STAGE STORES INC
Form DEF 14A
April 21, 2008

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

SCHEDULE 14A
(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant T
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
T Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to § 240.14a-12

Stage Stores, Inc.
(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

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STAGE STORES INC.

BEALLS PALAIS ROYAL PEEBLES STAGE

Notice of 2008
Annual Meeting
and
Proxy Statement

STAGE STORES INC.

BEALLS PALAIS ROYAL PEEBLES STAGE

10201 Main Street
Houston, Texas 77025

May 2, 2008

Dear Shareholder:

On behalf of the Board of Directors, it is my pleasure to invite you to attend the 2008 Annual Meeting of Shareholders of Stage Stores, Inc. on Thursday, June 5, 2008, at 1:00 p.m. local time, in Houston, Texas. Information about the Annual Meeting is presented in the following pages.

The Annual Meeting will begin with a discussion and vote on the matters set forth in the accompanying Notice of 2008 Annual Meeting of Shareholders and Proxy Statement, followed by a discussion on any other business matters that are properly brought before the meeting.

Your vote is very important. We encourage you to read the Proxy Statement and vote your shares as soon as possible. Whether or not you plan to attend, you can be sure your shares are represented at the Annual Meeting by promptly completing, signing, dating and returning your Proxy Card in the enclosed envelope or by submitting your vote and proxy by telephone or by the Internet.

If you will need special assistance at the Annual Meeting because of a disability, please contact Bob Aronson, Vice President, Investor Relations, at (800) 579-2302.

Thank you for your continued support of Stage Stores, Inc. We look forward to seeing you on June 5th.

Sincerely,

James R. Scarborough
Chairman of the Board and Chief Executive Officer

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n To be voted on at the meeting

EVERY SHAREHOLDER'S VOTE IS IMPORTANT. PLEASE COMPLETE, SIGN, DATE AND RETURN YOUR PROXY CARD, OR SUBMIT YOUR VOTE AND PROXY BY TELEPHONE OR BY INTERNET, AS SOON AS POSSIBLE.

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STAGE STORES INC.

BEALLS PALAIS ROYAL PEEBLES STAGE

NOTICE OF 2008 ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders:

The 2008 Annual Meeting of Shareholders of Stage Stores, Inc. (the "Company") will be held at the offices of the Company, 10201 Main Street, Houston, Texas 77025 on Thursday, June 5, 2008, at 1:00 p.m. local time. The shareholders will vote on the following matters:

1. Election of nine directors for a term of one year;

2. Ratification of the selection of Deloitte & Touche LLP as independent registered public accounting firm for 2008;

3. Approval of the Material Terms of Executive Officer Performance Goals;

4. Approval of the 2008 Equity Incentive Plan; and

5. Such other matters as may properly come before the Annual Meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on April 14, 2008 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting.

By Order of the Board of Directors

Edward J. Record
Executive Vice President,
Chief Financial Officer and Secretary
Stage Stores, Inc.

May 2, 2008

In accordance with the Company's security procedures, all persons attending the Annual Meeting must present an Admission Card and picture identification. If you are a shareholder of record and plan to attend the meeting in person, please bring the Admission Card you received in this proxy mailing with you to the meeting. For security purposes, briefcases, bags and purses will be subject to search at the door.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 5, 2008.

The Company's Proxy Statement for the 2008 Annual Meeting of Shareholders, the Company's Annual Report to Shareholders for the fiscal year ended February 2, 2008 and the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2008 are available at http://bnymellon.mobular.net/bnymellon/ssi.

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PROXY STATEMENT

GENERAL

This Proxy Statement is furnished in connection with the solicitation of proxies by Stage Stores, Inc. (the “Company”) on behalf of the Board of Directors (the “Board”) for the 2008 Annual Meeting of Shareholders (the “Annual Meeting”) which will be held at the principal executive offices of the Company, 10201 Main Street, Houston, Texas 77025, on Thursday, June 5, 2008, at 1:00 p.m. local time. This Proxy Statement and Proxy Card are first being sent to the shareholders on or about May 2, 2008. The proxy will be voted at the Annual Meeting if the signer of the proxy or shareholder submitting his or her vote and proxy by telephone or by the Internet was a shareholder of record on April 14, 2008 (the “Record Date”).

VOTING

The holders of common stock are entitled to one vote per share on all matters to be voted upon by the shareholders. On the Record Date, there were 38,317,761 shares of common stock, par value $0.01, outstanding and entitled to vote at the Annual Meeting. A list of the shareholders entitled to vote at the Annual Meeting will be available for inspection at the Annual Meeting for purposes relating to the Annual Meeting.

You can ensure that your shares are voted at the Annual Meeting by submitting your instructions by completing, signing, dating and returning the enclosed Proxy Card in the envelope provided or by submitting your vote and proxy by telephone or by the Internet. Submitting your instructions by Proxy Card, by telephone, or by the Internet will not affect your right to attend the Annual Meeting and vote. A shareholder who gives a proxy may revoke it at any time before it is exercised by voting in person at the Annual Meeting, by delivering a subsequent proxy, or by notifying the Inspectors of Election in writing of such revocation.

The representation in person or by proxy of a majority of the outstanding shares of common stock entitled to a vote at the Annual Meeting is necessary to provide a quorum for the transaction of business at the Annual Meeting. Shares can only be voted if the shareholder is present in person or is represented by a properly signed Proxy Card or by a vote and proxy submitted by telephone or by the Internet. Each shareholder’s vote is very important. Whether or not you plan to attend the Annual Meeting in person, please sign and promptly return the enclosed Proxy Card or submit your vote and proxy by telephone or by the Internet. All signed and returned Proxy Cards and votes and proxies submitted by telephone or by the Internet will be counted towards establishing a quorum for the Annual Meeting, regardless of how the shares are voted.

A shareholder of record on the Record Date may vote in any of the following four ways:

- by toll-free number at 1-866-540-5760; or
- by the Internet at http://www.proxyvoting.com/ssi; or
- by completing and mailing the Proxy Card; or
- by written ballot at the Annual Meeting.

If you vote by the Internet or by telephone, your vote must be received by 11:59 p.m. Eastern Time on Wednesday, June 4th, the day before the Annual Meeting. Your shares will be voted as you indicate. If you return your Proxy Card, but you do not indicate your voting preferences, the proxies will vote your shares FOR Items 1, 2, 3 and 4 and in their discretion for Item 5 (such other matters as may properly come before the Annual Meeting or any adjournment thereof).

If your shares are held in a brokerage account in your broker's name (this is called street name), you should follow the voting directions provided by your broker or nominee. You may complete and mail a voting instruction card to your broker or nominee or, in most cases, submit voting instructions by mail, by telephone or by the Internet. Your shares should be voted by your broker or nominee as you have directed.

The Company will pass out written ballots to any shareholder entitled to vote at the Annual Meeting.

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For additional information concerning the manner of proxy solicitation and voting, please see "Additional Information" on page 56 of this Proxy Statement.

MATTERS TO BE ACTED UPON

ITEM 1 - ELECTION OF DIRECTORS

INFORMATION RELATING TO DIRECTORS AND DIRECTOR NOMINEES

In General

At the Annual Meeting, nine Directors are to be elected to hold office until the 2009 Annual Meeting and until their successors have been elected and have qualified. Information concerning the nine nominees is set forth below. All of the nominees are currently Directors of the Company. The Board of Directors has determined that the following seven Directors are Independent Directors, as independence is defined by the New York Stock Exchange: Alan J. Barocas, Michael L. Glazer, John T. Mentzer, Margaret T. Monaco, William J. Montgoris, Sharon B. Mosse and David Y. Schwartz. The Board's Corporate Governance and Nominating Committee recommended all of these Directors for re-election. The Board knows of no reason why any nominee may be unable to serve as a Director.

Your Board of Directors recommends a vote FOR each nominee for Director set forth below.

The following information pertains to each nominee's (i) age as of April 14, 2008, (ii) principal occupations for at least the past five years, and (iii) directorships in other public companies:

Name	Age	Positions Currently Held
James R. Scarborough	57	Chairman, Chief Executive Officer
Andrew T. Hall	47	Director, President and Chief Operating Officer
Alan J. Barocas	59	Director
Michael L. Glazer	59	Director, Chairman of Compensation Committee
John T. Mentzer	56	Director, Chairman of Corporate Governance and Nominating Committee
Margaret T. Monaco	60	Director
William J. Montgoris	61	Director, Lead Independent Director
Sharon B. Mosse	57	Director
David Y. Schwartz	67	Director, Chairman of Audit Committee

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.

Mr. Hall joined the Company in February 2006 as President and Chief Operating Officer. He served as Chairman of Foley's, a Houston-based division of Federated Department Stores, Inc., from June of 2003 to February of 2006. Mr. Hall was elected to the Board on March 28, 2008 by the remaining Directors to fill the vacancy created by the retirement of Michael McCreery.

Mr. Barocas has been a Director since January 15, 2007. Since May 2006, he has been the principal of Alan J. Barocas and Associates, a real estate consulting firm. From June 1981 until April 2006, Mr. Barocas was employed by GAP, Inc. His last position with GAP, Inc. was Senior Vice President of Real Estate.

Mr. Glazer has been a Director since August 24, 2001. Since August 2005, he has served as Managing Director of Team Neu, located in Pittsfield, Massachusetts. From May 1996 until August 2005, he served as President and Chief Executive Officer of KB Toys, Inc., which filed a petition under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware on January 14, 2004 and emerged from bankruptcy on August 29, 2005.

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Dr. Mentzer has been a Director since August 24, 2001. Since January of 1994, he has been a professor of Business Policy in the Department of Marketing and Logistics at the University of Tennessee. Professor Mentzer is currently the Bruce Excellence Chair of Business and Executive Director, Integrated Value Chain Forums. He is also President of JTM & Associates, a consulting firm.

Ms. Monaco has been a Director since June 3, 2004. In October of 2003, she returned to the position of Principal of Probus Advisors, a management and financial consulting firm which she founded in June of 1993. From April of 1999 until October of 2003, Ms. Monaco served as the Chief Operating Officer of KECALP Inc. and Merrill Lynch Ventures LLC. She was KECALP Inc.'s Chief Administrative Officer from April of 1998 until April of 1999. Ms. Monaco is also a director of Barnes and Noble, Inc. and W.P. Stewart Growth Fund.

Mr. Montgoris has been a Director since June 3, 2004. He retired from Bear Stearns in June of 1999. From June of 1996 until June of 1999, Mr. Montgoris served as Chief Operating Officer of Bear Stearns. From June of 1993 until June of 1996, he served as Chief Financial Officer of Bear Stearns. Mr. Montgoris is a Trustee of five funds within The Reserve Funds family of money market mutual funds. Mr. Montgoris is also a director of Carter's, Inc. and OfficeMax Incorporated.

Ms. Mosse has been a Director since October 4, 2004. Since May of 2006, Ms. Mosse has served as President of Strategic Marketing Group, Inc., a marketing consulting firm which she founded in May of 2002. From January of 2005 until April of 2006, she served as Chief Marketing Officer of Red Door Spa Holdings-Elizabeth Arden. From May of 2002 until January of 2005, Ms. Mosse served as President of Strategic Marketing Group, Inc. From May of 2000 until May of 2002, she served as Chief Marketing Officer for Barnes & Noble, Inc.

Mr. Schwartz has been a Director since July 5, 2007. Since June of 1997, Mr. Schwartz has been a business advisor and consultant to various companies principally in the retail, distribution and services industries. Prior to that, Mr. Schwartz spent 35 years with Arthur Andersen, LLP, from which he retired as a Senior Partner and Managing Partner of the Chicago Office of the Audit and Business Consulting Practice in June 1997. While at Arthur Andersen, he served clients in various industries primarily retailing, distribution and communications. Mr. Schwartz is also a director of Foot Locker, Inc., True Value Company and Walgreen Co.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

The following table provides information regarding beneficial ownership of the Company's common stock by any person or entity known by the Company to be the beneficial owner of more than five percent (5%) of the Company's outstanding common stock as of April 14, 2008. As of April 14, 2008, there were 38,317,761 shares of common stock outstanding.

