

STAGE STORES INC  
Form 10-K  
March 30, 2016

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

FORM 10-K  
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 30, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-14035

Stage Stores, Inc.

(Exact Name of Registrant as Specified in Its Charter)

NEVADA

(State or Other Jurisdiction of Incorporation or Organization)

91-1826900

(I.R.S. Employer Identification No.)

2425 WEST LOOP SOUTH, HOUSTON, TEXAS

(Address of Principal Executive Offices)

77027

(Zip Code)

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

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

Title of each class

Common Stock (\$0.01 par value)

Name of each exchange on which registered

New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

As of July 31, 2015 (the last business day of the registrant's most recently completed second quarter), the aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates of the registrant was \$554,753,686 (based upon the closing price of the registrant's common stock as reported by the New York Stock Exchange on July 31, 2015).

As of March 22, 2016, there were 26,876,342 shares of the registrant's common stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to the registrant's Annual Meeting of Shareholders to be held on June 2, 2016, which will be filed within 120 days of the end of the registrant's fiscal year ended January 30, 2016 ("Proxy Statement"), are incorporated by reference into Part III of this Form 10-K to the extent described therein.

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References to a particular year are to Stage Stores, Inc.'s fiscal year, which is the 52- or 53-week period ending on the Saturday closest to January 31st of the following calendar year. For example, a reference to "2013" is a reference to the fiscal year ended February 1, 2014, "2014" is a reference to the fiscal year ended January 31, 2015 and "2015" is a reference to the fiscal year ended January 30, 2016. 2013, 2014 and 2015 each consisted of 52 weeks.

PART I

ITEM 1. BUSINESS

Our Business

Stage Stores, Inc. and its subsidiary ("we," "us" or "our") operate specialty department stores primarily in small and mid-sized towns and communities. We provide customers a welcoming and comfortable shopping experience in our stores and through our direct-to-consumer business. Our merchandise assortment is a well-edited selection of moderately priced brand name and private label apparel, accessories, cosmetics, footwear and home goods. As of January 30, 2016, we operated 834 specialty department stores in 39 states under the BEALLS, GOODY'S, PALAIS ROYAL, PEBBLES and STAGE nameplates and a direct-to-consumer business.

On March 7, 2014, we divested Steele's, an off-price concept that we launched in November 2011, in order to focus solely on our core specialty department store business. Accordingly, the results of operations of Steele's and loss on the sale are reflected in discontinued operations for all periods presented.

Our History

Stage Stores, Inc. was formed in 1988 when the management of Palais Royal, together with several venture capital firms, acquired the family-owned Bealls and Palais Royal chains, both of which were originally founded in the 1920s. At the time of the acquisition, Palais Royal operated primarily larger stores, located in and around the Houston metropolitan area, while Bealls operated primarily smaller stores, principally located in rural Texas towns.

Our Market and Target Customer

Our distinct store environment and well-edited assortments offer name brand, trend-right apparel, accessories, cosmetics, footwear and home goods. While our broad assortments attract a wide demographic, our primary target customers are style and value savvy women over the age of 35 who are married, employed full time and have an average household income of \$55,000. Our customer research reveals our target customer loves shopping and enjoys a shopping experience that brings her style, value and inspiration where she lives.

Competition

The retail industry is highly competitive, with competition coming from both brick-and-mortar stores as well as e-commerce. As a result of our small and mid-sized market focus, our stores generally face less competition because we provide a broad selection of brand name merchandise that is generally not otherwise available locally. In small to mid-sized communities where we do compete for brand name merchandise sales, competition generally comes from local retailers, small regional chains and, to a lesser extent, national department stores. In larger markets, where we compete against other national department store chains, we distinguish ourselves by offering a high level of customer service and the advantage of generally being in neighborhood locations with convenient parking and easy access. We view our ability to provide our customers the options of shopping both in store and online, particularly in underserved markets, as a competitive advantage. Additional competitive advantages over local retailers and small regional chains

in the small to mid-sized communities include (i) economies of scale (ii) strong vendor relationships (iii) a widely used private label credit card and (iv) extensive experience in small and mid-size markets.

