unit growth and geographical expansion and improved its competitive position.

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On February 27, 2006, the Company acquired privately held B.C. Moore & Sons, Incorporated ("B.C. Moore") which then operated 78 retail locations located in small markets throughout Alabama, Georgia, North Carolina and South Carolina (the "B.C. Moore Acquisition", and collectively with the Peebles Acquisition, the "Acquisitions"). Following the acquisition, the Company converted 69 of the acquired stores to its Peebles name and format in 2006. The remaining nine non-converted locations were closed. The B.C. Moore Acquisition expands the Company's position in the Southeastern United States, and is consistent with its corporate strategy of increasing the concentration of its store base into smaller markets.

Operations

Stores. As of February 2, 2008, the Company operated 694 stores located in 35 states. The Company operates under the Stage, Bealls and Palais Royal names throughout the South Central and Southwestern states, and under the Peebles name throughout the Midwestern, Southeastern, Mid-Atlantic and New England states. While the Company's stores are operated under four names, the Company operates the vast majority of its stores under one concept and one strategy. Utilizing a ten mile radius from each store, approximately 69% of the Company's stores are located in small towns and communities with populations below 50,000 people, while an additional 18% of the Company's stores are located in mid-sized communities with populations between 50,000 and 150,000 people. The remaining 13% of the Company's stores are located in metropolitan areas, such as Houston and San Antonio, Texas.

In targeting small and mid-size markets, the Company has developed a store format which is smaller than typical department stores yet large enough to offer a well edited, but broad selection of merchandise. With an average store size of approximately 18,600 selling square feet, approximately 80% of the Company's stores are located in strip shopping centers in which they are typically one of the anchor stores. An additional 14% of the Company's stores are located in local or regional shopping malls, while the remaining 6% are located in either free standing or downtown buildings. The Company attempts to locate its stores by, or in the vicinity of, other tenants that it believes will help attract additional foot traffic to the area, such as grocery stores, drug stores or major discount stores such as Wal-Mart.

The Company's typical interior store layouts and visual merchandising displays are designed to create a friendly, modern department store environment. The Company's carefully edited assortment of merchandise is divided into distinct departments within each store which are clearly marked and easy to navigate as a result of the Company's standard "racetrack" configuration. In this configuration, the various merchandise departments are situated throughout the store in such a way that a central loop, or "racetrack", is created, which the Company believes helps enhance the customer's shopping experience by providing an open, easy-to-shop interior.

Expansion Strategy. The cornerstone of the Company's growth strategy continues to be to identify locations in small and mid-size markets that meet its demographic and competitive criteria. The Company believes that the long-term potential of its smaller markets is positive and wants to be well positioned in these markets with locations that are convenient to its customers. During 2007, the Company opened a total of 47 organic stores, and entered the states of Utah and Wisconsin.

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The number of new stores opened by state in 2007 was as follows:

State	Number of Stores
Arizona	1
Arkansas	1
Colorado	3
Florida	1
Georgia	3
Iowa	1
Kentucky	2
Louisiana	3
Massachusetts	1
Michigan	5
Mississippi	4
New York	4
North Carolina	1
Ohio	1
Pennsylvania	5
Tennessee	4
Texas	3
Utah	1
Virginia	1
West Virginia	1
Wisconsin	1
	47

The Company believes that there are sufficient opportunities in small and mid-size markets to continue with its new store growth into the foreseeable future, and that it is well positioned to capitalize on those opportunities. Beginning in 2008, the Company anticipates opening approximately 70 new stores per year. The actual number of stores opened will be dependent upon the availability of suitable locations and prevailing market and economic conditions.

To support its store growth, in 2005 the Company increased the productivity and processing capacity of its South Hill, Virginia distribution center with the addition of new sortation equipment and a new warehouse management system. The Company is also opening its third distribution center during the second quarter of 2008 in Jeffersonville, Ohio.

Expansion, Relocation and Remodeling. In addition to opening new stores, the Company has continued to invest in the expansion, relocation and remodeling of its existing stores. The Company believes that remodeling keeps its stores looking fresh and up-to-date, which enhances its customers' shopping experience and helps maintain and improve its market share in those market areas. Store remodeling projects can range from updating and improving in-store lighting, fixtures, wall merchandising and signage, to more extensive expansion projects. Relocations are intended to improve the stores’ location and help them capitalize on incremental sales potential. During 2007, the Company completed 18 relocations, 3 expansions and 4 remodels of stores and expects to complete 15 relocations, 6 expansions and 10 remodels of stores during 2008.

Store Closures. The Company closed eight locations during 2007. The Company continually reviews the trend of individual store performance and will close a store if the expected store performance does not support the required investment of capital at that location. During 2008, the Company anticipates closing 8 to 10 stores.

Store Operations. For span-of-control purposes, the Company's stores are divided into distinct regions and districts. There are currently seven regions. Within these seven regions, there are currently a total of 49 districts. The number of stores that each District Manager oversees depends on their proximity to each other and generally varies from a low of 11 stores to a high of 19 stores. Each store is managed by a team consisting of a Manager and a number of Assistant Managers, which is dependent on the size of the store. The selling floor staff within each store consists of both full-time and part-time associates, with temporary associates added during peak selling seasons. The Company believes that this structure provides an appropriate level of oversight, management and control over its store operations.

Customer Service. A primary corporate objective is to provide exceptional customer service through conveniently located stores staffed with well-trained and motivated sales associates. In order to ensure consistency of execution, each sales associate is evaluated based on the attainment of specific customer service standards, such as offering prompt and knowledgeable assistance, suggesting complementary items, helping customers open private label credit card accounts and establishing consistent contact with customers to facilitate repeat business. The Company monitors the quality of its service by utilizing "secret shoppers". The results of these customer surveys are shared and discussed with the appropriate sales associates so that excellent service can be recognized and, conversely, counseling can be used if improvements are needed. To further reinforce the Company's focus on customer service, the Company has various programs in place to recognize associates for providing outstanding customer service. The Company further extends its service philosophy through the design of its stores, as discussed above, and in most locations by locating the Store Manager on the selling floor to increase accessibility to customers.

Competitive Advantages. As a result of its small and mid-size market focus, the Company generally faces less competition for its brand name merchandise because consumers in these markets typically are able to shop for branded merchandise only in regional malls, which are typically located more than 30 miles away. In those small and mid-size markets where the Company does compete for brand name apparel sales, competition generally comes from local retailers, small regional chains and to a lesser extent, national department stores. The Company believes it has a competitive advantage over local retailers and small regional chains due to its: (i) broader selection of brand name merchandise, (ii) distinctive retail concept, (iii) economies of scale, (iv) strong vendor relationships and (v) private label credit card program. The Company also believes it has a competitive advantage in small and mid-size markets over national department stores due to its experience with smaller markets. In addition, due to minimal merchandise overlap, the Company generally does not directly compete for branded apparel sales with national discounters such as Wal-Mart. In the highly competitive metropolitan markets in which it operates, the Company competes against other national department store chains, which similarly offer moderately priced, brand name and private label merchandise. As a way of differentiating itself from the competition in these larger markets, the Company offers consumers a high level of customer service in convenient locations. In addition, over the years, the Company has endeavored to nurture customer loyalty and foster name recognition through loyalty and direct marketing programs.

Merchandising Strategy. The Company's merchandising strategy focuses on matching merchandise assortments and offerings with customers' aspirations for fashionable, quality brand name apparel. Further, care is given to avoid duplication and to ensure in-stock position on size and color in all merchandise selections. The Company offers a well edited selection of moderately priced, branded merchandise within distinct merchandise categories, such as women's, men's and children's apparel, as well as accessories, cosmetics and footwear. The merchandise selection ranges from basics, including denim, underwear and foundations, to more upscale and fashionable clothing offerings. Merchandise mix may also vary from store to store to accommodate differing demographic factors. Approximately 85% of sales consist of nationally recognized brands such as Levi Strauss, Nike, Liz Claiborne, Calvin Klein, Chaps, Polo Jeanswear, Estee Lauder, Clinique, Elizabeth Arden, Nautica, K-Swiss, Reebok and New Balance, while the remaining 15% of sales consist of the Company’s private label merchandise. The Company's private label portfolio includes twenty-one brands, which are developed and sourced through its membership in Associated Merchandising Corporation and Li-Fung Cooperative Buying Services, as well as through contracts with third party vendors. The Company's private label brands offer quality merchandise and excellent value. The Company’s top 100 vendors currently account for approximately 46% of annual sales. Merchandise purchased from Associated Merchandising Corporation represented approximately 7% and 5% of the Company’s 2007 and 2006 sales, respectively. The Company's merchandising activities are conducted from its corporate headquarters in Houston, Texas for its Bealls, Palais Royal and Stage locations, and from its South Hill, Virginia administrative offices for its Peebles locations.

In January 2007, the Company announced that it was undertaking certain strategic growth initiatives in its women’s plus sizes, footwear and cosmetics areas. The Company believes that these initiatives will lead to increased sales in these categories of business. In its plus sizes business, the Company plans to drive additional growth through further improvement, expansion and enhancement of the merchandise mix and product selection, supported by expanded selling floor space. In its footwear business, the Company plans to grow sales through improved breadth of style and brand selections for family footwear. In its cosmetics business, the Company plans to increase sales through the continued roll-out of desired treatment products from suppliers such as Estee Lauder and Clinique. As a part of its strategic initiatives, the Company is in the final stages of developing a tool which will help it maximize the generation of sales and gross margin per square foot by better allocating selling square footage among its various categories of business.

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The following table sets forth the distribution of net sales between the Company's various merchandise categories:

	Fiscal Year		
Department	2007	2006	2005
Men's/Young Men's	19 %	19 %	19 %
Misses Sportswear	18	17	17
Children's	12	12	12
Footwear	12	12	12
Junior Sportswear	8	9	9
Accessories	8	8	8
Cosmetics	6	6	6
Special Sizes	6	6	6
Dresses	4	4	4
Intimates	3	3	3
Home & Gifts	3	3	3
Outerwear, Swimwear and Other	1	1	1
	100 %	100 %	100 %

Marketing Strategy. The Company's primary target customers are women who are generally 25 and older with annual household incomes of over $45,000, who the Company believes are the primary decision makers for their family's clothing purchases. The Company's broad based marketing strategy is designed to establish brand loyalty, convenience and promotional positioning. The Company uses a multi-media advertising approach, including newspapers, direct mail, radio and television, to position its stores as the local destination for basic and fashionable moderately priced brand name merchandise. In addition, the Company promotes its private label credit card and attempts to create strong customer loyalty through continuous one-on-one communication with its core private label credit card holders. The Company's best private label credit card customers are recognized and rewarded through its VIP credit card program, as discussed below, that creates greater customer retention and promotes increased purchasing activity. In addition to the information gathered from its private label credit card customers, the Company is able to capture data on selected check, debit and other third party credit card customers and incorporate this data into its marketing and merchandising programs. The Company currently captures customer data on approximately 55% of its sales. To complement its marketing efforts, the Company encourages local store involvement in local community activities.

