STAGE STORES INC
Form 10-Q
December 12, 2013

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

Form 10-Q

(Mark One)

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

For the quarterly period ended November 2, 2013

or

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

For the transition period from ______ to ______

Commission File Number 1-14035

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of December 6, 2013, there were 31,213,045 shares of the registrant's common stock outstanding.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	November 2, 2013	February 2, 2013
ASSETS		
Cash and cash equivalents	$23,717	$17,937
Merchandise inventories, net	551,550	413,928
Prepaid expenses and other current assets	45,668	35,467
Total current assets	620,935	467,332
Property, equipment and leasehold improvements, net	293,967	290,701
Intangible asset	14,910	14,910
Other non-current assets, net	26,994	21,928
Total assets	$956,806	$794,871
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$208,202	$110,826
Accrued expenses and other current liabilities	63,816	97,246
Total current liabilities	272,018	208,072
Long-term debt obligations	142,548	11,585
Other long-term liabilities	111,700	110,344
Total liabilities	526,266	330,001
Commitments and contingencies	—	—
Common stock, par value $0.01, 100,000 shares authorized, 32,835 and 32,014 shares issued, respectively	328	320
Additional paid-in capital	393,326	376,615
Less treasury stock - at cost, 1,626 and 0 shares, respectively	(32,304)	(701)
Accumulated other comprehensive loss	(5,851)	(6,135)
Retained earnings	75,041	94,771
Total stockholders' equity	430,540	464,870
Total liabilities and stockholders' equity	$956,806	$794,871

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net sales	$360,177	$370,583	$1,134,145	$1,117,901
Cost of sales and related buying, occupancy and distribution expenses	277,085	290,719	845,368	829,024
Gross profit	83,092	79,864	288,777	288,877
Selling, general and administrative expenses	98,636	92,472	297,563	279,959
Store opening costs	1,379	1,629	2,473	3,157
Interest expense	718	568	2,012	2,350
Income (loss) before income tax	(17,641)	(14,805)	(13,271)	3,411
Income tax expense (benefit)	(6,670)	(5,947)	(5,051)	1,025
Net income (loss)	$(10,971)	$(8,858)	$(8,220)	$2,386
Other comprehensive income:				
Amortization of employee benefit related costs net of tax of $58, $39, $174 and $118, respectively	95	64	284	192
Total other comprehensive income	95	64	284	192
Comprehensive income (loss)	$(10,876)	$(8,794)	$(7,936)	$2,578
Basic and diluted earnings (loss) per share data:				
Basic earnings (loss) per share	$(0.34)	$(0.28)	$(0.25)	$0.08
Basic weighted average shares outstanding	31,854	31,558	32,307	31,035
Diluted earnings (loss) per share	$(0.34)	$(0.28)	$(0.25)	$0.08
Diluted weighted average shares outstanding	31,854	31,558	32,307	31,301

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

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

	Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012
Cash flows from operating activities:		
Net income (loss)	$(8,220)	$2,386
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization and impairment of long-lived assets	46,052	44,894
Loss on retirements of property and equipment	257	—
Deferred income taxes	(847)	(98)
Tax benefit (deficiency) from stock-based compensation	1,798	(1,391)
Stock-based compensation expense	6,580	5,459
Amortization of debt issuance costs	204	353
Excess tax benefits from stock-based compensation	(2,041)	(851)
Deferred compensation obligation	236	92
Amortization of employee benefit related costs	458	310
Construction allowances from landlords	4,162	4,133
Changes in operating assets and liabilities:		
Increase in merchandise inventories	(137,622)	(162,871)
(Increase) decrease in other assets	(14,733)	10,262
Increase in accounts payable and other liabilities	58,248	157,379
Total adjustments	(37,248)	57,671
Net cash (used in) provided by operating activities	(45,468)	60,057
Cash flows from investing activities:		
Additions to property, equipment and leasehold improvements	(46,717)	(35,610)
Proceeds from disposal of assets	11	—
Net cash used in investing activities	(46,706)	(35,610)
Cash flows from financing activities:		
Proceeds from revolving credit facility borrowings	382,510	262,620
Payments of revolving credit facility borrowings	(250,910)	(259,620)
Payments of long-term debt obligations	(551)	(18,499)
Payments of debt issuance costs	(128)	—
Repurchases of common stock	(31,367)	(61)
Payments for stock related compensation	(2,257)	(522)
Proceeds from exercise of stock awards	10,126	18,336
Excess tax benefits from stock-based compensation	2,041	851
Cash dividends paid	(11,510)	(8,753)
Net cash provided by (used in) financing activities	97,954	(5,648)
Net increase in cash and cash equivalents	5,780	18,799
Cash and cash equivalents:		
Beginning of period	17,937	18,621
End of period	$23,717	$37,420

