

STAGE STORES INC
Form 10-K
April 03, 2013

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 February 2, 2013

or

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

For the transition period from _____ to _____

Commission File No. 1-14035

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

NEVADA 91-1826900
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

10201 MAIN STREET, HOUSTON, TEXAS 77025
(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

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

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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 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 27, 2012 (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 \$497,437,998 (based upon the closing price of the registrant's common stock as reported by the New York Stock Exchange on July 27, 2012).

As of March 27, 2013, there were 32,230,830 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 13, 2013, which will be filed within 120 days of the end of the registrant's fiscal year ended February 2, 2013 (the "Proxy Statement"), are incorporated by reference into Part III of this Form 10-K to the extent described therein.

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References to a particular year are to Stage Stores, Inc.'s fiscal year, which is the 52- or 53-week period ending on the Saturday closest to January 31st of the following calendar year. For example, a reference to "2010" is a reference to the fiscal year ended January 29, 2011, "2011" is a reference to the fiscal year ended January 28, 2012 and "2012" is a reference to the fiscal year ended February 2, 2013. 2010 and 2011 consisted of 52 weeks, while 2012 consisted of 53 weeks.

PART I

ITEM 1. BUSINESS

Overview

Stage Stores, Inc. (the "Company" or "Stage Stores") is a Houston, Texas-based retailer, which operates both department stores and off-price stores. Its department stores, which operate under the Bealls, Goody's, Palais Royal, Peebles and Stage nameplates, offer moderately priced, nationally recognized brand name and private label apparel, accessories, cosmetics and footwear for the entire family. Its off-price stores, which are called Steele's, offer brand name family apparel, accessories, shoes and home décor at significant savings to department store prices. The Company's principal focus is on consumers in small and mid-sized markets which the Company believes are under-served and less competitive. The Company differentiates itself from the competition in the small and mid-sized communities that it serves by offering consumers access to basic, as well as fashionable, brand name merchandise not typically carried by other retailers in the same market area.

The Company also offers its merchandise direct-to-consumer through its eCommerce website and Send program. The eCommerce website features similar merchandise categories to those found in the Company's stores as well as a broader assortment of home and gift merchandise, fashion apparel, accessories, shoes, cosmetics, fragrances and electronics. The Send program allows customers to have merchandise shipped directly to their homes from another store if their size or color is not available in a local store.

The Company was formed in 1988 when the management of Palais Royal, together with several venture capital firms, acquired the family-owned Bealls and Palais Royal chains, both of which were originally founded in the 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. Since its formation, the Company has pursued a growth strategy that is focused on expanding the Company's presence in small markets across the country through new store openings and strategic acquisitions.

In 2010, the Company began developing its off-price concept with the goal to leverage its small market expertise with a complementary format to its department store model. In developing its new concept, the Company determined that there was significant growth potential in the under-served small market off-price niche. Steele's, its off-price concept, was launched November 1, 2011 with the opening of three stores and an additional 31 stores in 2012. The Company expects to continue opening new stores under the Steele's name. Steele's operates with a stand-alone buying division, headquartered in New York City.

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Stores

The Company operates its stores under the nameplates of Bealls, Goody's, Palais Royal, Peebles, Stage and Steele's. The store count and selling square footage by nameplate are as follows:

	Number of Stores			Selling Square Footage (in thousands)		
	January 28, 2012	2012 Activity Net Changes	February 2, 2013	January 28, 2012	2012 Activity Net Changes	February 2, 2013
Bealls	210	2	212	4,240	19	4,259
Goody's	243	15	258	4,001	203	4,204
Palais Royal	55	(1)	54	1,189	(20)	1,169
Peebles	179	5	184	3,459	36	3,495
Stage	123	(1)	122	2,138	(10)	2,128
Steele's	3	31	34	36	342	378
	813	51	864	15,063	570	15,633

Utilizing a ten-mile radius from each store, approximately 66% of the Company's stores are located in small towns and communities with populations below 50,000 people, while an additional 19% of the Company's stores are located in mid-sized communities with populations between 50,000 and 150,000 people. The remaining 15% of the Company's stores are located in metropolitan areas with populations greater than 150,000, such as Houston and San Antonio, Texas. The store count and selling square footage by market area population are as follows:

	Number of Stores			Selling Square Footage (in thousands)		
	January 28, 2012	2012 Activity Net Changes	February 2, 2013	January 28, 2012	2012 Activity Net Changes	February 2, 2013
Less than 50,000	532	38	570	8,782	421	9,203
50,000 to 150,000	152	10	162	3,189	136	3,325
Greater than 150,000	129	3	132	3,092	13	3,105
	813	51	864	15,063	570	15,633