Private Label Credit Card. The Company considers its private label credit card program to be an important component of its retailing concept because it (i) enhances customer loyalty, (ii) allows the Company to identify and regularly contact its best customers and (iii) creates a comprehensive database that enables the Company to implement detailed, segmented marketing and merchandising strategies for each store. Frequent private label credit card users, through the Company's VIP credit card program, enjoy an increasing array of benefits. The Company's most active charge customers are awarded a bronze, silver or gold VIP card based on their level of annual purchases. Depending on their level, holders of these cards receive such benefits as discounted or free gift-wrapping, special promotional discounts and invitations to private "VIP Only" sales. In addition, new holders of the Company's credit card receive a 10% discount the first time they use their new card. To encourage associates to focus on getting customers to open new Company credit card accounts, the Company provides increasing incentive award payments based on the number of new private label credit card accounts activated. The penetration rate for the Company's private label credit card was approximately 32%, 31% and 32% of net sales in 2007, 2006 and 2005, respectively.

Merchandise Distribution. The Company currently distributes all merchandise to its stores through its two distribution centers, which are located in Jacksonville, Texas, and South Hill, Virginia. The Company's Jacksonville distribution center has 435,000 square feet of processing area and is capable of servicing 600 stores, and the South Hill distribution center has 162,240 square feet of processing area and is capable of servicing 240 stores.

During 2007, the Company selected Jeffersonville, Ohio as the site for its third distribution center. This third distribution center will have 200,000 square-foot of processing area and will be capable of servicing 310 stores when it begins operations during the second quarter of 2008.

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Incoming merchandise received at the distribution centers is inspected for quality control purposes. The Company has formal guidelines for vendors with respect to shipping, receiving and invoicing for merchandise. Vendors that do not comply with the guidelines are charged specified fees depending upon the degree of non-compliance. These fees are intended to be a deterrent to non-compliance, as well as to offset higher costs associated with the processing of such merchandise.

The Company’s two existing distribution centers are equipped with modern sortation equipment to support distribution of quantities to meet specific store needs. The same merchandising and warehouse management systems are used at all corporate and distribution center locations which allows support of stores by either distribution center. The configurations of the distribution centers permit daily shipments to stores, with the majority of stores receiving merchandise within one day of shipment from the distribution centers. The Company utilizes a third party contract carrier to deliver merchandise from both of its Jacksonville and South Hill facilities to its stores. The Company plans to implement the same distribution, merchandising, and warehouse management systems at its third distribution center, and will use the same third party contract carrier.

Information Systems. The Company supports its retail concept by using multiple, highly integrated systems in areas such as merchandising, store operations, distribution, sales promotion, personnel management, store design and accounting.

The Company's core merchandising systems assist in planning, ordering, allocating and replenishing merchandise assortments for each store, based on specific characteristics and recent sales trends. The price change management system allows the Company to identify and mark down slow moving merchandise. The replenishment/fulfillment system allows the Company to maintain planned levels of in-stock positions in basic items such as jeans and underwear. In addition, a fully integrated warehouse management system is in place in both the Jacksonville and South Hill distribution centers.

The Company utilizes state-of-the-art point-of-sale systems with bar code scanning, electronic credit authorization, instant credit and gift card processing in its stores. These systems also allow the Company to capture customer specific sales data for use in its merchandising, marketing and loss prevention systems, while quickly servicing its customers. The Company also utilizes an automated store personnel scheduling system that analyzes historical sales trends to schedule sales staff to match customer traffic patterns, thereby minimizing store labor costs.

The Company implemented a new merchandise planning system in mid 2007. This new system produces by store plans based on the individual stores performances and based on attributes assigned to it by the Planning Group. The Company expects the ability to plan receipts and sales by store by class based on a stores individual attributes will enable the Company to allocate merchandise more accurately. The Company expects to experience both sales and profitability gains due to the new functionality. The initial impact and benefits are expected to begin in the first half of 2008.

Employees. At February 2, 2008, the Company employed a total of 14,458 employees broken down as follows:

	Hourly	Salaried	Total
Stores	11,939	1,088	13,027
Administrative offices	213	654	867
Distribution centers	524	40	564
Total	12,676	1,782	14,458

Employee levels will vary during the year as the Company traditionally hires additional employees and increases the hours of part-time employees during peak seasonal selling periods. There are no collective bargaining agreements in effect with respect to any of the Company's employees. The Company believes that it maintains a good relationship with its employees.

Seasonality. The Company's business is seasonal and sales traditionally are lower during the first three quarters of the fiscal year (February through October) and higher during the last quarter of the fiscal year (November through January). The fourth quarter usually accounts for slightly more than 30% of the Company's annual sales, with the other quarters accounting for approximately 22% to 24% each. Working capital requirements fluctuate during the year as well and generally reach their highest levels during the third and fourth quarters.

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Trademarks. The Company regards its trademarks and their protection as important to its success. In addition to the Bealls, Palais Royal, Peebles and Stage trademarks, the United States Patent and Trademark Office (the "USPTO") has issued federal registrations to the Company for the following trademarks: Cape Classic, Cape Classic LTD, Casual Options, FB Petite, Graphite, Hannah, Hidden Fantasies, Meherrin River Outfitters, Private Expressions, Signature Studio, Sun River Clothing Co., Sun River Footwear, Rebecca Malone, Specialty Kids, Specialty Girl, Specialty Baby, Whispers, Miss Becky, Croft Classics, Croft's, Pebblebrook and Thomas & Ashemore. The Company has also filed applications with the USPTO seeking federal registrations for the following trademarks: Rebecca Malone Bath & Body and Design, On Stage, Whispers Bath & Body and Mistletoe Mountain.

ITEM 1A. RISK FACTORS

Forward Looking Statements

Certain statements in this Form 10-K contain or may contain forward-looking statements that are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, the ability of the Company and its subsidiary to maintain normal trade terms with vendors, the ability of the Company and its subsidiary to comply with the various covenant requirements contained in the Company's Revolving Credit Facility, the demand for apparel and other factors. The demand for apparel and sales volume can be affected by significant changes in economic conditions, including an economic downturn, employment levels in the Company's markets, consumer confidence, energy and gasoline prices, and other factors influencing discretionary consumer spending. Other factors affecting the demand for apparel and sales volume include unusual weather patterns, an increase in the level of competition in the Company's market areas, competitors' marketing strategies, changes in fashion trends, changes in the average cost of merchandise purchased for resale, availability of product on normal payment terms and the failure to achieve the expected results of the Company's merchandising and marketing plans as well as its store opening plans. The occurrence of any of the above could have a material and adverse impact on the Company's operating results. Most of these factors are difficult to predict accurately and are generally beyond the Company's control. Readers should consider the risks and uncertainties described in connection with any forward-looking statements that may be made in this Form 10-K. Readers should carefully review the Form 10-K in its entirety, including but not limited to the Company's financial statements and the notes thereto and the risks and uncertainties described in this Item 1A. Forward-looking statements contained in this Form 10-K speak only as of the date of this Form 10-K. The Company does not undertake to update its forward-looking statements.

The Company faces the risk of a highly competitive retail apparel industry, which may result in the loss of customers, increased spending on marketing and advertising and reduced revenues. The retail apparel business is highly competitive. Although competition varies widely from market to market, the Company faces the risk of increased competition, particularly in its more highly populated markets from national, regional and local department and specialty stores. Some of the Company's competitors are considerably larger than the Company and have substantially greater financial and other resources. Although the Company offers brands that are not available at certain other retailers, including regional and national department stores, there can be no assurance that existing or new competitors will not carry similar branded merchandise in the future, which could have a material and adverse effect on the Company's business, financial condition and cash flows. The Company also faces competition from internet business, in addition to traditional store-based retailers, which could materially affect its revenue and profitability.

An economic downturn, decline in consumer confidence could negatively impact the Company's business and financial condition. A substantial portion of the Company's operations is located in the South Central, Southwestern and Mid-Atlantic states. In addition, many of the Company's stores are situated in small towns and rural environments that are substantially dependent upon the local economy. The retail apparel business is dependent upon the level of consumer spending, which may be adversely affected by an economic downturn, or a decline in consumer confidence, employment levels in the Company’s markets, energy and gasoline prices and other factors influencing discretionary consumer spending. An economic downturn or decline in consumer confidence, particularly in the South Central, Southwestern and Mid-Atlantic states and any state (such as Texas or Louisiana) from which the Company derives a significant portion of its net sales, could have a material and adverse effect on the Company's business, financial condition and cash flows, including affecting demand for the Company's products.

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The Company’s operations could suffer if it does not anticipate and respond to changing customer preferences in a timely manner. The Company's success depends, in part, upon its ability to anticipate and respond to changing consumer preferences and fashion trends in a timely manner. Although the Company attempts to stay abreast of emerging lifestyles and consumer preferences affecting its merchandise, any sustained failure by the Company to identify and respond to such trends could have a material and adverse effect on the Company's business, financial condition and cash flows.

The Company is highly dependent upon cash flows and net earnings generated during the fourth quarter, which includes the majority of the holiday season. The Company's business is seasonal and sales traditionally are lower during the first three quarters of the fiscal year (February through October) and higher during the last quarter of the fiscal year (November through January). The fourth quarter usually accounts for slightly more than 30% of the Company's annual sales, with the other quarters accounting for approximately 22% to 24% each. Working capital requirements fluctuate during the year as well and generally reach their highest levels during the third and fourth quarters.

Unusual weather patterns could negatively impact the Company’s financial condition. The Company's business depends, in part, on normal weather patterns across its markets. Any unusual weather patterns in the Company's markets can have a material and adverse impact on the Company's business, financial condition and cash flows.

War, acts of terrorism, public health issues and natural disasters may create uncertainty and may result in reduced revenues. The Company cannot predict, with any degree of certainty, what effect, if any, war, acts of terrorism, public health issues and natural disasters, if any, will have on the Company, its operations, the other risk factors discussed herein and the forward-looking statements made by the Company in this Annual Report on Form 10-K. However, the consequences of these events could have a material and adverse effect on the Company's business, financial condition and cash flows.

Government laws and regulations could adversely impact the Company’s business, financial condition and cash flows. The Company, like other businesses, is subject to various federal, state and local government laws and regulations including, but not limited to, tax laws, which may be changed from time to time in response to economic or political conditions. The Company cannot predict whether existing laws or regulations, as currently interpreted or as reinterpreted in the future, or future laws and regulations, could materially and adversely affect the results of its operations, financial condition and cash flows.

The Company cannot guarantee that it will reach its targets for opening new stores or that the new stores, including those opened through acquisition, will operate profitably when opened. The success of the Company's expansion strategy depends upon many factors, including the ability of the Company to obtain suitable sites for new stores at acceptable costs, to hire, train and retain qualified personnel and to integrate new stores into existing information systems and operations. The Company cannot guarantee that it will reach its targets for opening new stores or that such stores, including those opened through acquisition, will operate profitably when opened. If the Company fails to effectively implement its expansion strategy, it could have a material and adverse effect on the Company's business, financial condition and cash flows.

If the Company is not able to obtain merchandise product on normal trade terms, its business, financial condition, and cash flows could be adversely impacted. The Company is highly dependent on obtaining merchandise product on normal trade terms. If the Company does not meet its performance objectives, the Company's key vendors and factors may become more restrictive in granting trade credit by either reducing the Company's credit lines or shortening payment terms. The tightening of credit from the vendor or factor community could have a material adverse impact on the Company's business, financial condition and cash flows.

A catastrophic event affecting any of the Company's buying, distribution or other corporate operations could adversely impact the use of those facilities and could result in reduced revenues and loss of customers. The Company's buying, distribution and other corporate operations are in highly centralized locations. The Company's operations could be materially and adversely affected if a catastrophic event (such as, but not limited to, fire, hurricanes or floods) impacts the use of these facilities. There can be no assurances that the Company would be successful in obtaining alternative servicing facilities in a timely manner if such a catastrophic event should occur. The Company is opening its third distribution center during 2008. The Company's operations could be materially and adversely affected if this distribution center is not successfully integrated into the existing distribution processes.