Supplemental disclosures including non-cash investing and financing activities:		
Interest paid	$1,772	$2,019
Income taxes paid	$22,390	$13,124
Unpaid liabilities for capital expenditures	$8,655	$9,197

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

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Stage Stores, Inc.
Condensed Consolidated Statement of Stockholders' Equity
For the Thirty-Nine Weeks Ended November 2, 2013
(in thousands, except per share data)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount		Shares	Amount			
Balance at February 2, 2013	32,014	$320	$376,615	—	$(701)	$(6,135)	$94,771	$464,870
Net loss	—	—	—	—	—	—	(8,220)	(8,220)
Other comprehensive income	—	—	—	—	—	284	—	284
Dividends on common stock, $0.35 per share	—	—	—	—	—	—	(11,510)	(11,510)
Deferred compensation		—	236	—	(236)	—	—	—
Repurchases of common stock	—	—	—	(1,626)	(31,367)	—	—	(31,367)
Issuance of equity awards, net	821	8	10,118	—	—	—	—	10,126
Tax withholdings paid for net settlement of stock awards	—	—	(2,021)	—	—	—	—	(2,021)
Stock-based compensation expense	—	—	6,580	—	—	—	—	6,580
Tax benefit from stock-based compensation	—	—	1,798	—	—	—	—	1,798
Balance at November 2, 2013	32,835	$328	$393,326	(1,626)	$(32,304)	$(5,851)	$75,041	$430,540

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

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Stage Stores, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying Condensed Consolidated Financial Statements (Unaudited) of Stage Stores, Inc. and subsidiaries ("Stage Stores" or the "Company") have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP" or "U.S. GAAP") for complete financial statements. Those adjustments that are, in the opinion of management, necessary for a fair presentation of the results of the interim periods have been made. The results of operations for such interim periods are not necessarily indicative of the results of operations for a full year. The Condensed Consolidated Financial Statements (Unaudited) should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto filed with Stage Stores' Annual Report on Form 10-K for the year ended February 2, 2013. References to a particular year are to Stage Stores' fiscal year, which is the 52- or 53-week period ending on the Saturday closest to January 31st of the following calendar year. For example, a reference to "2012" is a reference to the fiscal year ended February 2, 2013 and a reference to "2013" is a reference to the fiscal year ending February 1, 2014. References to "current year" pertain to the thirty-nine weeks ended November 2, 2013, and references to "prior year" pertain to the thirty-nine weeks ended October 27, 2012.

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, footwear and home décor at significant savings to department store prices. As of November 2, 2013, the Company operated 882 stores located in 40 states. The Company also offers its merchandise direct-to-consumer through its eCommerce website and Send program. The eCommerce website features similar merchandise to that found in the Company's stores as well as merchandise which is available only on-line. 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.