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Our Competitive Strengths

We believe the following strengths differentiate us from our competitors and are key drivers of our success:

**Unique Real Estate Positioning and Powerful Store Economics.** Our stores are predominantly located in small towns and communities with populations of less than 150,000 people. We predominantly lease our locations and are generally secondary users of space, allowing us to secure advantageous occupancy terms. Our average store of 18,000 square feet creates an opportunity to offer a selection that feels comprehensive and curated in an inviting environment.

**Trend-Right, Brand Name Merchandise Delivered at a Compelling Value.** Our stores and direct-to-consumer business carry a broad selection of trend-right, brand name apparel, accessories, cosmetics, footwear and home goods for the entire family. Our buyers identify and purchase nationally recognized, quality brands and trend-right styles our customers find compelling from respected brands such as Levi Strauss, Nike, Calvin Klein, Chaps, Izod, Dockers, Carters, Nine West, Estee Lauder, Clinique, Nautica, Skechers and Adidas. Our value proposition for moderately priced, brand name merchandise includes routine discount and promotional offers. We believe our use of discount and promotional offers generates customer excitement and drives loyalty and repeat shopping.

**Experienced Management Team with a Disciplined Operating Philosophy.** Our senior management team has extensive experience across a wide range of disciplines in the retail industry, including merchandising, marketing, store operations, human resources, information systems and finance. Our management team has built a solid operating foundation based on sound retail principles and is focused on taking care of our customers and providing great merchandise and a great experience.

Stores

**Store Openings and Closures.** During 2015, we opened 3 new stores and closed 23 stores. We continually review the profitability of each store and will consider closing a store if the expected store performance does not meet our financial hurdle rates. As part of a strategic evaluation of our store portfolio in 2015, we announced a multi-year plan to close stores that we believe do not have the potential to meet our sales productivity and profitability standards. We expect to close approximately 100 underperforming stores representing nearly 5% of total sales, including the 23 stores that were closed in 2015 and approximately 25 to 30 stores expected to close in 2016, with the majority expected to be closed by the end of 2017. The closure of these stores is expected to improve our ability to effectively allocate capital, deliver higher sales productivity and be accretive to earnings. We do not plan to open new stores in 2016.

**Expansion, Relocation and Remodeling.** During 2015, we completed 122 store remodels, relocations and expansions as we embarked on a multi-year initiative to increase investments in our existing stores and direct-to-consumer business. We believe that remodeling improves the store environment and helps us create an inviting and differentiated shopping experience. Our remodeling projects are designed to create a bright, fun and comfortable store experience and may include upgrades ranging from improving lighting, flooring, paint, fixtures, fitting rooms, visual merchandising and signage, to more extensive expansion projects. Relocations are intended to improve the store's location and help it capture incremental sales.

Store count and selling square footage by nameplate are as follows:

	Number of Stores			Selling Square Footage (in thousands)		
	January 31, 2015	2015 Activity Net Changes	January 30, 2016	January 31, 2015	2015 Activity Net Changes	January 30, 2016
Bealls	219	(14 )	205	4,403	(284 )	4,119
Goody's	266	(16 )	250	4,225	(276 )	3,949

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Palais Royal	53	(1	) 52	1,135	(25	) 1,110
Peebles	197	(4	) 193	3,564	(41	) 3,523
Stage	119	15	134	2,082	347	2,429
	854	(20	) 834	15,409	(279	) 15,130

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Utilizing a ten-mile radius from each store, approximately 65% of our stores are located in communities with populations below 50,000 people, while an additional 20% of our stores are located in communities with populations between 50,000 and 150,000 people. The remaining 15% of our stores are located in higher-density markets with populations greater than 150,000 people, such as Houston, San Antonio and Lubbock, Texas. The store count and selling square footage by market area population are as follows:

Population	Number of Stores			Selling Square Footage (in thousands)		
	January 31, 2015 <sup>(a)</sup>	2015 Activity Net Changes	January 30, 2016	January 31, 2015 <sup>(a)</sup>	2015 Activity Net Changes	January 30, 2016
Less than 50,000	546	(8 )	538	8,789	(72 )	8,717
50,000 to 150,000	175	(8 )	167	3,541	(129 )	3,412
Greater than 150,000	133	(4 )	129	3,079	(78 )	3,001
	854	(20 )	834	15,409	(279 )	15,130

<sup>(a)</sup> Store data as of January 31, 2015 is restated to reflect updated population statistics from our new third party data provider.

Direct-to-Consumer