Name and Address	Number of Shares Beneficially Owned	Percent of Class	
Dimensional Fund Advisors LP	3,473,713	9.1%	(1)
1299 Ocean Avenue			
Santa Monica, CA 90401			
Wellington Management Company, LLP	3,406,403	8.9%	(2)
75 State Street			
Boston, MA 02109			

Tennenbaum Capital Partners, LLC	3,026,800	7.9%	(3)
2951 28th Street, Suite 1000			
Santa Monica, CA 90405			
Barclays Global Investors, NA	2,155,604	5.6%	(4)
45 Fremont Street			
San Francisco, CA 94105			
Paradigm Capital Management, Inc.	1,941,544	5.1%	(5)
Nine Elk Street			
Albany, NY 12207			

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(1) The information is based on the Schedule 13G filed with the Securities and Exchange Commission on February 6, 2008 by Dimensional Fund Advisors LP reporting on beneficial ownership as of December 31, 2007. According to the filing, the reporting person has sole voting and investment power with respect to 3,473,713 shares.

(2) The information is based on the Schedule 13G filed with the Securities and Exchange Commission on February 14, 2008 by Wellington Management Company, LLP reporting on beneficial ownership as of December 31, 2007. According to the filing, the reporting person has shared voting power with respect to 2,705,928 shares and shared investment power with respect to 3,406,403 shares.

(3) The information is based on the Schedule 13G filed with the Securities and Exchange Commission on February 14, 2008 by Tennebaum Capital Partners, LLC reporting on beneficial ownership as of December 31, 2007. According to the filing, the reporting person has sole voting and investment power with respect to 3,026,800 shares.

(4) The information is based on the Schedule 13G filed with the Securities and Exchange Commission on February 6, 2008 by Barclays Global Investors, NA reporting on beneficial ownership as of December 31, 2007. According to the filing, the reporting person has sole voting power with respect to 1,631,135 shares and sole investment power with respect to 2,155,604 shares.

(5) The information is based on the Schedule 13G filed with the Securities and Exchange Commission on February 14, 2008 by Paradigm Capital Management, Inc. reporting on beneficial ownership as of December 31, 2007. According to the filing, the reporting person has sole voting and investment power with respect to 1,941,544 shares.

Security Ownership of Management

The following table provides information regarding the beneficial ownership of the Company's common stock by each Named Executive Officer listed in the Summary Compensation Table and each of our Directors, as well as the number of shares beneficially owned by all of our Directors and executive officers as a group as of April 14, 2008. As of April 14, 2008, there were 38,317,761 shares of our common stock outstanding. None of the shares are pledged as security. The table also provides information about stock options exercisable within 60 days and Deferred Stock Units credited to the accounts of each Director and Named Executive Officer under various compensation plans. Unless otherwise indicated by footnote, individuals have sole voting and investment power.

Name	Common Stock	Restricted Stock (1)	Stock Options Exercisable Within 60 Days	Deferred Stock Units (2)	Percent of Class
James R. Scarborough	39,530	10,889	1,145,835	-	3.0%
Andrew T. Hall	25,564	15,000	87,500	-	(3)
Michael E. McCreery	27,309	-	136,082	-	(3)
Edward J. Record	-	30,000	25,000	-	(3)
Dennis E. Abramczyk	924	-	82,928	-	(3)
Cynthia S. Murray	22,500	-	114,290	-	(3)
Alan J. Barocas	642	7,327	-	-	(3)
Michael L. Glazer	58,749	10,624	14,062	-	(3)
John T. Mentzer	1,350	10,624	59,060	3,099	(3)
Margaret T. Monaco	3,150	10,624	47,812	-	(3)

William J. Montgoris	2,958	10,624	47,812	-	(3)
Sharon B. Mosse	-	10,624	36,562	6,178	(3)
David Y. Schwartz	-	-	-	1,864	(3)
All Directors and Executive Officers as a group (20 persons)	215,927	116,336	2,086,494	11,141	6.0%

(1) Restricted stock is granted under the Stage Stores, Inc. Amended and Restated 2001 Equity Incentive Plan. The restricted stock granted to Mr. Scarborough vests ratably over two years. The restricted stock granted to Messrs. Hall and Record vests ratably over three years. The remainder of the restricted stock granted vests at the end of a three-year period from the date of grant.

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(2) Deferred Stock Units ("DSU") are held under the Stage Stores, Inc. 2003 Non-Employee Director Equity Compensation Plan. Each DSU is equal in value to a share of Company stock, but does not have voting rights. Individuals do not have investment power with respect to DSUs. The number of DSUs credited to a Director's account will be adjusted, as appropriate, to reflect any stock split, any dividend paid in cash and any dividend payable in shares of Company stock. At the election of the Director upon termination of his or her service as a Director, the DSUs will be distributed to the Director either (i) in cash, or (ii) in shares of Company stock.

(3) Ownership is less than one percent of outstanding common stock.

Stock Ownership by Executive Officers

On December 28, 2006, the Board adopted a resolution stating that it believes that an officer of the Company who has reached the level of Executive Vice President or above should be a shareholder and should have a financial stake in the Company and that while the Board does not believe it appropriate to specify the level of stock ownership for those executive officers, the Board encourages those executive officers to either purchase stock in the open market or use their equity grants to acquire and retain, during their employment, shares of our common stock in an amount that the executive officer deems appropriate.

Stock Ownership by Directors

On August 29, 2006, the Board adopted a resolution stating that it believes that Directors should be shareholders and have a financial stake in the Company in an amount that a Director deems appropriate and that while the Board does not believe it appropriate to specify the level of stock ownership for individual Directors, each Director must develop and maintain a stock position in the Company with an original investment of at least four times the Annual Retainer, which is currently $40,000 for Independent Directors (the "Original Investment"), by the later of (i) three years of the date of the Director's initial election to the Board, or (ii) August 29, 2009. In determining whether the Director has achieved the Original Investment, the Director can include (i) a Director's tax basis in any stock acquired by the Director in open market purchases, and (ii) the amount of any Director fees which the Director has designated to be used for the acquisition of restricted stock or Deferred Stock Units under our 2003 Non-Employee Director Equity Compensation Plan.

INFORMATION RELATING TO THE BOARD OF DIRECTORS AND COMMITTEES

In General

Our business is managed under the direction of our Board of Directors. Members of our Board are kept informed of our business through discussions with our Chairman and Chief Executive Officer and other officers, by reviewing materials provided to them, by visiting our offices and by participating in meetings of the Board and its Committees.

Our Board currently consists of nine Directors. As Scott Davido did not stand for reelection at the 2007 Annual Meeting of Shareholders, several potential candidates were identified by the Board to fill that vacancy. On July 5, 2007, Mr. Schwartz accepted the Board's offer and was elected to the Board. After seven years of dedicated service to the Company and the Board, Michael McCreery, Vice Chairman, Executive Vice President and Secretary, retired on March 28, 2008, and is therefore not standing for reelection. On March 28, 2008 and at the recommendation of the Corporate Governance and Nominating Committee, the remaining Directors elected Andrew Hall to fill the vacancy on the Board created by Mr. McCreery's retirement.

Corporate Governance

Corporate Governance Guidelines. The Board has adopted written Corporate Governance Guidelines (the "Governance Guidelines") to assist it in the exercise of its corporate governance responsibilities. The purpose of the Governance Guidelines is to provide a structure within which our Directors and our management can monitor the effectiveness of policy and decision making both at the Board and management level, with a view to enhancing shareholder value over the long term. The Governance Guidelines are available on our website at www.stagestoresinc.com. They can be accessed by clicking "Investor Relations", then "Corporate Governance", then "Corporate Governance Guidelines."

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Director Independence. Seven of our nine Directors are Independent Directors, as independence is defined by the New York Stock Exchange, and two are not Independent Directors by virtue of the fact that they are our Chief Executive Officer and our President and Chief Operating Officer, respectively. All members of the Board's Audit, Compensation, and Corporate Governance and Nominating Committees are Independent Directors. Members of the Audit Committee must also satisfy, and they do satisfy, the additional independence requirement of Exchange Act Rule 10A-3, which provides that they may not accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company or any of its subsidiaries other than compensation for their service as a Director.

Lead Independent Director. The Governance Guidelines provide that if the Chairman of the Board is not an Independent Director, the Independent Directors must appoint a Lead Independent Director. Since Mr. Scarborough, the Chairman of the Board, is not an Independent Director, the Independent Directors have appointed Mr. Montgoris as the Lead Independent Director. The Lead Independent Director is required to perform the following duties:

- Coordinate the activities of the Independent Directors;
- Provide the Chairman of the Board with input on agendas for the Board and Board committee meetings;
- Coordinate and develop the agenda for, and chair executive sessions and other meetings of, the Independent Directors;
- Facilitate communications between the Chairman of the Board and the other members of the Board, including communicating other members' requests to call special meetings of the Board;
- Discuss the results of the Chief Executive Officer's performance evaluation with the Chairman of the Compensation Committee;
- Convey to the Chief Executive Officer, together with the Chairman of the Compensation Committee, the results of the Chief Executive Officer's performance evaluation; and
- Preside at regularly scheduled executive sessions of the Independent Directors.

Code of Ethics for Senior Officers. In order to promote ethical conduct in the practice of financial management throughout the Company, the Board has adopted a Code of Ethics for Senior Officers (the "Code"). The Company believes that, in addition to the Chief Executive Officer, the Chief Financial Officer and the Controller each holds an important and elevated role in corporate governance. The Code is designed to deter wrongdoing and provides principles to which the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions are expected to adhere and advocate. These principles embody rules regarding individual and peer responsibilities, as well as responsibilities to the shareholders, the public and others who have a stake in the Company's continued success. The Code is available on the Company's website at www.stagestoresinc.com. It can be accessed by clicking "Investor Relations", then "Corporate Governance", then "Code of Ethics for Senior Officers." The Company intends to disclose future amendments to certain provisions of the Code, or waivers of such provisions granted to Directors and executive officers, if any, on its website within four business days following the date of such amendment or waiver or as otherwise may be required by the SEC.

Code of Ethics and Business Conduct. The Board has also adopted a Code of Ethics and Business Conduct (the "Code of Ethics"), which is the basic set of policies and procedures governing the behavior of all Directors, executive officers, and other employees of the Company (each employee an "Associate" and collectively the "Associates") in conformance with Section 303A.10 of the NYSE Listed Company Manual. It is the Company's policy to adhere to the highest standards of business ethics in all of its business activities. When Associates are engaged in any activity concerning the Company, its customers, competitors, suppliers, other Associates, shareholders or the general public, they must maintain standards of uncompromising integrity and conduct themselves in a professional manner with a positive, supportive attitude about the Company. The Code of Ethics is available on the Company's website at www.stagestoresinc.com. It can be accessed by clicking "Investor Relations", then "Corporate Governance", then "Code of Ethics and Business Conduct." The Company intends to disclose future amendments to certain provisions of the Code of Ethics, or waivers of such provisions granted to Directors and executive officers, if any, on its website within four business days following the date of such amendment or waiver or as otherwise may be required by the NYSE or the SEC.

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Non-Accounting Complaints. The Company has established procedures to enable anyone who has a concern about a violation of the Code of Ethics and Business Conduct or any other Company policy to report that concern through normal Company channels or anonymously. An Anonymous Ethics Hotline is maintained by an independent third party and is available 24 hours a day, 7 days a week.

Accounting Complaints. The Audit Committee has established procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters. These procedures, which are incorporated into the Company's Code of Ethics and Business Conduct, (i) set forth a statement about the Company's commitment to comply with the laws; (ii) encourage employees to inform the Company of conduct amounting to a violation of the applicable standards; (iii) describe prohibited conduct; (iv) set forth compliance procedures that employees can easily use, including making anonymous complaints, and (v) provide assurances that there will be no retaliation for reporting suspected violations.

