KFORCE INC
Form DEF 14A
April 21, 2003
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SCHEDULE 14A

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy statement Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to § 240.14a-11(c) or § 240.14a-12

KFORCE INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box)

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration No.:

(3) Filing Party:

(4) Date Filed:

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KFORCE INC.

Notice of Annual Meeting of Shareholders

To Be Held June 16, 2003

Dear Shareholder:

On Monday, June 16, 2003, Kforce Inc. will hold its 2003 Annual Meeting of Shareholders at Kforce s corporate headquarters located at 1001 East Palm Avenue, Tampa, Florida 33605. The Board of Directors cordially invite all shareholders to attend the meeting which will begin at 9:00 a.m., Eastern time.

We are holding this meeting to:

1. Elect three Class III directors to hold office for a three year term expiring in 2006 and one Class I director to hold office for a one year term expiring in 2004; and

2. Attend to other business properly presented at the meeting.

Your Board of Directors has selected April 14, 2003 as the record date for determining shareholders entitled to vote at the meeting.

This proxy statement, proxy card and Kforce s 2002 Annual Report to Shareholders are being mailed on or about May 2, 2003. Each shareholder, even though he may not plan to attend the annual meeting, is requested to sign and date the enclosed proxy card and return it without delay in the enclosed postage paid envelope. If you need further assistance, please contact Kforce Investor Relations at (813) 552-2927.

BY ORDER OF THE BOARD OF DIRECTORS

William L. Sanders

Secretary

Tampa, Florida

May 2, 2003

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QUESTIONS AND ANSWERS

Q: Why did you send me this proxy statement?

A: We sent you this proxy statement and the enclosed proxy card because the Board of Directors (the Board) is soliciting your proxy to vote your shares at the Annual Meeting. This proxy statement summarizes information that we are required to provide to you under the rules of the Securities and Exchange Commission (SEC) and which is designed to assist you in voting.

Q: When is the Annual Meeting and where will it be held?

A: The Annual Meeting will be held on Monday, June 16, 2003 at 9 a.m., Eastern time at Kforce s corporate headquarters located at 1001 East Palm Avenue, Tampa, Florida 33605.

Q: What may I vote on?

A: The election of three Class III directors to hold office for a three-year term expiring in 2006 and one Class I director to hold office for a one year term expiring in 2004.

Q: How does Kforce s Board recommend I vote on the proposal?

A: The Board recommends a vote FOR each of the proposed nominees.

Q: Who is entitled to vote?

A: Only those who owned Kforce common stock at the close of business on April 14, 2003 (the Record Date) are entitled to vote at the Annual Meeting.

Q: How do I vote?

A: You may vote your shares either in person or by proxy. Whether you plan to attend the meeting and vote in person or not, we urge you to complete the enclosed proxy card and return it promptly in the enclosed envelope. If you return your signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted FOR the proposal. You have the right to revoke your proxy at any time before the meeting by either:

(1) notifying Kforce s corporate secretary;

(2) voting in person; or

(3) returning a later-dated proxy card.

Q: How many shares can vote?

A: As of the Record Date, 30,876,845 shares of Kforce common stock were issued and outstanding. Every holder of Kforce common stock is entitled to one vote for each share held.

Q: What is a quorum ?

A: A quorum is a majority of the outstanding shares. They may be present at the meeting or represented by proxy. There must be a quorum for the meeting to be held and a proposal must receive more than fifty percent of the shares voting to be adopted. If you submit a properly executed proxy card, even if you abstain from voting, then you will be considered part of the quorum. However, abstentions are not counted in the tally of votes FOR or AGAINST a proposal. A WITHHELD vote is the same as an abstention. If a broker, bank, custodian, nominee or other record holder of Kforce common stock indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular matter, the shares held by that record holder (referred to as broker non-votes) will also be counted as present and considered part of a quorum but will not be counted in the tally of votes FOR or AGAINST a proposal.

Q: How will voting on any other business be conducted?

A: Although we do not know of any business to be considered at the Annual Meeting other than the proposal described in this proxy statement, if any other business is properly presented at the Annual Meeting, your signed proxy card gives authority to William L. Sanders, Kforce s Senior Vice President, Secretary, Chief Financial Officer and Chief Operating Officer and Michael Blackman, Kforce s Vice President of Investor Relations, or either of them, to vote on such matters at their discretion.

Q: When are the shareholder proposals for the next Annual Meeting of Shareholders due?

A: All shareholder proposals to be considered for inclusion in next year s proxy statement must be submitted in writing to William L. Sanders, Corporate Secretary, Kforce Inc., 1001 East Palm Avenue, Tampa, Florida 33605, by January 2, 2004. In addition, the proxy solicited by the Board for the 2004 Annual Meeting of Shareholders will confer discretionary authority to vote on any shareholder proposal presented at that meeting, unless we are provided with notice of such proposal by March 18, 2004.

Q: Who will pay for this proxy solicitation?

A: We will pay all the costs of soliciting these proxies. In addition to mailing proxy solicitation material, our directors and employees may also solicit proxies in person, by telephone or by other electronic means of communication. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to our shareholders.

