

STAGE STORES INC
Form 10-K/A
April 27, 2005

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

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended January 31, 2004

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 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: **NONE**

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

Title of each class

Name of each exchange on which registered

Common Stock (\$0.01 par value)
Series A Warrants (Expiration Date August 23,
2006)
Series B Warrants (Expiration Date August 23,
2006)

NASDAQ
NASDAQ
NASDAQ

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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 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of August 2, 2003 (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 \$424,768,266 (based upon the closing price of the registrant's common stock as reported by NASDAQ on August 1, 2003). As of April 7, 2004, there were 18,739,264 shares of the registrant's common stock outstanding.

**APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to the registrant's Annual Meeting of Shareholders to be held on June 3, 2004 (the "Proxy Statement") are incorporated by reference into Part III of this Form 10-K/A.

EXPLANATORY NOTE

As previously disclosed in the Company's Current Report on Form 8-K on March 17, 2005, the Audit Committee of Stage Stores, Inc. (the "Company") concluded to restate the Company's financial statements presented in its previously filed Form 10-K for the years ended January 31, 2004 and February 1, 2003 and the twenty-two weeks ended February 2, 2002 and in its previously filed Form 10-Q's for the first three quarters of the 2004 fiscal year. The Predecessor Company financial statements for the thirty weeks ended September 1, 2001 have not been restated since the amounts are not material.

The Company determined that certain of its lease accounting practices were not in accordance with accounting principles generally accepted in the United States of America, as expressed by the Office of the Chief Accountant of the Securities and Exchange Commission (the "SEC") on February 7, 2005. Historically, consistent with common retail industry practice, the Company recorded rent expense on a straight-line basis over the initial non-cancelable lease term, with the term commencing when rent payments began. Rent payments typically began on the store opening date, which had the effect of excluding the build-out period (or rent holiday period) from the calculation of the rent period. Additionally, consistent with common retail industry practice, the Company depreciated leasehold improvements over the lesser of the estimated useful life of the leasehold improvements or the term of the lease, including available lease renewal option periods, not to exceed fifteen years. Lastly, consistent with common retail industry practice, when accounting for landlord/tenant incentives ("construction allowances"), the Company recorded these construction allowances as a reduction in leasehold improvements on its balance sheet and as a reduction in capital expenditures on its statement of cash flows.

The Company revised its policy in order to correct its historical practices and now will: depreciate leasehold improvements for stores over the lesser of the estimated useful life of the leasehold improvements or the primary term of the lease, which is typically ten years for new and relocated stores, including applicable available lease renewal option periods, where appropriate; record rent expense on a straight-line basis over the lease term, and where appropriate, applicable available lease renewal option periods; record construction allowances received from landlords as a deferred rent credit or a finance lease obligation, as appropriate, on its balance sheet and as an operating or financing activity, as appropriate, on its statement of cash flows; and amortize the deferred rent credit over the related lease term, commencing with the date the Company earns the construction allowance, as a reduction of rent expense.

While infrequent in occurrence, occasionally the Company is responsible for the construction of leased stores and for paying project costs. Emerging Issues Task Force ("EITF") Issue 97-10, *The Effect of Lessee Involvement in Asset Construction*, requires the Company to be considered the owner (for accounting purposes) of this type of project during the construction period. Such leases are accounted for as finance lease obligations with the amounts received from the landlord being recorded in debt obligations. Interest expense is recognized at a rate that will amortize the finance lease obligation over the initial term of the lease. All of the above changes resulted in lower rent expense and higher depreciation and interest expense. This Form 10-K/A gives the effect to the Company's revised policies.

This Amendment No. 1 on Form 10-K/A ("Form 10-K/A") to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2004, initially filed with the SEC on April 15, 2004 (the "Original Filing"), is being filed to reflect restatements of the Company's consolidated balance sheets at January 31, 2004 and February 1, 2003, and the related consolidated statements of income, stockholders' equity and cash flows for the years ended January 31, 2004 and February 1, 2003 and the twenty-two weeks ended February 2, 2002 and the notes related thereto. For a more detailed description of these restatements, see Note 2, "Restatement of Financial Statements," to the accompanying audited consolidated financial statements and the section entitled "Restatement" in Management's

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Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K/A.

