STAGE STORES INC
Form 10-Q
September 13, 2018

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 August 4, 2018

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.)
2425 West Loop South, Houston, Texas	77027
(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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 September 6, 2018, there were 28,242,790 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)

	August 4, 2018	February 3, 2018 As Adjusted	July 29, 2017 As Adjusted
ASSETS			
Cash and cash equivalents	$26,573	$21,250	$26,132
Merchandise inventories, net	476,883	438,377	458,319
Prepaid expenses and other current assets	48,525	52,407	64,443
Total current assets	551,981	512,034	548,894
Property, equipment and leasehold improvements, net of accumulated depreciation of $722,938, $699,788 and $721,472, respectively	236,151	252,788	269,977
Intangible assets	17,135	17,135	17,135
Other non-current assets, net	24,409	24,449	23,925
Total assets	$829,676	$806,406	$859,931
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	$122,680	$145,991	$126,904
Current portion of debt obligations	3,542	2,985	3,050
Accrued expenses and other current liabilities	73,506	64,442	70,754
Total current liabilities	199,728	213,418	200,708
Long-term debt obligations	268,682	180,350	227,385
Other long-term liabilities	65,431	68,524	78,209
Total liabilities	533,841	462,292	506,302
Commitments and contingencies			
Common stock, par value $0.01, 100,000 shares authorized, 33,418, 32,806 and 32,766 shares issued, respectively	334	328	328
Additional paid-in capital	421,621	418,658	414,524
Treasury stock, at cost, 5,175 shares, respectively	(43,388)	(43,298)	(43,210)
Accumulated other comprehensive loss	(4,823)	(5,177)	(5,385)
Accumulated deficit	(77,909)	(26,397)	(12,628)
Total stockholders' equity	295,835	344,114	353,629
Total liabilities and stockholders' equity	$829,676	$806,406	$859,931

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

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

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017 As Adjusted	August 4, 2018	July 29, 2017 As Adjusted
Net sales	$369,294	$377,081	$713,523	$685,688
Credit income	14,305	13,190	29,819	26,118
Total revenues	383,599	390,271	743,342	711,806
Cost of sales and related buying, occupancy and distribution expenses	286,807	284,140	568,548	530,529
Selling, general and administrative expenses	110,914	113,833	218,191	215,270
Interest expense	2,650	1,918	4,903	3,504
Loss before income tax	(16,772)	(9,620)	(48,300)	(37,497)
Income tax expense (benefit)	150	(3,362)	300	(12,252)
Net loss	$(16,922)	$(6,258)	$(48,600)	$(25,245)
Other comprehensive income:				
Amortization of employee benefit related costs, net of tax of $0, $81, $0 and $161, respectively	$155	$132	$354	$263
Total other comprehensive income	155	132	354	263
Comprehensive loss	$(16,767)	$(6,126)	$(48,246)	$(24,982)
Loss per share:				
Basic	$(0.60)	$(0.23)	$(1.74)	$(0.93)
Diluted	$(0.60)	$(0.23)	$(1.74)	$(0.93)
Weighted average shares outstanding:				
Basic	28,152	27,535	27,959	27,401
Diluted	28,152	27,535	27,959	27,401

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

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

	Six Months Ended	
	August 4, 2018	July 29, 2017 As Adjusted
Cash flows from operating activities:		
Net loss	$(48,600)	$(25,245)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation, amortization and impairment of long-lived assets	31,217	33,177
Loss (gain) on retirements of property, equipment and leasehold improvements	17	(528)
Deferred income taxes	—	5,520
Stock-based compensation expense	3,049	4,312
Amortization of debt issuance costs	148	144
Deferred compensation obligation	90	(76)
Amortization of employee benefit related costs	354	424
Construction allowances from landlords	757	1,098
Other changes in operating assets and liabilities:		
Increase in merchandise inventories	(38,506)	(18,199)
Decrease (increase) in other assets	2,412	(23,240)
(Decrease) increase in accounts payable and other liabilities	(19,958)	30,802
Net cash (used in) provided by operating activities	(69,020)	8,189
Cash flows from investing activities:		
Additions to property, equipment and leasehold improvements	(12,822)	(15,502)
Proceeds from insurance and disposal of assets	1,802	1,307
Business acquisition	—	(36,144)
Net cash used in investing activities	(11,020)	(50,339)
Cash flows from financing activities:		
Proceeds from revolving credit facility borrowings	298,509	277,013
Payments of revolving credit facility borrowings	(233,148)	(211,891)
Proceeds from long-term debt obligation	25,000	—
Payments of long-term debt obligations	(1,472)	(4,850)
Payments of debt issuance costs	(354)	(8)
Payments for stock related compensation	(260)	(135)
Cash dividends paid	(2,912)	(5,650)
Net cash provided by financing activities	85,363	54,479
Net increase in cash and cash equivalents	5,323	12,329
Cash and cash equivalents:		
Beginning of period	21,250	13,803
End of period	$26,573	$26,132
Supplemental disclosures including non-cash investing and financing activities:		
Interest paid	$4,866	$3,324