Policy on Poison Pills. The term "Poison Pill" refers to a type of shareholder rights plan that some companies adopt to provide an opportunity for negotiation during a hostile takeover attempt. The Board has not adopted a Poison Pill. However, as the Company is a Nevada corporation, our Articles of Incorporation provide that the Company has expressly elected to be governed by Chapter 78 of the Nevada Revised Statutes ("NRS") with respect to the acquisition of a controlling interest in the Company. NRS 78 provides that a person who seeks to acquire a "Controlling Interest" (20% or greater) in a Nevada corporation will only obtain such voting rights in the shares acquired (the "Control Shares") as are granted by a vote of the holders of a majority of the remaining voting power of the Company at a special or annual meeting of the shareholders. In addition, NRS 78 provides that the Company may redeem not less than all of the Control Shares at the average price of the Control Shares if the Control Shares are not granted full voting rights by the shareholders.

Attendance at Board, Committee and Annual Meetings

Board Meetings. The Board held four regular and two special meetings during the 2007 fiscal year. During the 2007 fiscal year, no current Director attended fewer than 75% of the aggregate of the total number of meetings of the Board and of meetings held by Committees of the Board on which he or she was a member during the time he or she was a Director. In addition to regularly scheduled meetings, a number of Directors were involved in numerous informal meetings with management, offering valuable advice and suggestions on a broad range of corporate matters.

Executive Sessions. As described in the Governance Guidelines, the Independent Directors meet in regularly scheduled executive sessions without members of the Company's management.

Annual Meeting. It is the Board's policy that Directors should attend the Company's annual meeting of the shareholders absent exceptional cause. Last year, all Directors attended the annual meeting of shareholders with the exception of Mr. Schwartz, who was not a Director at that time.

Standing Committees

The Board has the following standing Committees: Audit, Compensation and Corporate Governance and Nominating. Each Committee operates under a written charter which is periodically reviewed by the respective Committee and the Corporate Governance and Nominating Committee. The following table provides information concerning the independence of our Directors and the current membership of each Committee.

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Director	Board	Corporate Governance and Nominating Committee	Audit Committee	Compensation Committee
Mr. Barocas (I)	X	X	X	
Mr. Glazer (I)	X	X		X (C)
Mr. Hall	X			
Mr. Mentzer (I)	X	X (C)		X
Ms. Monaco (I)	X	X		X
Mr. Montgoris (I)(LID)	X		X (ACFE)	
Ms. Mosse (I)	X	X		X
Mr. Scarborough	X (C)			
Mr. Schwartz (I)	X	X	X (C)(ACFE)	

(I) The named Director is an Independent Director.

(C) The named Director is the Chairman.

(LID) The named Director is the Lead Independent Director.

(ACFE) The named Director is an Audit Committee Financial Expert.

Corporate Governance and Nominating Committee

In General. The members of the Corporate Governance and Nominating Committee are John Mentzer (Chairman), Alan Barocas, Michael Glazer, Margaret Monaco, Sharon Mosse and David Schwartz, all of whom are Independent Directors. The Committee's primary functions are (i) to maintain and review the Governance Guidelines and propose changes to the Governance Guidelines as corporate governance developments warrant, (ii) to consider any Director candidates recommended by shareholders, (iii) to identify, recruit and recommend potential candidates for nomination as Directors to the Board and to nominate Directors for membership on Board committees, (iv) to evaluate the overall performance of the Board, and (v) to report annually to the Board on the status of the Chief Executive Officer's succession plan. The Committee assists the Board in fulfilling its corporate governance and oversight responsibilities by reviewing corporate governance issues that may be brought before the Board, by exercising oversight over the Governance Guidelines, by nominating qualified individuals as Directors and reviewing their performance, and by reviewing applicable laws and regulations related to corporate governance matters. Annually, the Committee evaluates the overall performance of the Board and the Governance Guidelines. Periodically, the Committee reviews the compensation paid to the Directors. The Committee met four times during the 2007 fiscal year.

Corporate Governance and Nominating Committee Charter. The Corporate Governance and Nominating Committee's Charter is posted on the Company's website at www.stagestoresinc.com. It can be accessed by clicking "Investor Relations", then "Corporate Governance", then "CG&NC Charter".

Evaluation of the Chairman, the Board and Individual Directors. The Corporate Governance and Nominating Committee is responsible for establishing the evaluation criteria and implementing the process for the annual evaluation of the Chairman, the Board and the individual Directors. Each Director evaluates the Chairman, the Board and the other Directors. With respect to the Chairman and the Board, the evaluations are of the Chairman and the Board's overall performance as a whole and specific review areas in which the Board believes a better contribution could be made. The results of the evaluations of the Board and the Chairman are reported to the entire Board by the Lead Independent Director. With respect to the evaluation of individual Directors, the purpose of the evaluation is to increase the corporate governance effectiveness of the Board, not to target individual Directors. The results of the individual Director evaluations are communicated to the respective Directors by the Lead Independent Director and, in the case of the Lead Independent Director, by outside counsel.

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Evaluation of the Guidelines, Committee Charters, Corporate Governance Policies and Related Party Transactions. With input from the other Directors, the Corporate Governance and Nominating Committee reports annually to the Board on its evaluation of the Governance Guidelines, the committee charters, any other corporate governance policies, and any related party transactions (transactions involving the Company and any executive officer, Director, employee or their affiliates and immediate family members).

Director Qualifications; Process for Identifying and Evaluating Nominees. Nominees for Director must possess the following minimum qualifications: broad experience, wisdom, integrity, the ability to make independent analytical inquiries, an understanding of our business environment, and a willingness to devote adequate time to Board duties. The Corporate Governance and Nominating Committee is responsible for assessing the appropriate balance of skills and qualifications required of Directors. In identifying and evaluating nominees for Director, including nominees recommended by shareholders, the Committee will implement such process as it deems appropriate including, in its sole discretion, retaining a third party or third parties to identify or evaluate or assist in identifying or evaluating potential nominees. However, at a minimum, each nominee for Director must (i) meet the minimum qualifications set forth above, (ii) have at least one interview with the Committee and with any other Board member who requests an interview, and (iii) complete and sign the Company’s Director and Executive Officer Questionnaire in a form deemed appropriate by the Board prior to his or her nomination to the Board. Each Director must no less than annually complete and sign a Director and Executive Officer Questionnaire in a form deemed appropriate by the Board. In the event any information contained on a Director’s most recent Director and Executive Officer Questionnaire becomes incomplete or inaccurate, it is the responsibility of the Director to provide complete and accurate information to the Committee within thirty days. When formulating its Director recommendations, the Committee will also consider any advice and recommendations offered by the Company’s Chief Executive Officer and any other members of the Board.

Consideration of Shareholder Nominees. When formulating its Director recommendations, the Corporate Governance and Nominating Committee will also consider any written recommendations received from shareholders of the Company identifying the nominee and stating his or her qualifications. The Committee evaluates all nominees for Director in the same manner regardless of the source of the recommendation. For the Annual Meeting of Shareholders in 2009, recommendations for Director nominees must be submitted in writing by December 31, 2008 to the Corporate Governance and Nominating Committee, c/o Edward J. Record, Secretary, Stage Stores, Inc., 10201 Main Street, Houston, Texas 77025, and must include the names of such nominees, together with their qualifications for service as a Director of the Company.

Succession Planning. The Governance Guidelines require (i) the Corporate Governance and Nominating Committee to make an annual report to the Board on emergency as well as expected Chief Executive Officer succession planning and (ii) the Chief Executive Officer to prepare, on a continuing basis, a short-term succession plan which delineates a temporary delegation of authority to certain officers of the Company, if all or a portion of the executive officers of the Company should unexpectedly become unable to perform their duties. The short-term succession plan will be in effect until the Board has the opportunity to consider the situation and take action, when necessary.

Audit Committee

In General. The members of the Audit Committee are David Schwartz (Chairman), Alan Barocas and William Montgoris, all of whom are Independent Directors. The primary function of the Committee is to oversee the accounting and financial reporting processes of the Company and the audits of the financial statements and internal controls of the Company. The Committee’s primary responsibilities and duties are (i) to monitor the integrity of the Company’s financial process and systems of internal controls regarding finance, accounting and legal compliance, (ii) to select, retain, terminate, determine compensation and oversee the work of the Company’s independent registered public accounting firm, (iii) to ensure the independence and monitor the performance of the Company’s independent registered public accounting firm and the performance of the Company's internal auditing department, (iv) to provide an avenue of communication between the independent registered public accounting firm and the Company's internal auditing department, and (v) to provide an avenue of communication among the independent registered public accounting firm, management, the Company's internal auditing department and the Board. The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and duties, and it has direct access to the independent registered public accounting firm as well as anyone in the Company. The Committee has the ability to engage, at the Company's expense, independent counsel and other advisers as it determines necessary to carry out its duties. The Committee met eleven times during the 2007 fiscal year.

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Audit Committee Charter. The Audit Committee's Charter is available on the Company's website at www.stagestoresinc.com. It can be accessed by clicking "Investor Relations", then "Corporate Governance", then "Audit Committee Charter."

Audit Committee Financial Expert. The Board has determined that Messrs. Montgoris and Schwartz are Audit Committee Financial Experts, as that term is defined by the SEC.

Audit Committee Report. The Audit Committee Report is on page 47.

Compensation Committee

In General. The members of the Compensation Committee are Michael Glazer (Chairman), John Mentzer, Margaret Monaco and Sharon Mosse, all of whom are Independent Directors. The primary function of the Compensation Committee is to administer the cash salary, bonus and other incentive compensation programs for the executive officers of the Company. The Committee met five times during the 2007 fiscal year.

Compensation Committee Charter. The Compensation Committee's Charter is available on the Company's website at www.stagestoresinc.com. It can be accessed by clicking "Investor Relations", then "Corporate Governance", then "Compensation Committee Charter."

Compensation Committee Report. The Compensation Committee Report is on page 28 of this Proxy Statement.

Compensation and Compensation Principles. For a discussion of executive officer and Director compensation and compensation principles, please see "Compensation of Directors and Executive Officers-Compensation Discussion and Analysis" and the compensation tables and narrative discussions that follow beginning on page 13 of this Proxy Statement.

Processes and Procedures for Executive Officer Compensation. The primary responsibilities of the Compensation Committee include (i) reviewing the performance and approving the compensation of the Company's executive officers, (ii) reviewing and approving the terms and conditions of written employment agreements for executive officers, (iii) providing oversight of all cash compensation, equity compensation, benefits and perquisites for the entire officer population, and (iv) reviewing and monitoring equity incentive plans as well as any pension, profit sharing, and benefit plans.

The Committee meets as frequently as circumstances require, but typically meets at least four times per year. Each meeting held in-person allows time for an executive session in which the Committee and others specifically requested by the Committee (such as outside consultants) have an opportunity to directly discuss all executive compensation issues without the presence of management. The Committee reviews compensation analyses prepared by an independent compensation consultant and by management and assesses program design and recommendations for individual executives against these strategies. The Committee determines the Chief Executive Officer's compensation and reviews and discusses recommendations for other senior executives with the Chief Executive Officer and approves final pay packages. The Committee also reviews overall program design and total costs compared to approved strategies.

The Committee believes that having the input of management is important to the overall effectiveness of the Company's executive compensation program. The Chief Executive Officer and the Company's Executive Vice President, Human Resources ("EVP Human Resources") are the primary representatives of management who interact with the Compensation Committee. The Committee seeks input from the Chief Executive Officer and the EVP Human Resources regarding the performance of the executive team and individual compensation levels (within parameters approved by the Committee) and also recommendations on various executive compensation awards (e.g., new hire equity grants). In addition, the Chief Executive Officer and the EVP Human Resources regularly attend Committee meetings (except for executive sessions) to participate in the presentation of materials and discussion of management's point of view regarding compensation issues.

The Chief Executive Officer may not be present during deliberations and voting regarding his or her compensation. While the Chief Executive Officer may be present during deliberations and voting on the compensation of other executive officers, the Chief Executive Officer may not vote on their compensation.

The Committee has delegated authority to the Chief Executive Officer to grant equity awards to employees at the Vice President level and below, with a maximum number of 5,000 shares to any one person at any one time. All equity awards, regardless of the number of shares, at the Senior Vice President level and above must be approved by the Board. In addition, the Chief Executive Officer has authority to manage employee compensation at the Vice President level and below within the compensation guidelines approved by the Committee.