For the convenience of the reader, this Form 10-K/A sets forth the Original Filing in its entirety. However, this Form 10-K/A only amends and restates Items 2, 6, 7, 8, 9A and the Quarterly financial data of Part II of the Original Filing, in each case, solely as a result of, and to reflect the restatement, and no other information in the Original Filing is amended

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hereby. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. In addition, Item 15 of Part IV of the Original Filing has been amended to include a Power of Attorney related to the filing of this Form 10-K/A, to currently date the consent of the Company's independent registered public accounting firm and to currently date the certifications of the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The consent of the Company's independent registered public accounting firm, the Power of Attorney, and the certifications of the Company's Chief Executive Officer and Chief Financial Officer are attached to this Form 10-K/A as exhibits 23, 24, 31.1, 31.2 and 32, respectively.

Except for the foregoing amended information, this Form 10-K/A continues to describe conditions as of the date of the Original Filing, the Company has not updated the disclosures contained herein to reflect subsequent events that occurred at a later date. Other events occurring after the filing of the Original Filing or other disclosures necessary to reflect subsequent events have been or will be addressed in the Company's amended Quarterly Reports on Form 10-Q/A for the quarterly periods ended May 1, 2004, July 31, 2004 and October 30, 2004 which will be filed subsequent to the filing of this Form 10-K/A and any reports filed with the SEC subsequent to the date of this filing.

The Company has not amended and does not intend to amend its previously-filed Annual Reports on Form 10-K filed prior to this Form 10-K/A or its Quarterly Reports on Form 10-Q for the periods affected by the restatement that ended prior to January 31, 2004. For this reason, the consolidated financial statements, auditors' reports and related financial information for the affected periods contained in those reports should no longer be relied upon.

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In conjunction with the Company's Plan of Reorganization, on August 24, 2001, Stage Stores, Inc., a Delaware corporation, merged into its wholly-owned subsidiary, Specialty Retailers, Inc. (NV), a Nevada corporation. On the merger date, Specialty Retailers, Inc. (NV), the surviving corporation, changed its name to Stage Stores, Inc. Depending on the context and the period being referenced, Stage Stores, Inc., its affiliates and their predecessors in interest will, from time-to-time, be referred to collectively as the "Company", "Stage Stores", "Predecessor Company", or "Reorganized Company" in this Form 10-K/A.

References to a particular year are to the Company'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 "2002" is a reference to the fiscal year ended February 1, 2003, [2003] is a reference to the fiscal year ended January 31, 2004, and a reference to "2004" is a reference to the fiscal year ending January 29, 2005. Fiscal years 2001, 2002, 2003 and 2004 consist of 52 weeks.

PART I

ITEM 1. BUSINESS

Overview

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 January 31, 2004, the Company operated 518 stores located in 27 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 and Midwestern states. With an average store size of approximately 19,100 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 57% of the Company's stores are located in small towns and communities with populations below 50,000 people, while an additional 23% of the Company's stores are located in mid-sized communities with populations between 50,000 and 150,000 people. The remaining 20% 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 items, 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.stagestoresinc.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/A.

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, and what are believed to be under-served, markets across the country through new store openings and strategic acquisitions.

However, as a result of many factors including, but not limited to, the Company's rapid growth during 1997 and 1998, significant turnover in key executive positions, significant leverage coupled with an inflexible capital structure and changes in the retail environment, the Company's financial performance deteriorated significantly during 1999 and 2000. Because of the Company's rapidly deteriorating financial performance, the Company's suppliers significantly curtailed merchandise shipments to the Company during the spring of 2000, thereby further exacerbating the Company's financial difficulties. In order to address these financial and operational issues, the Company filed for bankruptcy on June 1, 2000 (the "Petition Date"). On August 24, 2001, pursuant to an approved Plan of Reorganization (the "Plan") the Company emerged from the bankruptcy proceedings. On December 31, 2002, the Bankruptcy Court entered a Final Decree which closed the bankruptcy proceedings.

Operations

Recent Events. 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 (the "Bank") and ADS Alliance Data Systems, Inc. ("ADS"), subsidiaries of Alliance Data Systems Corporation ("Alliance Data"), 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 still being able to build and strengthen the important relationship that it has with its private label credit card customers.

On November 4, 2003, the Company redeployed the proceeds from the sale of its private label credit card portfolio and acquired Peebles Inc. ("Peebles"), a privately held, similarly focused retail company headquartered in South Hill, Virginia (the "Acquisition"), which then operated 136 stores in 17 Mid-Atlantic, Southeastern and Midwestern states under the Peebles name. The Acquisition was made pursuant to an Agreement and Plan of Merger dated as of October 7, 2003, and a First Amendment to Agreement and Plan of Merger dated November 3, 2003, with PHC Retail Holding Company, the parent of Peebles Inc. The purchase price for Peebles Inc. was \$174.6 million, including acquisition costs and net of cash acquired and debt assumed. The 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 Acquisition, the Company has maintained what it believes is the highly recognizable Peebles name on the stores, and key members of Peebles' management team are continuing in their present capacities in South Hill. 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 Acquisition creates new opportunities for unit growth and geographical expansion and improves its competitive position.