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A disruption of the Company’s information technology systems could have a material adverse impact on the Company’s business and financial condition. The Company is heavily dependent on its information technology systems for day to day business operations. In addition, as part of the Company's normal course of business, it collects processes and retains sensitive and confidential customer information. Today’s information technology risks are largely external and their consequences affect the entire Company. Potential risks include, but are not limited to, the following: (i) an intrusion by a hacker, (ii) the introduction of malware (virus, Trojan, spyware), (iii) hardware failure, (iv) outages due to software defects, and (v) human error. Although the Company runs anti-virus and anti-spyware software and takes other steps to ensure that its information technology systems will not be disabled or otherwise disrupted, there can be no assurances that disruptions will not occur. The consequences of a disruption, depending on the severity, could have a material adverse affect on the Company’s business and financial condition and could expose the Company to civil, regulatory and industry actions and possible judgments, fees and fines. In addition, any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer information could severely damage the Company’s reputation, expose it to the risks of legal proceedings, disrupt its operations and otherwise adversely affect the Company’s business and financial condition. While the Company has taken significant steps to protect customer and confidential information, there can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography, or other developments will prevent the compromise of customer transaction processing capabilities and personal data. If any such compromise of the Company’s information security were to occur, it could have a material adverse effect on the Company’s reputation, business, operating results, financial condition and cash flows.

Covenants in the Company’s Revolving Credit Facility agreement may impose operating restrictions, impede or adversely affect the Company’s ability to pay dividends or repurchase common shares and raise capital through the sale of stock and other securities. The Company’s Revolving Credit Facility agreement contains covenants which, among other things, restrict (i) the amount of additional debt or capital lease obligations, (ii) the amount of capital expenditures, payment of dividends and repurchase of common stock under certain circumstances and (iii) related party transactions. In addition, any material or adverse developments affecting the business of the Company could significantly limit its ability to meet its obligations as they become due or to comply with the various covenant requirements contained in the Company's Revolving Credit Facility agreement.

If the Company's trademarks are successfully challenged, the outcome of those disputes could require the Company to abandon one or more of its trademarks. The Company regards its trademarks and their protection as important to its success. However, the Company cannot be sure that any trademark held by it will give it a competitive advantage or will not be challenged by third parties. Although the Company intends to vigorously protect its trademarks, the cost of litigation to uphold the validity and prevent infringement of trademarks can be substantial and the outcome of those disputes could require the Company to abandon one or more of its trademarks.

A work slowdown, stoppage or other disruption by employees of carriers, shippers and other providers of merchandise transportation services could have a material adverse effect on the Company’s business and financial condition. The Company’s vendors rely on shippers, carriers and other providers of merchandise transportation services (collectively “Transportation Providers”) to deliver merchandise from their manufacturers, both in the United States and abroad, to the vendors’ distribution centers in the United States. The Company’s vendors and the Company also rely on Transportation Providers to transport merchandise from the vendors’ distribution centers to the Company’s distribution centers. The Company also relies on Transportation Providers to transport merchandise from its distribution centers to its stores. However, if work slowdowns, stoppages or other disruptions affect the transportation of merchandise between the vendors and their manufacturers, especially those manufacturers outside the United States, or between the vendors and the Company, the Company’s business, financial condition and cash flows could be adversely affected.

Any devaluation of the Mexican peso, or imposition of restrictions on the access of citizens of Mexico to the Company’s stores, could adversely impact the Company’s business and financial condition. Approximately 3% of the

Company's stores are located in cities that either border Mexico or that the Company considers to be in close proximity to Mexico. The Company estimates that approximately 7% of its 2007 sales were derived from these stores. While purchases in these stores are made in United States dollars, a devaluation of the Mexican peso could negatively affect the exchange rate between the peso and the dollar, which would result in reduced purchasing power on the part of the Company's customers who are citizens of Mexico. In that event, revenues attributable to these stores could be reduced. In addition, due to global uncertainties, including threats or acts of terrorism, it is possible that tighter restrictions may be imposed by the Federal government on the ability of citizens of Mexico to cross the border into the United States. In that case, revenues attributable to the Company's stores regularly frequented by citizens of Mexico could be reduced.

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Results of operations could deteriorate if the Company fails to attract, develop, and retain qualified employees. The Company's performance is dependent on attracting and retaining a large and growing number of employees. The Company believes that its competitive advantage is providing well-trained and motivated sales associates in order to provide customers exceptional customer service. The Company's success depends in part upon it's ability to attract, develop, and retain a sufficient number of qualified associates, including store, service, and administrative personnel.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The Company's corporate headquarters and merchandising offices for the Stage, Bealls and Palais Royal stores are located in a leased 130,000 square foot building in Houston, Texas, while it owns the 28,000 square foot Peebles office building housing the merchandising offices for the Peebles stores located in South Hill, Virginia. The Company also owns its distribution centers in Jacksonville, Texas and South Hill, Virginia, and leases the facility that is being prepared for its third distribution center in Jeffersonville, Ohio.

At February 2, 2008, the Company operated 694 stores, located in 35 states, as follows:

State	Number of Stores
Alabama	21
Arizona	8
Arkansas	19
Colorado	5
Connecticut	1
Delaware	3
Florida	3
Georgia	31
Illinois	2
Indiana	7
Iowa	2
Kansas	6
Kentucky	18
Louisiana	52
Maryland	7
Massachusetts	2
Michigan	9
Mississippi	18
Missouri	13
New Hampshire	1
New Jersey	6
New Mexico	19
New York	12
North Carolina	25
Ohio	21
Oklahoma	33
Pennsylvania	24
South Carolina	26
Tennessee	23
Texas	228
Utah	1
Vermont	4

Virginia	34
West Virginia	9
Wisconsin	1
Total	694

Stores range in size from approximately 5,100 to 54,300 selling square feet, with the average being approximately 18,600 selling square feet. The Company's stores, of which all but three are leased, are primarily located in strip shopping centers. The majority of leases, which are typically for a 10 year term often with renewals of five years each, provide for a base rent plus payments for expenses incurred by the landlord, such as common area maintenance and insurance. Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on a percentage of sales that are in excess of a predetermined level.

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ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company and its subsidiary are involved in various legal proceedings arising in the ordinary course of their business. Management does not believe that any pending legal proceedings, either individually or in the aggregate, are material to the financial position, results of operations or cash flows of the Company or its subsidiary.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended February 2, 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Prior to March 16, 2006, the principal market for the Company's common stock was the NASDAQ National Market, where it traded under the symbol "STGS." On March 16, 2006, the Company began trading on the New York Stock Exchange under the symbol “SSI.” The following table sets forth the high and low sales prices per share of the Company's common stock for each quarter in 2007 and 2006 as reported on the NASDAQ National Market prior to March 16, 2006 and the New York Stock Exchange since that date:

	Common Stock Market Price	
2007	High	Low
First Quarter	$ 24.24	$ 20.15
Second Quarter	22.00	16.18
Third Quarter	19.96	15.27
Fourth Quarter	17.93	9.90
2006*		
First Quarter	$ 20.73	$ 18.14
Second Quarter	22.54	19.10
Third Quarter	22.42	17.06
Fourth Quarter	23.36	19.75

* Stock prices are restated to reflect the impact of the Company’s 3-for-2 stock split which was paid in the form of a stock dividend on January 31, 2007.

Holders

As of March 25, 2008, there were 518 holders of record of the Company’s common stock.

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Dividends

The Company initiated a quarterly cash dividend of $0.017 per share during the third quarter of 2005 and during the second quarter of 2006 the Company increased its quarterly cash dividend to $0.033 per share. The quarterly cash dividend was further increased to $0.05 per share in the first quarter of 2007. Dividend payments during 2007 totaled $8.4 million. On February 29, 2008, the Company announced that its Board of Directors declared a quarterly cash dividend of $0.05 per share on the Company's common stock, which was paid on March 26, 2008 to shareholders of record on March 11, 2008. While the Company expects to continue payment of quarterly cash dividends, the declaration and payment of future dividends by the Company are subject to the discretion of the Board. Any future determination to pay dividends will depend on the Company's results of operations and financial condition, as well as meeting certain criteria under its Revolving Credit Facility (as defined in “Liquidity and Capital Resources”) and other factors deemed relevant by the Board.

Stock Price Performance Graph

The annual changes for the period shown in the following graph are based on the assumption that $100 had been invested in Stage Stores stock, the S&P 500 Stock Index and the S&P 500 Retail Index on January 31, 2003 and that all quarterly dividends were reinvested at the average of the closing prices at the beginning and end of the quarter. The total cumulative dollar returns shown on the graph represent the value that such investments would have had on February 1, 2008 (the last trading date in fiscal 2007). The calculations exclude trading commissions and taxes.

Date	Stage Stores, Inc.		S&P 500 Index		S&P 500 Retail Index	
1/31/2003	$	100.00	$	100.00	$	100.00
1/30/2004	$	178.51	$	132.19	$	148.35
1/28/2005	$	213.28	$	136.89	$	169.05
1/27/2006	$	246.55	$	150.02	$	182.31
2/2/2007	$	277.97	$	169.26	$	207.77
2/1/2008	$	161.01	$	163.07	$	167.80

Stock Repurchase Program

The Company’s Board of Directors has approved various stock repurchase programs, all of which have been completed. The stock repurchase programs permitted the Company to repurchase its outstanding common stock from time to time in the open market or through privately negotiated transactions including, but not limited to, accelerated share repurchases, as deemed appropriate by the Company. The Board has also granted the Company the authority to repurchase additional amounts of its outstanding common stock using available proceeds from the exercise of stock options as well as the tax benefits that will accrue to the Company from the exercise of stock options, stock appreciation rights (“SARs”) and other equity grants. At February 2, 2008, approximately $1.5 million was available to the Company for stock repurchases with proceeds and tax benefits from the exercise of its equity grants. The following is a summary of repurchase activity completed under the various repurchase programs through February 2, 2008 (in thousands):

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Stock Repurchase Programs	Date Approved	Date Completed		Amount	Shares Repurchased (1)
2002 Stock Repurchase Programs	July 29, 2002 & September 19, 2002	February 1, 2003	$	25,000	2,586
2003 Stock Repurchase Program	October 1, 2003	May 25, 2004		50,000	3,116
2005 Stock Repurchase Program	July 5, 2005	October 29, 2005		30,000	1,686
2007 Stock Repurchase Programs	January 5, 2007 & November 19, 2007	January 9, 2008		100,000	6,199
				205,000	13,587
Stock repurchases using proceeds from the exercise of employee stock options				72,209	3,320
		Total	$	277,209	16,907

(1) Shares repurchased are restated to reflect the impact of the 3-for-2 stock splits on August 19, 2005 and January 31, 2007.

The following table is a summary of repurchase activity during the fourth quarter of 2007:

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
November 4, 2007 to December 1, 2007	472,504	$	17.02	472,504	$	41,956,560
December 2, 2007 to January 5, 2008	2,441,550	$	15.66	2,441,550	$	3,717,051
January 6, 2008 to February 2, 2008	301,500	$	12.33	301,500	$	812
Total	3,215,554	$	15.55	3,215,554		

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ITEM 6. SELECTED FINANCIAL DATA

The following sets forth selected consolidated financial data for the periods indicated. The selected consolidated financial data should be read in conjunction with the Company's Consolidated Financial Statements included herein. All amounts are stated in thousands, except for per share data and number of stores.

