STAGE STORES INC
Form 10-Q
December 10, 2015

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

Form 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2015

or

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

For the transition period from ______ to ______

Commission File Number 1-14035

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

NEVADA	91-1826900
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10201 Main Street, Houston, Texas	77025
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark 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 þ No o

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of November 30, 2015, there were 30,560,280 shares of the registrant's common stock outstanding.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Stage Stores, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except par value)
(Unaudited)

	October 31, 2015	January 31, 2015
ASSETS		
Cash and cash equivalents	$23,434	$17,165
Merchandise inventories, net	617,258	441,452
Prepaid expenses and other current assets	46,849	45,444
Total current assets	687,541	504,061
Property, equipment and leasehold improvements, net of accumulated depreciation of $632,274 and $581,862, respectively	308,034	285,450
Intangible asset	14,910	14,910
Other non-current assets, net	21,996	20,256
Total assets	$1,032,481	$824,677
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$241,549	$121,778
Accrued expenses and other current liabilities	70,393	83,004
Total current liabilities	311,942	204,782
Long-term debt obligations	172,042	45,673
Other long-term liabilities	96,864	98,292
Total liabilities	580,848	348,747
Commitments and contingencies		
Common stock, par value $0.01, 100,000 shares authorized, 32,020 and 31,632 shares issued, respectively	320	316
Additional paid-in capital	402,018	395,395
Less treasury stock - at cost, 0 and 0 shares, respectively	(763)	(600)
Accumulated other comprehensive loss	(6,514)	(6,874)
Retained earnings	56,572	87,693
Total stockholders' equity	451,633	475,930
Total liabilities and stockholders' equity	$1,032,481	$824,677

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Stage Stores, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(in thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Net sales	$351,575	$364,197	$1,101,804	$1,113,683
Cost of sales and related buying, occupancy and distribution expenses	275,479	276,031	846,324	835,236
Gross profit	76,096	88,166	255,480	278,447
Selling, general and administrative expenses	92,079	94,652	281,387	283,814
Store opening costs	17	998	396	2,030
Interest expense	743	814	1,995	2,293
Loss from continuing operations before income tax	(16,743)	(8,298)	(28,298)	(9,690)
Income tax benefit	(6,560)	(3,191)	(11,093)	(3,729)
Loss from continuing operations	(10,183)	(5,107)	(17,205)	(5,961)
Loss from discontinued operations, net of tax benefit of $65 and $4,322, respectively	—	(161)	—	(6,909)
Net loss	$(10,183)	$(5,268)	$(17,205)	$(12,870)
Other comprehensive income:				
Amortization of employee benefit related costs, net of tax of $74, $38, $221 and $114, respectively	$120	$62	360	185
Total other comprehensive income	120	62	360	185
Comprehensive loss	$(10,063)	$(5,206)	$(16,845)	$(12,685)
Basic loss per common share data:				
Continuing operations	$(0.32)	$(0.16)	$(0.54)	$(0.19)
Discontinued operations	—	(0.01)	—	(0.22)
Basic loss per common share	$(0.32)	$(0.17)	$(0.54)	$(0.41)
Basic weighted average shares outstanding	32,017	31,794	31,917	31,681
Diluted loss per common share data:				
Continuing operations	$(0.32)	$(0.16)	$(0.54)	$(0.19)
Discontinued operations	—	(0.01)	—	(0.22)
Diluted loss per common share	$(0.32)	$(0.17)	$(0.54)	$(0.41)
Diluted weighted average shares outstanding	32,017	31,794	31,917	31,681