Current Trend of Business and Risk Factors. See Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operation" for a discussion of current trends in the Company's business. Also see "Risk Factors" below for a description of the risks, which could have a material and adverse effect on the Company's business and financial results.

Stores. As of January 31, 2004, the Company operated 518 stores located in 27 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 and Midwestern 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 57% of the Company's stores are located in small towns and communities with populations below 50,000 people, while an additional 23% of the Company's stores are located in mid-sized communities with populations between 50,000 and 150,000 people. The remaining 20% 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, ranging in size from 10,000 to 57,000 selling square feet, which is generally 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 19,100 selling square feet, approximately 75% of the Company's stores are located in strip shopping centers in which they are typically one of the anchor stores. In addition, 20% of the Company's stores are located in local or regional shopping malls, while the remaining 5% 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.

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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. During 2003, in addition to the Peebles acquisition which added 136 stores, the Company opened 34 new stores, with 17 of the stores opening in Texas and the 17 remaining stores opening in Louisiana (7), Pennsylvania (3), Arizona (2), Indiana (1), Maryland (1), Missouri (1), New Mexico (1) and West Virginia (1). During 2004, the Company currently anticipates opening 15 to 20 new stores. The actual number of stores opened will be dependent upon the availability of suitable locations and current business conditions. 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.

Renovation and Remodeling. In addition to opening new stores, the Company has continued to invest in the renovation and remodeling of its existing store locations to keep them looking fresh and up-to-date. The Company believes that this enhances its customers' shopping experience and helps maintain and improve its market share in those market areas. Store renovation projects can range from updating and improving in-store lighting, fixtures, wall merchandising and signage, to more extensive remodeling and expansion projects. During 2003, the Company completed the remodeling of 17 stores and expects to complete the remodeling of between 16 and 18 stores during fiscal 2004.

Store Operations. For span-of-control purposes, the Company's stores are divided into distinct regions and districts. There are currently 6 regions. Within these 6 regions, there are currently a total of 36 districts. The number of stores that each District Manager oversees depends on their proximity to each other and generally varies from a low of 12 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 operational control over its store operations.

Customer Service. A primary corporate objective is to provide excellent 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 store charge 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, associates who consistently display outstanding performance and who "go the extra mile for the customer" are recognized through the Company's Associate of the Quarter and President's Award programs. Depending on the program, associates who are chosen receive such rewards as a certificate of accomplishment, a recognition letter from the President, a plate with their name added to an Award Plaque, a gold or platinum name badge, an upgrade to gold VIP credit card status and a 50% off shopping spree. In addition, a President's Platinum Award Trip is awarded to one President's Award winner each year via a drawing. The Company further extends its service philosophy through the design of its stores, as discussed above, and 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 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.

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Merchandising Strategy. The Company's merchandising strategy focuses on matching merchandise assortments and offerings with customers' aspirations for fashionable, quality brand name apparel in order to maximize sales and earnings potential. 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 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. Over 90% of sales consist of nationally recognized brands such as Tommy Hilfiger, Liz Claiborne, Levi Strauss, Calvin Klein, Chaps/Ralph Lauren, Polo Jeanswear, Estee Lauder, Clinique, Elizabeth Arden, Nautica, K Swiss, Nike, Reebok and New Balance, with the top 100 vendors currently accounting for approximately 58% of annual sales. No single vendor accounted for more than 5% of the Company's 2003 retail purchases. The Company's private label portfolio includes fifteen brands, which are developed and sourced primarily through its membership in Associated Merchandising Corporation and Li-Fung cooperative buying services. The Company's private label brands offer quality merchandise at excellent value. 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 office for its Peebles locations.

The following table sets forth the distribution of net sales between the Company's various merchandise categories for the periods indicated:

| Department | Fiscal Year | |
|-------------------------------|-------------|------|
| | 2003 | 2002 |
| Men's/Young Men's | 19% | 20% |
| Misses Sportswear | 16 | 16 |
| Children's | 13 | 13 |
| Footwear | 12 | 12 |
| Junior Sportswear | 9 | 10 |
| Accessories | 7 | 7 |
| Cosmetics | 6 | 5 |
| Dresses | 5 | 5 |
| Special Sizes | 4 | 4 |
| Intimate | 4 | 4 |
| Home & Gifts | 3 | 2 |
| Outerwear, Swimwear and Other | 2 | 2 |
| | 100% | 100% |