Income taxes paid	$14	$247
Unpaid liabilities for capital expenditures	$4,798	$5,563

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

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Stage Stores, Inc.
Condensed Consolidated Statement of Stockholders' Equity
For the Six Months Ended August 4, 2018
(in thousands, except per share data)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount		Shares	Amount			
Balance at February 3, 2018	32,806	$ 328	$418,658	(5,175)	$(43,298)	$ (5,177)	$ (26,397)	$344,114
Net loss	—	—	—	—	—	—	(48,600)	(48,600)
Other comprehensive income	—	—	—	—	—	354	—	354
Dividends on common stock, $0.10 per share	—	—	—	—	—	—	(2,912)	(2,912)
Deferred compensation	—	—	90	—	(90)	—	—	—
Issuance of equity awards, net	612	6	(6)	—	—	—	—	—
Tax withholdings paid for net settlement of stock awards	—	—	(170)	—	—	—	—	(170)
Stock-based compensation expense	—	—	3,049	—	—	—	—	3,049
Balance at August 4, 2018	33,418	$ 334	$421,621	(5,175)	$(43,388)	$ (4,823)	$ (77,909)	$295,835

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

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Stage Stores, Inc. and its subsidiary ("we," "us" or "our") have been prepared in accordance with the requirements of the U.S. Securities and Exchange Commission ("SEC") for interim financial information and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. Those adjustments that are, in the opinion of management, necessary for a fair presentation of the results of the interim periods have been made. Results of operations for such interim periods are not necessarily indicative of the results of operations for a full year due to seasonality and other factors. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto filed with our Annual Report on Form 10-K for the year ended February 3, 2018 ("Form 10-K").

We are a retailer of trend-right, moderately priced, name-brand apparel, accessories, cosmetics, footwear and home goods. As of August 4, 2018, we operated in 42 states through 764 BEALLS, GOODY'S, PALAIS ROYAL, PEEBLES and STAGE specialty department stores and 59 GORDMANS off-price stores, as well as an e-commerce website. Our department stores are predominantly located in small towns and rural communities. Our off-price stores are predominantly located in mid-sized, non-rural Midwest markets.

References to a particular year are to our fiscal year, which is the 52- or 53-week period ending on the Saturday closest to January 31st of the following calendar year. For example, a reference to "2018" is a reference to the fiscal year ending February 2, 2019, and "2017" is a reference to the fiscal year ended February 3, 2018. Fiscal years 2018 and 2017 are comprised of 52 weeks and 53 weeks, respectively. References to the "three months ended August 4, 2018" and "three months ended July 29, 2017" are for the respective 13-week fiscal quarters. References to quarters relate to our fiscal quarters. References to the "six months ended August 4, 2018" and "six months ended July 29, 2017" are for the respective 26-week fiscal periods.

On April 7, 2017, we acquired select assets of Gordmans Stores, Inc. and its subsidiaries through a bankruptcy auction ("Gordmans Acquisition"). The results of the Gordmans branded stores that we operated since the Gordmans Acquisition are included in our condensed consolidated statements of operations (see Note 9).

Recently Adopted Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), and subsequently issued related ASUs, which were incorporated into Topic 606. Under Topic 606, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The standard establishes a five-step revenue recognition model, which includes (i) identifying the contract with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. The standard also requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On February 4, 2018, we adopted the new standard using the full retrospective method. As a result of the adoption of ASU 2014-09, the condensed consolidated statements of operations reflect the reclassification of credit income related to our private label credit card program from selling, general and administrative expenses to revenue. In addition, the condensed consolidated balance sheets and condensed consolidated statement of cash flows reflect the reclassification of the asset for the right to recover sales return merchandise from merchandise inventories to prepaid expenses and other current assets. The tables that follow depict the impact of the reclassification adjustments on the prior period financial statement presentations.

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The condensed consolidated balance sheets reflect the reclassification of the asset for the right to recover sales return merchandise from merchandise inventories to prepaid expenses and other current assets.