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PROPOSAL ON WHICH YOU MAY VOTE

Proposal 1. Election of Directors

The Board has ten directors who are divided into three classes serving staggered three-year terms. The current terms of the three classes of directors expire in 2004 (Class I directors), 2005 (Class II directors) and 2003 (Class III directors). At the Annual Meeting, you and the other shareholders will elect three individuals to serve as directors until the 2006 Annual Meeting and one individual to serve until the 2004 Annual Meeting. The Board has nominated David L. Dunkel, W.R. Carey, Jr. and Mark F. Furlong to stand for election at the Annual Meeting for Class III director seats and Elaine D. Rosen to stand for election for a Class I director seat. Mr. Furlong was appointed to the Board in July 2001 to fill the newly created tenth seat on the Board. Detailed information on each nominee is provided on pages 9-11. Except for Ms. Rosen, each of the nominees for director is a current member of the Board.

The individuals named as proxies will vote the enclosed proxy for the election of Messrs. Dunkel, Carey and Furlong and Ms. Rosen unless you direct them to withhold your votes. If any nominee becomes unable or unwilling to stand for election, the Board may reduce its size or designate a substitute. If a substitute is designated, proxies voting for the original nominee will be cast for the substituted nominee.

Information About the Board of Directors and Committees

The full Board considers all major decisions. However, the Board has established the following four standing committees so that certain important areas can be addressed in more depth than may be possible in a full Board meeting:

Compensation Committee. The Compensation Committee reviews and approves compensation plans covering executive officers and other key management employees; reviews the competitiveness of our total compensation practices; determines the annual base salaries and incentive awards to be paid to executive officers and approves the annual salaries of all executive officers and certain other key management employees; and reviews and approves hiring and severance arrangements with executive officers. The members are W. R. Carey, Jr., Todd W. Mansfield and Ralph E. Struzziero. The Compensation Committee held eight meetings in 2002.

Audit Committee. The Audit Committee assists the Board in fulfilling its responsibility for the safeguarding of assets and oversight to the quality and integrity of our accounting and reporting practices and such other duties as directed by the Board. The Audit Committee recommends to the Board the selection and retention of the independent accountants who audit our financial statements; reviews our financial statements with management and the independent auditor; periodically discusses with management and the auditors the quality and adequacy of our internal controls; discusses with the independent auditors their independence from management and Kforce, including the matters in the written disclosures required by the Independence Standards Board; considers the compatibility of non-audit services with the auditor s independence; and periodically reports on the Audit Committee s activities to our full Board and issues a summary report. The members are John N. Allred, W. R. Carey, Jr., Mark F. Furlong and Karl A. Vogeler. The Audit Committee held five meetings in 2002. Each member of the Audit Committee is independent within the meaning of Rule 4200(a)(15) of the National Association of Securities Dealers listing standards. The Audit Committee s responsibilities are more fully set forth in a written charter, that was adopted by the audit committee as of March 27, 2003 and by the Board on April 8, 2003. A copy of the charter is attached as Appendix A to this Proxy Statement.

Nomination Committee. The Nomination Committee makes recommendations to the Board regarding the size and composition of the Board. The Nomination Committee establishes procedures for the nomination process, recommends candidates for election to our Board and nominates officers for

election by the Board. The members are W.R. Carey, Jr., Richard M. Cocchiaro and David L. Dunkel. The Nomination Committee held three meetings in 2002. The Nomination Committee will consider nominees for the Board that are proposed by our shareholders. Any shareholder who wishes to recommend a prospective nominee for the Board, for the Nomination Committee s consideration, may do so by giving the candidate s name and qualifications in writing to William L. Sanders, Corporate Secretary, 1001 East Palm Avenue, Tampa, Florida 33605.

Executive Committee. The Executive Committee has the authority to act in place of the Board on all matters which would otherwise come before the Board, except for such matters which are required by law or by our Articles of Incorporation or Bylaws to be acted upon exclusively by the Board. The members are David L. Dunkel, Todd W. Mansfield, Howard W. Sutter and Gordon Tunstall. The Executive Committee held no meetings in 2002.

The Board met four times during 2002**.** Each director attended at least 75% of the total number of meetings of the Board and Committees upon which he served.

Compensation of Directors

Directors who are not employees receive an annual retainer of $15,000 plus $2,000 for each Board meeting attended with a duration of 30 minutes or longer, and $2,000 for each committee meeting attended. The chairman of the Audit Committee receives an additional $10,000 per year and the chairman of the Compensation Committee receives an additional $7,500 per year. All other committee chairmen receive an additional $5,000 per year. Directors are given the choice of receiving stock options in lieu of cash for their annual retainer. All non-employee directors also receive a yearly grant of options to purchase 5,000 shares of our common stock and receive reimbursement of out-of-pocket expenses incurred in connection with meetings of the Board or committee. No director who is an employee receives separate compensation for services rendered as a director. During 2002, non-employee directors received options to purchase shares of Kforce common stock as set forth in the table below.

	2002 Stock Option Grants to Non-Employee Directors		
Name	**Number of Securities Underlying Options Granted**	**Exercise or Base Price**	**Expiration Date**
John N. Allred	5,000	$ 5.82	6/18/2012
W.R. Carey, Jr.	11,145	5.82	6/18/2012
Mark F. Furlong	10,155	5.82	6/18/2012
Todd W. Mansfield	5,000	5.82	6/18/2012
Ralph Struzziero	10,155	5.82	6/18/2012
Gordon Tunstall	5,000	5.82	6/18/2012

Vote Required; Recommendation

The three nominees for election as Class III directors and one nominee for Class I director will be elected at the meeting by a plurality of all the votes cast at the meeting, meaning that the three nominees for Class III director and one nominee for Class I director who receive the most votes will be elected. A properly executed proxy marked to withhold authority with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum. **The Board recommends a vote for each of the nominees for election as director.**

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STOCK OWNERSHIP

The following table shows the amount of Kforce common stock beneficially owned (unless otherwise indicated) as of April 14, 2003 by (1) any person who is known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock, (2) our directors, (3) our executive officers named in the Summary Compensation Table below, and (4) all of our directors and executive officers as a group.

