

STAGE STORES INC
Form 10-K
April 01, 2015

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 31, 2015

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.)

10201 MAIN STREET, HOUSTON, TEXAS

(Address of Principal Executive Offices)

77025

(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

Edgar Filing: STAGE STORES INC - Form 10-K

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

Edgar Filing: STAGE STORES INC - Form 10-K

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. Yes No

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 August 1, 2014 (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 \$505,510,489 (based upon the closing price of the registrant's common stock as reported by the New York Stock Exchange on August 1, 2014).

As of March 24, 2015, there were 31,659,842 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 11, 2015, which will be filed within 120 days of the end of the registrant's fiscal year ended January 31, 2015 ("Proxy Statement"), are incorporated by reference into Part III of this Form 10-K to the extent described therein.

TABLE OF CONTENTS

<u>PART I</u>		Page
<u>Item 1.</u>	<u>Business</u>	<u>4</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>9</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>13</u>
<u>Item 2.</u>	<u>Properties</u>	<u>14</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>15</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>15</u>
<u>PART II</u>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>15</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>18</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>33</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>33</u>
<u>Item 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>33</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>34</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>34</u>
<u>PART III</u>		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>35</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>36</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>36</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>36</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	<u>36</u>
<u>PART IV</u>		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>37</u>
<u>Signatures</u>		<u>41</u>
<u>Index to Consolidated Financial Statements of Stage Stores, Inc.</u>		<u>F-1</u>

Table of Contents

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 "2012" is a reference to the fiscal year ended February 2, 2013, "2013" is a reference to the fiscal year ended February 1, 2014 and "2014" is a reference to the fiscal year ended January 31, 2015. 2013 and 2014 consisted of 52 weeks, while 2012 consisted of 53 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 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 31, 2015, we operated 854 specialty department stores in 40 states under the BEALLS, GOODY'S, PALAIS ROYAL, PEEBLES 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 offerings of name brand and trend-right assortments attract a wide demographic. Our merchandise combination of apparel, accessories, cosmetics, footwear and home allows us participate in a number of market segments. While our broad assortment appeals to a wide array of people of varying ages and diverse backgrounds, 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 to shop for fun, and enjoys a shopping experience that brings her style, value and inspiration where she lives.

Competition

The retail industry is highly competitive and we compete in our stores and in our e-commerce business. However, as a result of our small and mid-sized market focus, our stores generally face less competition for our brand name merchandise since branded merchandise is typically available only in regional malls, which are often located more than 30 miles away from our nearest store. Due to minimal branded merchandise overlap, we generally do not directly compete for branded merchandise sales with national discounters such as Wal-Mart. In small and mid-sized markets 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 the more competitive markets where we compete against other national department store chains, we offer consumers a high level of customer service and the advantage of generally being in neighborhood locations with convenient parking and easy access. We believe we have a competitive advantage over local retailers and small regional chains due to our (i) broader selection of brand name merchandise, (ii) distinctive retail concept, (iii) economies of scale, (iv) strong vendor relationships and (v) private label credit card program. We also believe we have a competitive advantage in small and mid-sized markets over national department stores due to our experience with smaller markets.

Table of Contents

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. We predominantly lease our locations and are generally secondary users of space, allowing us to secure advantageous occupancy terms. Our average store is 18,000 square feet, which is a small-format footprint for a specialty department store concept. We believe this 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, Jockey, Estee Lauder, Clinique, Nautica, Skechers and DKNY. 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, 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 to provide great merchandise and a great experience.

Stores

Store Openings and Closures. During 2014, we opened 18 new stores and closed 12 stores. In 2015, we plan to slow our new store growth as we embark on a multi-year initiative to increase investments in our direct-to-consumer business and existing stores. We anticipate opening 2 new stores in 2015. We continually review the profitability of each store and look to close a store if the expected store performance does not meet our financial hurdle rates. We expect to close 10-20 stores, where lease terms permit, in 2015.

Expansion, Relocation and Remodeling. During 2014, we expanded 13 stores and relocated 7 stores. In 2015, we plan to increase our investment in the expansion, relocation and remodeling of our existing stores. 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 to help it capitalize on incremental sales productivity potential.

In 2014, we undertook an initiative to measure selling square footage for each store. Historically, selling square footage for our stores was based on a percentage of gross square footage. The changes as a result of that initiative are included in the beginning balance in the following tables.

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

	Number of Stores			Selling Square Footage (in thousands)		
	February 1, 2014	2014 Activity Net Changes	January 31, 2015	February 1, 2014	2014 Activity Net Changes	January 31, 2015
Bealls	215	4	219	4,332	71	4,403

Edgar Filing: STAGE STORES INC - Form 10-K

Goody's	268	(2	) 266	4,238	(13	) 4,225
Palais Royal	53	—	53	1,135	—	1,135
Peebles	191	6	197	3,497	67	3,564
Stage	121	(2	) 119	2,111	(29	) 2,082
	848	6	854	15,313	96	15,409

5

Table of Contents

Utilizing a ten-mile radius from each store, approximately 58% of our stores are located in communities with populations below 50,000 people, while an additional 26% of our stores are located in communities with populations between 50,000 and 150,000 people. The remaining 16% of our stores are located in higher-density markets with populations greater than 150,000, such as Houston, San Antonio and Lubbock, Texas. The store count and selling square footage by market area population are as follows:

	Number of Stores			Selling Square Footage (in thousands)		
	February 1, 2014	2014 Activity Net Changes	January 31, 2015	February 1, 2014	2014 Activity Net Changes	January 31, 2015
Less than 50,000	491	5	496	7,793	100	7,893
50,000 to 150,000	217	3	220	4,303	51	4,354
Greater than 150,000	140	(2	) 138	3,217	(55	) 3,162
	848	6	854	15,313	96	15,409

Direct-to-Consumer

Our direct-to-consumer business consists of our e-commerce website and Send program. Since launching our e-commerce website in 2010, we have made growing our direct-to-consumer business a high priority. Our e-commerce website features a broader assortment of the merchandise categories found in our stores, as well as additional product offerings. Entering the 2013 holiday season, we replatformed our e-commerce website which improved functionality and enhanced the customer experience. Our in-store Send program allows customers to have merchandise shipped directly to their homes from another store if the preferred size or color is not available in their local store. Our direct-to-consumer business enables us to reach customers outside of store operating hours, acquire customers in all states and further build our brand. We believe there is significant potential to expand our direct-to-consumer business over time.

Merchandising

We offer a well-edited selection of moderately priced, branded merchandise within distinct merchandise categories, such as women's, men's and children's apparel, as well as accessories, cosmetics, footwear and home goods. Our direct-to-consumer business allows us to extend the breadth of our assortments and offer additional products.

The following table sets forth the distribution of net sales among our various merchandise categories:

Department	Fiscal Year			
	2014	2013	2012	
Women's ^(a)	38	% 38	% 39	%
Men's ^(b)	17	17	17	