

STAGE STORES INC
Form 10-Q/A
April 28, 2005

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

Form 10-Q/A

(Amendment No.1)

(Mark One)

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

For the quarterly period ended May 1, 2004

OR

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

For the transition period from _____ to

Commission file number 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)

(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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

**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

As of June 1, 2004, there were 18,217,053 shares of the registrant's common stock outstanding.

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 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-Q/A gives the effect to the Company's revised policies.

This Amendment No. 1 on Form 10-Q/A ("Form 10-Q/A") to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 1, 2004, initially filed with the SEC on June 7, 2004 (the "Original Filing"), is being filed to reflect restatements of the Company's consolidated balance sheets at May 1, 2004 and January 31, 2004, and the related consolidated statements of income, stockholders' equity and cash flows for the quarters ended May 1, 2004 and May 3, 2003 and the notes related thereto. For a more detailed description of these restatements, see Note 2, "Restatement of Financial Statements," to the accompanying consolidated financial statements and the section entitled "Restatement" in Management's Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-Q/A.

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For the convenience of the reader, this Form 10-Q/A sets forth the Original Filing in its entirety. However, this Form 10-Q/A only amends and restates Items 1, 2 and 4 of Part I 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 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 6 of Part II of the Original Filing has been amended 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 certifications of the Company's Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as exhibits 31.1, 31.2 and 32, respectively.

Except for the foregoing amended information, this Form 10-Q/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 July 31, 2004 and October 30, 2004 which will be filed subsequent to the filing of this Form 10-Q/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 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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References to a particular year are to Stage Stores, Inc.'s fiscal year, which is the 52 or 53 week period ending on the Saturday closest to January 31st of the following calendar year. For example, a reference to "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 2003 and 2004 consist of 52 weeks.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Stage Stores, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except par values)
(unaudited)

	May 1, 2004	January 31, 2004
	*	
<u>ASSETS</u>		
Cash and cash equivalents	\$ 16,536	\$ 14,733
Accounts receivable, net	-	35,112
Merchandise inventories	298,978	259,687
Current deferred taxes	25,734	27,701
Prepaid expenses and other current assets	14,619	26,071
Total current assets	355,867	363,304
Property, equipment and leasehold improvements, net	198,613	200,802
Goodwill	80,054	80,054
Intangible asset	14,910	14,910
Other long-term assets, net	10,576	10,021
Total assets	\$ 660,020	\$ 669,091
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Accounts payable	\$ 74,004	\$ 75,685
Income taxes payable	7,277	2,598
Current portion of debt obligations	406	400
Accrued expenses and other current liabilities	55,990	54,083
Total current liabilities	137,677	132,766
Debt obligations	1,772	12,719
Deferred taxes	11,410	12,442
Other long-term liabilities	42,004	40,826
Total liabilities	192,863	198,753
Commitments and contingencies		
Common stock, par value \$0.01, 50,000 shares authorized, 20,792 and 20,579 shares issued, respectively	208	206
Additional paid-in capital	380,377	374,645
Less treasury stock - at cost, 2,137 and 1,414 shares, respectively	(60,523)	(33,127)
Retained earnings	147,095	128,614
Stockholders' equity	467,157	470,338
Total liabilities and stockholders' equity	\$ 660,020	\$ 669,091

* As restated, see Note 2.

The accompanying notes are an integral part of these statements.

Stage Stores, Inc.
Condensed Consolidated Statements of Income
(in thousands, except earnings per share)
(unaudited)

	Thirteen Weeks Ended May 1, 2004 *	Thirteen Weeks Ended May 3, 2003 *
Net sales	\$ 289,658	\$ 197,987
Cost of sales and related buying, occupancy and distribution expenses	193,194	135,688
Gross profit	96,464	62,299
Selling, general and administrative expenses	66,313	40,515
Store opening costs	341	650
Interest, net of income of \$13 and \$38, respectively	476	397
Income before income tax	29,334	20,737
Income tax expense	10,853	7,569
Net income	\$ 18,481	\$ 13,168
 <i>Basic earnings per share data:</i>		
Basic earnings per share	\$ 0.98	\$ 0.70
Basic weighted average shares outstanding	18,925	18,877
 <i>Diluted earnings per share data:</i>		
Diluted earnings per share	\$ 0.89	\$ 0.67
Diluted weighted average shares outstanding	20,779	19,527

* As Restated, See Note 2.

The accompanying notes are an integral part of these statements.

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

	Thirteen Weeks Ended May 1, 2004 *	Thirteen Weeks Ended May 3, 2003 *
<i>Cash flows from operating activities:</i>		
Net income	\$ 18,481	\$ 13,168
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,528	5,391
Amortization of debt issue costs	111	334
Provision for bad debts	311	6,698
Deferred tax benefit	935	1,471
Proceeds from sale of private label credit card portfolio, net	34,764	-
Construction allowance received from landlords	924	1,454