	Shares of Kforce Common Stock Beneficially Owned	
	Number(1)(2)(3)	**Percent**
Directors and Other Named Executive Officers		
David L. Dunkel	4,325,551	14.0%
John N. Allred	86,858	*
W.R. Carey, Jr.	109,642	*
Richard M. Cocchiaro	1,810,406	5.9%
Mark F. Furlong	31,955	*
Joseph J. Liberatore	381,283	1.2%
Todd W. Mansfield	45,000	*
Ken W. Pierce	141,081	*
Elaine D. Rosen	0	0%
William L. Sanders	759,008	2.5%
Ralph E. Struzziero	157,320	*
Howard W. Sutter	1,750,892	5.7%
A. Gordon Tunstall	85,000	*
All directors and executive officers as a group (15 persons)	9,782,893	31.7%
Shareholders(4)		
Dimensional Fund Advisors Inc. 1299 Ocean Avenue, 11th Floor Santa Monica, California 90401	2,423,134	7.8%
FleetBoston Financial Corporation 100 Federal Street Boston, Massachusetts 02110	2,500,706	8.1%
Mellon Financial Corporation c/o Mellon Financial corporation One Mellon Center Pittsburgh, Pennsylvania 15258	1,926,041	6.2%
Strong Capital Management Inc. 100 Heritage Reserve	2,485,060	8.0%

Menomonee Falls, Wisconsin 53051		
The Boston Safe Deposit & Trust Company. c/o Mellon Financial corporation One Mellon Center Pittsburgh, Pennsylvania 15258	1,650,095	5.3%

* Less than 1% of the outstanding common stock

(1) Includes the number of shares subject to purchase pursuant to currently exercisable options or options exercisable within 60 days of April 14, 2003 as follows: Mr. Dunkel, 1,139,867; Mr. Allred, 55,718;

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Mr. Carey, 109,642; Mr. Cocchiaro, 26,170; Mr. Furlong, 14,855; Mr. Liberatore, 297,200; Mr. Mansfield, 45,000; Mr. Pierce, 85,000; Mr. Sanders, 628,000; Mr. Struzziero, 15,155; Mr. Sutter, 76,434; Mr. Tunstall, 85,000; Michael Blackman, 64,868 and David M. Kelly, 16,550.

(2) Includes 50,712 shares as to which beneficial ownership is disclaimed as follows: Mr. Dunkel, 31,712 (shares held by current spouse) and Mr. Cocchiaro, 19,000 (shares held by spouse). Also includes 2,922,899 shares as to which voting and/or investment power is shared or controlled by another person and as to which beneficial ownership is not disclaimed, as follows: Mr. Dunkel, 1,269,231 (shares held by former spouse); Mr. Cocchiaro, 39,200 (shares held by mother); Mr. Struzziero, 1,987 (shares held by spouse), 7,665 (shares held by son) and 4,500 (shares held by son); and Mr. Sutter, 5,000 (shares held by spouse) and 1,595,316 (shares held by Sutter Investments Ltd. of which H.S. Investments, Inc. is the sole general partner).

(3) Includes the number of shares of restricted stock that are beneficially owned as follows: Mr. Dunkel, 47,985; Mr. Cocchiaro, 12,476; Mr. Liberatore, 29,750; Mr. Pierce, 21,593; Mr. Sanders, 33,589; and Mr. Sutter, 17,754.

(4) The number of shares shown in the table is based upon certain Schedule 13Gs (or amendments thereto) filed with the Securities and Exchange Commission.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires Kforce directors, executive officers and persons holding more than ten percent of our common stock to file reports of ownership and changes in ownership of the common stock with the SEC. The directors, officers and ten percent shareholders are required by the SEC regulations to furnish us with copies of all Section 16(a) reports that they file. The SEC has designated specific due dates for these reports and we must identify in this proxy statement those persons who did not file these reports when due.

Based solely on our review of copies of the reports received by us and written representations from certain reporting persons, we believe that all directors, executive officers and persons holding more than ten percent of our common stock were in compliance with their filing requirements.

Independent Auditors

Our consolidated financial statements for the year ended December 31, 2002, have been audited by Deloitte & Touche LLP, independent auditors. The Board has selected Deloitte & Touche LLP as the independent auditor to perform our audit for the current year ending December 31, 2003. A representative of Deloitte & Touche LLP is expected to be present at the annual meeting of shareholders in order to respond to appropriate questions and to make any other statement deemed appropriate.

Audit Fees

Fees for audit services totaled $170,000 in 2002 and $153,500 in 2001, including fees associated with the annual audit and the review of our financial statements included in our Quarterly Reports on Form 10-Q.

Audit Related Fees

Fees for audit related services totaled $58,930 in 2002 and $17,849 in 2001. Audit related services principally include assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of the registrant s financial statements or other filings that are not captured under the fees for audit services.

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Tax Fees

Fees for tax services, including tax compliance, tax advice and tax planning, totaled $17,968 in 2002 and $193,120 in 2001.