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Engagement and Role of Independent Compensation Consultant-Executive Officer Compensation. The Committee has the authority to retain, from time to time and at the Company's expense, a professional compensation consulting firm to review our executive officer compensation program. The Committee has selected and engaged Hay Group, a leading human resource and compensation consulting firm, as its independent advisor to advise it on executive compensation. The decision to retain an advisor is at the sole discretion of the Committee and the consultants work at the direction of the Committee. The role of Hay Group in the compensation process is described in "Compensation of Directors and Executive Officers-Compensation Discussion and Analysis-Setting Compensation-Roll of Compensation Consultant" on page 14 of this Proxy Statement.

Compensation Committee Interlocks and Insider Participation. The Committee is comprised entirely of Independent Directors. None of the members of the Compensation Committee has ever been an officer or an employee of the Company or its subsidiary. No executive officer of the Company serves on any board of directors with any of the Company's Directors other than on the Company's Board in the case of Mr. Scarborough, our Chairman and Chief Executive Officer, and Mr. Hall, our President and Chief Operating Officer.

Processes and Procedures for Director Compensation. It is the responsibility of the Corporate Governance and Nominating Committee to recommend to the Board alternative forms of Director compensation. The Company's management reports at least once a year to the Corporate Governance and Nominating Committee on the status of our Directors' compensation in relation to the compensation of directors of our peer group, as identified on page 15 of this Proxy Statement (the "Peer Group"). With the assistance of its compensation consultant, the Corporate Governance and Nominating Committee periodically evaluates Director compensation to ensure that our Directors are compensated in a manner consistent with those of our Peer Group. Changes in Board compensation, if any, are recommended by the Corporate Governance and Nominating Committee, but must be approved by the Board after a full discussion.

Engagement and Role of Independent Compensation Consultant-Director Compensation. As with the Compensation Committee, the Corporate Governance and Nominating Committee (i) has the authority to retain, from time to time and at the Company's expense, a professional compensation consulting firm to review our Director compensation program, and (ii) has selected and engaged Hay Group as its independent advisor to advise it on Director compensation. Likewise, the decision to retain an advisor is at the sole discretion of the Corporate Governance and Nominating Committee and the consultant works at the direction of the Corporate Governance and Nominating Committee. The nature and role of advisor's assignment with respect to Director compensation, and its interaction with the Chairman of the Corporate Governance and Nominating Committee, is essentially the same as it is with the Compensation Committee in the case of executive officer compensation. However, the advisor only attends meetings of the Corporate Governance and Nominating Committee that involve Director compensation, which is generally one meeting a year.

Shareholder and Other Interested Party Communications with the Board

In General. Shareholders and other interested parties may send written communications to the Board and, if applicable, to specified individual Directors, including the Independent Directors, by mail, facsimile or courier to the Company's principal executive offices. All correspondence received by the Company will be relayed to the Board or, if applicable, to the individual Director. Communications should be addressed in care of Edward Record, Secretary, Stage Stores, Inc., 10201 Main Street, Houston, Texas 77025, or sent by facsimile to Mr. Record at (713) 669-2709.

Deadline for Shareholders for Inclusion in Next Year's Proxy Statement. Shareholder proposals intended to be presented at the 2009 Annual Meeting of Shareholders and included in the Company's proxy statement and form of proxy relating to that meeting pursuant to Rule 14a-8(e) under the Securities Exchange Act of 1934 must be received in writing by the Company at the Company's principal executive offices by December 31, 2008. Proposals should be addressed to Edward Record, Secretary, Stage Stores, Inc., 10201 Main Street, Houston, Texas 77025.

Other Shareholder Proposals for Presentation at Next Year’s Annual Meeting. For any shareholder proposal that is not submitted to the Company for inclusion in next year’s proxy statement, but is instead sought to be presented by the shareholder directly at the 2009 Annual Meeting, Rule 14a-4(c) under the Securities Exchange Act of 1934 permits management to vote proxies in its discretion if the Company: (1) receives written notice of the proposal before the close of business on March 18, 2009, and advises shareholders in the 2009 Proxy Statement about the nature of the matter and how management intends to vote on the matter, or (2) does not receive written notice of the proposal before the close of business on March 18, 2009. Notices of intention to present proposals at the 2008 Annual Meeting should be addressed to Edward Record, Secretary, Stage Stores, Inc., 10201 Main Street, Houston, Texas 77025.

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TRANSACTIONS WITH RELATED PERSONS

Transactions with Related Persons

Other than those related to their employment with the Company, in the case of executive officers, and those related to their service to the Company, in the case of non employee Directors, there were no transactions, since the beginning of the Company's last fiscal year, or any currently proposed transaction, in which the Company was or is to be made a participant and in which any Director, nominee for Director or executive officer of the Company, or any immediate family member of a Director, nominee for Director or executive officer of the Company had or will have a direct or indirect material interest.

Review, Approval or Ratification of Transactions with Related Persons

In General. Article X Related Party, Other Material Transactions and Loans of the Governance Guidelines ("Governance Guideline Article X") and the Company's written Related Party and Material Transactions Policy (the "Policy") contain the Company's policies and procedures for the review, approval or ratification of any transaction required to be reported in this Proxy Statement. They provide as follows:

Related Party Transactions. No officer, director, or employee of the Company or any of its affiliate or subsidiary companies (collectively, the "Companies") shall enter into any agreement, arrangement or contract with any person or entity pursuant to which any of the Companies may be obligated to:

(i) pay any money to a "Related Party," or

(ii) assign or lease any property belonging to any of the Companies to a Related Party, or

(iii) allow any Related Party to use any property belonging to any of the Companies,

if the aggregate fair market value of any monies paid to the Related Party and the property assigned or leased to or used by the Related Party exceeds Five Thousand Dollars ($5,000), without the express, prior, written approval of the Company's Board of Directors. The term "Related Party" includes:

(i) any person who is an officer or director of any of the Companies (each, an "Insider"); and

(ii) any person who is a child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of a director, executive officer or nominee for director, and any person (other than a tenant or employee) sharing the household of such director, executive officer or nominee for director (each, an "Immediate Family Member"); and

(iii) any entity for which an Insider or Immediate Family Member is an attorney, broker, commissioned sales agent, director, manager, officer, partner or profits participant; and

(iv) any entity in which an Insider or Immediate Family Member has beneficial ownership of five percent (5%) or more of the voting securities of the entity.

Notwithstanding anything to the contrary, if required by the Securities and Exchange Commission, New York Stock Exchange, or other regulatory authority, any transaction between the Company and a Related Party, regardless of the amount involved, shall be approved by the Audit Committee.

Other Material Transactions. No officer, director, or employee of the Company or any of its affiliate or subsidiary companies (collectively, the "Companies") shall enter into any agreement, arrangement or contract with any person or entity or authorize any transaction which the Company may be required to disclose to the Securities and Exchange Commission unless the agreement, arrangement, contract or transaction previously has been approved by the Company's Board of Directors.

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Loans to Directors, Executive Officers and Their Immediate Family Members. Governance Guideline Article X provides that the Company shall not, directly or indirectly, including through any subsidiary, extend or maintain credit, arrange for or guarantee the extension of credit, or renew an extension of credit, in the form of a personal loan to or for any Director, executive officer, or Immediate Family Member of any Director or executive officer. As used in the Governance Guidelines and this Proxy Statement, "executive officer" means the Company's Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, any Vice President in charge of a principal business unit, division or function (such as sales, administration or finance), or any other officer who performs a policy making function or any other person who performs similar policy making functions.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis ("CD&A") describes the material objectives and principles underlying our compensation policies and decisions and the material elements of the compensation of our Chief Executive Officer, the two individuals who served as our Chief Financial Officer and the next three most highly compensated executive officers identified in the Summary Compensation Table on page 28 (the "Named Executive Officers"). This CD&A should be read in conjunction with the compensation tables beginning on page 28.

Overview of Compensation Program

The Compensation Committee of our Board of Directors (for purposes of this discussion, the "Committee") administers the base salary, bonus, long-term incentive and other compensation and benefits programs with regard to our Named Executive Officers as well as our other executive officers. Its primary responsibilities are listed under "Processes and Procedures for Executive Officer Compensation" on page 10 of this Proxy Statement. The Committee ensures that the total compensation paid to the Named Executive Officers is fair, reasonable and competitive in relation to our Peer Group of companies, as identified below. The Committee's recommendations for the total compensation of the Named Executive Officers are subject to the approval of our Board of Directors.

Compensation Objectives and Principles

The objectives of our compensation program are as follows:

- to enable us to recruit, motivate and retain the executive talent required to successfully manage and grow our business and to achieve our short and long-term business objectives;

- to maximize the long-term commitment of our executive officers to our success by providing compensation elements that align their interests and our shareholders in that the compensation elements are directly related to our stock performance and other financial metrics that the Committee believes influence the creation of long-term shareholder value; and

- to reward our executive officers upon the achievement of short-term and long-term business objectives and enhanced shareholder value.

The principles of our compensation program are as follows:

- Compensation arrangements shall emphasize pay-for-performance and encourage retention of those executive officers who enhance the Company's performance;

- Compensation arrangements shall maintain an appropriate balance between base salary and annual and long-term incentive compensation;

- Cash incentive compensation plans for executive officers shall link pay to achievement of goals set in advance by the Committee;

- The Committee shall set annual and long-term performance goals for the Chief Executive Officer and evaluate his or her performance against those goals related to the performance of the Company's Peer Group and the Company's Performance Group (currently the Dow Jones Apparel Index), as the case may be;

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- Compensation arrangements shall align the interests of executive officers and shareholders;
- In the event minimum thresholds for annual and long-term performance goals are not met, incentive compensation related to those goals shall not be paid;
- It is the policy of the Board that the Company should not reprice or swap stock options granted to executive officers, Directors and employees.
- The Committee shall meet at least once each year in executive session, without the Chief Executive Officer;
- The Chief Executive Officer may not be present during deliberations and voting regarding his or her compensation. While the Chief Executive Officer may be present during deliberations and voting on the other executive officers' compensation, the Chief Executive Officer makes recommendations, but does not vote on their compensation;
- The compensation of the Chief Executive Officer and other executive officers shall be recommended to the Board for final approval by the Committee comprised solely of Independent Directors; and
- In approving compensation, the recent compensation history of the executive officer, including special or unusual compensation payments, and all forms of compensation to which the executive officer may be entitled, shall be taken into consideration using tally sheets or other comparable tools the Committee deems appropriate.

Setting Compensation

In General

Based on the foregoing objectives and principles, the Committee has structured our compensation programs to motivate our Named Executive Officers to achieve the business goals set by the Board and to reward them for achieving those goals.

Role of Compensation Consultant

The Committee has engaged Hay Group as its independent advisor to advise it on executive compensation. On an annual basis, Hay Group prepares competitive pay analyses regarding both the Company's Peer Group, as identified below, and the broader market; it provides information on the Company's performance compared to the Peer Group and to the Company's Performance Group, as identified below; and it advises the Committee on the level and design of compensation programs for executive officers. The Chairman of the Committee works directly with Hay Group to determine the scope of the work needed to assist the Committee in its decision making processes. For example, Hay Group meets with the Committee to review issues and gain input on plan design and alternatives. In this process, Hay Group meets with the members of the Committee, our Chief Executive Officer, and other senior management to facilitate the development of our executive compensation strategy and approach to determining compensation levels.

When requested, Hay Group attends Committee meetings and the Committee's executive sessions to present and discuss market data, program design alternatives, and to provide advice and counsel regarding decisions facing the Committee. Hay Group also meets individually with the Chairman of the Compensation Committee prior to Board meetings to discuss findings and issues. In addition, with the agreement and approval of the Committee, Hay Group works with the management team on broad-based compensation design and issues and links them to overall executive compensation strategy.