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Stage Stores, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Nine Months Ended	
	October 31, 2015	November 1, 2014
Cash flows from operating activities:		
Net loss	$(17,205)	$(12,870)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and impairment of long-lived assets	58,326	46,896
Loss on retirements of property, equipment and leasehold improvements	712	854
Deferred income taxes	(557)	(451)
Tax benefit from stock-based compensation	540	109
Stock-based compensation expense	8,926	7,018
Amortization of debt issuance costs	164	220
Excess tax benefits from stock-based compensation	(945)	(829)
Deferred compensation obligation	163	(104)
Amortization of employee benefit related costs	581	299
Construction allowances from landlords	2,127	5,529
Changes in operating assets and liabilities:		
Increase in merchandise inventories	(175,806)	(140,569)
Increase in other assets	(3,335)	(3,500)
Increase in accounts payable and other liabilities	95,476	93,021
Net cash used in operating activities	(30,833)	(4,377)
Cash flows from investing activities:		
Additions to property, equipment and leasehold improvements	(69,156)	(48,308)
Proceeds from disposal of assets	37	1,468
Net cash used in investing activities	(69,119)	(46,840)
Cash flows from financing activities:		
Proceeds from revolving credit facility borrowings	428,783	331,518
Payments of revolving credit facility borrowings	(304,960)	(262,970)
Payments of long-term debt obligations	(1,466)	(2,017)
Payments of debt issuance costs	—	(634)
Repurchases of common stock	—	(5)
Payments for stock related compensation	(3,708)	(2,038)
Proceeds from exercise of stock awards	543	5,041
Excess tax benefits from stock-based compensation	945	829
Cash dividends paid	(13,916)	(12,483)
Net cash provided by financing activities	106,221	57,241
Net increase in cash and cash equivalents	6,269	6,024
Cash and cash equivalents:		
Beginning of period	17,165	14,762
End of period	$23,434	$20,786

Supplemental disclosures including non-cash investing and financing activities:

Interest paid	$ 1,816	$ 2,092
Income taxes paid	$ 15,053	$ 7,117
Unpaid liabilities for capital expenditures	$ 10,526	$ 8,571

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Stage Stores, Inc.
Condensed Consolidated Statement of Stockholders' Equity
For the Nine Months Ended October 31, 2015
(in thousands, except per share data)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount		Shares	Amount			
Balance at January 31, 2015	31,632	$316	$395,395	—	$(600)	$(6,874)	$87,693	$475,930
Net loss	—	—	—	—	—	—	(17,205)	(17,205)
Other comprehensive income	—	—	—	—	—	360	—	360
Dividends on common stock, $0.43 per share	—	—	—	—	—	—	(13,916)	(13,916)
Deferred compensation	—	—	163	—	(163)	—	—	—
Issuance of equity awards, net	388	4	539	—	—	—	—	543
Tax withholdings paid for net settlement of stock awards	—	—	(3,545)	—	—	—	—	(3,545)
Stock-based compensation expense	—	—	8,926	—	—	—	—	8,926
Tax benefit from stock-based compensation	—	—	540	—	—	—	—	540
Balance at October 31, 2015	32,020	$320	$402,018	—	$(763)	$(6,514)	$56,572	$451,633

The accompanying notes are an integral part of these condensed consolidated financial statements.
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Stage Stores, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements of Stage Stores, Inc. and its subsidiary ("we," "us" or "our") have been prepared in accordance with the requirements of the U.S. Securities and Exchange Commission ("SEC") for interim financial information and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. Those adjustments that are, in the opinion of management, necessary for a fair presentation of the results of the interim periods have been made. Results of operations for such interim periods are not necessarily indicative of the results of operations for a full year due to seasonal and other factors. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto filed with our Annual Report on Form 10-K for the year ended January 31, 2015 ("Form 10-K").

References to a particular year are to our 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 "2015" is a reference to the fiscal year ending January 30, 2016, and "2014" is a reference to the fiscal year ended January 31, 2015. Each of 2015 and 2014 are comprised of 52 weeks.