Vendor allowances. The Company receives consideration from its merchandise vendors in the form of allowances and reimbursements. Given the promotional nature of the Company's business, the allowances are generally intended to offset the Company's costs of handling, promoting, advertising and selling the vendors' products in its stores. Vendor allowances related to the purchase of inventory are recorded as a reduction to the cost of inventory until sold. Vendor allowances are recognized as a reduction of cost of goods sold or the related selling expense when the purpose for which the vendor funds were intended to be used has been fulfilled and amounts have been authorized by vendors. As part of the Company's South Hill merchandising consolidation, the Company changed the method of collecting advertising allowances from its vendors resulting in only a small portion of these allowances being considered as a reimbursement for specific, incremental, identifiable costs incurred to sell vendors' products. Accordingly, beginning in fiscal 2013, most advertising allowances are now recorded as a reduction to the cost of merchandise purchases.

Recent Accounting Standards. In February 2013, the FASB issued ASU No. 2013-02, which amends ASC Topic 220, Comprehensive Income and requires that entities present information about reclassification adjustments from accumulated other comprehensive income in their interim and annual financial statements. The standard requires that entities present either on the face of the income statement or as a separate note to the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income. If a component is not required to be reclassified to net income in its entirety, entities are required to cross reference to the related footnote for additional information. For public companies, the standard is effective for fiscal years and interim periods beginning after December 15, 2012. The adoption of this guidance requires changes solely in presentation, and therefore does not have a significant impact on the Company's condensed consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02, Intangibles - Goodwill and Other, which amends the guidance in ASC 350-30 on testing indefinite-lived intangible assets for impairment. The revised guidance permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The ASU is effective for impairment tests performed for fiscal years beginning after September 15, 2012. The Company will adopt this ASU for its 2013 impairment testing. The Company does not expect the adoption of this ASU to have a material impact, if any, on the Company's consolidated financial condition, results of operations or cash flows.

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2. South Hill Consolidation

On February 11, 2013, the Company announced its plans to consolidate its South Hill, Virginia operations into its Houston, Texas corporate headquarters (the "South Hill Consolidation"). This action was the culmination of an initiative that the Company began in 2012. The reasons for the South Hill Consolidation were: (i) to have department store functions and processes entirely together in one location, (ii) to strengthen collaboration, teamwork and communications, while streamlining operations, enhancing overall operational efficiency and reducing costs, and (iii) to create consistency in merchandising, marketing and eCommerce. The Company substantially completed the South Hill Consolidation during the second quarter of 2013.

Total expenses in the current year associated with the South Hill Consolidation were $9.0 million, of which $1.0 million remained unpaid and is included in accrued expenses and other current liabilities on the Condensed Consolidated Balance Sheet as of November 2, 2013. The costs, which were primarily for severance and transitional payroll and related benefits, recruiting and relocation costs, and visual presentation supplies and other, were recorded in selling, general and administrative expenses on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). The Company incurred and paid $2.7 million in the prior year primarily for transitional payroll and related benefits, recruiting and relocation costs, and property and equipment impairment. Merchandise cost of sales for the current year also includes approximately $11.5 million related to the South Hill Consolidation due to inventory liquidation costs associated with discontinued vendors and merchandise and advertising allowances deferred in inventory.

During the current year third quarter, the Company committed to a plan to sell the building which housed its former South Hill operations and expects to complete the sale within one year. Accordingly, the disposal group with a carrying value of $0.6 million has been reclassified as held for sale and included in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheet as of November 2, 2013.

3. Stock-Based Compensation

As approved by the Company's shareholders, the Company established the Amended and Restated 2001 Equity Incentive Plan (the "2001 Equity Incentive Plan") and the Second Amended and Restated 2008 Equity Incentive Plan (the "2008 Equity Incentive Plan" and collectively with the 2001 Equity Incentive Plan, the "Equity Incentive Plans") to reward, retain and attract key personnel. The Equity Incentive Plans provide for grants of nonqualified or incentive stock options, stock appreciation rights ("SARs"), performance shares or units, stock units and stock grants. To fund the 2001 and 2008 Equity Incentive Plans, 12,375,000 and 4,550,000 shares of the Company's common stock were reserved for issuance upon exercise of awards, respectively.