Marketing Strategy. The Company's primary target customers are women between the ages of 25 and 59 with annual household incomes of over \$25,000 who are the decision makers for family clothing purchases. The Company's broad based marketing strategy is designed to establish brand loyalty, convenience and promotional positioning. The Company uses a multi-media advertising approach, including newspapers, direct mail, radio and television, to position its stores as the local destination for basic, as well as fashionable, moderately priced brand name merchandise. In addition, the Company promotes its private label credit card and attempts to create strong customer loyalty through continuous one-on-one communication with its core private label credit card holders. The Company's best customers (i.e. frequent private label credit card users) are recognized and rewarded through its VIP credit card program (which will be introduced at its Peebles stores during 2004), as discussed below, that creates greater customer retention and promotes increased purchasing activity. To complement its marketing efforts, the Company supports local store involvement in the communities that they serve by encouraging store managers and associates to partner with local organizations and to participate in community activities.

Private Label Credit Card. The Company considers its private label credit card program to be an important component of its retailing concept because it (i) enhances customer loyalty, (ii) allows the Company to identify and regularly contact its best customers and (iii) creates a comprehensive database that enables the Company to implement detailed, segmented marketing and merchandising strategies for each store. Frequent credit card users, through the Company's VIP credit card program, enjoy an increasing array of benefits. The Company's most active charge customers are awarded a bronze, silver or gold VIP card based on their level of annual

purchases. Depending on their level, holders of these cards receive such benefits as discounted or free gift-wrapping, special promotional discounts and invitations to private "VIP Only" sales. In addition, new holders of the Company's credit card receive a 10% discount the first time they use their new card. The Company believes that holders of the Company's credit card tend to buy more merchandise from the Company than those customers who do not have a Company credit card. To encourage associates to focus on getting customers to open new Company credit card accounts, the Company provides increasing incentive award payments based on the number of new charge accounts activated. In addition, top performers become eligible for additional year-end bonuses. The penetration rate for the Company's private label credit card was approximately 39% (which includes Peebles in the fourth quarter) and 43% of net sales in 2003 and 2002, respectively. Historically, the penetration rate for the Peebles private label credit card portfolio has been 27%. Beginning in 2004, the Company will introduce similar marketing programs to the Peebles credit card program.

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 the Bank and to ADS. Under the terms of a 10-year program agreement, the Bank is responsible for establishing credit policies, extending credit, issuing and activating credit cards to new accounts and authorizing credit purchases, as well as providing customer care, billing and remittance services.

With the acquisition of Peebles, the Company also assumed ownership of Peebles' private label credit card portfolio. The portfolio was subsequently sold on March 5, 2004 to the Bank with the Company receiving net proceeds of \$34.8 million.

The Company's private label credit card programs will continue to be marketed to its customers and to its existing private label cardholders, encouraging customers to use their Company credit cards for merchandise purchases at its Bealls, Palais Royal, Peebles and Stage retail locations.

Merchandise Distribution. The Company currently distributes all merchandise to its stores through its three distribution centers, which are located in Jacksonville, Texas, South Hill, Virginia and Knoxville, Tennessee. The Company's Jacksonville distribution center has 435,000 square feet of processing area and services stores in 13 South Central states. The Company's South Hill distribution center has 162,240 square feet of processing area and services stores in ten Mid-Atlantic states. The Company's Knoxville distribution center has 103,450 square feet of processing area and services stores in ten Southeastern and Midwestern states. The Jacksonville facility is equipped with highly automated merchandise handling equipment that facilitates efficient distribution of merchandise to the Company's stores and provides for cross docking of prepackaged and preticketed merchandise by store. The South Hill and Knoxville facilities also feature modern merchandise handling equipment and are located close to major interstates. As noted below, the Company expects to make investments in its distribution centers in 2004.

Incoming merchandise received at the distribution centers is inspected for quality control. The Company has formal guidelines for vendors with respect to shipping, receiving and invoicing for merchandise. Vendors that do not comply with the guidelines are charged specified fees depending upon the degree of non-compliance. These fees are intended to be a deterrent to non-compliance, as well as to offset higher costs associated with the processing of such merchandise.

The Company utilizes a third party contract carrier to deliver merchandise out of its Jacksonville facility, while the Company delivers merchandise from its Knoxville and South Hill facilities via its own fleet of trucks.

Information Systems. The Company supports its retail concept by using multiple, highly integrated systems in areas such as merchandising, store operations, distribution, sales promotion, personnel management, store design and accounting.