Role of Executive Officers in Compensation Decisions

The Committee believes that having the input of management is important to the overall effectiveness of our executive compensation program. Our Chief Executive Officer and Executive Vice President, Human Resources regularly attend Committee meetings (except for executive sessions) to participate in the presentation of materials and discussion of management's point of view regarding compensation issues. Our Chief Executive Officer annually reviews the performance of each Named Executive Officer (other than our Chief Executive Officer, whose performance is reviewed by the Committee). The conclusions reached and recommendations based on these reviews, including related salary adjustments and annual incentive award amounts, are presented to the Committee. The Committee can exercise its discretion in modifying any recommended adjustments or awards to executives.

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As stated in our principles, our Chief Executive Officer may not be present during deliberations and voting regarding his or her compensation. While our Chief Executive Officer may be present during deliberations and voting on the other executive officers' compensation, the Chief Executive Officer makes recommendations, but does not vote on their compensation.

Use of Tally Sheets

In addition to the recommendations of our Chief Executive Officer, the Committee reviews tally sheets, which are prepared for each of our Named Executive Officers by our Human Resources Department and Hay Group. The tally sheets present the Committee with specific dollar amounts for all elements of compensation, showing each Named Executive Officer's annual total compensation, the individual's accumulated compensation, and the benefits to which the Named Executive Officer would be entitled upon various termination events.

The Committee uses the tally sheets to compare the Company's overall executive compensation to the overall executive compensation of our Peer Group to ensure that the Company's compensation is reasonable and competitive. The Committee also uses the tally sheets to evaluate past performance of the Named Executive Officers to determine if the Company's compensation strategy achieved the Company's goals in the past, and to align executive compensation with the Company's near and long-term goals.

Benchmarking Overall Compensation; Our 2007 Peer Group

In making overall compensation decisions, the Committee compares each element of total compensation to data from Hay Group's published survey as well as a peer group of publicly-traded apparel and/or accessory companies listed below (collectively, the "Peer Group"). The Committee developed this Peer Group in August 2005 because it is representative of companies that the Company competes with for business and talent and because the Company's annual sales fall within the range of the companies in the Peer Group. The Peer Group is reviewed annually and updated as needed for certain business reasons, such as mergers, acquisitions, etc. In general, the criteria for selecting the companies in the Peer Group are as follows:

- U.S. based, publicly traded companies in the retail industry;
- Annual sales generally between one-half and two times the Company's annual sales;
- Primarily do business in apparel and/or accessories; and
- Companies from which key talent may be recruited.

All of the companies in the Peer Group meet a majority of those criteria. The members of the Peer Group are as follows:

- Abercrombie & Fitch Co.
- American Eagle Outfitters, Inc.
- AnnTaylor Stores Corporation
- The Cato Corporation
- Charming Shoppes, Inc.
- Chico's FAS, Inc.
- Christopher & Banks Corporation
- Collective Brands, Inc. (Payless)
- The Dress Barn, Inc.
- The Gymboree Corporation
- Hot Topic, Inc.
- The Men's Wearhouse, Inc.
- Pacific Sunwear of California, Inc.
- Stein Mart, Inc.
- The Talbots, Inc.
- Tween Brands, Inc.
- Urban Outfitters, Inc.

- The Children's Place Retail Stores, Inc.
- New York & Company, Inc.

The Peer Group provides direct incumbent information on a job title match basis (e.g., Chief Executive Officer, Chief Financial Officer) for key competitors. Hay Group's annual Retail Industry Total Remuneration Survey (the "Hay Group Survey") is used to provide an additional benchmark for the Named Executive Officers' base salary and annual variable pay target levels (both cash and equity). The Hay Group Survey provides compensation data on the broader retail market place (covering approximately 100 retail organizations, a majority of which are specialty stores). It provides market data by job, controlling for differences in responsibility and revenue size. The data from both the Peer Group and the Hay Group Survey includes base salary, annual incentive bonus and equity incentive compensation for the named executive officers of those companies.

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Benchmarking Incentive-Based Compensation; Our Performance Group

While the Committee uses the Peer Group and the Hay Group Survey to benchmark the overall compensation of our Named Executive Officers, it uses the companies in the Dow Jones Apparel Index, a separate group of apparel retailers as identified below (the "Performance Group"), to measure the Company's relative performance with respect to comparable store sales for purposes of the Senior Executive Incentive Bonus Plan and the Company's total shareholder return for the purpose of performance shares. In April 2007, the Committee selected the Performance Group because it is representative of companies that the Company competes with for business, talent, and investor capital. The Performance Group, which is comprised of approximately 35 apparel retailers, is developed independently by Dow Jones. The Compensation Committee decided to use the Dow Jones Apparel Index as it has been developed independently by Dow Jones, which has deemed it to be a relevant comparator group for individual investors to assess company performance.

The current members of the Performance Group are as follows:

· Abercrombie & Fitch Co.	· Collective Brands, Inc. (Payless)	· Limited Brands, Inc.
· Aeropostale, Inc.	· Dillard's, Inc.	· The Men's Wearhouse, Inc.
· American Eagle Outfitters, Inc.	· The Dress Barn, Inc.	· Nordstrom, Inc.
· AnnTaylor Stores Corporation	· Foot Locker, Inc.	· Pacific Sunwear of California, Inc,
· Brown Shoe Company, Inc.	· The Gap. Inc.	· Polo Ralph Lauren Corporation
· The Cato Corporation	· Genesco, Inc.	· Ross Stores, Inc.
· Charming Shoppes, Inc.	· Guess?, Inc.	· SAKS Incorporated
· Chico's FAS, Inc.	· The Gymboree Corporation	· The Talbots, Inc.
· The Children's Place Retail Stores, Inc.	· Hot Topic, Inc.	· The TJX Companies, Inc.
· Christopher & Banks Corporation	· J. Crew Group, Inc.	· Tween Brands, Inc.
· Coldwater Creek Inc.	· Kohl's Corporation	· Urban Outfitters, Inc

The following two companies are in the Peer Group, but are not in the Performance Group: New York & Company, Inc. and Stein Mart, Inc.

The following sixteen companies are in the Performance Group, but are not in the Peer Group: Aeropostale, Inc., Brown Shoe Company, Inc., Coldwater Creek Inc., Dillard's, Inc., Foot Locker, Inc., Guess?, Inc., The Gap, Inc., Genesco Inc., J. Crew Group, Inc., Kohl's Corporation, Limited Brands, Inc., Nordstrom, Inc., Polo Ralph Lauren Corporation, Ross Stores, Inc. SAKS Incorporated, and The TJX Companies, Inc.

Compensation Elements

In General

All of the compensation and benefits programs for our Named Executive Officers described below meet our primary purpose to recruit and retain the executive talent required to successfully manage and grow our business and to achieve our short and long-term business objectives. Beyond that, different elements are designed for different purposes. The elements of compensation for our Named Executive Officers are as follows:

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- Base salary, perquisites and other benefits, which are designed to attract and retain executives over time;
- Annual incentive (bonus) compensation, which is designed to focus executives on the business objectives established by the Board for a particular year;
- Long-term Incentive Compensation, which consists of stock appreciation rights (“SARs”), restricted stock, performance shares and stock options, is designed to focus executives on the long-term success of the Company, as reflected in increases to the Company’s stock price, growth in its earnings per share and other elements; and
- Termination and change in control compensation and benefits, which are designed to facilitate our ability to attract and retain executives as we compete for talented employees in a marketplace where those types of compensatory protections are commonly offered. Termination compensation and benefits are designed to ease an employee’s transition due to an unexpected employment termination, while change in control compensation and benefits are designed to encourage employees to remain focused on our business in the event of rumored or actual fundamental corporate changes.

The Committee establishes the amount and mix of base salary and variable compensation by referencing Peer Group practices for each element. The Committee does not have any specific formula for this determination, but rather targets fixed compensation (base salary) around the median of the market and variable compensation (both short and long-term) to be above the median of the market when the Company has superior performance. In considering the total package of compensation, the Committee also considers the internal relationship of pay across all executive positions.

Base Salary

The Committee views a competitive base salary as an important component to attract and retain executive talent. Base salaries also serve as the foundation for the annual incentive (bonus) plan, which expresses the bonus opportunity as a percent of base salary.

The Committee considers both internal equity and external competitiveness in determining the base salary of our Named Executive Officers. Base salaries for our Named Executive Officers are targeted in a range around the median of the Peer Group. After considering input from our Chief Executive Officer regarding the performance of the other Named Executive Officers, the Committee uses its judgment regarding individual performance, market competitiveness, length of service, job responsibilities and other factors to determine the appropriate base salary for each Named Executive Officer.

Annual Incentive (Bonus) Compensation

Annual incentive (bonus) compensation for our Named Executive Officers is determined each year according to a Senior Executive Incentive Bonus Plan (the “Bonus Plan”). The current Bonus Plan establishes an annual cash bonus amount and is paid based on the following two weighted parameters:

Parameter	Weight
Company Pre-Tax Earnings Relative to Target	75%
Comparable Store Sales Relative to Performance Group	25%

In March of each year, the Committee evaluates the Company's annual strategic plan to determine if these financial parameters are appropriate to measure achievement of the Company's objectives and to motivate our executives. Based on discussions with our Chief Executive Officer, our President and Chief Operating Officer and our Chief Financial Officer, the Committee approves the financial parameters to be included in the Bonus Plan. This final approval typically occurs at the March Committee meeting. An incentive matrix establishes threshold (minimum), target and maximum performance levels for each parameter based on the level of perceived difficulty in achieving our financial plan. The incentive matrix clearly outlines a minimum level of performance below which no bonus will be paid and the relationship between the two parameters (e.g. Pre-Tax Earnings and Comparable Store Sales relative to the Performance Group) that will generate payouts at or between the minimum and maximum performance levels.

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Annual incentive compensation targets for each Named Executive Officer under the Bonus Plan are expressed as a percentage of each Named Executive Officer's base salary with the target percentage increasing with job scope and complexity. The Committee can exercise discretion to reduce or increase the amount of any awards under the Bonus Plan. For additional information on the 2007 Senior Executive Incentive Bonus Plan and the formula used to calculate annual bonus amounts, please see "Committee Action in 2007 Concerning Named Executive Officer Compensation-Annual Incentive (Bonus) Compensation" beginning on page 21.

At its March meeting, the Committee also reviews the Company's stated financial results for the recently completed fiscal year, certifies the calculation of proposed bonus amounts, and reports them to the full Board.

Long-Term Incentive Compensation

In General. The Committee considers long-term incentive compensation ("LTI") critical to the alignment of executive compensation with the creation of shareholder value. The Company's long-term equity incentive compensation awards are currently granted pursuant to our Amended and Restated 2001 Equity Incentive Plan (the "Equity Incentive Plan"), which was approved by our shareholders at our 2004 Annual Meeting. A 2008 Equity Incentive Plan, which is very similar to the Equity Incentive Plan, is being presented for approval by our shareholders at the 2008 Annual Meeting.

At its March meeting, the Committee reviews the portfolio of long-term incentive vehicles, the targeted award size and the performance measures associated with any awards. The Committee also reviews recommendations provided by management and Hay Group regarding LTI design. The Board's practice is to make annual grants of equity awards, including stock options, SARs, restricted stock and performance shares, upon recommendation of the Committee at that time. The Committee believes that the use of multiple equity vehicles balances a focus on equity-driven growth with the retention and performance aspects of restricted stock. The grant date is the same date that the Board approves the awards. The equity award is priced at the closing price on the NYSE (the "Fair Market Value") of our common stock on that date. From time to time, the Board will consider making grants under other special circumstances, such as, recruiting new executive talent, upon the promotion of an executive and to retain key individuals. Any and all other grants (other than the March grants) are effective as of the date of the triggering event (e.g., new hire or promotion date) and are priced at the Fair Market Value of our common stock on that date.

Stock Options. Stock options represent the right to purchase a share of Company common stock at a fixed price (the exercise price) for a specified period of time (the option term). The exercise price is the Fair Market Value of our common stock on the date of grant. The executive officer benefits only if the stock's value appreciates from the grant date through the exercise date. In 2007, the Company did not grant stock options to any executive officers, but it has granted them in past years.