Recent Accounting Standards. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which supersedes most existing revenue recognition guidance in GAAP. The core principle of the guidance is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects what a company expects to be entitled to in exchange for those goods or services. ASU 2014-09 allows for either a retrospective or cumulative effect transition method of adoption and is effective for periods beginning after December 15, 2016. In July 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 by one year, however, early adoption as of the original effective date is permitted. We are currently evaluating the impact that the adoption of ASU 2014-09 will have on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provides explicit guidance to help companies evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The new guidance clarifies that if a cloud computing arrangement includes a software license, the customer should account for the license consistent with its accounting for other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. This new standard is effective for us for fiscal years and interim periods beginning after December 15, 2015. We do not expect the adoption of ASU 2015-05 to have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, which changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. The new principle is part of the FASB’s simplification initiative and applies to entities that measure inventory using a method other than last-in, first-out ("LIFO") or the retail inventory method. The new standard is effective for us for fiscal years and interim periods beginning after December 15, 2016. We do not expect the adoption of ASU 2015-11 to have a material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred income taxes. The ASU requires deferred tax liabilities and assets to be classified on the balance sheets as noncurrent. The new standard is effective for us for fiscal years and interim periods beginning after

December 15, 2016 and early adoption is permitted. We do not expect the adoption of ASU 2015-17 to have a material impact on our consolidated financial statements.

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2. Stock-Based Compensation

The following table summarizes stock-based compensation expense by type of grant for each period presented (in thousands):

	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Stock options and stock appreciation rights ("SARs")	$—	$184	$30	$521
Non-vested stock	1,719	1,294	5,133	3,690
Performance shares	1,278	1,104	3,763	2,807
Total compensation expense	2,997	2,582	8,926	7,018
Related tax benefit	(1,126)	(971)	(3,356)	(2,639)
Stock-based compensation expense, net of tax	$1,871	$1,611	$5,570	$4,379

As of October 31, 2015, we have unrecognized compensation cost of $22.1 million related to stock-based compensation awards granted. That cost is expected to be recognized over a weighted average period of 2.4 years.

Stock Options and SARs

The following table summarizes stock option and SAR activity for the nine months ended October 31, 2015:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 31, 2015	418,525	$16.49		
Exercised	(160,650)	15.32		
Forfeited	(25,725)	18.01		
Outstanding, vested and exercisable at October 31, 2015	232,150	$17.13	1.9	$—

The following table summarizes non-vested stock options and SARs activity for the nine months ended October 31, 2015:

Stock Options/SARs	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at January 31, 2015	69,763	$8.69
Vested	(69,763)	8.69
Non-vested at October 31, 2015	—	$—

The aggregate intrinsic value of stock options and SARs exercised during the nine months ended October 31, 2015 and November 1, 2014, was $0.9 million and $3.5 million, respectively.

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Non-vested Stock

The following table summarizes non-vested stock activity for the nine months ended October 31, 2015:

Non-vested Stock	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at January 31, 2015	678,604	$21.76
Granted	474,728	20.65
Vested	(264,402)	20.75
Forfeited	(38,768)	22.10
Outstanding at October 31, 2015	850,162	$21.44

The aggregate intrinsic value of non-vested stock that vested during the nine months ended October 31, 2015 and November 1, 2014, was $5.4 million and $5.7 million, respectively. The payment of the employees' tax liability for a portion of the vested shares was satisfied by withholding shares with a fair value equal to the tax liability. As a result, the actual number of shares issued during the nine months ended October 31, 2015 was 191,101.

Performance Shares

We grant performance shares as a means of rewarding management for our long-term performance based on shareholder return performance measures. The actual number of shares that may be issued ranges from zero to a maximum of twice the number of granted shares outstanding, as reflected in the table below, and is based on our shareholder return performance relative to a specific group of companies over a three-year performance cycle. If earned, the performance shares vest following the three-year cycle. Compensation expense, which is recorded ratably over the vesting period, is based on the fair value at grant date and the anticipated number of shares of our common stock, which is determined using a Monte Carlo probability model. Grant recipients do not have any shareholder rights unless and until the shares underlying the award are issued.

The following table summarizes information about the performance shares that were outstanding at October 31, 2015:

Period Granted	Target Shares Outstanding at January 31, 2015	Target Shares Granted	Target Shares Vested	Target Shares Forfeited	Target Shares Outstanding at October 31, 2015	Weighted Average Grant Date Fair Value Per Share