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Stock options and SARs	$470	$765	$1,266	$2,305
Non-vested stock	1,207	774	3,179	2,229
Performance shares	878	484	2,135	925
Total compensation expense	2,555	2,023	6,580	5,459
Related tax benefit	(985)	(761)	(2,474)	(2,053)
	$1,570	$1,262	$4,106	$3,406

As of November 2, 2013, the Company had unrecognized compensation cost of $18.7 million related to stock-based compensation awards granted. That cost is expected to be recognized over a weighted average period of 2.4 years.

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Stock Options and SARs

The Company historically granted shares of stock options and SARs to its employees and members of management. The right to exercise stock options and SARs generally vests over four years from the date of grant, with 25% vesting at the end of each of the first four years following the date of grant. Stock options and SARs are settled by issuance of common stock. Stock options issued prior to January 29, 2005 will generally expire, if not exercised, within ten years from the date of the grant, while stock options and SARs granted after that date will generally expire, if not exercised, within seven years from the date of grant. No stock options or SARs were granted during the thirty-nine weeks ended November 2, 2013 or October 27, 2012.

The following table summarizes information about stock options and SARs outstanding under the Equity Incentive Plans as of November 2, 2013 and changes during the thirty-nine weeks ended November 2, 2013:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at February 2, 2013	1,877,415	$16.69		
Exercised	(653,523)	16.89		
Forfeited	(76,860)	17.23		
Outstanding at November 2, 2013	1,147,032	$16.54	2.7	$4,706
Vested or expected to vest at November 2, 2013	1,080,857	$16.49	2.7	$4,497
Exercisable at November 2, 2013	816,157	$16.23	2.2	$3,661

The following table summarizes information about non-vested stock option awards and SARs outstanding as of November 2, 2013 and changes during the thirty-nine weeks ended November 2, 2013:

Stock Options/SARs	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at February 2, 2013	790,164	$7.31
Vested	(391,089)	6.63
Forfeited	(68,200)	7.98
Non-vested at November 2, 2013	330,875	$7.98

The aggregate intrinsic value of stock options and SARs, defined as the amount by which the market price of the underlying stock on the date of exercise exceeds the exercise price of the award, exercised during the thirty-nine weeks ended November 2, 2013 and October 27, 2012 was $5.8 million and $5.7 million, respectively.

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Non-vested Stock

The Company grants shares of non-vested stock to its employees, members of management and independent directors. The non-vested stock converts one for one to common stock at the end of the vesting period at no cost to the recipient to whom it is awarded. The vesting period of the non-vested stock ranges from one to four years from the date of grant.

The following table summarizes information about non-vested stock granted by the Company as of November 2, 2013 and changes during the thirty-nine weeks ended November 2, 2013:

Non-vested Stock	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at February 2, 2013	642,409	$16.21
Granted	330,373	24.97
Vested	(181,113)	16.47
Forfeited	(94,830)	16.08
Outstanding at November 2, 2013	696,839	$20.31

The aggregate intrinsic value of non-vested stock that vested during the current year was $4.6 million. The payment of the employees' tax liability for a portion of the vested shares was satisfied by withholding shares with a fair value equal to the tax liability. As a result, the actual number of shares issued was 139,083.

Performance Shares

The Company grants performance shares to members of senior management, at no cost to the recipient, as a means of rewarding them for the Company's long-term performance based on shareholder return performance measures. The actual number of shares that could be issued ranges from zero to a maximum of two times the number of granted shares outstanding as reflected in the table below. The actual number of shares issued is determined by the Company's shareholder return performance relative to a specific group of companies over a three-year performance cycle. Compensation expense, which is recorded ratably over the vesting period, is based on the fair value at grant date and the anticipated number of shares of the Company's common stock, which is determined on a Monte Carlo probability model. Grant recipients do not have any shareholder rights until the granted shares have been issued.