All Other Fees

Fees for all other services not described above totaled $70,174 in 2002 for consultation on various internal audit and benefits matters and $311,155 in 2001. The 2001 fees were comprised of $240,260 for consultation and assistance with the development of a shared services center; $56,895 for internal audit assistance; and $14,000 for consultation and assistance on various other matters.

The Audit Committee considered whether Deloitte & Touche LLP s provision of the above non-audit services is compatible with maintaining such firm s independence and satisfied itself as to Deloitte & Touche LLP s independence.

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AUDIT COMMITTEE REPORT

Audit Committee Report

Kforce Inc. s Audit Committee is composed of four directors, each of whom the Board has determined to be independent for purposes of both the existing and proposed Nasdaq Listing Standards and the recently proposed Securities and Exchange Commission (the SEC) rules. The Audit Committee has reviewed the written charter under which it has been operating and made several changes to reflect the rules and regulations of the SEC, as amended by the Sarbanes-Oxley Act of 2002, and the proposed Nasdaq Listing Standards. The amended charter, which was adopted by the Audit Committee as of March 27, 2003 and by the Board on April 8, 2003 is included with this proxy statement as Appendix A. The Audit Committee assists the Board in general oversight of Kforce Inc. s financial accounting and reporting process, system of internal control and audit process.

Kforce Inc. s management has primary responsibility for preparing Kforce Inc. s financial statements and its financial reporting process. Kforce Inc. s independent accountants, Deloitte & Touche LLP, are responsible for auditing Kforce Inc. s financial statements and for expressing an opinion whether Kforce Inc. s audited financial statements present fairly, in all material respects, our financial position, results of operations and cash flows, in conformity with accounting principles generally accepted in the United States of America.

In this context, the Audit Committee reports as follows:

1. The Audit Committee has reviewed and discussed the audited financial statements with Kforce Inc. s management.

2. The Audit Committee has discussed with the independent accountants the matters required to be discussed by the Statement on Auditing Standards No. 61 (Codification of Statements on Audit Standards AU §380) Communications with Audit Committees.

3. The Audit Committee has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has discussed with the independent accountants their independence. The Audit Committee has considered whether the provision of other non-audit services is compatible with the independent auditors independence, and satisfied itself as to the auditors independence.

4. Based on the review and discussion referred to in paragraphs (1) through (3) above, the Audit Committee recommended to the Board that the audited financial statements be included in Kforce Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 2002, for filing with the Securities and Exchange Commission.

Submitted by the Audit Committee

Karl A. Vogeler (Chair)

John N. Allred

W.R. Carey, Jr.

Mark F. Furlong

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DIRECTORS AND EXECUTIVE OFFICERS

Set forth below is certain information as of April 14, 2003, concerning our executive officers, continuing directors, and nominees for election as directors.

Name	Position(s)	Age	Year First Became a Director
David L. Dunkel*	Chairman, Chief Executive Officer, and Class III Director (nominee for a term expiring in 2006)	49	1994
John N. Allred	Class II Director	56	1998
W.R. Carey, Jr.*	Class III Director (nominee for a term expiring in 2006)	55	1995
Richard M. Cocchiaro	Class I Director	48	1994
Mark F. Furlong*	Class III Director (nominee for a term expiring in 2006)	46	2001
Joseph J. Liberatore	Senior Vice President and Chief Talent Officer	40	
Todd W. Mansfield	Class II Director	45	1997
Ken W. Pierce	Senior Vice President and Chief Marketing Officer	45	
Elaine D. Rosen*	Nominee for Class I Director with a term expiring in 2004	50	
William L. Sanders	Senior Vice President, Secretary, Chief Financial Officer and Chief Operating Officer	56	
Ralph E. Struzziero	Class I Director	58	2000
Howard W. Sutter	Vice President and Class I Director	54	1994
A. Gordon Tunstall	Class II Director	58	1995

* Standing for election.

David L. Dunkel has served as Kforce s Chairman, Chief Executive Officer and a director since its formation in 1994. Prior to August 1994, he served as President and Chief Executive Officer of Romac-FMA, one of Kforce s predecessors, for 14 years. Mr. Dunkel s prior experience includes three years service as an accountant with Coopers & Lybrand in Boston, Massachusetts.

John N. Allred has served as a director of Kforce since April 1998. Mr. Allred has served as President of A.R.G., Inc., a provider of temporary and permanent physicians located in Kansas City area since January 1994. Prior to that time, Mr. Allred served in various capacities with Source Services Corporation (Source) prior to its merger with Kforce in 1998, including Branch Manager of the Kansas City branch (1976-1983), Regional Vice President (1983-1987) and Vice President (1987-1994). Mr. Allred served as a director of Source from August 1992 until November 1993 and was again elected as a director in

September 1994. Prior to joining Source, Mr. Allred held various positions, including Manager of Data Processing Services and Systems Analyst with Systec Data Management.

W. R. Carey, Jr. has served as a director of Kforce since October 1995. He is currently the Chairman and Chief Executive Officer of Corporate Resource Development, Inc., an Atlanta, Georgia based sales and marketing consulting and training firm which began in 1981 and assists some of America s largest firms in design, development, and implementation of strategic and tactical product marketing. Mr. Carey serves on the Board of Directors of both Outback Steakhouse, Inc. and Crosswalk.com, Inc. and is also the National Chairman of the Council of Growing Companies.

