

STAGE STORES INC
Form 10-K
April 03, 2007

**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 3, 2007

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

Name of each exchange on which registered

Common Stock (\$0.01 par value)

NYSE

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

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

Yes No

As of July 29, 2006 (the last business day of the registrant's most recently completed second quarter), the aggregate market value of the voting common stock of the registrant held by non-affiliates of the registrant was \$784,953,097 (based upon the closing price of the registrant's common stock as reported by the New York Stock Exchange on July 28, 2006).

As of March 29, 2007, there were 43,412,330 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 7, 2007 (the "Proxy Statement") are incorporated by reference into Part II and Part III of this Form 10-K.

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References to a particular year are to the 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 "2004" is a reference to the fiscal year ended January 29, 2005, "2005" is a reference to the fiscal year ended January 28, 2006, a reference to "2006" is a reference to the fiscal year ending February 3, 2007, and a reference to "2007" is a reference to the fiscal year ending February 2, 2008. 2004 and 2005 consisted of 52 weeks while 2006 consisted of 53 weeks and 2007 will consist of 52 weeks.

PART I

ITEM 1. BUSINESS

Overview

Stage Stores, Inc. (the "Company" or "Stage Stores") is a Houston, Texas-based regional, specialty department store retailer offering moderately priced, nationally recognized brand name and private label apparel, accessories, cosmetics and footwear for the entire family. As of February 3, 2007, the Company operated 655 stores located in 33 states. The Company operates under the Stage, Bealls and Palais Royal names throughout the South Central states, and under the Peebles name throughout the Mid-Atlantic, Southeastern, Midwestern and New England states. With an average store size of approximately 18,500 selling square feet, the Company's principal focus is on consumers in small and mid-size markets which the Company believes are under-served and less competitive. Utilizing a ten mile radius from each store, approximately 67% 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 14% of the Company's stores are located in metropolitan areas, such as Houston and San Antonio, Texas. The Company believes that it is able to differentiate itself from the competition in the small and mid-size communities in which it operates by offering consumers access to basic as well as fashionable, brand name merchandise not typically carried by other retailers in the same market area. In the highly competitive metropolitan markets in which it operates, the Company competes against other national department store chains, which similarly offer moderately priced, brand name and private label merchandise. As a way of differentiating itself from the competition in these larger metropolitan markets, the Company offers consumers a high level of customer service in convenient locations.

Website Access to Reports

The Company makes available, free of charge, through its website, among other things, corporate governance documents, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after they have been electronically filed with the Securities and Exchange Commission ("SEC"). They can be obtained by accessing the Company's website at www.stagestores.com, clicking on "Investor Relations", then "SEC filings", then the report to be obtained. Information contained on the Company's website is not part of this Annual Report on Form 10-K.

History

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 1920's. At the time of the acquisition, Palais Royal operated primarily larger stores, which were located in and around the Houston metropolitan area while Bealls operated primarily smaller stores, which were principally located in rural Texas towns. Over the next five years, the Company concentrated on integrating the two businesses, identifying their respective strengths and developing and refining its growth strategy. During this period, the Company developed a

growth strategy that was focused on expanding the Company's presence in small markets across the country through new store openings and strategic acquisitions.

During 2003, the Company made the strategic decision to sell its private label credit card portfolio. On September 12, 2003, the Company sold its portfolio of private label credit card accounts, as well as other assets related to its private label credit card program, to World Financial Network National Bank and ADS Alliance Data Systems, Inc., subsidiaries of Alliance Data Systems Corporation, and realized net proceeds of approximately \$172.0 million, which included prepaid marketing funds. This transaction allowed the Company to eliminate the distractions associated with managing and financing its own credit card operations, while at the same time maintain the important relationship that it has with its private label credit card customers.

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On November 4, 2003, the Company redeployed the proceeds from the sale of its private label credit card portfolio and acquired Peebles Inc. ("Peebles"), which at the time was a privately held, similarly focused retail company headquartered in South Hill, Virginia (the "Peebles Acquisition"), which then operated 136 stores in seventeen Mid-Atlantic, Southeastern and Midwestern states under the Peebles name. The purchase price for Peebles was \$174.6 million, including acquisition costs and net of cash acquired and debt assumed. The Peebles Acquisition has been accounted for under the purchase method of accounting, and accordingly, the results of operations of Peebles have been included in the Company's consolidated financial statements from the date of acquisition. In order to maximize the potential of the Peebles Acquisition, the Company has maintained what it believes is the highly recognizable Peebles name on the stores. With the addition of Peebles, the Company believes that it has strengthened its position as one of the leading retailers of branded family apparel in small town America. The Company further believes that the Peebles Acquisition creates new opportunities for unit growth and geographical expansion and improves its competitive position.