The following table summarizes information about the performance shares that remain outstanding as of November 2, 2013:

Period Granted	Target Shares Outstanding at February 2, 2013	Target Shares Granted During Current Year	Target Shares Vested During Current Year	Target Shares Forfeited During Current Year	Target Shares Outstanding at November 2, 2013	Weighted Average Grant Date Fair Value Per Share
2011	39,800	—	(1,150)	(5,775)	32,875	$25.00
2012	238,100	—	(3,300)	(25,000)	209,800	18.04
2013	—	158,400	—	—	158,400	33.81
Total	277,900	158,400	(4,450)	(30,775)	401,075	

During the current year, 104,490 shares, with an aggregate intrinsic value of $2.7 million, vested related to the 2010 performance share grant. The payment of the recipients' tax liability of approximately $0.9 million for vested shares was satisfied by withholding shares with a fair value equal to the tax liability. As a result, the actual number of shares issued was 75,176.

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6. Stockholders' Equity

On April 8, 2013, the Company announced that its Board of Directors (the "Board") approved a 25% increase in the Company's quarterly cash dividend rate to $0.125 per share from the previous quarterly rate of $0.10 per share. The quarterly rate of $0.125 per share is applicable to dividends declared by the Board beginning May 23, 2013. In the current year, the Company has paid cash dividends totaling $11.5 million. On November 21, 2013, the Board declared a quarterly cash dividend of $0.125 per share of common stock, payable on December 18, 2013 to shareholders of record at the close of business on December 3, 2013.

On March 7, 2011, the Board approved a Stock Repurchase Program (the "2011 Stock Repurchase Program") which authorized the Company to repurchase up to $200 million of its outstanding common stock. The 2011 Stock Repurchase Program will expire when the Company has repurchased $200 million of its outstanding common stock, unless terminated earlier by the Board. Through June 10, 2012, the Company repurchased approximately $100.1 million of its outstanding common stock under the 2011 Stock Repurchase Program. On June 11, 2012, the Company announced that its Board had chosen not to spend additional capital under the 2011 Stock Repurchase Program for the time being. In addition, the Board authorized the Company to repurchase shares of its outstanding common stock equal to the amount of proceeds and related tax benefits from the exercise of stock options, SARs and other equity grants. Under such authorization, the Company repurchased 1,626,037 shares of its common stock for approximately $31.4 million during the thirty-nine weeks ended November 2, 2013. Purchases of shares of the Company's common stock may be made from time to time, either on the open market or through privately negotiated transactions and are financed by the Company's existing cash, cash flow and other liquidity sources, as appropriate.

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4. Debt Obligations

Debt obligations as of November 2, 2013 and February 2, 2013 consist of the following (in thousands):

	November 2, 2013	February 2, 2013
Revolving Credit Facility	$137,600	$6,000
Finance lease obligations	5,777	6,329
Total debt obligations	143,377	12,329
Less: Current portion of debt obligations	829	744
Long-term debt obligations	$142,548	$11,585

The Company has a $250.0 million senior secured revolving credit facility that matures on June 30, 2016 (the "Revolving Credit Facility"). The Revolving Credit Facility includes an uncommitted accordion feature to increase the size of the facility to $350.0 million. The Revolving Credit Facility is used by the Company to provide financing for working capital, capital expenditures and other general corporate purposes. Borrowings under the Revolving Credit Facility are limited to the availability under a borrowing base that is determined principally on eligible inventory as defined by the Revolving Credit Facility agreement. Inventory and cash and cash equivalents are pledged as collateral under the Revolving Credit Facility. The daily interest rates under the Revolving Credit Facility are determined by a prime rate or LIBOR, plus an applicable margin, as set forth in the Revolving Credit Facility agreement. On July 24, 2013, the Revolving Credit Facility agreement was amended to lower the applicable margin rates by 0.25%. In addition, the amendment fixed the commitment fee at 0.25% for the remaining term of the Revolving Credit Facility. For the thirty-nine weeks ended November 2, 2013, the weighted average interest rate on outstanding borrowings and the average daily borrowings under the Revolving Credit Facility were 1.87% and $46.6 million, respectively.