The Company's core merchandising systems assist in planning, ordering, allocating and replenishing merchandise assortments for each store, based on specific characteristics and recent sales trends. The price change management system allows the Company to identify and mark down slow moving merchandise or identify items to transfer to stores selling those items more rapidly. The replenishment/fulfillment system allows the Company to maintain planned levels of in-stock positions in basic items such as jeans and underwear. In addition, a fully integrated warehouse management system is in place in the Jacksonville distribution center.

The Company utilizes state-of-the-art point-of-sale systems with bar code scanning, electronic credit authorization, instant credit and gift card processing in its stores. These systems also allow the Company to capture customer specific sales data for use in its merchandising, marketing and loss prevention systems, while quickly servicing its customers. The Company also utilizes an automated store personnel scheduling system that analyzes historical sales trends to schedule sales staff to match customer traffic patterns, thereby minimizing store labor costs.

During 2004, the Company plans to invest approximately \$10.0 million on information system projects, including such things as new planning and allocation software and upgraded human resources and financial systems, as well as other systems enhancements and upgrades. The Company also expects to make investments in its distribution centers to support future store growth in the Mid-Atlantic, Southeastern and Midwestern region markets.

Employees. At January 31, 2004, the Company employed a total of 12,756 full and part-time employees at all of its locations, of which 1,590 were salaried and 11,166 were hourly. The Company's two administrative offices employed 524 salaried and 123 hourly employees. In its distribution centers, the Company employed 41 salaried and 607 hourly employees. In its stores, the Company employed 1,025 salaried and 10,436 hourly employees. Those totals will vary during the year as the Company traditionally hires additional employees, and increases the hours of part-time employees, during peak seasonal selling periods. There are no collective bargaining agreements in effect with respect to any of the Company's employees. The Company believes that its relationship with its employees is good.

Seasonality. The Company's business is seasonal and sales traditionally are lower during the first three quarters of the fiscal year (February through October) and higher during the last quarter of the fiscal year (November through January). The fourth quarter usually accounts for about 30% of the Company's annual sales, with the other quarters accounting for approximately 22% to 24% each. Working capital requirements fluctuate during the year as well and generally reach their highest levels during the third and fourth quarters.

Trademarks. The Company regards its trademarks and their protection as important to its success. In addition to the Bealls, Palais Royal, Peebles and Stage trademarks, the United States Patent and Trademark Office (the USPTO) has issued federal registrations to the Company for the following trademarks: Cape Classic, Cape Classic LTD, Casual Options, Graphite, Hannah, Harmony Grove, Hidden Fantasies, Meherrin River Outfitters, Private Expressions, Signature Studio, Sun River Clothing Co., and Whispers. The Company has also filed applications with the USPTO seeking federal registrations for the following trademarks: Sun River Footwear, Rebecca Malone and Specialty Kids.

Risk Factors

The Company faces the risk of a highly competitive retail apparel industry, which may result in the loss of customers, increased spending on marketing and advertising and reduced revenues. The retail apparel business is highly competitive. Although competition varies widely from market to market, the Company faces the risk of increased competition, particularly in its more highly populated markets from national, regional and local department and specialty stores. Some of the Company's competitors are considerably larger than the Company and have substantially greater financial and other resources. Although the Company offers brand labels not available at certain other retailers, including regional and national department stores, there can be no assurance that existing or new competitors will not carry similar branded merchandise in the future, which could have a material and adverse effect on the Company's business and financial condition.

An economic downturn, decline in consumer confidence or unusual weather patterns could negatively impact the Company's business and financial condition. A substantial portion of the Company's operations is located in the South Central and Mid-Atlantic United States. In addition, many of the Company's stores are situated in small towns and rural environments that are substantially dependent upon the local economy. The retail apparel business is dependent upon the level of consumer spending, which may be adversely affected by an economic downturn or a decline in consumer confidence. An economic downturn or decline in consumer confidence, particularly in the South Central and Mid-Atlantic United States and any state (such as Texas or Louisiana) from which the Company derives a significant portion of its net sales, could have a material and adverse effect on the Company's business and financial condition, including affecting demand for the Company's products.

The Company's success depends, in part, upon its ability to anticipate and respond to changing consumer preferences and fashion trends in a timely manner. Although the Company attempts to stay abreast of emerging lifestyle and consumer preferences affecting its merchandise, any sustained failure by the Company to identify and respond to such trends could have a material and adverse effect on the Company's business and financial condition.

The Company's business is seasonal and sales traditionally are lower during the first three fiscal quarters of the year (February through October) and higher during the fourth fiscal quarter (November through January). In

addition, working capital requirements fluctuate throughout the year, increasing substantially in October and November in anticipation of the holiday season due to requirements for significantly higher inventory levels. Any substantial decrease in sales for the last three months of the year could have a material and adverse effect on the Company's business and financial condition.