On February 27, 2006, the Company acquired privately held B.C. Moore & Sons, Incorporated ("B.C. Moore"). In purchasing B.C. Moore, the Company acquired 78 retail locations, which are located in small markets throughout Alabama, Georgia, North Carolina and South Carolina (the "B.C. Moore Acquisition", and collectively with the Peebles Acquisition, the "Acquisitions"). The Company successfully completed the conversion of 69 of the acquired stores to its Peebles name and format in 2006. The remaining nine non-converted locations were closed. The B.C. Moore Acquisition expands and strengthens the Company's position in the Southeastern United States, and is consistent with its corporate strategy of increasing the concentration of its store base into smaller markets.

Operations

Stores. As of February 3, 2007, the Company operated 655 stores located in 33 states. The Company operates under the Stage, Bealls and Palais Royal names throughout the South Central states, and under the Peebles name throughout the Mid-Atlantic, Southeastern, Midwestern and New England states. Although the Company's stores may be operated under any one of its four names, depending on the geographical market, the Company operates the vast majority of its stores under one concept and one strategy. Utilizing a ten mile radius from each store, approximately 67% 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 14% of the Company's stores are located in metropolitan areas, such as Houston and San Antonio, Texas.

In targeting small and mid-size 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 18,500 selling square feet, approximately 80% of the Company's stores are located in strip shopping centers in which they are typically one of the anchor stores. In addition, 14% of the Company's stores are located in local or regional shopping malls, while the remaining 6% 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.

The Company's typical interior store layouts and visual merchandising displays are designed to create a friendly, modern department store environment. The Company's carefully edited assortment of merchandise is divided into distinct departments within each store which are clearly marked and easy to navigate as a result of the Company's standard "racetrack" configuration. In this configuration, the various merchandise departments are situated throughout the store in such a way that a central loop, or "racetrack", is created, which the Company believes helps enhance the customer's shopping experience by providing an open, easy-to-shop interior.

Expansion Strategy. The cornerstone of the Company's growth strategy continues to be to identify locations in small and mid-size markets that meet its demographic, competitive and profitability 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. During 2006, the Company opened a total of 108 stores. Sixty-nine of the 2006 openings were converted B.C. Moore stores. Thirty-five of the 2006 openings were organic stores and included the Company's entry into the states of Massachusetts and Michigan. Three of the stores were re-openings of stores that the Company closed in 2005 due to damage they sustained from Hurricane Rita, and the final store was a reopening, in a new location, of a store that was also closed in 2005.

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The number of new stores opened by state in 2006 was as follows:

State	Number of Stores
Alabama	12
Arizona	2
Colorado	1
Georgia	26
Indiana	1
Kentucky	1
Louisiana	1
Massachusetts	1
Michigan	4
Mississippi	2
New Jersey	1
New York	3
North Carolina	11
Ohio	2
Pennsylvania	6
South Carolina	25
Tennessee	1
Texas	6
Vermont	1
Virginia	1
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The Company believes that there are sufficient opportunities in small and mid-size markets to continue with its new store growth into the foreseeable future, and that it is well positioned to capitalize on those opportunities. During 2007, the Company anticipates opening approximately 45 new stores. It anticipates increasing the number of new store openings to approximately 70 per year beginning in 2008. The actual number of stores opened will be dependent upon the availability of suitable locations and prevailing business conditions.

To support its store growth, the Company increased the productivity and processing capacity of its South Hill, Virginia distribution center in 2005 with the addition of new sortation equipment and a new warehouse management system. The Company has also initiated a site selection process for a third distribution center to support its planned geographic expansion of its store base and accelerated square footage growth plans, with an expected start-up in mid-2008.

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 in those market areas. Store remodeling projects can range from updating and improving in-store lighting, fixtures, wall merchandising and signage, to more extensive expansion projects. Relocations improve the stores' site selection and helps them capitalize on incremental sales potential. During 2006, the Company completed nine relocations, three expansions and seven remodels of stores and expects to complete between 22 and 26 expansions and relocations and 10 remodels of stores during 2007.

Store Closures. The Company closed three locations during 2006. The Company periodically reviews the trend of individual store performance and will close a store if the expected store performance does not support the required

investment of capital at that location.