The Company also issues letters of credit under the Revolving Credit Facility to support certain merchandise purchases and to collateralize retained risks and deductibles under various insurance programs. At November 2, 2013, the Company had outstanding letters of credit totaling approximately $5.0 million. These letters of credit expire within twelve months of issuance. Excess borrowing availability under the Revolving Credit Facility at November 2, 2013, net of letters of credit outstanding, outstanding borrowings and accrued interest of $0.2 million, was $107.2 million.

The Revolving Credit Facility agreement contains covenants which, among other things, restrict, based on required levels of excess availability, (i) the amount of additional debt or capital lease obligations, (ii) the payment of dividends and repurchase of common stock under certain circumstances and (iii) related party transactions. The Revolving Credit Facility agreement also contains a fixed charge coverage ratio covenant in the event excess availability is below a defined threshold or an event of default has occurred. At November 2, 2013, the Company was in compliance with all of the debt covenants of the Revolving Credit Facility agreement and expects to remain in compliance during fiscal year 2013.

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5. Earnings per Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the measurement period. Diluted earnings per share is computed using the weighted average number of common shares as well as all potentially dilutive common share equivalents outstanding during the measurement period. For the thirteen weeks and thirty-nine weeks ended November 2, 2013, 218,077 shares and 307,739 shares, respectively, and 380,980 shares for the thirteen weeks ended October 27, 2012, were attributable to stock options, SARs and non-vested stock grants that would have been considered dilutive securities but were excluded from the calculation of diluted earnings per share because the effect was anti-dilutive due to the net loss for the reported periods.

Under Accounting Standards Codification ("ASC") 260-10, Earnings Per Share, non-vested stock grants that contain non-forfeitable rights to dividends or dividend equivalents are considered participating securities and are included in the calculation of basic and diluted earnings per share pursuant to the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. Earnings per share have been calculated under the two-class method.

The following tables show the computation of basic and diluted earnings per share for each period (in thousands, except per share amounts):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Basic EPS:				
Net income (loss)	$(10,971)	$(8,858)	$(8,220)	$2,386
Less: Allocation of earnings to participating securities	—	—	—	(30)
Net income (loss) allocated to common shares	(10,971)	(8,858)	(8,220)	2,356
Basic weighted average shares outstanding	31,854	31,558	32,307	31,035
Basic EPS	$(0.34)	$(0.28)	$(0.25)	$0.08

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Diluted EPS:				
Net income (loss)	$(10,971)	$(8,858)	$(8,220)	$2,386
Less: Allocation of earnings to participating securities	—	—	—	(30)
Net income (loss) allocated to common shares	(10,971)	(8,858)	(8,220)	2,356
Basic weighted average shares outstanding	31,854	31,558	32,307	31,035
Add: Dilutive effect of stock awards	—	—	—	266
Diluted weighted average shares outstanding	31,854	31,558	32,307	31,301
Diluted EPS	$(0.34)	$(0.28)	$(0.25)	$0.08

The following table illustrates the number of stock options and SARs that were outstanding, but not included in the computation of diluted earnings per share because the exercise price of the stock options and SARs was greater than the average market price of the Company's common shares (in thousands):

Thirteen Weeks Ended	Thirty-Nine Weeks Ended

	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Number of anti-dilutive stock options and SARs outstanding	451	247	129	956

7. Retirement Plan

The Company sponsors a frozen defined benefit plan. The components of pension cost for each period are as follows (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Employer service cost	$90	$—	$270	$—
Interest cost	430	472	1,292	1,416
Expected return on plan assets	(559)	(563)	(1,678)	(1,689)
Net loss amortization	153	103	458	310
Net periodic pension cost	$114	$12	$342	$37

The Company's funding policy is to make contributions to maintain the minimum funding requirements for its pension obligations in accordance with the Employee Retirement Income Security Act. The Company may elect to contribute additional amounts to maintain a level of funding to minimize the Pension Benefit Guaranty Corporation premium costs or to cover the short-term liquidity needs of the plan in order to maintain current invested positions. No contributions were made by the Company in the current year.