Richard M. Cocchiaro has served as a director of Kforce since its formation in August 1994. He currently serves as a Vice President of National Accounts t-align:right;font-size:10pt;">(0.60

)

$
(0.21
)
Diluted weighted average shares outstanding
31,492

32,306

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)

	Thirteen Weeks Ended	
	May 3, 2014	May 4, 2013
Cash flows from operating activities:		
Net loss	$(18,794)	$(6,856)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and impairment of long-lived assets	15,218	15,047
Loss on retirements of property and equipment	677	186
Deferred income taxes	(420)	(428)
Tax benefit from stock-based compensation	280	1,597
Stock-based compensation expense	1,626	1,979
Amortization of debt issuance costs	75	64
Excess tax benefits from stock-based compensation	(815)	(1,792)
Deferred compensation obligation	38	158
Amortization of employee benefit related costs	100	153
Construction allowances from landlords	2,425	968
Changes in operating assets and liabilities:		
Increase in merchandise inventories	(15,140)	(38,705)
Increase in other assets	(8,548)	(7,525)
Increase in accounts payable and other liabilities	17,156	375
Total adjustments	12,672	(27,923)
Net cash used in operating activities	(6,122)	(34,779)
Cash flows from investing activities:		
Additions to property, equipment and leasehold improvements	(14,714)	(16,809)
Proceeds from disposal of assets	1,397	—
Net cash used in investing activities	(13,317)	(16,809)
Cash flows from financing activities:		
Proceeds from revolving credit facility borrowings	116,340	103,125
Payments of revolving credit facility borrowings	(86,020)	(48,475)
Payments of long-term debt obligations	(1,200)	(180)
Payments for stock related compensation	(1,955)	(2,088)
Proceeds from exercise of stock awards	5,010	9,328
Excess tax benefits from stock-based compensation	815	1,792
Cash dividends paid	(3,952)	(3,253)
Net cash provided by financing activities	29,038	60,249
Net increase in cash and cash equivalents	9,599	8,661
Cash and cash equivalents:		
Beginning of period	14,762	17,937
End of period	$24,361	$26,598
Supplemental disclosures including non-cash investing and financing activities:		
Interest paid	$702	$502
Income taxes paid	$5,519	$20,876

Unpaid liabilities for capital expenditures	$6,893	$5,884

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 Thirteen Weeks Ended May 3, 2014
(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 1, 2014	31,222	$312	$384,295	—	$(967)	$(4,616)	$75,420	$454,444
Net loss	—	—	—	—	—	—	(18,794)	(18,794)
Other comprehensive income	—	—	—	—	—	62	—	62
Dividends on common stock, $0.125 per share	—	—	—	—	—	—	(3,952)	(3,952)
Deferred compensation	—	—	38	—	(38)	—	—	—
Issuance of equity awards, net	499	5	5,005	—	—	—	—	5,010
Tax withholdings paid for net settlement of stock awards	—	—	(1,917)	—	—	—	—	(1,917)
Stock-based compensation expense	—	—	1,626	—	—	—	—	1,626
Tax benefit from stock-based compensation	—	—	280	—	—	—	—	280
Balance at May 3, 2014	31,721	$317	$389,327	—	$(1,005)	$(4,554)	$52,674	$436,759

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 subsidiary ("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 1, 2014. 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 "2013" is a reference to the fiscal year ended February 1, 2014 and a reference to "2014" is a reference to the fiscal year ending January 31, 2015. References to "current year" pertain to the thirteen weeks ended May 3, 2014, and references to "prior year" pertain to the thirteen weeks ended May 4, 2013.

Stage Stores, Inc. is a Houston, Texas-based specialty department store retailer, which operates under the Bealls, Goody's, Palais Royal, Peebles and Stage nameplates. The Company offers moderately priced, nationally recognized brand name and private label apparel, accessories, cosmetics and footwear for the entire family. As of May 3, 2014, the Company operated 853 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 assortments of merchandise similar to that found in the Company's stores, as well as products not carried in its stores. The Send program allows customers in the stores to have merchandise shipped directly to their homes if the merchandise is not available in the local store.

Recent Accounting Standards. In April 2014, the FASB issued ASU No. 2014-08, which changes the requirements for reporting discontinued operations in Subtopic 205-20. The amendments in this update change the criteria for reporting discontinued operations and also require additional disclosures about discontinued operations. For public companies, the standard is effective prospectively for disposals that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. The Company has decided not to early adopt this ASU and will adopt prospectively.

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2. Discontinued Operations

Steele's, an off-price concept, was launched by the Company on November 1, 2011 and by February 1, 2014, the number of stores had grown to 35. In the first quarter of 2014, the Company made the decision to divest the Steele's stores in order to focus all of its attention on its core department store business. On March 7, 2014, the Company completed the sale of the Steele's operations. Accordingly, the results of operations of Steele's are reflected in Loss from Discontinued Operations on the Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited) for all periods presented.

The following table summarizes the revenues and pre-tax loss of Steele's included in Loss from Discontinued Operations on the Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited) (in thousands):

	Thirteen Weeks Ended	
	May 3, 2014	May 4, 2013
Net sales	$2,414	$6,534
Pre-tax loss from discontinued operations	11,005	1,066

The loss from discontinued operations in the current year first quarter includes the loss on the sale of Steele's of $9.7 million.

The carrying values of the major assets and liabilities included in the Consolidated Balance Sheet related to Steele’s as of February 1, 2014 were as follows (in thousands). There were no assets or liabilities included in the Condensed Consolidated Balance Sheet (unaudited) as of May 3, 2014.