	Fiscal Year				
	2003 (1)	2004	2005	2006 (1)(2)	2007
Statement of operations data:					
Net sales	$ 972,212	$ 1,243,851	$ 1,344,100	$ 1,550,180	$ 1,545,606
Cost of sales and related buying, occupancy and distribution expenses	694,055	884,291	952,680	1,096,693	1,100,892
Gross profit	278,157	359,560	391,420	453,487	444,714
Selling, general and administrative expenses	200,713	274,265	296,543	352,870	350,248
Store opening costs	3,068	2,172	3,210	7,825	4,678
Interest, net	2,509	2,515	2,958	5,011	4,792
Gain on sale of private label credit card portfolio, net	(12,218)	-	-	-	-
Income before income tax expense	84,085	80,608	88,709	87,781	84,996
Income tax expense	30,691	29,220	32,822	32,479	31,916
Net income	$ 53,394	$ 51,388	$ 55,887	$ 55,302	$ 53,080
Basic earnings per common share (3)	$ 1.25	$ 1.25	$ 1.38	$ 1.33	$ 1.27
Basic weighted average common shares (3) outstanding	42,757	41,136	40,569	41,559	41,764
Diluted earnings per common share (3)	$ 1.18	$ 1.15	$ 1.27	$ 1.25	$ 1.24
Diluted weighted average common shares (3) outstanding	45,413	44,763	44,040	44,111	42,720
Margin and other data:					
Gross profit margin (4)	28.6%	28.9%	29.1%	29.3%	28.8%
Selling, general and administrative expense rate (5)	20.6%	22.0%	22.1%	22.8%	22.7%
Capital expenditures	$ 46,432	$ 47,890	$ 75,168	$ 71,914	$ 95,311
Construction allowances from	9,488	3,104	13,302	8,946	18,765

landlords					
Stock repurchases	7,666	61,701	48,687	21,579	112,597
Proceeds from exercise of stock options and warrants, including tax benefit	10,393	20,437	15,498	45,359	9,528
Cash dividends per share	-	-	0.03	0.12	0.20
Store data:					
Comparable store sales growth (6)	(4.1%)	2.5%	5.4%	3.5% (2)	(1.1%)
Store openings	170 (7)	22	36	108 (8)	47
Store closings	6	11	15	3	8
Number of stores open at end of period	518	529	550	655	694
Total selling area square footage at end of period	9,914	10,001	10,377	12,124	12,929

	January 31, 2004	January 29, 2005	January 28, 2006	February 3, 2007	February 2, 2008
Balance sheet data (at end of period)					
Working capital	$ 230,538	$ 225,161	$ 222,510	$ 253,668	$ 236,038
Total assets	669,091	686,999	731,653	824,986	871,490
Debt obligations	13,119	3,178	3,053	16,614	100,594
Stockholders' equity	470,338	481,273	501,832	571,408	520,846

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(1) The financial results of Peebles and B.C. Moore have been included in the Company's consolidated financial statements from November 2, 2003 and February 26, 2006, respectively, the effective dates of the Acquisitions for accounting purposes.

(2) Fiscal year 2006 includes 53 weeks. Comparable store sales growth for 2006 has been determined based on a comparable 52 week period.

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(3) The share and per share information for all periods presented have been restated to reflect the 3-for-2 stock splits which were paid in the form of a stock dividend on August 19, 2005 and January 31, 2007.

(4) Depreciation expense associated with store locations, information systems and the distribution centers are included as a component of cost of sales. Depreciation expense included in cost of sales as a rate of sales was 1.5%, 2.1%, 2.1%, 2.2% and 2.5% in the years 2003, 2004, 2005, 2006 and 2007, respectively. The increase in depreciation expense over this period as a rate of sales is the result of the (i) Peebles Acquisition on November 4, 2003 with the associated increase in depreciable assets, (ii) B.C. Moore Acquisition on February 27, 2006 with the associated increase in depreciable assets, (iii) capital expenditures since the Company's emergence from bankruptcy in 2001 and (iv) the relatively low depreciation basis of fixed assets associated with the stores which were open at the time of emergence from bankruptcy in 2001 due to the application of fresh-start reporting.

(5) Selling, general and administrative expenses ("SG&A") in fiscal year 2003 included, as an offset to selling, general and administrative expenses, the net income contribution from the Stage private label credit card portfolio prior to its sale on September 12, 2003, which included service charge and late fee income, operating expenses incurred by the Company in origination of credit, customer service and collection activities, interest expense on securitization facility borrowings and certain other items (collectively "Net Credit Income"). Net Credit Income in fiscal year 2003 was 1.4% of sales.

(6) Comparable store sales growth is based on sales growth for those stores which have been opened at least fourteen months prior to the reporting period. These results do not include comparable store performance of stores acquired in the Acquisitions prior to the date of the Acquisitions.

(7) Includes 136 stores acquired in the Peebles Acquisition.

(8) Includes 69 stores acquired in the B.C. Moore Acquisition that were converted to Peebles stores.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Stage Stores is a Houston, Texas-based regional, specialty department store retailer offering moderately priced, nationally recognized brand name and private label apparel, accessories, cosmetics and footwear for the entire family. As of February 2, 2008, the Company operated 694 stores located in 35 states under the Stage, Bealls and Palais Royal names throughout the South Central and Southwestern states, and under the Peebles name throughout the Midwestern, Southeastern, Mid-Atlantic and New England states. The Company's principal focus is on consumers in small and mid-size markets which the Company believes are under-served and less competitive. The Company believes that it is able to differentiate itself from the competition in the small and mid-size markets in which it operates by offering consumers access to basic as well as fashionable brand name merchandise not typically carried by other retailers in the same market area. In the highly competitive metropolitan markets in which it operates, the Company competes against national department store chains, which similarly offer moderately priced, brand name and private label merchandise. As a way of differentiating itself from the competition in these larger metropolitan markets, the Company endeavors to offer consumers a high level of customer service in convenient locations.

On February 27, 2006, the Company acquired privately held B.C. Moore & Sons, Incorporated (“B.C. Moore”) which then operated 78 retail locations located in small markets throughout Alabama, Georgia, North Carolina and South Carolina (the “B.C. Moore Acquisition”). Following the acquisition, the Company converted 69 of the acquired stores to its Peebles name and format in 2006. The remaining nine non-converted locations were closed. The B.C. Moore Acquisition expands the Company’s position in the Southeastern United States, and is consistent with its corporate strategy of increasing the concentration of its store base into smaller markets.

The financial information, discussion and analysis that follow should be read in conjunction with the Company's Consolidated Financial Statements included elsewhere herein.

Results of Operations

The following table sets forth the results of operations as a percent of sales for the periods indicated (2007 and 2005 consisted of 52 weeks while 2006 consisted of 53 weeks):

	Fiscal Year		
	2007	2006	2005
Net sales	100.0%	100.0%	100.0%
Cost of sales and related buying, occupancy and distribution expenses	71.2	70.7	70.9
Gross profit margin	28.8	29.3	29.1
Selling, general and administrative expenses	22.7	22.8	22.1
Store opening costs	0.3	0.5	0.2
Interest, net	0.3	0.3	0.2
Income before income tax	5.5	5.7	6.6

Income tax expense	2.1	2.1	2.4
Net income	3.4%	3.6%	4.2%

2007 Compared to 2006

Sales for 2007 decreased 0.3% to $1,545.6 million from $1,550.2 million for 2006, which was a 53 week fiscal year. Sales during the fifty-third week of 2006 were $21.4 million. Excluding the impact of the fifty-third week, total sales increased 1.1% or $16.8 million. This increase was driven by $104.6 million in sales generated by new stores that were not in the comparable store base during 2006 offset by a decline in comparable store sales of $15.0 million, sales of $10.7 million from stores that were closed in 2007 and inventory liquidation sales of $62.1 million in 2006 generated by the acquired B.C. Moore stores prior to their conversion to Peebles stores. Comparable store sales, (52 weeks in 2007 versus first 52 weeks last year) which are sales in stores open at least fourteen months prior to the reporting period, decreased 1.1% during 2007 (“2007 comparable store sales”) as compared to a 3.5% increase in 2006.

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Comparable store sales increase (decrease) by quarter is presented below:

	Fiscal Year	
	2007	2006
1st Quarter	0.1%	3.2%
2nd Quarter	0.5	4.5
3rd Quarter	(1.0)	4.1
4th Quarter	(3.1)	2.5*
Total Year	(1.1)	3.5*

* Excludes the impact of the 14th week in the 4th quarter and the impact of the 53rd week in 2006.

Sales in 2007 were negatively impacted by unseasonable and inconsistent weather patterns as well as the overall weak economy. In spite of these factors, the Company achieved 2007 comparable store sales increases in certain of its key merchandise categories (i.e., those categories comprising greater than 5% of sales), namely dresses, cosmetics and special sizes. The increase in cosmetics was driven by the continuing installation of new Estee Lauder and Clinique counters while the increase in special sizes is the result of the merchandising initiative to grow the plus size business through further enhancement of merchandise mix and product selection supported by expanded selling floor space. On a market population basis, utilizing a ten mile radius from each store, in 2007 the Company achieved a 0.5% comparable store sales increase in its small market stores, or those in market areas with populations of less than 50,000 in 2007, versus a comparable store sales increase of 3.6% in 2006. In its mid-sized market stores, or those in market areas with populations of 50,000 to 150,000, 2007 comparable stores sales decreased by 3.1% as compared to a 3.5% increase in 2006. In its large market stores, or those in market areas with populations greater than 150,000, 2007 comparable store sales decreased 3.1% as compared to an increase of 3.3% in 2006. The small market stores continue to be the focus of the Company's new store expansion plans.

The following is a summary of the changes between 2007 and 2006 in the components of cost of sales, expressed as a percent of sales:

	Increase in the Components of Cost of Sales 2007 Compared to 2006
Merchandise cost of sales	0.2%
Buying, occupancy and distribution expenses	0.3
Increase in merchandise cost of sales and related buying, occupancy and distribution expenses rate	0.5%

Gross profit decreased 1.9% to $444.7 million for the current year from $453.5 million for the prior year. Gross profit, as a percent of sales, was 28.8% in the current year and 29.3% in the prior year. The increase in the merchandise cost of sales rate was primarily due to the higher gross margin rate realized on the prior year B.C. Moore inventory liquidation sales. The increase in the buying, occupancy and distribution expenses rate was principally due to higher store occupancy and depreciation costs due to the increased store count and de-leveraging of the somewhat fixed expenses due to lower sales. This increase was partly offset because the prior year included a $3.3 million charge (0.2% of sales) related to the correction of an error in accounting for distribution center handling credits. Prior to 2006, these credits were recognized in income when received. Beginning in 2006, the Company began deferring recognition of these credits by recording a reserve against its inventory.

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Selling, general and administrative ("SG&A") expenses in 2007 decreased $2.6 million, or 0.1%, to $350.3 million from $352.9 million in 2006. As a percent of sales, SG&A expenses decreased to 22.7% in 2007 from 22.8% in 2006. Prior year SG&A expenses included expenses associated with the B.C. Moore stores prior to their conversion and re-opening as Peebles stores totaling $22.8 million, which among other things, included the fee earned by the liquidator that managed operations of the stores during this period. Excluding B.C. Moore liquidation period sales and related SG&A expenses, the prior year SG&A rate would have been 22.2%. The increase in the SG&A rate in the current year over the prior year adjusted rate was primarily due to increased advertising costs, principally in the Peebles stores and deleveraging of the fixed components of SG&A expenses due to lower sales.