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8. Fair Value Measurements

The Company recognizes or discloses the fair value of its financial and non-financial assets and liabilities on a recurring and non-recurring basis. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, the Company assumes the highest and best use of the asset by market participants in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability.

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels, and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 –	Quoted prices in active markets for identical assets or liabilities.
Level 2 –	Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3 –	Inputs that are both unobservable and significant to the overall fair value measurement reflect the Company's estimates of assumptions that market participants would use in pricing the asset or liability.

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The following tables present the Company's financial assets and liabilities measured at fair value on a recurring basis in the Condensed Consolidated Balance Sheets (Unaudited) (in thousands):

	November 2, 2013			
	Balance	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other assets:				
Securities held in grantor trust for deferred compensation plans (1)(2)	$23,644	$23,644	$—	$—
Accrued expenses and other current liabilities:				
Deferred non-employee director equity compensation plan liability (2)	$234	$234	$—	$—

	February 2, 2013			
	Balance	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other assets:				
Securities held in grantor trust for deferred compensation plans (1)(2)	$18,498	$18,498	$—	$—
Accrued expenses and other current liabilities:				
Deferred non-employee director equity compensation plan liability (2)	$253	$253	$—	$—

(1) The Company has recorded in other long-term liabilities amounts related to these assets for the amount due to participants corresponding in value to the securities held in the grantor trust.

(2) Using the market approach, the fair values of these items represent quoted market prices multiplied by the quantities held. Net gains and losses related to the changes in fair value in the assets and liabilities under the various deferred compensation plans are recorded in selling, general and administrative expenses and were nil for the thirty-nine weeks ended November 2, 2013 and for the fiscal year ended February 2, 2013.

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The following table shows the Company's non-financial assets measured at fair value on a nonrecurring basis in the Condensed Consolidated Balance Sheets (Unaudited) (in thousands):

	November 2, 2013			
	Balance	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Store property, equipment and leasehold improvements (1)	$3,091	$—	$—	$3,091

	February 2, 2013			
	Balance	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Store property, equipment and leasehold improvements (1)	$3,024	$—	$—	$3,024

(1) In accordance with ASC No. 360-10, Accounting for the Impairment or Disposal of Long-Lived Assets, using an undiscounted cash flow model, the Company identified certain stores whose cash flow trends indicated that the carrying value of store property, equipment and leasehold improvements may not be fully recoverable and determined that impairment charges were necessary for the current year. The Company uses a discounted cash flow model to determine the fair value of its impaired assets. Key assumptions in determining future cash flows include, among other things, expected future operating performance and changes in economic conditions. Impairment charges of $0.2 million have been recognized during the current year and $1.0 million were recognized during fiscal year 2012. The impairment charges are included in cost of sales and related buying, occupancy and distribution expenses in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited).

Financial instruments not measured at fair value are cash and cash equivalents, payables and debt obligations. The Company believes that the Revolving Credit Facility approximates fair value since interest rates are adjusted to reflect current rates.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

Certain statements in this Form 10-Q contain forward-looking statements that are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements reflect the Company's expectations regarding future events and operating performance and often contain words such as "believe," "expect," "may," "will," "should," "could," "anticipate," "plan" or similar words.