The Company's business depends, in part, on normal weather patterns across its markets. Any unusual weather patterns in the Company's markets can have a material and adverse impact on the Company's business and financial condition.

War, acts of terrorism and natural disasters may create uncertainty and may result in reduced revenues. The Company cannot predict, with any degree of certainty, what effect, if any, war, acts of terrorism and natural disasters, if any, will have on the Company, its operations, the other risk factors discussed herein and the forward-looking statements made by the Company in this Annual Report on Form 10-K/A. However, the consequences of these events could have a material and adverse effect on the Company's business and financial condition.

Government laws and regulations could adversely impact the Company's business and financial condition. The Company, like other businesses, is subject to various federal, state and local government laws and regulations including, but not limited to, tax laws, which may be changed from time to time in response to economic or political conditions. The Company's operating subsidiary is a Texas limited partnership. The state of Texas has considered a proposal to tax limited partnerships. If such a proposal was enacted, this would increase the Company's effective tax rate. The Company cannot predict whether existing laws or regulations, as currently interpreted or as reinterpreted in the future, or future laws and regulations, could materially and adversely affect the results of its operations and financial condition.

The elimination of the import tariffs and quotas on apparel garments under the General Agreement on Tariffs and Trade for members of the World Trade Organization, which are scheduled to expire in 2005, could potentially negatively impact the retail pricing and sales of the Company.

The loss of the services of the Company's key personnel could have a material and adverse effect on the Company's business and financial results. The success of the Company depends largely on its executive management team, including the Company's Chief Executive Officer and President, Jim Scarborough. Although the Company has entered into employment agreements with certain of its executive officers, it is possible that members of executive management may leave the Company, and such departures could have a material and adverse effect on the Company's business and financial condition.

The Company cannot guarantee that it will reach its targets for opening new stores or that new stores will operate profitably when opened. The Company's current expansion strategy focuses on carefully managed growth. The success of the Company's expansion strategy depends upon many factors, including the ability of the Company to obtain suitable sites for new stores at acceptable costs, to hire, train and retain qualified personnel and to integrate new stores into existing information systems and operations. The Company cannot guarantee that it will reach its targets for opening new stores or that such stores will operate profitably when opened. If the Company fails to effectively implement its expansion strategy, it could have a material and adverse effect on the Company's business and financial condition.

If the Company is not able to obtain merchandise product on normal trade terms, its business and financial condition could be adversely impacted. The Company is highly dependent on obtaining merchandise product on normal trade terms. If the Company does not meet its performance objectives, the Company's key vendors and factors may become more restrictive in granting trade credit by either reducing the Company's credit lines or shortening payment terms. The tightening of credit from the vendor or factor community could have a material adverse impact on the Company's business and financial condition.

A catastrophic event affecting any of the Company's buying, distribution, or other corporate operations could adversely impact the use of those facilities and could result in reduced revenues and loss of customers. The Company's buying, distribution and other corporate operations are in highly centralized locations. The Company's operations could be materially and adversely affected if a catastrophic event (such as, but not limited to, fire, hurricanes or floods) impacts the use of these facilities. There can be no assurances that the Company would be successful in obtaining alternative servicing facilities in a timely manner if such a catastrophic event should occur.

Covenants in the Company's Revolving Credit Facility agreement may impose operating restrictions, impede or adversely affect the Company's ability to pay dividends or repurchase common shares and

raise capital through the sale of stock and other securities. The Company's Revolving Credit Facility agreement contains covenants which, among other things, restrict (i) the amount of additional debt or capital lease obligations, (ii) the amount of capital expenditures, payment of dividends and repurchase of common stock under certain circumstances and (iii) related party transactions. In addition, any material or adverse developments affecting the business of the Company could significantly limit its ability to meet its obligations as they become due or to comply with the various covenant requirements contained in the Company's Revolving Credit Facility agreement.

If the Company's trademarks are successfully challenged, the outcome of those disputes could require the Company to abandon one or more of its trademarks. The Company regards its trademarks and their protection as important to its success. However, the Company cannot be sure that any trademark held by it will give it a competitive advantage or will not be challenged by third parties. Although the Company intends to vigorously protect its trademarks, the cost of litigation to uphold the validity and prevent infringement of trademarks can be substantial and the outcome of those disputes could require the Company to abandon one or more of its trademarks.