Condensed Consolidated Balance Sheets (in thousands)

	February 3, 2018 As previously reported	ASU 2014-09 Adjustments	February 3, 2018 As adjusted
Assets:			
Merchandise inventories, net	$ 439,735	$ (1,358)	$ 438,377
Prepaid expenses and other current assets	51,049	1,358	52,407

	July 29, 2017 As previously reported	ASU 2014-09 Adjustments	July 29, 2017 As adjusted
Assets:			
Merchandise inventories, net	$ 460,405	$ (2,086)	$ 458,319
Prepaid expenses and other current assets	62,357	2,086	64,443

The condensed consolidated statement of operations reflects the reclassification of credit income from selling, general and administrative expenses to revenue.

Condensed Consolidated Statement of Operations and Comprehensive Loss (in thousands)

	Three Months Ended July 29, 2017 As previously reported	ASU 2014-09 Adjustments	Three Months Ended July 29, 2017 As adjusted
Net sales	$ 377,081	$ —	$ 377,081
Credit income	—	13,190	13,190
Total revenues	377,081	13,190	390,271
Selling, general and administrative expenses	100,643	13,190	113,833

	Six Months Ended July 29, 2017	ASU 2014-09 Adjustments	Six Months Ended July 29, 2017

	As previously reported		As adjusted
Net sales	685,688	—	685,688
Credit income	—	26,118	26,118
Total revenues	685,688	26,118	711,806
Selling, general and administrative expenses	189,152	26,118	215,270

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The condensed consolidated statement of cash flows reflects the reclassification of the asset for the right to recover merchandise returned from merchandise inventories to prepaid expenses and other current assets.

Condensed Consolidated Statement of Cash Flows (in thousands)

	Six Months Ended July 29, 2017 As previously reported	ASU 2014-09 Adjustments	Six Months Ended July 29, 2017 As adjusted
Cash flows from operating activities:			
Increase in merchandise inventories	$(19,251)	$ 1,052	$(18,199)
Increase in other assets	(22,188)	(1,052)	(23,240)

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires the service cost component of net periodic benefit cost to be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period. If a subtotal for operating income is shown on the income statement, then the other components of the net periodic benefit cost must be presented separately from the line item that includes the service cost and outside of any subtotal of operating income. The new standard also requires disclosure of the line item(s) in the income statement that include net periodic benefit costs. Additionally, only the service cost component of the net periodic benefit cost is eligible for capitalization. The change in presentation of service cost must be applied retrospectively, while the capitalization of service cost must be applied on a prospective basis. On February 4, 2018, we adopted ASU 2017-07. The pension plan that we sponsor is frozen, and therefore, service costs no longer accrue under the plan. The adoption of the new standard did not change the presentation of our condensed consolidated statements of operations.

Recent Accounting Pronouncements Not Yet Adopted. In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. The new standard requires lessees to recognize a right-of-use asset and lease liability on the balance sheet for all leases with terms longer than 12 months. A policy election can be made, by underlying asset class, to keep leases with an initial term of 12 months or less off the balance sheet and recognize those lease payments in the consolidated statements of operations on a straight-line basis over the lease term. Consistent with current GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a financing or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require both types of leases to be recognized on the balance sheet. As a result, lessees will be required to put most leases on their balance sheets while recognizing expense on their income statements in a manner similar to current accounting. In addition, this guidance requires disclosures about the amount, timing and uncertainty of cash flows arising from leases. The new standard will be effective for us in the first quarter of fiscal 2019, which begins on February 3, 2019. ASU 2016-02 requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements.

In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) - Targeted Improvements, which provides an optional transition method for the adoption of the new leases standard. If elected, the comparative periods would continue to be reported under the legacy guidance in Topic 840, including the related disclosures, and a cumulative-effect adjustment would be made to retained earnings as of the adoption date.

In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases, which clarifies certain aspects of the new leases standard. The amendments in this ASU address the rate implicit in the lease, impairment of the net investment in the lease, lessee reassessment of lease classification, lessor reassessment of lease term and purchase options, variable payments that depend on an index or rate and certain transition adjustments, among other things. The amendments have the same effective date and transition requirements as the new leases standard.

We continue to evaluate the impact that the adoption of Topic 842 will have on our consolidated financial statements and disclosures, including the effect of the optional practical expedients permitted under the transition guidance. Based on our assessment to date, we expect the adoption of Topic 842 will result in a significant increase in lease-related assets and liabilities on our consolidated balance sheets. The ultimate impact of adopting the new standard will depend on our lease portfolio as of the adoption date.

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NOTE 2 - DEBT OBLIGATIONS

Debt obligations for each period presented consisted of the following (in thousands):