Store opening costs in 2007 of $4.7 million include costs related to 47 stores opened and 18 stores relocated during the current year. In 2006, the Company incurred $7.8 million in store opening costs related to 39 new stores and nine stores relocated, as well as expenses associated with the transition and conversion of 69 former B.C. Moore stores into Peebles stores.

Net interest expense was $4.8 million in 2007 as compared to $5.0 million in 2006. The decrease is reflective of the lower weighted average interest rate of 6.2% for 2007 as compared to 6.9% for 2006. The 2007 rate included the benefit of a reduction in the applicable margin rate used for the interest rate charged under the Company's amended Revolving Credit Facility (see "Liquidity and Capital Resources"). Interest expense is primarily comprised of interest on borrowings under the Company's Revolving Credit Facility, related letters of credit and commitment fees, amortization of debt issue costs and interest on financing lease obligations and equipment financing notes.

The Company's effective tax rate for 2007 was 37.6% and 37.0% in 2006, which resulted in income tax expense of $32.0 million in 2007 as compared to income tax expense of $32.5 million in 2006. The increase in the effective tax rate was due to the legislation enacted by the Texas Legislature which subjects the Company to a Texas income tax effective during the second quarter of 2007. The Company's effective tax rate is currently estimated to be 38.0% in 2008.

As a result of the foregoing, the Company had net income of $53.1 million in 2007 as compared to net income of $55.3 million in 2006.

2006 Compared to 2005

Sales for 2006 increased 15.3% to $1,550.2 million from $1,344.1 million for 2005. Comparable store sales, which are sales in stores open at least fourteen months prior to the reporting period, increased 3.5% during the first 52 weeks of 2006 ("2006 comparable store sales") as compared to a 5.4% increase in 2005. The increase in total sales of $206.1 million was driven by the Company's 2006 comparable store sales gain, which accounted for $44.7 million of the increase, as well as $98.5 million in sales generated by the new and newly converted stores that were not in the comparable store sales base during 2006, and sales of $62.1 million contributed by the acquired B.C. Moore stores during the period from February 26, 2006 (the effective date of the B.C. Moore Acquisition for accounting purposes) through the completion of their conversion to Peebles stores in the third quarter of 2006. In addition, sales during the fifty-third week of 2006 accounted for $21.4 million of the increase. Offsetting these sales gains somewhat was the loss of $20.6 million in sales from closed stores, including the four stores closed due to damage sustained from Hurricane Rita, that were in operation during 2005.

Comparable store sales increase by quarter is presented below.

	Fiscal Year	
	2006	2005

1st Quarter	3.2%	4.9%
2nd Quarter	4.5	7.0
3rd Quarter	4.1	3.9
4th Quarter	2.5*	5.6
Total Year	3.5*	5.4

* Excludes the impact of the 14th week in the 4th quarter and the impact of the 53rd week in 2006.

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The Company achieved 2006 comparable store sales increases in each of its key merchandise categories (i.e., those categories comprising greater than 5% of sales). Special sizes, cosmetics and accessories provided the most significant increase in 2006 comparable store sales. On a market population basis, utilizing a ten mile radius from each store, in 2006 the Company achieved overall comparable store sales increases in each of its three market store groups. In its small market stores, or those in market areas with populations of less than 50,000, 2006 comparable store sales increased 3.6% as compared to 5.8% in 2005. In its mid-sized market stores, or those in market areas with populations of 50,000 to 150,000, 2006 comparable stores sales increased by 3.5% as compared to 6.0% in 2005. In its large market stores, or those in market areas with populations greater than 150,000, 2006 comparable store sales increased 3.3% as compared to 3.7% in 2005.

During the first half of 2006, the Company operated with lower than desired merchandise levels at its Peebles stores, which led to negative comparable store sales at these stores during that period. The Company experienced learning curve issues related to the implementation of the new Peebles merchandising and warehouse management systems in early 2006. These purchase order and processing problems slowed the flow of goods during the early part of the year, which in conjunction with insufficiently planned inventory levels in certain categories of business, contributed to the Peebles comparable stores having lower than desired inventory levels during the first half of 2006. The Company believes that, although comparable store sales were up 3.8% during the first half of the year, driven by good demand for its seasonal and clearance merchandise assortments, strength of the energy sector economy in the related states of Texas, Oklahoma, New Mexico and Louisiana, and the hurricane recovery driven sales in certain markets in Texas, Louisiana and Mississippi (which generally lasted until the anniversary of the storms in September of 2006), comparable store sales could have been better if not for the issues at its Peebles stores. In the third quarter, inventory levels in its Peebles stores were raised to appropriate levels and, as a result, these stores produced comparable store sales gains during the second half of the year.

The following is a summary of the changes between 2006 and 2005 in the components of cost of sales, expressed as a percent of sales:

	Increase (Decrease) in the Components of Cost of Sales 2006 Compared to 2005	
Increase (Decrease) in cost of sales under former retail method:		
Merchandise cost of sales	(0.5)	%
Buying, occupancy and distribution expenses	0.1	
Subtotal	(0.4)	
Impact on merchandise cost of sales due to the change in accounting principles to the cost method	0.2	
Decrease in merchandise cost of sales and related buying, occupancy and distribution expenses rate	(0.2)	%

The Company changed its method of accounting for merchandise inventories from the retail method to the weighted average cost method (the “cost method”) as of the beginning of 2006. In connection with the change in its method of accounting for merchandise inventories to the cost method, the Company also changed its accounting policy related to its historical treatment of certain distribution center costs associated with preparing inventory for sale, such as distribution payroll, benefits, occupancy, depreciation and other direct operating expenses, and now capitalizes these related costs into inventory and recognizes these expenses as the related inventory turns. Reported results for periods prior to 2006 have not been adjusted as the period-specific information required to value inventory on the cost method is not determinable. See Note 2 to the Consolidated Financial Statements. Accordingly, gross profit in 2006 is not comparable to 2005 due to the different inventory accounting methods used in each period. The impact of the accounting changes was a $2.6 million decrease in gross profit in 2006. Gross profit before the impact of the accounting changes increased 16.5% to $456.1 million in 2006 from $391.4 million in 2005. Gross profit, as a percent of sales, was 29.3% in 2006 under the cost method as compared to 29.1% in 2005 under the retail method.

The decrease in the cost of sales rate of 0.4% before the change in accounting principles was primarily attributable to improved merchandise margins, which benefited from a higher maintained mark-up from increased purchase order mark-on as compared to prior year and better leverage from higher sales on buying, occupancy and distribution expenses excluding the effect of the $3.3 million charge to cost of sales for the correction of an accounting error related to distribution center handling credits.

Selling, general and administrative expenses in 2006 increased $56.4 million, or 19.0%, to $352.9 million from $296.5 million in 2005. The overall increase in SG&A expenses from 2005 was primarily due to increases in store expenses as a result of higher sales and increased store count, including the acquired B.C. Moore stores. As a percent of sales, SG&A expenses increased to 22.8% in 2006 as compared to 22.1% in 2005. The increase in the SG&A rate of 0.7% in 2006 was principally due to higher SG&A expenses, as a rate of sales, for the B.C. Moore stores prior to their conversion and re-opening as Peebles stores totaling $22.8 million, which among other things, included the fee earned by the liquidator that managed operations of the stores during this period. Increases in SG&A expenses in 2006 also included (i) higher expenses of $4.2 million associated with long-term incentive equity awards, which includes the expensing of stock options that began in the first quarter of 2006 (ii) higher professional fees and other expenses of $1.3 million associated with the Company's inventory valuation methodology review, (iii) increased property insurance premiums of $1.5 million due to claims activity related to last year's hurricanes and (iv) increased other personnel related costs, including salaries and relocation costs as compared to 2005. These increases in SG&A expenses were partially offset by reimbursements that the Company received in the current year totaling approximately $4.0 million for its hurricane related losses and approximately $4.6 million of gift card and merchandise credit breakage income discussed more fully below.

Gift card and merchandise credit breakage income ("breakage income") represents the balance of gift cards and merchandise credits for which the Company believes the likelihood of redemption is remote. During 2006, the Company accumulated enough historical data for the first time to determine the breakage rate and objectively determine the estimated time period of actual redemptions. As a result, the Company recognized approximately $4.6 million of breakage income in the fourth quarter of 2006. As 2006 was the first year in which the Company recognized breakage income, the amount recognized includes the breakage income related to gift cards sold and merchandise credits issued since the inception of the program. This income is recorded as other income and is included in the Consolidated Statement of Income as a reduction in SG&A expenses.

Store opening costs in 2006 of $7.8 million relate to the 39 new stores opened and nine stores relocated during 2006 as well as expenses associated with the transition and conversion of the 69 former B.C. Moore stores into Peebles stores during 2006. In 2005, the Company incurred $3.2 million in store opening costs related to the 36 new stores opened and 16 stores relocated.

Net interest expense was $5.0 million in 2006 as compared to $3.0 million in 2005. The increase is reflective of higher average borrowings during 2006, primarily related to the B.C. Moore Acquisition and store conversion activities, as well as an increase in the weighted average interest from 5.6% in 2005 to 6.9% in 2006. 2006 interest expense is principally comprised of interest on borrowings under the Company's Revolving Credit Facility (as defined in "Liquidity and Capital Resources"), related letters of credit and commitment fees, amortization of debt issue costs and interest on financing lease obligations.

The Company's effective tax rate was 37.0% in both 2006 and 2005, which resulted in income tax expense of $32.5 million in 2006 as compared to income tax expense of $32.8 million in 2005.

As a result of the foregoing, the Company had net income of $55.3 million in 2006 as compared to net income of $55.9 million in 2005.

Seasonality and Inflation

Historically, the Company's business is seasonal and sales traditionally are lower during the first three quarters of the fiscal year (February through October) and higher during the last quarter of the fiscal year (November through January). The fourth quarter usually accounts for slightly more than 30% of the Company's annual sales, with the other quarters accounting for approximately 22% to 24% each. Working capital requirements fluctuate during the year and generally reach their highest levels during the third and fourth quarters. The Company does not believe that inflation had a material effect on its results of operations during the past three years. However, there can be no assurance that the Company’s business will not be affected by inflation in the future.

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The following table shows quarterly information (unaudited) for the Company (in thousands, except per share amounts):

	Fiscal Year 2007			
	Q1	Q2	Q3	Q4
Net sales	$ 358,244	$ 359,205	$ 355,147	$ 473,010
Gross profit	$ 98,325	$ 105,487	$ 94,249	$ 146,653
Net income	$ 9,107	$ 9,876	$ 2,446	$ 31,651
Basic earnings per common share	$ 0.21	$ 0.23	$ 0.06	$ 0.80
Diluted earnings per common share	$ 0.20	$ 0.23	$ 0.06	$ 0.78
Basic weighted average shares	43,507	42,408	41,400	39,742
Diluted weighted average shares	44,790	43,373	42,258	40,462

	Fiscal Year 2006			
	Q1	Q2	Q3	Q4
Net sales	$ 343,541	$ 362,104	$ 353,348	$ 491,187
Gross profit	$ 99,670	$ 95,578	$ 100,310	$ 157,929
Net income	$ 9,045	$ 3,853	$ 2,798	$ 39,606
Basic earnings per common share	$ 0.23	$ 0.10	$ 0.07	$ 0.91
Diluted earnings per common share	$ 0.21	$ 0.09	$ 0.06	$ 0.88
Basic weighted average shares	39,880	40,033	42,511	43,651
Diluted weighted average shares	43,500	43,542	44,384	44,954

Liquidity and Capital Resources

The Company's liquidity is currently provided by (i) existing cash balances, (ii) operating cash flows, (iii) normal trade credit terms from the vendor and factor community, (iv) equipment financing and (v) its Revolving Credit Facility.