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Store Operations. For span-of-control purposes, the Company's stores are divided into distinct regions and districts. There are currently seven regions. Within these seven regions, there are currently a total of 48 districts. The number of stores that each District Manager oversees depends on their proximity to each other and generally varies from a low of nine stores to a high of 16 stores. Each store is managed by a team consisting of a Manager and a number of Assistant Managers, which is dependent on the size of the store. The selling floor staff within each store consists of both full-time and part-time associates, with temporary associates added during peak selling seasons. The Company believes that this structure provides an appropriate level of oversight, management and control over its store operations.

Customer Service. A primary corporate objective is to provide exceptional customer service through conveniently located stores staffed with well-trained and motivated sales associates. In order to ensure consistency of execution, each sales associate is evaluated based on the attainment of specific customer service standards, such as offering prompt and knowledgeable assistance, suggesting complementary items, helping customers open private label credit card accounts and establishing consistent contact with customers to facilitate repeat business. The Company monitors the quality of its service by utilizing "secret shoppers". The results of these customer surveys are shared and discussed with the appropriate sales associates so that excellent service can be recognized and, conversely, counseling can be used if improvements are needed. To further reinforce the Company's focus on customer service, the Company has various programs in place to recognize associates for providing outstanding customer service. The Company further extends its service philosophy through the design of its stores, as discussed above, and in most locations by locating the Store Manager on the selling floor to increase accessibility to customers.

Competitive Advantages. As a result of its small and mid-size market focus, the Company generally faces less competition for its brand name apparel because consumers in these markets typically are able to shop for branded merchandise only in regional malls, which are typically located more than 30 miles away. In those small and mid-size 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-size 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 in which it operates, the Company competes against other national department store chains, which similarly offer moderately priced, brand name and private label merchandise. As a way of differentiating itself from the competition in these larger markets, the Company offers consumers a high level of customer service in convenient locations. In addition, over the years, the Company has endeavored to nurture customer loyalty and foster name recognition through loyalty and direct marketing programs.

Merchandising Strategy. The Company's merchandising strategy focuses on matching merchandise assortments and offerings with customers' aspirations for fashionable, quality brand name apparel. Further, care is given to avoid duplication and to ensure in-stock position on size and color in all merchandise selections. 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 and footwear. The merchandise selection ranges from basics, including denim, underwear and foundations, to more upscale and fashionable clothing offerings. Merchandise mix may also vary from store to store to accommodate differing demographic factors. Approximately 86% of sales consist of nationally recognized brands such as Levi Strauss, Nike, Tommy Hilfiger, Liz Claiborne, Calvin Klein, Chaps, Polo Jeanswear, Estee Lauder, Clinique, Elizabeth Arden, Nautica, K-Swiss, Reebok and New Balance, while the remaining 14% of sales consist of the Company's private label merchandise. The Company's private label portfolio includes twenty-one brands, which are developed and sourced through its membership in Associated Merchandising Corporation and Li-Fung Cooperative Buying Services, as well

as through contracts with third party vendors. The Company's private label brands offer quality merchandise and excellent value. The Company expects to expand its private label business over time to approximately 18% of sales. The Company's top 100 vendors currently account for approximately 47% of annual sales. Merchandise purchased from Associated Merchandising Corporation represented approximately 5% of the Company's 2006 and 2005 sales. The Company's merchandising activities are conducted from its corporate headquarters in Houston, Texas for its Bealls, Palais Royal and Stage locations, and from its South Hill, Virginia administrative offices for its Peebles locations.

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In January 2007, the Company announced certain strategic initiatives that it will be undertaking in its women's plus sizes, footwear and cosmetics areas. The Company believes that these initiatives will lead to increased sales in these categories of business. In its plus sizes business, the Company plans to drive additional growth through further improvement, expansion and enhancement of the merchandise mix and product selection, supported by expanded selling floor space. In its footwear business, the Company plans to grow sales through improved breadth of style and brand selections for family footwear. In its cosmetics business, the Company plans to increase sales through the continued roll-out of desired treatment products from suppliers such as Estee Lauder, Clinique and Lancome. In addition to these strategic initiatives, the Company plans to develop a tool which will help it maximize the generation of sales and gross margin per square foot by better allocating selling square footage among its various categories of business.

The following table sets forth the distribution of net sales between the Company's various merchandise categories, which was the same for both 2006 and 2005:

Department	% of Sales
Men's/Young Men's	19%
Misses Sportswear	17
Children's	12
Footwear	12
Junior Sportswear	9
Accessories	8
Cosmetics	6
Special Sizes	6
Dresses	4
Intimates	3
Home & Gifts	3
Outerwear, Swimwear and Other	1
	100%