In targeting small and mid-sized markets, the Company has developed a store format which is smaller than typical department stores yet large enough to offer a well-edited, but broad selection of merchandise. With an average store size of approximately 18,000 selling square feet, approximately 87% of the Company's stores are located in strip shopping centers in which they are typically one of the anchor stores. An additional 10% of the Company's stores are located in local or regional shopping malls, while the remaining 3% are located in either free standing or downtown buildings. The Company attempts to locate its stores by, or in the vicinity of, other tenants that it believes will help attract additional foot traffic to the area, such as grocery stores, drug stores or major discount stores such as Wal-Mart. Store count and selling square footage by store location/format are as follows:

	Number of Stores			Selling Square Footage (in thousands)		
	January 28, 2012	2012 Activity Net Changes	February 2, 2013	January 28, 2012	2012 Activity Net Changes	February 2, 2013
Strip shopping centers	706	49	755	12,670	572	13,242
	82	1	83	2,038	(13)	2,025

Local or regional shopping malls						
Free-standing or downtown buildings	25	1	26	355	11	366
	813	51	864	15,063	570	15,633

Store Openings. The cornerstone of the Company's growth strategy continues to be to identify locations in small and mid-sized markets that meet its demographic and competitive criteria. The Company believes that the long-term potential of its smaller markets is positive and wants to be well positioned in these markets with locations that are convenient to its customers.

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During 2012, the number of new stores opened by state is as follows:

State	Number of Stores
Alabama	8
Colorado	1
Florida	1
Georgia	2
Idaho	1
Kansas	1
Kentucky	2
Louisiana	6
Maryland	2
Mississippi	2
New Mexico	1
New York	4
North Carolina	4
Oklahoma	4
Pennsylvania	1
Texas	16
	56

The Company believes that there are sufficient opportunities in small and mid-sized markets to continue with its new store growth into the foreseeable future. In 2013, the Company anticipates opening 40 new stores.

Expansion, Relocation and Remodeling. In addition to opening new stores, the Company has continued to invest in the expansion, relocation and remodeling of its existing stores. The Company believes that remodeling keeps its stores looking fresh and up-to-date, which enhances its customers' shopping experience and helps maintain and improve its market share. Store remodeling projects can range from updating and improving in-store lighting, fixtures, wall merchandising and signage, to more extensive expansion projects. Relocations are intended to improve the store's location and to help it capitalize on incremental sales potential. During 2012, the Company expanded a store, relocated 6 stores and remodeled 20 stores.

Store Closures. The Company closed five stores during 2012. The Company continually reviews the trend of each store's performance and will close a store if the expected store performance does not support the required investment of capital at that location.

Competition

The retail industry is highly competitive. However, as a result of its small and mid-sized market focus, the Company generally faces less competition for its brand name merchandise since branded merchandise is typically available only in regional malls, which are normally located more than 30 miles away. In small and mid-sized markets where the Company does compete for brand name apparel sales, competition generally comes from local retailers, small regional chains and, to a lesser extent, national department stores. The Company believes it has a competitive advantage over local retailers and small regional chains due to its (i) broader selection of brand name merchandise, (ii) distinctive retail concept, (iii) economies of scale, (iv) strong vendor relationships and (v) private label credit card program. The Company also believes it has a competitive advantage in small and mid-sized markets over national department stores due to its experience with smaller markets. In addition, due to minimal merchandise overlap, the Company generally does not directly compete for branded apparel sales with national discounters such as Wal-Mart. In the highly competitive metropolitan markets where the Company competes against other national department store chains, the

Company offers consumers a high level of customer service and the advantage of generally being in neighborhood locations with convenient parking and easy access. In addition, over the years, the Company has endeavored to nurture customer loyalty and foster name recognition through loyalty and direct marketing programs.

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Merchandising

The Company's merchandising strategy focuses on matching merchandise assortments and offerings with customers' aspirations for fashionable, quality brand name apparel. Further, care is taken to avoid duplication and to ensure in-stock position on size and color in all merchandise categories. The Company offers a well-edited selection of moderately priced, branded merchandise within distinct merchandise categories, such as women's, men's and children's apparel, as well as accessories, cosmetics, home and footwear.

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

Department	Fiscal Year		
	2012	2011	2010
Men's/Young Men's	17%	17%	17%
Misses Sportswear	16	16	17
Footwear	13	13	12
Children's	12	12	12
Junior Sportswear	9	9	8
Accessories	8	8	8
Cosmetics	8	8	