Forward-looking statements are based on various assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, the ability of the Company and its subsidiaries to maintain normal trade terms with vendors, the ability of the Company and its subsidiaries to comply with the various covenant requirements contained in the Company's Revolving Credit Facility agreement, the demand for apparel, and other factors. The demand for apparel and sales volume can be affected by significant changes in economic conditions, including an economic downturn, employment levels in the Company's markets, consumer confidence, energy and gasoline prices and other factors influencing discretionary consumer spending. Other factors affecting the demand for apparel and sales volume include unusual weather patterns, an increase in the level of competition in the Company's market areas, competitors' marketing strategies, changes in fashion trends, changes in the average cost of merchandise purchased for resale, availability of product on normal payment terms and the failure to achieve the expected results of the Company's merchandising and marketing plans as well as its store opening plans. The occurrence of any of these factors could have a material and adverse impact on the Company's business, financial condition, operating results, or liquidity. Most of these factors are difficult to predict accurately and are generally beyond the Company's control.

Readers should consider the risks and uncertainties described in the Company's Annual Report on Form 10-K for the year ended February 2, 2013 ("Form 10-K"). Readers should carefully review the Form 10-K in its entirety including, but not limited to, the Company's financial statements and the notes thereto and the risks and uncertainties described in Item 1A - "Risk Factors" of the Form 10-K. Forward-looking statements contained in this Form 10-Q are as of the date of this Form 10-Q. The Company does not undertake to update its forward-looking statements.

General

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 also offers its merchandise direct-to-consumer through its eCommerce website and Send program. The eCommerce website features similar merchandise to that found in the Company's stores as well as merchandise which is available only on-line. 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's principal focus is on consumers in small and mid-sized markets which the Company believes are under-served and less competitive. In those small town markets where it operates a department store and an off-price store, the Company targets a different customer for each store and, therefore, believes that customer overlap between the two formats is minimal. At November 2, 2013, the Company operated 882 stores located in 40 states.

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The Company made progress on a number of its key initiatives during the thirty-nine weeks ended November 2, 2013 (the "current year"). The Company completed the consolidation of its South Hill operations (the "South Hill Consolidation"), announced on February 11, 2013. The South Hill Consolidation is expected to increase productivity, create synergies, strengthen collaboration, enhance the Company's purchasing power, provide for a consistent message to customers and accelerate sales growth. The consolidation is also expected to result in annual savings of approximately $5 million. In addition, as part of ongoing efforts to become more productive and improve profitability, the Company implemented an expense reduction program in early November. These cost cutting measures, which included the elimination of approximately 50 corporate positions, are expected to yield an additional annual savings of approximately $5 million.

Growing the cosmetics line of business through the installation of additional Estee Lauder and Clinique counters, opening new stores and expanding existing stores, improving the appearance of its stores and enhancing the eCommerce shopping experience through increased product selections and investments in technology continue to be among the Company's top priorities. During the current year, the Company installed 23 new Estee Lauder and 25 new Clinique counters, and installed 12 more of each type of counter in November. New prototype fixture packages were rolled out to 72 of the Company's largest department stores in the current year, with the expectation of outfitting more than 80 department stores by year end. In addition, the Company opened 22 new department stores during the current year. On November 14, the Company opened an additional 6 department stores and one Steele's store, which brought the total number of stores opened during the year to 29 and completed the Company's 2013 store opening program. The Company also moved forward on replatforming and enhancing its eCommerce website, which went live on November 5 with increased functionality in time for holiday shopping.

The financial information, discussion and analysis that follow should be read in conjunction with the Company's Consolidated Financial Statements as included in the Form 10-K.

Results of Operations

The following table sets forth the results of operations as a percentage of sales for the periods indicated:

	Thirteen Weeks Ended (1)				Thirty-Nine Weeks Ended (1)			
	November 2, 2013		October 27, 2012		November 2, 2013		October 27, 2012	
Net sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of sales and related buying, occupancy and distribution expenses	76.9		78.4		74.5		74.2	
Gross profit	23.1		21.6		25.5		25.8	
Selling, general and administrative expenses	27.4		25.0		26.2		25.0	
Store opening costs	0.4		0.4		0.2		0.3	
Interest expense	0.2		0.2		0.2		0.2	
Income (loss) before income tax	(4.9	)	(4.0	)	(1.2	)	0.3	