Most of the stock options the Company has awarded our Named Executive Officers vest at the rate of 25% per year over the first four years following the date of grant and some stock options vest at the end of three years following the date of grant. Stock options issued prior to January 29, 2005 will generally expire if not exercised ten years from the date of grant while options granted after January 29, 2005 will generally expire if not exercised seven years from the date of grant. If an executive officer dies, unvested stock options will immediately vest and the executive officer's estate will have one year from the date of death to exercise all stock options. If an executive officer's employment with the Company is terminated by reason of retirement or disability (retirement as determined by the Board), unvested stock options will immediately vest and he or she will have one year from the date of termination to exercise all stock options. Upon the termination of an executive officer's employment with the Company for reason other than death, retirement or disability, the executive officer will have sixty days from the date of termination to exercise all vested stock options. In the event of a Change in Control, as that term is defined on page 43 of this Proxy Statement, all stock options will immediately vest and will be exercisable by the executive officer. In any event, the exercise must occur within the remaining term of the stock option. Any portion of the stock option not exercised within the remaining term of the stock option shall terminate.

Stock Appreciation Rights ("SARs"). A stock appreciation right is similar to a stock option in that it allows the recipient to benefit from any appreciation in the Company's stock price from the grant date through the exercise date. However, with a SAR, the executive officer is not required to actually purchase all of the exercised shares (as with a stock option), but rather just receives the amount of the increase in shares of our stock. In no event may a SAR be settled in cash. Because the value that may be earned through SARs is dependent upon an increase in our stock price, the Committee views SAR grants as a critical link between management compensation accumulation and the creation of shareholder value. The Equity Incentive Plan provides that SARs may not be granted at less than 100% of the Fair Market Value of our common stock on the date of grant.

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SARs have a seven-year term and vest one-fourth (25%) on each of the first, second, third and fourth anniversaries of the date of the grant. If an executive officer dies, unvested SARs will immediately vest and the executive officer's estate will have one year from the date of death to exercise all SARs. If an executive officer's employment with the Company is terminated by reason of retirement or disability (retirement as determined by the Board), unvested SARs will immediately vest and he or she will have one year from the date of termination to exercise all SARs. Upon the termination of an executive officer's employment with the Company for reason other than death, retirement or disability, the executive officer will have sixty days from the date of termination to exercise all vested SARs. In the event of a Change in Control, all SARs will immediately vest and will be exercisable by the executive officer. In any event, the exercise must occur within the remaining term of the SARs. Any portion of the SARs not exercised within the remaining term of the SARs shall terminate.

Restricted Stock. Restricted stock is a share of our common stock that has vesting restrictions tied to continued employment. Restricted stock provides executive officers with the opportunity to earn full value shares of our common stock. Depending on the agreement, restricted stock grants may either cliff-vest, which means they vest all at once, at the end of two or three years, or step vest, which means they vest in pro rata increments, over a two or three year period. If the executive officer leaves for any reason other than death, retirement or disability before vesting (retirement as determined by the Board), the unvested portion of the restricted stock award will be forfeited. If the executive officer dies, becomes disabled or retires, the restricted stock award will fully vest. In the event of a Change in Control, the restricted stock award will immediately vest and will be payable to the executive officer within thirty days of the Change in Control.

Performance Shares. As with restricted stock, performance shares provide executive officers with the opportunity to earn full value shares of our stock. However, a three-year performance cycle (the "Performance Cycle") is established at the beginning of each grant and the amount of the award is determined by the Company's performance on total shareholder return relative to the then Performance Group over the Performance Cycle. If an executive officer's employment with the Company is terminated for any reason other than death or disability before the end of the Performance Cycle, the performance share award is forfeited. If an executive officer's employment with the Company is terminated due to death or disability during the Performance Cycle, he or she will receive the target number of shares set forth in his or her Performance Share Award Agreement within thirty days of the triggering event. In the event of a Change in Control, the Target Number of performance shares will immediately vest and will be payable to the executive officer within thirty days of the Change in Control.

Benefits and Perquisites

The Committee supports a compensation philosophy for our Named Executive Officers that is more heavily weighted toward annual and long-term performance-based compensation rather than toward benefits and perquisites.

The perquisites and other benefits we provide our Named Executive Officers are summarized in the Summary Compensation Table, the All Other Compensation Table and the Nonqualified Deferred Compensation Table, including footnotes. In addition, we provide our executive officers with core benefits available to all full-time employees (e.g., coverage for medical, dental, prescription drugs, basic life insurance and long term disability coverage) as well as a supplemental Executive Officer Medical Plan. The supplemental Executive Medical Plan is an insured plan which provides officers at the Executive Vice President level and above reimbursement for medical and dental out of pocket expenses which are not covered by the underlying Company medical plan. Typical payments are for deductibles, co-pays and similar expenses.

Retirement Plans

The Company does not provide a qualified retirement program for our Named Executive Officers nor is there a supplemental executive retirement plan or any other retirement plan available other than our 401(k) Plan and our Nonqualified Deferred Compensation Plan. See "Retirement Benefits" beginning on page 34 of this Proxy Statement.

Termination and Change In Control Arrangements

In General. Pursuant to their employment agreements, our Named Executive Officers are entitled to compensation and other benefits if their employment terminates or if there is a Change in control, as described beginning on page 35 under "Potential Payments upon Termination or Change In Control". Termination and Change in Control compensation and other benefits are established at the time a Named Executive Officer signs an employment agreement with the Company.

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Termination. Our Named Executive Officers are entitled to compensation and other benefits in an amount the Committee believes is appropriate, taking into account the time it is expected to take a terminated employee to find another job. Compensation and other benefits upon termination are intended to ease the consequences to an employee of an unexpected termination of employment. The Company benefits in that the employment agreements contain a covenant not to compete, solicit or disparage provision that continues for a period of up to three years following termination.

Change in Control. The Committee and the Board recognize the importance to the Company and our shareholders of avoiding the distraction and loss of key management personnel that may occur in connection with any rumored or actual Change in Control of the Company. To that end, properly designed Change in Control provisions in our Named Executive Officer employment agreements protect shareholder interests by enhancing executive focus during rumored or actual Change in Control activity through:

- Incentives to remain with the Company despite uncertainties while a transaction is under consideration or pending;
- Assurances of severance and other benefits in the event of termination; and
- Immediate vesting of equity elements of total compensation after a Change in Control.

To diminish the potential distraction due to personal uncertainties and risks that inevitably arise when a Change in Control is threatened or pending, the Committee and the Board have provided our Named Executive Officers with what the Committee and the Board determined to be competitive Change in Control compensation and benefit provisions in their employment agreements. The employment agreements of our Named Executive Officers provide for specific enhanced payments and benefits in the event of a Change in Control.

The enhanced termination benefits payable in connection with a Change in Control require a “double trigger” which means that (a) if a Change in Control occurs, and (b) during the period beginning three (3) months before the Change in Control and ending twenty-four (24) months after the Change in Control (at any time in the case of Mr. Abramczyk and Ms. Murray), (i) an executive officer’s employment agreement is terminated by the Company or its successor without good cause, or (ii) the executive officer’s employment agreement is terminated by the executive officer with good reason, the executive officer will be eligible for the Change in Control compensation and benefits. A double trigger was selected in order to enhance the likelihood that an executive officer will remain with the Company after a Change in Control, since the executive officer will not receive the change in control compensation payments and benefits if he or she voluntarily resigns after the Change in Control event. Thus, the executive officer is protected from actual or constructive dismissal after a Change in Control while any new controlling party or group is better able to retain the services of a key corporate asset.

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Gross-Up Payments

In General. A gross-up payment is a payment to an executive officer to compensate the executive officer for the amount of the taxes payable by him or her related to his or her receipt of compensation or other cash benefit from the Company. We would generally apply a gross-up payment to Named Executive Officers in only the following three situations:

- Relocation expenses, which are taxable under the Code and qualify for reimbursement under our relocation policy, are grossed up for Federal, FICA, state and local tax rates, where applicable, on the executive's reimbursement payments;

- Payments for estate planning allowances are grossed up for Federal, FICA, state and local tax rates, where applicable; and

- As further discussed below, any payment made due to a Change in Control, which is subject to an excise tax, will be grossed-up to compensate the executive for the amount of the tax.

Termination or Change in Control. As described on page 43 under "Payments Upon Termination or Change In Control-Gross-Up Payments", if any payments made to a Named Executive Officer due to termination or change in control subjects the Named Executive Officer to any taxes due under Section 4999 of the Code (excise tax), the Company will pay to the Named Executive Officer a gross-up payment to compensate the executive officer for the amount of the taxes. The effects of Section 4999 generally are unpredictable and can have widely divergent and unexpected effects based on an executive officer's personal compensation history. Therefore, to provide an equal level of benefit across individuals without regard to the effect of the excise tax, the Committee and the Board have determined that Section 4999 gross-up payments are appropriate for our Named Executive Officers.

Committee Actions in 2007 Concerning Named Executive Officer Compensation

In General

At its March, 2007 meeting, the Committee reviewed the market data and analyses provided by Hay Group and determined that the Company's overall compensation is reasonably competitive and consistent with the Committee's compensation objectives. In determining compensation for our Named Executive Officers for our 2007 fiscal year, the Committee considered many factors, including:

- The Board's judgment and satisfaction with the Company's performance;
- Assessment of the individual executive officer's performance;
- The nature and scope of the executive officer's responsibilities and his or her effectiveness in leading the Company's initiatives to successfully increase customer satisfaction, enhance Company growth, and propose, implement and ensure compliance with Company policies;
- Desired competitive positioning of compensation;
- Future potential for the executive officer; and
- Retention needs.

The Committee also considered the compensation practices and performances of our Peer Group and Performance Group.

On May 14, 2007, the Company entered into an Employment Agreement with Edward Record to serve as Executive Vice President and Chief Administrative Officer. On September 13, 2007, and as part of the Company's planned executive officer succession process, the Company entered into a new Employment Agreement with Mr. Record to serve as Executive Vice President and Chief Financial Officer.

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Base Salaries

The Committee, with input from Hay Group with respect to market salary data of our Peer Group, and Mr. Scarborough, in his capacity as our Chief Executive Officer, with respect to the individual performance of the other Named Executive Officers during the 2006 fiscal year, approved the following increases in the base salary of each of the Named Executive Officers for fiscal 2007:

Name	2006 Base Salary	2007 Base Salary	Base Salary Increase
James Scarborough	$ 1,000,000	$ 1,000,000	0%
Andrew Hall (1)	$ 550,000	$ 650,000	18%
Michael McCreery	$ 460,000	$ 460,000	0%
Edward Record (2)	N/A	$ 460,000	0%
Dennis Abramczyk	$ 430,000	$ 430,000	0%
Cynthia Murray	$ 425,000	$ 450,000	6%

(1) The Committee approved the base salary adjustment for Mr. Hall primarily based on its view of his role in our Chief Executive Officer succession plan, its review of comparative data for our Peer Group and discussions with Hay Group.

(2) Mr. Record did not join the Company until May 14, 2007.

The variation in the base salary paid to Mr. Scarborough, our Chairman and Chief Executive Officer, and Mr. Hall, our President and Chief Operating Officer, versus the base salaries paid to the other Named Executive Officers reflects their high level of accountability and responsibility, the market data for their roles relative to other named executive officers at the companies comprising our Peer Group and each individual's business experience.