	February 1, 2014
Merchandise inventories, net	$10,498
Property, equipment and leasehold improvements, net	732
Other assets	442
Liabilities	809

3. 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.

Total expenses in the prior year first quarter associated with the South Hill Consolidation were $6.9 million. 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 in the Condensed Consolidated Statement of Operations and Comprehensive Loss. Merchandise cost of sales for the prior year first quarter also includes approximately $2.8 million related to the South Hill Consolidation due to increased inventory markdowns and advertising allowances deferred in inventory. The South Hill Consolidation was completed during 2013. Total remaining unpaid severance costs as of May 3, 2014 were $0.6 million and are included in accrued

expenses and other current liabilities on the Condensed Consolidated Balance Sheet.

During 2013, the Company committed to a plan to sell the building which housed its former South Hill operations. 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 May 3, 2014.

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4. 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	
	May 3, 2014	May 4, 2013
Stock options and SARs	$142	$330
Non-vested stock	932	1,051
Performance shares	552	598
Total compensation expense	1,626	1,979
Related tax benefit	(611)	(744)
	$1,015	$1,235

As of May 3, 2014, the Company had unrecognized compensation cost of $22.7 million related to stock-based compensation awards granted. That cost is expected to be recognized over a weighted average period of 2.8 years.

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 thirteen weeks ended May 3, 2014 or May 4, 2013.

The following table summarizes information about stock options and SARs outstanding under the Equity Incentive Plans as of May 3, 2014 and changes during the thirteen weeks ended May 3, 2014:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at February 1, 2014	1,062,851	$16.52		
Exercised	(522,412)	16.52		
Forfeited	(21,875)	17.35		
Outstanding at May 3, 2014	518,564	$16.48	2.8	$1,223
Vested or expected to vest at May 3, 2014	501,879	$16.41	2.7	$1,217
Exercisable at May 3, 2014	435,138	$16.09	2.6	$1,195

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The following table summarizes information about non-vested stock options and SARs outstanding as of May 3, 2014 and changes during the thirteen weeks ended May 3, 2014:

Stock Options/SARs	Number of Shares		Weighted Average Grant Date Fair Value
Non-vested at February 1, 2014	292,075		$7.97
Vested	(193,524	)	7.69
Forfeited	(15,125	)	8.59
Non-vested at May 3, 2014	83,426		$8.52

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 thirteen weeks ended May 3, 2014 and May 4, 2013, was $3.5 million and $5.2 million, respectively.

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 May 3, 2014 and changes during the thirteen weeks ended May 3, 2014:

Non-vested Stock	Number of Shares		Weighted Average Grant Date Fair Value
Outstanding at February 1, 2014	652,459		$20.40
Granted	272,959		23.96
Vested	(186,606	)	19.26
Forfeited	(53,820	)	21.20
Outstanding at May 3, 2014	684,992		$22.07

The aggregate intrinsic value of non-vested stock that vested during the current year was $4.4 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 128,360.

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.

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The following table summarizes information about the performance shares that remain outstanding as of May 3, 2014:

Period Granted	Target Shares Outstanding at February 1, 2014	Target Shares Granted During Current Year	Target Shares Vested During Current Year	Target Shares Forfeited During Current Year	Target Shares Outstanding at May 3, 2014	Weighted Average Grant Date Fair Value Per Share
2012	198,200	—	—	(20,800)	177,400	$18.04
2013	151,250	—	(2,241)	(23,059)	125,950	33.81
2014	—	166,153	—	—	166,153	33.94
Total	349,450	166,153	(2,241)	(43,859)	469,503	

During the current year, 16,620 shares vested related to the 2011 performance share grant. The aggregate intrinsic value of shares vesting during 2014 was $0.5 million. The payment of the recipients' tax liability for shares vesting during 2014 of approximately $0.1 million was satisfied by withholding shares with a fair value equal to the tax liability. As a result, the actual number of shares issued was 12,884.

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5. Debt Obligations

Debt obligations as of May 3, 2014 and February 1, 2014 consist of the following (in thousands):

	May 3, 2014	February 1, 2014
Revolving Credit Facility	$85,715	$55,395
Finance lease obligations	5,377	5,584
Other financing	1,253	2,246
Total debt obligations	92,345	63,225
Less: Current portion of debt obligations	2,137	2,354
Long-term debt obligations	$90,208	$60,871

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. For the thirteen weeks ended May 3, 2014, the weighted average interest rate on outstanding borrowings and the average daily borrowings under the Revolving Credit Facility were 1.72% and $61.4 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 May 3, 2014, the Company had outstanding letters of credit totaling approximately $4.9 million. These letters of credit expire within twelve months of issuance. Excess borrowing availability under the Revolving Credit Facility at May 3, 2014, net of letters of credit outstanding, outstanding borrowings and accrued interest of $0.1 million, was $159.3 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 May 3, 2014, 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 2014.

6. 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 ended May 3, 2014 and May 4, 2013, 174,965 and 457,722 shares, respectively, 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.