On April 20, 2007, the Company amended its $250.0 million senior secured revolving credit facility (the "Revolving Credit Facility"), that originally would have matured on August 21, 2008, to, among other things, (i) extend its term for five years through April 20, 2012, (ii) include an uncommitted accordion feature to increase the size of the Revolving Credit Facility to $350.0 million and (iii) reduce the applicable margin rates by fifty basis points on Eurodollar rate based borrowings. Borrowings under the Revolving Credit Facility are limited to the availability under a borrowing base that is determined principally on eligible inventory as defined by the Revolving Credit Facility agreement. The daily interest rates under the Revolving Credit Facility are determined by a prime rate or Eurodollar rate plus an applicable margin as set forth in the Revolving Credit Facility agreement. Inventory and cash and cash equivalents are pledged as collateral under the Revolving Credit Facility. The Revolving Credit Facility is used by the Company to provide financing for working capital, capital expenditures, interest payments and other general corporate purposes, as well as to support its outstanding letters of credit requirements. Outstanding borrowings at February 2, 2008 under the Revolving Credit Facility were $63.5 million. Excess borrowing availability at February 2, 2008 under the Revolving Credit Facility, net of letters of credit outstanding of $11.2 million, was $137.3 million. During 2007, the weighted average interest rate on outstanding borrowings and the average daily borrowings under the Revolving Credit Facility were 6.2% and $46.7 million, respectively.

The Revolving Credit Facility contains covenants that, among other things, restrict, based on required levels of excess availability, (i) the amount of additional debt or capital lease obligations, (ii) the payment of dividends and repurchase of common stock under certain circumstances and (iii) related party transactions. The Company continually monitors its liquidity position and compliance with those covenants.

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During the fourth quarter of 2007, the Company borrowed $32.4 million under equipment financing notes bearing interest ranging from 5.1% to 6.0%. The notes are payable in monthly installments over a five year term and are secured by certain fixtures and equipment.

The Company generated $124.5 million in cash from operating activities in 2007. Net income, adjusted for non-cash expenses such as depreciation and amortization, deferred income taxes, amortization of debt issue costs, stock-based compensation and excess tax benefits from stock-based compensation provided cash of approximately $131.8 million. Changes in operating assets and liabilities used net cash of approximately $26.1 million, which included a $9.9 million increase in merchandise inventories due to the increase in number of stores in operation, a $4.5 million increase in other assets and a decrease in accounts payable and other liabilities of $11.7 million due principally to $7.2 million in pension contributions and lower short-term incentive compensation accruals. Additionally, cash flows from operating activities included construction allowances from landlords of $18.8 million, which funded a portion of the capital expenditures related to store leasehold improvements in new and relocated stores.

During 2007, the Company repurchased approximately 6.2 million shares of its common stock at a cost of approximately $112.2 million. In addition, the Company paid $0.4 million on behalf of the recipients who relinquished shares to satisfy the tax liability associated with performance shares and stock awards. As a result of these transactions, all Board approved stock repurchase programs have been completed. The stock repurchase programs permitted the Company to repurchase its outstanding common stock from time to time in the open market or through privately negotiated transactions including, but not limited to, accelerated share repurchases, as deemed appropriate by the Company. The Board has also granted the Company the authority to repurchase additional amounts of its outstanding common stock using available proceeds from the exercise of stock options as well as the tax benefits that will accrue to the Company from the exercise of stock options, SARs and other equity grants. At February 2, 2008, approximately $1.5 million was available to the Company for stock repurchases with proceeds and tax benefits from the exercise of its equity grants.

During 2007, the Company paid quarterly cash dividends of $0.05 per share on the Company’s common stock totaling $8.4 million. On February 29, 2008, the Company announced that its Board declared a quarterly cash dividend of $0.05 per share of common stock, which was paid on March 26, 2008 to shareholders of record on March 11, 2008. While the Company expects to continue payment of quarterly dividends, the declaration and payment of future dividends by the Company are subject to the discretion of the Board. Any future determination to pay dividends will depend on the Company's results of operations and financial condition, as well as meeting certain criteria under its Revolving Credit Facility and other factors deemed relevant by the Board.

Capital expenditures for 2007 were $95.3 million compared to $71.9 million in 2006. The Company opened 47 new stores and relocated 18 stores in 2007. In 2006, the Company opened 39 new stores, relocated nine stores, and completed the conversion of 69 former B.C. Moore stores into Peebles stores. The Company received construction allowances from landlords of $18.8 million in 2007 to fund a portion of the capital expenditures related to store leasehold improvements in new and relocated stores, while $8.9 million was received from landlords in 2006. These funds have been recorded as a deferred rent credit in the balance sheet and are amortized as an offset to rent expense over the lease term commencing with the date the allowances were earned. Capital expenditures in 2007 also included $4.6 million related to the new third distribution center in Jeffersonville, Ohio which is anticipated to begin operations during the second quarter of 2008.

Management currently estimates capital expenditures in 2008, net of construction allowances to be received from landlords, will be approximately $95.0 million. The expenditures will be for the opening of approximately 70 new stores, planned store relocations and expansions, and the completion of the Jeffersonville distribution center.

While there can be no assurances, management believes that there should be sufficient liquidity to cover both the Company's short-term and long-term funding needs.

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Contractual Obligations

The Company has numerous contractual commitments for purchases of merchandise inventories, services arising in the ordinary course of business, letters of credit, Revolving Credit Facility service and leases. Presented below is a summary of the Company's contractual obligations as of February 2, 2008 (in thousands). These items are discussed in further detail in Note 6 and Note 11 to the Consolidated Financial Statements.

		Payment Due by Period			
Contractual Obligations	Total	Less Than One Year	1-3 Years	4-5 Years	More than 5 Years
Revolving Credit Facility (1)	$ 63,504	$ -	$ -	$ 63,504	$ -
Documentary letters of credit (2)	1,824	1,824	-	-	-
Equipment financing	32,419	5,923	12,916	13,580	-
Capital and finance lease obligations	4,671	235	555	695	3,186
Operating lease obligations (undiscounted) (3)	378,753	57,714	105,130	79,089	136,820
Interest payments	8,603	2,252	3,350	1,642	1,359
Other purchase obligations (4)	15,377	12,732	2,610	35	-
Total contractual cash obligations	$ 505,151	$ 80,680	$ 124,561	$ 158,545	$ 141,365

(1) The Company had $63.5 million of outstanding borrowings at February 2, 2008. The Revolving Credit Facility matures August 20, 2012. Borrowings and repayments will occur in future periods.

(2) These documentary letters of credit support the importing of private label merchandise. The Company also had outstanding stand-by letters of credit that totaled approximately $9.4 million at February 2, 2008, of which $7.0 million were also issued in support of importing the Company's private label merchandise. The remaining stand-by letters of credit of $2.4 million are required to collateralize retained risks and deductibles under various insurance programs. The estimated liability that will be paid in cash related to stand-by letters of credit supporting insurance programs are reflected in accrued expenses. If the Company fails to make payments when due, the beneficiaries of letters of credit could make demand for payment under the letters of credit.

(3) The Company has certain operating leases with provisions for step rent or escalation payments. The Company records rent expense on a straight-line basis, evenly dividing rent expense over the lease term, including the build-out period, if any, and where appropriate, applicable available lease renewal option periods. However, this accounting treatment does not affect the future annual operating lease cash obligations as shown herein. The Company records construction allowances from landlords as a deferred rent credit when earned in the Consolidated Balance Sheets. Such deferred rent credit is amortized over the related term of the lease, commencing with the date the Company earns the construction allowance, as a reduction of rent expense.

Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on a percentage of sales that are in excess of a predetermined level. These amounts are excluded from minimum rent and are included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

(4) Other purchase obligations include legally binding contracts such as firm commitments for utility purchases, capital expenditures, software acquisition/license commitments and legally binding service contracts. For the

purposes of this table, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. If the obligation to purchase goods or services is noncancelable, the entire value of the contract is included in the above table. If the obligation is cancelable, but the Company would incur a penalty if cancelled, the dollar amount of the penalty is included as an “other purchase obligation.” The Company fully expects to receive the benefits of the goods or services in connection with fulfilling its obligation under these agreements. The expected timing for payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the timing of receipt of goods or services or changes to agreed upon amounts for some obligations.

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In the ordinary course of business, the Company enters into arrangements with vendors to purchase merchandise typically up to six months in advance of expected delivery. These purchase orders do not contain any significant termination payments or other penalties if cancelled. As of February 2, 2008, the Company had outstanding purchase orders of $201.8 million.

The Company's funding policy is to make contributions to maintain the minimum funding requirements for its pension obligations in accordance with the Employee Retirement Income Security Act. The Company may elect to contribute additional amounts to maintain a level of funding to minimize the Pension Benefit Guaranty Corporation premium costs or to cover short-term liquidity needs of the plans in order to maintain current invested positions. The Company expects to contribute approximately $0.4 million during 2008.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The primary estimates underlying the Company's consolidated financial statements include the valuation of inventory, the estimated useful life of property, equipment and leasehold improvements, the valuation of goodwill and intangible asset, the reserve for sales returns, breakage income on gift cards and merchandise credits, self-insurance reserves and estimated liability for pension obligations. The Company cautions that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. Therefore, actual results could differ from these estimates. Management bases its estimates on historical experience and on various assumptions which are believed to be reasonable under the circumstances. The following critical accounting policies affect the Company's more significant judgments and estimates used in the preparation of its consolidated financial statements.

Inventory valuation. The Company changed its method of accounting for merchandise inventories from the retail method to the weighted average cost method (the "cost method") as of the beginning of 2006. The Company believes the cost method is preferable as it results in an inventory valuation that more closely reflects the acquisition cost of the Company's inventory. In addition, the cost method provides for a better matching of cost of sales with related sales. Cost of sales under the cost method represents the weighted average cost of the individual item sold rather than the cost of an item based on an average margin realized on an entire department as under the retail method. In connection with the change in its method of accounting for merchandise inventories to the cost method, the Company also changed its accounting policy related to its historical treatment of distribution center costs associated with preparing inventory for sale, such as distribution payroll, benefits, occupancy, depreciation and other direct operating expenses, and now capitalizes these related costs. The Company believes it is preferable to capitalize these costs as it incorporates a key component of the costs associated with preparing inventory for sale into the valuation of inventory on a cost basis and achieves a better matching of cost of sales with related sales. See Note 2 to the Consolidated Financial Statements.

Vendor allowances. The Company receives consideration from its merchandise vendors in the form of allowances and reimbursements. Given the promotional nature of the Company's business, the allowances are generally intended to offset the Company's costs of handling, promoting, advertising and selling the vendors' products in its stores. Vendor allowances related to the purchase of inventory are recorded as a reduction to the cost of inventory until sold. Vendor allowances are recognized as a reduction of cost of goods sold or related selling expense when the purpose for which the vendor funds were intended to be used has been fulfilled and amounts have been authorized by vendors.