Annual Incentive (Bonus) Compensation Paid in 2007 Under the 2006 Bonus Plan

At its March 2006 meetings, the Committee recommended, and the Board approved, the 2006 Senior Executive Bonus Plan (the "2006 Bonus Plan") as described in the Company's 2007 Proxy Statement. As with the 2007 Bonus Plan described below, the 2006 Plan set threshold, target and maximum bonus opportunities as a percentage of each Named Executive Officer's base salary based upon the achievement of specified Company Pre-Tax Earnings and the Company's ranking within the Performance Group with respect to comparable stores sales. Generally, bonuses paid to our Named Executive Officers under the 2006 Plan were paid at 81.53% of target as calculated in the schedule that follows the 2006 Bonus Plan Awards table. With the exception of Mr. Record, who did not receive a bonus for fiscal 2006 as he did not join the Company until May 14, 2007, each of the Named Executive Officers received a bonus in 2007 for performance under the 2006 Bonus Plan as follows:

2006 Bonus Plan Awards

Name	2006 Bonus Plan Award	% of Base Salary	% of Target Award
Mr. Scarborough	$ 733,500	73%	81.5%

Mr. Hall	$ 291,363	53%	81.5%
Mr. McCreery	$ 243,685	53%	81.5%
Mr. Abramczyk	$ 105,135	24%	40.7%
Ms. Murray	$ 207,825	49%	81.5%

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The following schedule reflects the calculation of the 81.53% target achievement percentage for the 2006 Bonus Plan based on the Committee recommended and Board approved parameters for Company pre-tax earnings and comparable store sales relative to our Performance Group.

Pre-Tax Earnings		Comparable Store Sales		
Comprises 75% of Bonus Total		Comprises 25% of Bonus Total		
Pre-Tax Earnings (Plan)	$93,060,000	Comparable Store Sales Change	+3.48 %	
Pre-Tax Earnings (Actual)	$87,782,000	Percentile Ranking	55.6%	
Percent Achievement of Plan	94.33 %			Total Combine Target Achieveme
Percent of Bonus Target Achievement		Percent of Bonus Target Achievement		
	53.75% +		27.78% =	81.53%

In general, the following formula was used to calculate the 2006 Bonus Plan awards:

Total Combined Target Achievement x Target Dollar Amount = 2006 Bonus Plan Award

Establishment of 2007 Senior Executive Incentive Bonus Plan

At their March 2007 meetings, the Committee recommended, and the Board approved, the parameters for the 2007 Senior Executive Incentive Bonus Plan (the “2007 Bonus Plan”) and approved the annual cash incentive opportunities for the Named Executive Officers as set forth in the table below. Mr. Scarborough’s bonus target was increased from 90% to 100% of base salary to improve his competitive market position. However, he received no salary increase. Mr. Hall’s bonus target was increased from 65% to 70% of base salary. Mr. McCreery’s bonus target was increased from 65% to 75% of base salary. Those bonus target increases were made in order to maintain the Company’s desired competitive market position and to continue to reinforce its pay for performance philosophy. The bonus targets for Mr. Abramczyk and Ms. Murray remained at 60% of base salary. In May 2007, Mr. Record’s bonus target was set at 65% of base salary. The 2007 Bonus Plan design was as follows:

2007 Bonus Plan

	FY2007 Incentive – Percent of Base Salary (Dollar Amount of Bonus)			Weightings of Parameters	
Name/Title	Threshold (1/4 of Target %)	Target %	Maximum (2 times Target %)	Pre-Tax Earnings(1)	Comparable Store Sales(2)
Mr. Scarborough, CEO	25%	100%	200%	75%	25%
	($250,000)	($1,000,000)	($2,000,000)		

Mr. Hall, President &	17.5%	70%	140%	75%	25%
President and COO	($105,635)	($455,000)	($910,000)		
Mr. McCreery, EVP	18.75%	75%	150%	75%	25%
	($86,250)	($345,000)	($690,000)		
Mr. Record	16.25%	65%	130%	75%	25%
EVP and CFO	($74,750)	($299,000)	($598,000)		
Mr. Abramczyk, EVP	15%	60%	120%	75%	25%
	($64,500)	($258,000)	($516,000)		
Ms. Murray, EVP	15%	60%	120%	75%	25%
	($65,500)	($270,000)	($540,000)		

(1) Company Pre-Tax Earnings
(2) Comparable Store Sales of Performance Group

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As reflected in the 2007 Bonus Plan matrix, the Committee also recommended, and the Board approved, Pre-Tax Earnings and Comparable Store Sales as the parameters for determining payouts under the 2007 Bonus Plan. Although the Pre-Tax Earnings amount was increased, the methodology and measurement parameters for the 2007 Bonus Plan remained unchanged from those of the 2006 Bonus Plan and are as follows:

Performance Level	Pre-Tax Earnings (75% of bonus opportunity)(1)(2)	Comparable Store Sales (25% of bonus opportunity)(1)(2)
Threshold	$90.57 million (85% of Financial Plan)	If Company's ranking of total year-end comparable store sales change is at the 25th percentile of the Performance Group
Target	$106.56 million (Financial Plan)	If Company's ranking of total year-end comparable store sales change is at the 50th percentile of the Performance Group
Maximum	$122.54 million (115% of Financial Plan)	If Company's ranking of total year-end comparable store sales change is at the 100th percentile (i.e., highest) of the Performance Group

(1) The actual bonus payment will be pro-rated between the threshold and maximum levels.

(2) If the comparable store sales ranking is below the 25th percentile, no bonus will be paid under the Comparable Store Sales parameter. If the Pre-Tax Earnings achievement is less than 85% of the Financial Plan, no bonus will be paid for either of the bonus parameters.

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Long-Term Incentive Compensation Awards

On March 28, 2007, the Board granted LTI awards for fiscal year 2007 to the Named Executive Officers other than Mr. Record, since he was hired on May 14, 2007. The annual equity grants were a combination of Performance Shares, Restricted Stock and SARs. The following long-term incentive ("LTI") awards were granted on March 28, 2007:

2007 LTI Awards

Name	Performance Shares (1)	Restricted Stock (2)	SARS (3)
Mr. Scarborough	None	21,777	None
Mr. Hall	18,000	None	50,000
Mr. McCreery	None	10,889	None
Mr. Record	None (4)	(4)	(4)
Mr. Abramczyk	6,000	None	20,000
Ms. Murray	9,000	None	25,000

(1) The Performance Shares cliff vest after a three-year measurement performance cycle (the "Performance Cycle") which began on the first business day of our 2007 fiscal year (February 5, 2007) and will end on the last business day of our 2009 fiscal year (January 29, 2010). The number of Performance Shares earned will be based on the Company's total shareholder return relative to the Performance Group at that time. The number of shares reflected in the table above is the "Target Shares", which means the number of shares of the Company's common stock the Named Executive Officer will earn (and receive) at the end of the Performance Cycle if the Company's results are in the middle (fiftieth percentile) of the Performance Group. On a sliding scale, the shares earned can vary as follows:

Percentile Ranking of Performance Group	Performance Shares Earned *
100%	200%
75%	150%
50%	100%
25%	25%
< 25%	0%

* As a percentage of Target Performance Shares shown in the 2007 LTI Awards table above.

(2) Restricted Stock vests ratably over a two year period (i.e. 50% per year). Mr. Scarborough and Mr. McCreery both received restricted stock grants in 2007 consistent with the Board's assessment of their retirement and succession planning expectations.

(3) SARs have a grant price of $22.96 and vest ratably over a four year period (i.e. 25% per year).

(4) As Mr. Record was not employed by the Company until May 14, 2007, he was not granted any LTI awards in March 2007. However, on May 14, 2007, he was granted (i) 30,000 shares of Restricted Stock, which will vest ratably over a three year period (i.e. 33.3% per year), and (ii) 100,000 SARs at an exercise price of $19.96, which will vest ratably over a four year period (i.e. 25% per year). To determine the size of the equity award, the Committee reviewed market data, Company LTI practices, and the value of compensation and benefits that Mr. Record was surrendering at his former employer, Kohl's Corporation.

Mr. Scarborough and Mr. McCreery were not granted Performance Shares or SARs since both of these executives had previously notified the Board of Directors that they planned to retire prior to the end of the typical three year performance cycle. Therefore, the Board granted each of them the Restricted Stock indicated above which vests in two years. The remaining three executives, Mr. Hall, Ms. Murray and Mr. Abramczyk, were granted Performance Shares and SARs. To determine the size of each equity award, the Committee reviewed market data, previous year LTI decisions and recommendations from Hay Group.

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Performance Shares Earned in 2007 Upon Completion of 2004 Performance Cycle

As a result of the completion of a three-year Performance Cycle that began on the first business day of our 2004 fiscal year (February 2, 2004) and ended on the last day business of our 2006 fiscal year (February 3, 2007)(the "2004 Performance Cycle"), our Named Executive Officers who were granted Performance Shares at the beginning of the 2004 Performance Cycle received one share of our common stock for each Performance Share earned. The number of Performance Shares earned is based on the Company's total shareholder return relative to the Performance Group over the 2004 Performance Cycle. The Company ranked 18th (43.40 percentile with a 42.05% gain in share price) out of 30 companies in the Performance Group as of February 3, 2007, resulting in a 78.57% achievement of target. By multiplying the Performance Shares awarded in 2004 (as adjusted for the 3:2 stock split to all shareholders on January 18, 2007) by 78.57%, the number of Performance Shares earned by our Named Executive Officers in 2007 for the 2004 Performance Cycle and delivered in April, 2007, was follows:

Name	Target Shares Awarded 2004	Split Adjusted Target Shares (1)	Performance Achievement	Performance Shares Earned
Mr. Scarborough	9,000	20,250	78.57%	15,910
Mr. Hall	(2)	(2)	(2)	(2)
Mr. McCreery	1,100	2,475	78.57%	1,945
Mr. Record	(2)	(2)	(2)	(2)
Mr. Abramczyk	710	1,598	78.57%	1,256
Ms. Murray	(2)	(2)	(2)	(2)

(1) The number of target shares has been adjusted by a factor of 2.25 to account for the Company's 3 for 2 stock splits in August 2005 and January 2007.

(2) The Named Executive Officer was not an employee of the Company in 2004 and was therefore not awarded any Performance Shares with respect to the 2004 Performance Cycle.

Committee Actions in 2008 Concerning Named Executive Officer Compensation

The Company did not achieve the Threshold Pre-Tax Earnings and Comparable Store Sales parameters described under "Establishment of 2007 Senior Executive Incentive Bonus Plan" on page 23 of this Proxy Statement. Therefore, our Named Executive Officers were not entitled to performance based bonuses under the 2007 Bonus Plan. However, it is the opinion of the Compensation Committee and the Board that the Company's performance was consistent with the performance of others in the Peer Group and the Performance Group and that the Company's failure to achieve the Threshold parameters was due, in large part, to unanticipated overall economic conditions during the 2007 fiscal year which affected the retail industry in general. As a result, on March 28, 2008, the Board awarded the discretionary bonuses to the following Named Executive Officers at 17.5% of the Target % for their performance during the 2007 fiscal year:

Name	Bonus
James R. Scarborough	$175,000
Andrew T. Hall	$79,625

Michael E. McCreery	$60,375
Edward J. Record	$52,325
Cynthia S. Murray	$65,565

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Tax, Accounting and Other Implications

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code of 1986, as amended, imposes a $1 million limit on the amount that a public company may deduct for compensation paid to a company's chief executive officer or any of the company's four other most highly compensated executive officers who are employed as of the end of the year. This limitation does not apply to compensation that meets the requirements under Section 162(m) for "qualifying performance-based" compensation (i.e., compensation paid only if the individual's performance meets pre-established objective goals based on performance criteria approved by shareholders.) The Committee's policy is to design compensation programs that further the best interests of the Company and its shareholders and that preserve the tax deductibility of compensation expenses. Incentive bonuses paid to executive officers under the Senior Executive Incentive Bonus Incentive Plan and awards granted under the Amended and Restated 2001 Equity Incentive Plan are designed to qualify as performance-based compensation. The Committee also believes, however, that it must maintain the flexibility to take actions which it deems to be in the best interests of the Company but which may not qualify for tax deductibility under Section 162(m). In this regard, if the amount of base salary for any of our executive officers exceeds $1 million, which is not anticipated to be the case, any amounts over $1 million will not be deductible for federal income tax purposes.

As required under the tax rules, the Company must obtain shareholder approval of the material terms of the performance goals for qualifying performance-based compensation every five years. We last requested and received shareholder approval in 2004. Therefore, we are seeking shareholder approval again at the 2008 Annual Meeting.