A work slowdown, stoppage or other disruption by employees of carriers, shippers and other providers of merchandise transportation services could have a material adverse effect on the Company's business and financial condition. The Company's vendors rely on shippers, carriers and other providers of merchandise transportation services (collectively "Transportation Providers") to deliver merchandise from their manufacturers, both in the United States and abroad, to the vendors' distribution centers in the United States. The Company's vendors and the Company also rely on Transportation Providers to transport merchandise from the vendors' distribution centers to the Company's distribution centers. The Company also relies on Transportation Providers to transport merchandise from its Jacksonville, Texas distribution center to the majority of its stores. However, if work slowdowns, stoppages or other disruptions affect the transportation of merchandise between the vendors and their manufacturers, especially those manufacturers outside the United States, or between the vendors and the Company, the Company's business and financial condition could be adversely affected.

Any devaluation of the Mexican peso, or imposition of restrictions on the access of citizens of Mexico to the Company's stores, could adversely impact the Company's business and financial condition.

Approximately 6% of the Company's stores are located in cities that either border Mexico or that the Company considers to be in close proximity to Mexico. The Company estimates that approximately 9% of its revenues are derived from those stores. While purchases in those stores are made in United States dollars, a devaluation of the Mexican peso could negatively affect the exchange rate between the peso and the dollar, which would result in reduced purchasing power on the part of the Company's customers who are citizens of Mexico. In that event, revenues attributable to those stores could be reduced. In addition, due to global uncertainties, including threats or acts of terrorism, it is possible that tighter restrictions may be imposed by the Federal government on the ability of citizens of Mexico to cross the border into the United States. In that case, revenues attributable to the Company's stores regularly frequented by citizens of Mexico could be reduced.

ITEM 2. PROPERTIES

The Company's corporate headquarters are located in a leased 130,000 square foot building in Houston, Texas, while it owns the 28,000 square foot Peebles office building located in South Hill, Virginia. The Company also owns its distribution centers in Jacksonville, Texas, and South Hill, Virginia, while it leases its distribution center in Knoxville, Tennessee.

At January 31, 2004, the Company operated 518 stores, located in 27 states, as follows:

| State | Number of Stores |
|----------------|---------------------|
| Alabama | 9 |
| Arizona | 3 |
| Arkansas | 16 |
| Colorado | 1 |
| Delaware | 3 |
| Florida | 2 |
| Illinois | 2 |
| Indiana | 3 |
| Iowa | 1 |
| Kansas | 5 |
| Kentucky | 11 |
| Louisiana | 48 |
| Maryland | 8 |
| Mississippi | 10 |
| Missouri | 12 |
| New Jersey | 3 |
| New Mexico | 19 |
| New York | 4 |
| North Carolina | 13 |
| Ohio | 15 |
| Oklahoma | 41 |
| Pennsylvania | 9 |
| South Carolina | 5 |
| Tennessee | 13 |
| Texas | 221 |
| Virginia | 34 |
| West Virginia | 7 |
| Total | 518 |

Stores range in size from 10,000 to 57,000 selling square feet, with the average being approximately 19,100 selling square feet. The Company's stores are primarily located in strip shopping centers. All store locations are leased except for two Bealls stores, one Stage store and one Peebles store, aggregating to approximately 125,600 selling square feet, which are owned. The owned Bealls stores are located in Jacksonville and Lubbock, Texas. The owned Stage store is located in Lake Charles, Louisiana. The owned Peebles store is located in Lawrenceville, Virginia. The majority of leases provide for a base rent plus payments for expenses incurred by the landlord, such as common area maintenance and insurance. Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on percentage of sales that are in excess of a predetermined level.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company and its subsidiaries are involved in various litigation matters arising in the ordinary course of their business. Management does not believe that any pending litigation matters, either individually or in the aggregate, are material to the financial position, results of operations or cash flows of the Company or its subsidiaries.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended January 31, 2004.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS****Market Information**

The principal market for the Company's common stock is the NASDAQ National Market, where it trades under the symbol "STGS". The following table sets forth the high and low sales prices per share of the Company's common stock for each quarter in 2003 and 2002 as reported on the NASDAQ National Market.

| | Common Stock Market Price | |
|----------------|---------------------------|---------|
| | High | Low |
| 2003 | | |
| First Quarter | \$23.39 | \$17.02 |
| Second Quarter | 26.59 | 19.84 |
| Third Quarter | 30.78 | 24.52 |
| Fourth Quarter | 34.08 | 26.14 |
| 2002 | | |
| First Quarter | \$33.50 | \$24.65 |
| Second Quarter | 36.14 | 23.85 |
| Third Quarter | 25.13 | 16.81 |
| Fourth Quarter | 28.14 | 17.58 |

 Holders

As of April 7, 2004, which is the record date for the determination of shareholders entitled to vote at the Company's 2004 Annual Meeting of Shareholders, there were 486 holders of record of the Company's common stock.