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

	Thirteen Weeks Ended			
	May 3, 2014		May 4, 2013	
Basic EPS from continuing operations:				
Loss from continuing operations	$(12,046	)	$(6,188	)
Less: Allocation of earnings to participating securities	—		—	
Net loss from continuing operations allocated to common shares	(12,046	)	(6,188	)
Basic weighted average shares outstanding	31,492		32,306	
Basic EPS from continuing operations	$(0.38	)	$(0.19	)

	Thirteen Weeks Ended			
	May 3, 2014		May 4, 2013	
Diluted EPS from continuing operations:				
Loss from continuing operations	$(12,046	)	$(6,188	)
Less: Allocation of earnings to participating securities	—		—	
Net loss from continuing operations allocated to common shares	(12,046	)	(6,188	)
Basic weighted average shares outstanding	31,492		32,306	
Add: Dilutive effect of stock awards	—		—	
Diluted weighted average shares outstanding	31,492		32,306	
Diluted EPS from continuing operations	$(0.38	)	$(0.19	)

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	
	May 3, 2014	May 4, 2013
Number of anti-dilutive stock options and SARs outstanding	79	1

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7. Stockholders' Equity

The Company currently pays a quarterly cash dividend of $0.125 per share on its common stock. On May 22, 2014, the Company's Board of Directors declared a quarterly cash dividend of $0.125 per share of common stock, payable on June 18, 2014 to shareholders of record at the close of business on June 3, 2014. In the current year, the Company has paid cash dividends totaling $4.0 million.

8. 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	
	May 3, 2014	May 4, 2013
Employer service cost	$52	$90
Interest cost	423	430
Expected return on plan assets	(533)	(559)
Net loss amortization	100	153
Net periodic pension cost	$42	$114

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 first quarter.

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9. 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):

	May 3, 2014			
	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)	$21,957	$21,957	$—	$—
Accrued expenses and other current liabilities:				
Deferred non-employee director equity compensation plan liability (2)	$223	$223	$—	$—

	February 1, 2014			
	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)	$21,023	$21,023	$—	$—
Accrued expenses and other current liabilities:				
Deferred non-employee director equity compensation plan liability (2)	$226	$226	$—	$—

(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 thirteen weeks ended May 3, 2014 and for the fiscal year ended February 1, 2014.

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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):

	May 3, 2014			
	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 (3)	$83	$—	$—	$83

	February 1, 2014			
	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 (3)	$4,562	$—	$—	$4,562

(3) 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 $0.1 million recognized during the current year and $0.6 million recognized during 2013 are recorded in cost of sales and related buying, occupancy and distribution expenses in the Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited). In addition, approximately $7.4 million of impairment charges for Steele's were recognized in fiscal year 2013.

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 subsidiary to maintain normal trade terms with vendors, the ability of the Company and its subsidiary 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 1, 2014 ("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. ("Stage Stores" or the "Company") is a Houston, Texas-based specialty department store retailer, which operates under the Bealls, Goody's, Palais Royal, Peebles and Stage nameplates. The Company offers moderately priced, nationally recognized brand name and private label apparel, accessories, cosmetics and footwear for the entire family. The Company also offers its merchandise direct-to-consumer through its eCommerce website and Send program. The eCommerce website features assortments of merchandise similar to that found in the Company's stores, as well as products not carried in its stores. The Send program allows customers in the stores to have merchandise shipped directly to their homes if the merchandise is not available in the 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. At May 3, 2014, the Company operated 853 stores located in 40 states.

Steele's, an off-price concept, was launched by the Company on November 1, 2011 and by February 1, 2014 the number of Steele's stores had grown to 35. In the first quarter of 2014, the Company made the decision to divest the Steele's stores in order to focus all of its attention on its core department store business. On March 7, 2014, the Company completed the sale of the Steele's operations. Accordingly, the results of operations of Steele's are reflected in Loss from Discontinued Operations on the Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited) for all periods presented.

The Company made progress on a number of its key initiatives during the thirteen weeks ended May 3, 2014 (the "current year first quarter"). The Company implemented store-level mark down optimization and continued to make progress on size pack optimization with plans to roll out by year end. During the current year first quarter, the Company installed 13 new Estee Lauder and 13 new Clinique counters and plans to roll out approximately 50 more counters by year end. The Company also opened seven new stores in the current year first quarter and plans to open a total of 20 new stores during 2014.

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)			
	May 3, 2014		May 4, 2013	
Net sales	100.0	%	100.0	%
Cost of sales and related buying, occupancy and distribution expenses	79.1		75.9	
Gross profit	20.9		24.1	
Selling, general and administrative expenses	25.8		26.3	
Store opening costs	0.2		0.3	
Interest expense	0.2		0.2	
Loss from continuing operations before income tax	(5.3	)	(2.7	)
Income tax benefit	(2.0	)	(1.0	)
Loss from continuing operations	(3.2	)	(1.7	)
Loss from discontinued operations, net of tax	(1.8	)	(0.2	)
Net loss	(5.1	)%	(1.8	)%

(1) Percentages may not foot due to rounding.

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Non-GAAP Financial Measures

The following supplemental information presents the results from continuing operations for the first fiscal quarter of 2014 and 2013. All periods are presented on a basis in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and on a non-U.S. GAAP basis to show earnings with and without charges associated with the South Hill Consolidation. Management believes this supplemental financial information enhances an investor's understanding of the Company's financial performance as it excludes those items which impact comparability of operating trends. The non-U.S. GAAP financial information should not be considered in isolation or viewed as a substitute for net income, cash flow from operations or other measures of performance as defined by U.S. GAAP. Moreover, the inclusion of non-U.S. GAAP financial information as used herein is not necessarily comparable to other similarly titled measures of other companies due to the potential inconsistencies in the method of presentation and items considered. The following tables set forth the supplemental financial information and the reconciliation of U.S. GAAP disclosures to non-U.S. GAAP financial metrics (in thousands, except diluted earnings per share):