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Property, equipment and leasehold improvements. Additions to property, equipment and leasehold improvements are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Property, equipment and leasehold improvements acquired through acquisitions have been recorded at estimated fair values as of the date of acquisition. The estimated useful lives of leasehold improvements do not exceed the term of the related lease, including applicable available renewal options where appropriate. The estimated useful lives in years are generally as follows:

Buildings & improvements	20
Store and office fixtures and equipment	5-10
Warehouse equipment	5-15
Leasehold improvements- stores	5-15
Leasehold improvements- corporate office	20

Impairment of long-lived assets. Property, plant and equipment and other long-lived assets, including acquired definite-lived intangibles and other assets, are reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. For long-lived assets to be held and used, the Company bases its evaluation on impairment indicators such as the nature of the assets physical condition, the future economic benefit of the asset, any historical or future profitability measurements and other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate the carrying amount of the asset may not be recoverable, the Company determines whether an impairment has occurred through the use of an undiscounted cash flows analysis of the asset at the lowest level for which identifiable cash flows exist. If an impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the estimated fair value of the asset. Management's judgment is necessary to estimate fair value. Accordingly, actual results could vary from those estimates.

Goodwill and intangible asset. Goodwill represents the excess of consideration over the fair value of tangible and intangible net assets acquired in connection with the Acquisitions. In connection with acquisitions, other intangible assets separate and apart from goodwill are required to be recognized if such assets arise from contractual or other legal rights or if such assets are separable from the acquired business. Determining a fair value for such items requires a high degree of judgment, assumptions and estimates. As a part of the Peebles Acquisition, the Company acquired the rights to the tradename and trademark (collectively the “Tradename”) of “Peebles,” which was identified as an indefinite life intangible. The value of the Tradename, which was determined at the time of the Peebles Acquisition, was $14.9 million.

Goodwill and indefinite life intangible assets are not amortized but are tested for impairment annually or more frequently when indicators of impairment exist. The Company's goodwill and intangible asset were recorded in connection with the acquisition of Peebles during the fourth quarter of fiscal year 2003, and B.C. Moore during the first quarter of fiscal year 2006. The Company completed its annual impairment test during the fourth quarter of fiscal year 2007, and determined there was no impairment of existing goodwill and intangible asset.

Revenue recognition. Revenue from sales is recognized at the time of sale, net of any returns. The Company records deferred revenue on its balance sheet for the sale of gift cards and recognizes this revenue upon the redemption of gift cards in net sales. The Company similarly records deferred revenue on its balance sheet for merchandise credits issued related to customer returns and recognizes this revenue upon the redemption of the merchandise credits.

Gift card and merchandise credits liability. Unredeemed gift cards and merchandise credits are recorded as a liability. Gift card and merchandise credit breakage income (“breakage income”) represents the balance of gift cards and merchandise credits for which the Company believes the likelihood of redemption is remote. Breakage income is recognized based on usage or actual redemptions as the cards are used. The Company's gift cards and merchandise credits are considered to be a large pool of homogeneous transactions. During the fourth quarter of fiscal 2006, the Company accumulated enough historical data to determine the breakage rate and objectively determine the estimated time period of actual redemptions. As a result, the Company recognized approximately $4.6 million of breakage income in 2006. As 2006 was the first year in which the Company recognized breakage income, the amount recognized included the breakage income related to gift cards sold and merchandise credits issued since the inception of the various programs. The Company recognized approximately $1.4 million of breakage income in 2007. This income is recorded as other income and is included in the Consolidated Statement of Income as a reduction in selling, general and administrative expenses.

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Self-insurance reserves. The Company maintains self-insurance retentions with respect to general liability, workers compensation and health benefits for its employees. The Company estimates the accruals for the liabilities based on industry development factors and historical claim trend experience. Although management believes adequate reserves have been provided for expected liabilities arising from the Company's self-insured obligations, projections of future losses are inherently uncertain, and it is reasonably possible that estimates of these liabilities will change over the near term as circumstances develop.

Frozen defined benefit plans. The Company maintains frozen defined benefit plans. The plans' obligations and related assets are presented in Note 10 to the Consolidated Financial Statements. The plans' assets are invested in a combination of equity, fixed income, managed futures investments and debt securities. The plans' obligations and the annual pension expense are determined by independent actuaries using a number of assumptions. Key assumptions in measuring the plans' obligations include the discount rate applied to future benefit obligations and the estimated future return on plans' assets. At February 2, 2008 and February 3, 2007, assumptions used were a weighted average discount rate of 6.3% and 6.0% respectively, and a weighted average long-term rate of return on the plans' assets of 7.9% and 7.6% respectively.

Recent Accounting Standards and Disclosures

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB No. 115 ("SFAS 159"), which the Company adopted on February 3, 2008. SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value in order to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company has not elected the fair value option for any existing or any new instruments that were not previously accounted for at fair value.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans ("SFAS 158"). SFAS 158 requires an employer to recognize an asset for a plan's over funded status or a liability for a plan's under funded status, measure a plan's assets and its obligations that determine its funded status as of the date of the employer's fiscal year-end, and recognize changes in the funded status in the year in which the changes occur. The Company adopted this statement during fiscal 2006. See Note 10. Effective for fiscal years ending after December 15, 2008, SFAS 158 requires a company to measure the funded status of a plan as of the date of its year-end statement of financial position. As of the end of 2008, the Company will be required to measure the funded status of its plans as of January 31, 2009. The Company is currently assessing the impact of the change in the measurement date provision of this statement on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"), which the Company adopted on February 3, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-1 and No. FAS 157-2, which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, and removes certain leasing transactions from the scope of SFAS No. 157. SFAS No. 157 is not expected to have a significant impact on the Company's consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. FIN 48 requires that a company recognize in its consolidated financial statements the impact of a tax position that is more likely than not to be sustained upon examination based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transitions. The Company adopted FIN 48 on February 4, 2007 and has evaluated and concluded that there were no significant uncertain tax positions, as defined by FIN 48, requiring recognition in its financial statements.

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In June 2006, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 06-03, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement ("EITF 06-03"). EITF 06-03 concluded that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer, such as sales, use, value added and certain excise taxes is an accounting policy decision that should be disclosed in a company's financial statements. Additionally, companies that record such taxes on a gross basis should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The Company adopted the provisions of EITF 06-03 on February 4, 2007 and presents taxes within the scope of this issue on a net basis. This statement did not have a material impact on the Company's consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Borrowings under the Company's Revolving Credit Facility bear a floating rate of interest. As of February 2, 2008, outstanding borrowings under the Company's Revolving Credit Facility were $63.5 million. An increase in interest rates in the future may have a negative impact on the Company's results of operations and cash flows. The Company had average daily borrowings of $46.7 million bearing a weighted average interest rate of 6.2% during 2007. A hypothetical 10% change in interest rates would have had a $0.3 million effect on the Company's annual results of operations and cash flows.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See "Index to Consolidated Financial Statements of Stage Stores, Inc." included on page F-1 for information required under this Item 8.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures and concluded that the Company's disclosure controls and procedures were effective as of February 2, 2008.

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Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended February 2, 2008 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

The management of Stage Stores, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements, and provide reasonable assurance as to the detection of fraud.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time.

With the participation of the Chief Executive Officer and Chief Financial Officer, the Company’s management conducted an evaluation of the effectiveness of the Company’s internal control over financial reporting based on the framework and criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company’s management concluded that the Company's internal control over financial reporting was effective as of February 2, 2008.

Our independent registered public accountants, Deloitte & Touche LLP, with direct access to our Board of Directors through our Audit Committee, have audited the consolidated financial statements prepared by our Company and have issued an attestation report on the effectiveness of the Company’s internal control over financial reporting.

/s/ JAMES R. SCARBOROUGH
James R. Scarborough
Chairman and Chief Executive Officer
March 28, 2008

/s/ EDWARD J. RECORD
Edward J. Record
Executive Vice President and
Chief Financial Officer
March 28, 2008

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following information pertains to the executive officers of the Company as of March 25, 2008:

Name	Age	Position
James R. Scarborough	57	Chief Executive Officer and Chairman of the Board of Directors
Andrew T. Hall	47	President, Chief Operating Officer
Michael E. McCreery	59	Executive Vice President and Vice Chairman of the Board of Directors
Edward J. Record	40	Executive Vice President and Chief Financial Officer
Dennis E. Abramczyk	60	Executive Vice President, Chief Operating Officer of the Peebles Division
Cynthia S. Murray	50	Executive Vice President, Chief Merchandising Officer of the Stage Division
Ernest R. Cruse	57	Executive Vice President, Store Operations
Jeffrey J. Kish	43	Executive Vice President, Chief Information Officer
Ron D. Lucas	60	Executive Vice President, Human Resources
Joanne Swartz	48	Executive Vice President, Advertising and Sales Promotion
Gough H. Grubbs	59	Senior Vice President, Logistics and Distribution
Russell A. Lundy II	45	Senior Vice President, Peebles Stores
Richard E. Stasyszen	47	Senior Vice President, Finance and Controller
Mel B. Ward	54	Senior Vice President, Real Estate

Mr. Scarborough has been Chairman of the Board since August 24, 2001. He joined the Company as President and Chief Executive Officer in August of 2000. He served as President of the Company until February 20, 2006. Between 1996 and 2000, Mr. Scarborough was President and Chief Executive Officer of Busy Body, Inc.

Mr. Hall joined the Company in February of 2006 as President and Chief Operating Officer. Previously, he served as Chairman of Foley’s, a Houston-based division of Federated Department Stores, Inc., from June of 2003 to February 2006. From June of 2002 to June of 2003, he served as Foley’s Chief Financial Officer. From June 1999 to June 2002, Mr. Hall was the Chief Financial Officer of Kaufmann’s Department Stores.

Mr. McCreery has been a Director of the Company since August 24, 2001. He joined the Company as Executive Vice President and Chief Financial Officer in February of 2001 and became Vice Chairman of the Board in September 2007. From 1998 to 2001, Mr. McCreery was Senior Vice President and Chief Financial Officer of Levitz Furniture Company. On March 14, 2008, the Company announced that Mr. McCreery will be retiring effective March 28, 2008.

Mr. Record joined the Company in May of 2007 as Executive Vice President and Chief Administrative Officer and became Chief Financial Officer in September of 2007. From October of 2005 to May of 2007, he served as Senior Vice President of Finance of Kohl's Corporation. From June of 2002 to October of 2005, Mr. Record served as Senior Vice President of Finance, Controller of Belk, Inc.

Mr. Abramczyk joined the Company in March of 1999 as Vice President of men's sportswear and furnishings. He was promoted to Senior Vice President, General Merchandise Manager overseeing the Company's men's, young men's, cosmetics and shoes departments for the Stage, Bealls and Palais Royal stores in May of 1999. In January of 2000, the children's and intimate apparel divisions were added to his responsibility. In 2002, he was promoted to Executive Vice President, General Merchandise Manager. In February of 2006, he was promoted to the position of Executive Vice President, Chief Operating Officer of the Peebles Division. On January 31, 2008, the Company announced that Mr. Abramczyk will be retiring. He will remain in his position until his replacement has been appointed.

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Ms. Murray joined the Company in August of 2004 as Executive Vice President, General Merchandise Manager overseeing the Company's misses sportswear, junior sportswear, special sizes, accessories, cosmetics, dresses, home & gifts, outerwear and swimwear departments for the Stage, Bealls and Palais Royal stores. In February 2006, Ms. Murray was promoted to Executive Vice President, Chief Merchandising Officer of the Stage Division. Prior to joining the Company, she served as Senior Vice President, Merchandising - Stores and Catalog at Talbot's from 1989 to 2004.