Dividends

The Company has never declared or paid a cash dividend on its common stock and does not expect to pay cash dividends in the foreseeable future. The Company presently anticipates that earnings will be retained for investment in, and growth of, the Company's business, to service seasonal indebtedness and to fund the Company's Stock Repurchase Program. The declaration and payment of dividends by the Company are subject to the discretion of the Board of Directors (the "Board"). Any future determination to pay dividends will depend on the Company's results of operations and financial condition, as well as meeting certain criteria under its Revolving Credit Facility (as defined in Liquidity and Capital Resources) and other factors deemed relevant by the Board.

Stock Repurchase Program

On October 1, 2003, the Board approved a Stock Repurchase Program authorizing the Company to buy, from time to time, up to \$50.0 million of its common stock. Additional amounts of its outstanding common stock may also be repurchased using the proceeds that the Company receives from the exercise of options under its 2001 Equity Incentive Plan, including the tax benefits that will accrue to the Company from the exercise of these options.

During 2003, the Company repurchased 245,200 shares of its common stock at a cost of approximately \$7.7 million. At January 31, 2004, \$54.3 million was available to the Company for the stock repurchase, of which \$12.0 million is from stock option exercises. Including 1,169,608 shares of its common stock that the Company repurchased during 2002 under its previous \$25.0 million Stock Repurchase Program, the Company has repurchased a total of 1,414,808 shares of its common stock through January 31, 2004.

ITEM 6. SELECTED FINANCIAL DATA (RESTATED)

The following sets forth selected consolidated financial data for the periods indicated. The selected consolidated financial data should be read in conjunction with the Company's Consolidated Financial Statements included herein. All amounts are stated in thousands, except for per share data and number of stores.

With the change in ownership resulting from the Plan, the Company adopted fresh-start reporting in accordance with the recommended accounting principles for entities emerging from Chapter 11 as set forth in the American Institute of Certified Public Accountants Statement of Position ("SOP") 90-7 "*Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*". The adjustments to reflect the consummation of the Plan, including the gain on discharge of pre-petition liabilities and the adjustment to record assets and liabilities at their fair values, have been reflected in the accompanying consolidated financial data for the thirty weeks ended September 1, 2001. Accordingly, the consolidated financial data as of September 1, 2001 and subsequent to September 1, 2001 for the Reorganized Company are not prepared on a basis comparable to the prior periods presented.

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| | Predecessor Company | | | Reorganized Company | | |
|--|---------------------|-------------|---|--|-------------|------------|
| | Fiscal Year | | Thirty Weeks Ended September 1, 2001 | Twenty-Two Weeks Ended February 2, 2002 (2) | Fiscal Year | |
| | 1999 | 2000 (1) | | | 2002 (2) | 2003 (2,3) |
| Statement of operations data: | | | | | | |
| Net sales | \$121,567 | \$ 952,274 | \$ 461,642 | \$ 393,933 | \$ 875,557 | \$ 972,212 |
| Cost of sales and related buying, occupancy and distribution expenses | 897,117 (4) | 714,192 | 320,554 | 276,544 | 611,293 | 694,055 |
| Gross profit | 224,450 | 238,082 | 141,088 | 117,389 | 264,264 | 278,157 |
| Selling, general and administrative expenses | 388,565 (5) | 246,206 | 105,578 | 82,332 | 176,202 | 200,713 |
| Store opening costs | 749 | - | - | 85 | 1,271 | 3,068 |
| Reorganization expense and store closure costs | 44,237 (6) | 114,236 (7) | 23,141 (7) | - | - | - |
| Fresh-start adjustments | - | - | 35,249 (8) | - | - | - |
| Gain on debt discharge | - | - | (265,978) (8) | - | - | - |
| Interest, net | 48,634 | 39,807 (9) | 10,651 (9) | 581 | 1,777 | 2,509 |
| Gain on sale of private label credit card portfolio, net | - | - | - | - | - | (12,218) |
| Income (loss) before income tax and cumulative effect of change | | | | | | |
| in accounting principle | (257,735) | (162,167) | 232,447 | 34,391 | 85,014 | 84,085 |
| Income tax expense | 20,217 (10) | 48 | 15 | 12,730 | 31,455 | 30,691 |
| Income (loss) before cumulative effect of change in accounting principle | (277,952) | (162,215) | 232,432 | 21,661 | 53,559 | 53,394 |
| Cumulative effect of change in accounting principle, net | | | | | | |