Committee Considerations

The Committee considered (i) the impact of the $1 million limit on the deductibility of non-performance based compensation imposed by Code Section 162(m), (ii) the accounting treatment of various types of equity-based compensation under Financial Accounting Standard FAS 123(R), and (iii) the non-deductibility of excess parachute tax payments under Code Section 280G (and the related excise tax imposed on covered employees under Code Section 4999 as described on page 43 in "Potential Payments on Termination and Change in Control - Gross-Up Payments") in its design of executive compensation programs. In addition, the Committee considered other tax and accounting provisions in developing the compensation programs for our Named Executive Officers. These included the special rules applicable to non-qualified deferred compensation arrangements under Code Section 409A as well as the overall income tax rules applicable to various forms of compensation. While the Committee strove to compensate our Named Executive Officers in a manner that produced favorable tax and accounting treatment, its main objective was to develop fair and equitable compensation arrangements that appropriately motivate, reward and retain those executives.

Compensation for Independent Directors in 2007

The compensation of our Independent Directors is set by the Board at the recommendation of the Corporate Governance and Nominating Committee (the "CGNC"). In developing its recommendations, the CGNC, is guided by the following objectives: compensation should fairly pay Independent Directors for work required in a company our size and compensation should align the Independent Directors' interests with the long-term interest of shareholders. Hay Group prepares competitive compensation analyses regarding both the Peer Group and the broader market for similarly situated companies and advises the CGNC on the level and design of compensation programs for the Independent Directors. The Chairman of the CGNC works directly with Hay Group to determine the scope of the work needed to assist the CGNC in its decision making processes. The compensation of our Independent Directors is described in the Director Compensation Table on page 44 of this Proxy Statement.

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Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Proxy Statement with the Company's management. Based on that review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

This Compensation Committee Report is provided by the following Directors, who constitute all of the members of the Compensation Committee:

Michael L. Glazer (Chairman)
John T. Mentzer
Margaret T. Monaco
Sharon B. Mosse

SUMMARY COMPENSATION TABLE

The following table summarizes the compensation of our Chief Executive Officer, the two individuals who served as our Chief Financial Officer, and our three other most highly compensated executive officers (collectively, the "Named Executive Officers") for our fiscal year ended February 2, 2008.

Named and Principal Position	Fiscal Year	Salary ($)	Bonus ($) (1)	Stock Awards ($) (2)	Option Awards ($) (3)	Non-Equity Incentive Plan Compensation ($) (4)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (#)	All Other Compensation ($) (5)	Total ($)
James R. Scarborough Chairman, Chief Executive Officer	2007	1,000,000	175,000	825,618	269,364	-	348,707	213,349	2,832,038
Andrew T. Hall President and Chief Operating Officer	2007	634,615	79,625	386,109	319,708	-	13,279	118,358	1,551,694
Michael E. McCreery Vice Chairman, Executive Vice President (6)(7)	2007	460,000	60,375	327,808	76,043	-	32,812	104,000	1,061,038
Edward J. Record Executive Vice President and Chief Financial Officer (6)	2007	386,154	52,325	144,368	108,729	-	(2,154)	119,599	809,021
Dennis E. Abramczyk	2007	430,000	-	121,230	86,203	-	165,842	79,230	882,505

Executive Vice President, Chief Operating Officer of Peebles Division									
Cynthia S. Murray Executive Vice President, Chief Merchandising Officer of Stage Division	2007	446,154	65,565	200,985	268,610	-	25,514	90,642	1,097,470

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(1) Amounts reflected in this column are discretionary cash bonuses awarded for performance in 2007 (and paid during the subsequent fiscal year).

(2) The amounts shown reflect the dollar amount recognized for financial statement reporting purposes for performance stock and restricted stock for the Named Executive Officers in accordance with SFAS 123 (R) and include amounts from awards granted in and prior to fiscal 2007. Assumptions used in the calculation of these amounts are included in Note 9 to the Company's audited consolidated financial statements for fiscal 2007 included in the Company's Annual Report on Form 10-K. Our CEO received a grant of 21,777 restricted shares on March 28, 2007 at $22.96 for grant value of $500,000, which vests over a two-year period.

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(3) The amounts shown reflect the dollar amount recognized for financial statement reporting purposes for stock options and SARs for the Name Executive Officers in accordance with SFAS 123 (R) and include amounts from awards granted in and prior to fiscal 2007. Assumptions used in the calculation of these amounts are included in Note 9 to the Company's audited consolidated financial statements for fiscal 2007 included in the Company's Annual Report on Form 10-K. Mr. Scarborough, our CEO, did not receive any SARs or stock option grants in 2007 (as reflected in Grants and Plan-Based Awards table).

(4) Non-Equity Incentive Plan Compensation (performance based cash bonus) amounts include any amounts deferred under the Executive Deferred Compensation Plan. Amounts reflect performance based bonuses earned during the fiscal year covered (and paid during the subsequent fiscal year).

(5) All other compensation includes deferred compensation matching contributions, auto allowances, estate planning allowances, insurance premiums and other compensation as set forth in the All Other Compensation Table below.

(6) On September 13, 2007, Mr. McCreery retired as Chief Financial Officer and assumed the position of Vice Chairman of the Board. On that date, Mr. Record became Chief Financial Officer.

(7) Mr. McCreery retired from the Company and the Board on March 28, 2008.

ALL OTHER COMPENSATION TABLE

The following table provides information concerning the compensation of our Named Executive Officers found in the "All Other Compensation" column of the Summary Compensation Table on page 28.

Name	Deferred Compensation Matching Contributions ($)	Auto Allowances ($)	Estate Planning Allowances ($)	Life Insurance Premiums ($)	Health Insurance Premiums($)	Tax Reimburse-ments ($)	Other ($)	Total($)
James R. Scarborough	175,165	12,000	14,949	5,100	6,135	-	-	213,349
Andrew T. Hall	94,755	12,000	-	2,028	8,015	-	1,560(1)	118,358
Michael E. McCreery	72,342	12,000	7,474	4,489	6,135	-	1,560(1)	104,000
Edward J. Record	40,049	8,769	-	506	4,430	20,052	45,793(2)	119,599
Dennis E. Abramczyk	55,327	12,000	-	5,768	6,135	-	-	79,230
Cynthia S. Murray	67,212	12,000	3,158	2,137	6,135	-	-	90,642

(1) The amounts shown for Messrs. Hall and McCreery are cell phone allowances. The other Named Executive Officers have company cell phones, but Messrs. Hall and McCreery chose to use their own cell phone and receive the allowance.

(2) The amount shown in the Other column includes moving expenses ($44,653) and cell phone allowance ($1,140).

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GRANTS OF PLAN-BASED AWARDS TABLE

The following table provides information concerning each grant of an award made to a Named Executive Officer in our last completed fiscal year under any plan. Definitions of Performance Shares, Restricted Stock and SARs as used in the footnotes to this table are found in the CD&A on page 19 of this Proxy Statement.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards (1)			All Other Stock Awards: Number of Shares of Stock or Units	All Other Options Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	(#)(2)	(#)(3)	($/Sh)	($/Sh)
James R. Scarborough	3/28/2007	-	-	-	-	-	-	21,777	-	-	22.96
Andrew T. Hall	3/28/2007	-	-	-	4,500	18,000	36,000	-	-	-	-
	3/28/2007	-	-	-	-	-	-	-	50,000	22.96	7.04
Edward J. Record	5/14/2007	-	-	-	-	-	-	30,000	-	-	19.96
	5/14/2007	-	-	-	-	-	-	-	100,000	19.96	6.14
Michael E. McCreery	3/28/2007	-	-	-	-	-	-	10,889	-	-	22.96
Dennis E. Abramczyk	3/28/2007	-	-	-	1,500	6,000	12,000	-	-	-	-
	3/28/2007	-	-	-	-	-	-	-	20,000	22.96	7.04
Cynthia S. Murray	3/28/2007	-	-	-	2,250	9,000	18,000	-	-	-	-
	3/28/2007	-	-	-	-	-	-	-	25,000	22.96	7.04

(1) These columns reflect Performance Shares that vest over time in an amount depending on performance criteria. The Performance Shares will vest after a three-year Performance Cycle based on the Company's total shareholder return relative to the Performance Group, as described in the CD&A.

- The "Threshold" number of shares refers to the lowest number of shares of our common stock the Named Executive Officer can earn (and receive) at the end of the Performance Cycle if the results are at the twenty-fifth percentile of the Performance Group. Performance results below the 25th percentile at the end of the performance cycle will result in the executives earning no shares under this equity grant.

- The "Target" number of shares refers to the number of shares of our common stock the Named Executive Officer can earn (and receive) at the end of the Performance Cycle if the results are at the fiftieth percentile of the Performance Group.

- The “Maximum” number of shares refers to the number of shares of our common stock the Named Executive Officer can earn (and receive) at the end of the Performance Cycle if the results are at the one hundredth percentile of the Performance Group, which is twice the Target number of shares.

(2) Reflects grants of Restricted Stock with 2-year step vesting (i.e., 50% per year) in the case of Messrs. Scarborough and McCreery and with 3-year step vesting (i.e., 33% per year) in the case of Mr. Record.

(3) This column reflects stock appreciation rights (“SARs”). The SARs vest ratably over a four-year period (i.e., 25% per year).

Employment Agreements

The Company has written Employment Agreements (the “Agreements”) with James Scarborough, Andrew Hall, Edward Record, Dennis Abramczyk and Cynthia Murray and had a written Employment Agreement with Michael McCreery prior to his retirement (individually an “Executive” and collectively, the “Named Executive Officers”). Under the terms of the respective Agreements, Mr. Scarborough is employed as Chairman of the Board and Chief Executive Officer; Mr. Hall is employed as President and Chief Operating Officer; Mr. McCreery was employed as Vice Chairman and Executive Vice President (and formerly as Chief Financial Officer); Mr. Record is employed as Executive Vice President and Chief Financial Officer; Mr. Abramczyk is employed as Executive Vice President and Chief Operating Officer of the Peebles Division; and Ms. Murray is employed as Executive Vice President and Chief Merchandising Officer of the Stage Division. The Agreements provide for a Base Salary and annual incentive (bonus) compensation. The Agreements also provide for perquisites such as an automobile allowance and a financial planning allowance and the Executive’s participation in all other bonus and benefit plans available to executive officers of the Company. Provisions of the Agreements related to termination and Change in Control are discussed in “Potential Payments on Termination or Change In Control” beginning on page 35 of this Proxy Statement.

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Other than Mr. Hall, Mr. Record and Ms. Murray, the Employment Agreements of these Executives are included as exhibits to the Company's 2001 Annual Report on Form 10-K. Mr. Hall's Employment Agreement is attached as an exhibit to the Company's Current Report on Form 8-K as filed on February 15, 2006. Mr. Record's Employment Agreement is attached as an exhibit to the Company's Quarterly Report on Form 10-Q as filed December 12, 2007. Ms. Murray's Employment Agreement is attached as an exhibit to the Company's Quarterly Report on Form 10-Q as filed August 30, 2004.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

The following table provides information, on an award by award basis, concerning unexercised options, stock that has not vested, and equity incentive plan awards for each Named Executive Officer outstanding as of the end of our last completed fiscal year (February 2, 2008). Market value is computed using the closing market price of our common stock on February 1, 2008, the last trading day prior to the end of our last completed fiscal year ($12.75).

	Options/SARs Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options/SARs Exercisable (#)	Number of Securities Underlying Unexercised Options/SARs Unexercisable (#) (1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options /SARs(#)	Option/ SARs Exercise Price ($)	Option/ SARs Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) (2)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plans Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested (#) (3)	Equity Incentive Plans Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested ($)
James R. Scarborough	152,048	-	-	6.67	8/24/2011	21,777	277,657	29,250	372,938
	881,250	-	-	7.22	8/24/2011	-	-	-	-
	-	70,912	-	17.01	3/30/2012	-	-	-	-
	20,812	62,438	-	19.18	3/17/2013	-	-	-	-
Andrew T. Hall	37,500	112,500	-	18.74	2/20/2013	15,000	191,250	18,000	229,500
	-	50,000	-	22.96	3/28/2014	-	-	-	-