Mr. Cruse, who was promoted to Executive Vice President, Store Operations of Stage, Bealls and Palais Royal in August of 2001, joined Bealls Department Stores, which is now part of Stage Stores, Inc., in 1966 and held various store positions. He served as Senior Vice President, Regional Manager from 1994 to 1998, as Senior Vice President, Planning and Allocation from 1999 to 2000, and prior to his promotion to Executive Vice President, served as Senior Vice President, Director of Stores.

Mr. Kish joined the Company in May of 1999 as Vice President, Systems Development and was promoted to Senior Vice President and Chief Information Officer in August of 2000. Mr. Kish was promoted to Executive Vice President and Chief Information Officer in March of 2006.

Mr. Lucas joined the Company in July of 1995 as Senior Vice President, Human Resources and was promoted to Executive Vice President, Human Resources in March of 1998.

Ms. Swartz joined the Company in January of 1994 as Vice President, Marketing and was subsequently promoted to Senior Vice President, Advertising and Marketing in November of 1995 and to Executive Vice President, Advertising and Sales Promotion in March of 2005.

Mr. Grubbs joined the Company in February of 1996 as Vice President, Distribution and was promoted to Senior Vice President, Logistics & Distribution in April of 2003.

Mr. Lundy joined the Company in November of 2003 as Senior Vice President, Peebles Stores. Previously he served as Senior Vice President, Stores of PHC Retail Holding Company and Peebles Inc. since June of 1999.

Mr. Stasyszen joined the Company in March of 1998 as Assistant Controller and was subsequently promoted to Vice President and Controller in February of 1999. In July of 2001, Mr. Stasyszen was promoted to Senior Vice President, Finance and Controller.

Mr. Ward started with Bealls Department Stores in March of 1979. Since April of 1996, he has been Senior Vice President, Real Estate.

The remaining information called for by this item is incorporated by reference to “Information Relating to the Board of Directors and Committees” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement.

New York Stock Exchange Required Disclosures

Because the Company’s common stock is listed on the New York Stock Exchange (the “NYSE”), the Company filed with the NYSE an Annual CEO Certification as of June 26, 2007, regarding the Company’s compliance with the NYSE’s Corporate Governance listing standards as required by Section 303A.12(a) of the NYSE Listed Company Manual. In addition, the Company has filed as exhibits to this Form 10-K, the certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002.

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ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation called for by this item is incorporated by reference to "Information Relating to Board of Directors and Committees – Compensation Committee-Compensation Committee Interlocks and Insider Participation" and "Compensation of Directors and Executive Officers" in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding the security ownership of certain beneficial owners and management and related stockholder matters called for by this item is incorporated by reference to "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

The remaining information called for by this item is incorporated by reference to "Securities Authorized For Issuance Under Equity Compensation Plans" in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information called for by this item is incorporated by reference to "Transactions with Related Persons," "Information Relating to Directors and Director Nominees-In General" and "Information Related to the Board of Directors and Committees-Director Independence" in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding fees billed to the Company by its independent registered public accounting firm, Deloitte & Touche LLP, is incorporated by reference to "Principal Accountant Fees and Services" in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

1. Financial Statements:

See "Index to Consolidated Financial Statements of Stage Stores, Inc." on page F-1, the Report of Independent Registered Public Accounting Firm on page F-2, and the Financial Statements on pages F-4 to F-27, of this Form 10-K, all of which are incorporated herein by reference.

2. Financial Statement Schedules:

All schedules are omitted because they are not applicable or not required or because the required information is shown in the Consolidated Financial Statements or Notes thereto on pages F-4 to F-27, which are incorporated herein by reference.

3. Exhibits Index:

The following documents are the exhibits to this Form 10-K. For convenient reference, each exhibit is listed according to the Exhibit Table of Item 601 of Regulation S-K.

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Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of Stage Stores, Inc. dated June 7, 2007 are incorporated by reference to Exhibit 3.1 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed September 12, 2007.
3.2	Amended and Restated By-Laws of Stage Stores, Inc. dated March 28, 2007 are incorporated by reference to Exhibit 3.3 of Stage Stores' Annual Report on Form 10-K (Commission File No, 1-14035) filed April 3, 2007.
4.1	Form of Common Stock Certificate of Stage Stores, Inc. is incorporated by reference to Exhibit 4.1 of Stage Stores' Registration Statement on Form 10 (Commission File No. 000-21011) filed October 29, 2001.
10.1†	Stage Stores, Inc. Amended and Restated 2001 Equity Incentive Plan is incorporated by reference to Appendix B of Stage Stores' Proxy Statement on Schedule 14A (Commission File No. 1-14035) filed April 16, 2004.
10.2†	Form of Performance Based Share Agreement prior to March 28, 2007 is incorporated by reference to Exhibit 10.1 of Stage Stores' Current Report on Form 8-K (Commission File No. 1-14035) filed April 1, 2005.
10.3†*	Form of Performance Based Share Agreement beginning March 28, 2007.
10.4†*	Form of Stock Appreciation Rights Agreement.
10.5†*	Form of Restricted Stock Award Agreement.
10.6†	Form of Nonstatutory Stock Option Agreement is incorporated by reference to Exhibit 10.2 of Stage Stores' Current Report on Form 8-K (Commission File No. 1-14035) filed April 1, 2005.
10.7†	Stage Stores Deferred Compensation Plan is incorporated by reference to Exhibit 10.24 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed April 23, 2003.
10.8†	Stage Stores, Inc. 2003 Non-Employee Director Equity Compensation Plan is incorporated by reference to Appendix B to Stage Stores' Proxy Statement on Schedule 14A (Commission File No. 1-14035) filed April 23, 2003.
10.9†	Form of Shareholder Agreement for restricted stock under the Stage Stores, Inc. 2003 Non-Employee Director Equity Compensation Plan is incorporated by reference to Exhibit 10.6 of Stage Stores Annual Report on Form 10-K (Commission File No. 1-14035) filed April 28, 2005.
10.10	Credit Agreement dated as of August 21, 2003 among Specialty Retailers (TX) LP, Stage Stores, Inc. and the named subsidiaries of Stage Stores, Inc., Fleet Retail Finance Inc. and the initial lenders named therein, Fleet National Bank, and Fleet Securities, Inc. is incorporated by reference to Exhibit 10.1 of Stage Stores' Quarterly Report on Form 10-Q

	(Commission File No. 1-14035) filed August 29, 2003.
10.11	Limited Waiver and First Amendment to Credit Agreement dated November 4, 2003, by and among Specialty Retailers (TX) LP, Stage Stores, Inc. and the named subsidiaries of Stage Stores, Inc., Fleet Retail Finance Inc. and the other lenders named therein is incorporated by reference to Exhibit 10.1 of Stage Stores' Current Report on Form 8-K (Commission File No. 1-14035) filed November 12, 2003.
10.12	Second Amendment to Credit Agreement dated January 10, 2005, by and between Specialty Retailers (TX) LP, Stage Stores, Inc. and the named subsidiaries of Stage Stores, Inc., Fleet National Bank, Fleet Retail Group, Inc. and the other lenders named therein (Commission File No. 1-14035) filed January 29, 2005.

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10.13	Third Amendment to Credit Agreement dated as of December 31, 2005, by and between Specialty Retailers (TX) LP, Stage Stores, Inc. and the named subsidiaries of Stage Stores, Inc., Bank of America, N.A. (f/k/a Fleet National Bank), Fleet Retail Group, Inc. and the other lenders named therein (Commission File No 1-14035) filed April 13, 2006.
10.14	Fourth Amendment to Credit Agreement dated as of April 20, 2007, by and among Specialty Retailers (TX) LP, Stage Stores, Inc. and the named subsidiaries of Stage Stores, Inc., Bank of America, N.A. (f/k/a Fleet National Bank) and the other lenders and parties named therein is incorporated by reference to Exhibit 10 of Stage Stores' Current Report on Form 8-K (Commission File No. 1-14035) filed April 24, 2007.
10.15	Fifth Amendment to Credit Agreement dated as of June 21, 2007, by and among Specialty Retailers (TX) LP, Stage Stores, Inc. and the named subsidiaries of Stage Stores, Inc., Bank of America, N.A. (f/k/a Fleet National Bank) and the other lenders and parties named therein is incorporated by reference to Exhibit 10.1 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed September 12, 2007.
10.16	Sixth Amendment to Credit Agreement dated as of November 20, 2007, by and among Specialty Retailers, Inc., Stage Stores, Inc., SRI General Partner LLC, Bank of America, N.A. (f/k/a Fleet National Bank) and the other lenders and parties named therein is incorporated by reference to Exhibit 10.2 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed December 12, 2007.
10.17	Intercreditor Agreement dated September 12, 2003 among World Financial Network National Bank, Specialty Retailers (TX) LP, Stage Stores, Inc. and Fleet Retail Finance Inc. is incorporated by reference to Exhibit 2.3 of Stage Stores' Current Report on Form 8-K (Commission File No. 1-14035) filed September 22, 2003.
10.18	First Amendment to Intercreditor Agreement dated March 5, 2004 by and among World Financial Network National Bank, Specialty Retailers (TX) LP, Stage Stores, Inc. and Fleet Retail Group, Inc is incorporated by reference to Exhibit 10.6 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed April 15, 2004.
10.19	Amended and Restated Private Label Credit Card Program Agreement Between World Financial Network National Bank and Stage Stores, Inc. and Specialty Retailers (TX) LP dated as of March 5, 2004 is incorporated by reference to Exhibit 10.8 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed April 15, 2004.
10.20	Amendment to Private Label Credit Card Program Agreement dated as of December 21, 2005, by and among Stage Stores, Inc., Specialty Retailers (TX) LP and World Financial Network National Bank is incorporated by reference to Exhibit 10.1 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed October 24, 2006.
10.21	Second Amendment to Amended and Restated Private Label Credit Card Program Agreement dated as of May 24, 2006, by and among Stage Stores, Inc., Specialty Retailers (TX) LP and World Financial Network National Bank is incorporated by reference to Exhibit 10.2 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed October 24, 2006.

10.22	Third Amendment to Amended and Restated Private Label Credit Card Program Agreement dated as of May 18, 2007, by and among Stage Stores, Inc., Specialty Retailers (TX) LP and World Financial Network National Bank is incorporated by reference to Exhibit 10.2 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed June 7, 2007.
10.23	Fourth Amendment to Amended and Restated Private Label Credit Card Program Agreement dated as of June 30, 2007, by and among Stage Stores, Inc., Specialty Retailers (TX) LP and World Financial Network National Bank is incorporated by reference to Exhibit 10.2 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed September 12, 2007.
10.24†	Employment Agreement between James Scarborough and Stage Stores, Inc. dated January 30, 2002 is incorporated by reference to Exhibit 10.17 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed April 12, 2002.

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10.25†	Employment Agreement between Michael McCreery and Stage Stores, Inc. dated January 30, 2002 is incorporated by reference to Exhibit 10.18 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed April 12, 2002.
10.26†	Employment Agreement between Dennis Abramczyk and Stage Stores, Inc. dated January 30, 2002 is incorporated by reference to Exhibit 10.23 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed April 23, 2003.
10.27†	Employment Agreement between Cynthia Murray and Stage Stores, Inc. dated August 2,