	Thirteen Weeks Ended	
	May 3, 2014	May 4, 2013
Net loss from continuing operations:		
On a U.S. GAAP basis	$(12,046)	$(6,188)
South Hill Consolidation related charges, net of tax of $3,616	—	6,062
On a non-U.S. GAAP basis	$(12,046)	$(126)
Diluted loss per share from continuing operations:		
On a U.S. GAAP basis	$(0.38)	$(0.19)
South Hill Consolidation related charges	—	0.19
On a non-U.S. GAAP basis	$(0.38)	$—

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Thirteen Weeks Ended May 3, 2014 Compared to Thirteen Weeks Ended May 4, 2013

Sales for the thirteen weeks ended May 3, 2014 of $372.0 million were essentially flat with sales of $372.1 million for the thirteen weeks ended May 4, 2013 (the "prior year first quarter"). Comparable store sales, which are sales in stores that are open for at least 14 full months prior to the reporting period, including eCommerce sales, decreased 0.2% in the current year first quarter compared to a 0.7% increase in the prior year first quarter. Excluding eCommerce sales, comparable store sales decreased 0.3% in the current year first quarter and were flat in the prior year first quarter. The 0.2% decrease in comparable store sales for the current year first quarter reflects a 6.9% decrease in average unit retail and a 0.5% decrease in the number of transactions offset by a 7.2% increase in units per transaction.

On a market population basis, utilizing a ten-mile radius from each store, the small market stores outperformed the larger markets for the current year first quarter. Comparable store sales were flat for the Company's small market stores (populations less than 50,000), while the mid-sized (populations of 50,000 to 150,000) and higher-density market stores (populations greater than 150,000) experienced a comparable store sales decrease of 1.1% and 0.5%, respectively. Geographically, the Northwest, Southwest and Southeast regions performed better than the Company's overall comparable store sales.

On a merchandise category basis, cosmetics, children's, missy sportswear and footwear performed better than the Company's overall comparable store sales for the current year first quarter. The cosmetics line of business benefited from the installation of 13 additional Estee Lauder and 13 additional Clinique counters. Sales of Nike and Carter's brands helped drive the children's business, while missy sportswear and footwear benefited from sales of DKNY and Skechers merchandise, respectively.

The following is a summary of the changes in the components of the cost of sales rate between the current year first quarter and the prior year first quarter, expressed as a percent of sales:

	Increase	
Merchandise cost of sales rate	3.2	%
Buying, occupancy and distribution expenses rate	—	
Cost of sales rate	3.2	%

Gross profit for the current year first quarter was $77.9 million, a decrease of 13.0% from $89.6 million in the prior year first quarter. Gross profit, as a percent of sales, decreased to 20.9% in the current year first quarter from 24.1% in the prior year first quarter primarily as a result of the highly promotional retail environment and the Company's elevated clearance sales in the current year first quarter as compared to the prior year first quarter. Merchandise cost of sales for the prior year first quarter includes approximately $2.8 million related to the South Hill Consolidation.

Selling, general and administrative ("SG&A") expenses in the current year first quarter decreased $1.8 million to $96.1 million from $97.9 million in the prior year first quarter. As a percent of sales, SG&A expenses decreased to 25.8% in the current year first quarter from 26.3% in the prior year first quarter. SG&A in the prior year first quarter contained one time charges of $6.9 million related to the South Hill Consolidation. The benefit from not having similar charges in the current year first quarter was partially offset by a shift in advertising costs from the prior year second quarter to the current year first quarter associated with the Company's Mother's Day event and higher medical, workers compensation and general liabilities claims expenses during the current year first quarter.

Store opening costs of $0.8 million in the current year first quarter include costs related to the opening of 7 stores. During the prior year first quarter, the Company incurred $1.0 million in store opening costs related to the opening of 10 new stores. Store opening costs are expensed as incurred and include costs of stores opening in future quarters.

Net interest expense was $0.7 million in the current year first quarter compared to $0.6 million in the prior year first quarter. Interest expense is primarily comprised of interest on borrowings under the Revolving Credit Facility (see "Liquidity and Capital Resources"), related letters of credit and commitment fees, amortization of debt issuance costs and interest on finance lease obligations.

The Company's effective tax rate for the current year first quarter was 38.7%, resulting in an estimated tax benefit from continuing operations of $7.6 million. This compares to an effective tax rate of 37.4% and income tax benefit from continuing operations of $3.7 million in the prior year first quarter.

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Loss from discontinued operations, net of the tax benefit of $4.3 million, was $6.7 million in the current year first quarter compared to $0.7 million, net of the tax benefit of $0.4 million, in the prior year first quarter. The loss from discontinued operations in the current year first quarter includes the loss on the sale of the Steele's operations of $9.7 million before tax.

As a result of the foregoing, the Company had a net loss of $18.8 million for the current year first quarter as compared to net loss of $6.9 million for the prior year first quarter.

Seasonality and Inflation

Historically, the Company's business is seasonal and sales are traditionally 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 slightly more than 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 and generally reach their highest levels during the third and fourth quarters. The Company does not expect inflation will have a material impact on its operations. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

Liquidity and Capital Resources

The Company's liquidity is currently provided by (i) existing cash balances, (ii) operating cash flows, (iii) normal trade credit terms from the vendor and factor community and (iv) the Revolving Credit Facility. The Company's primary cash requirements are for capital expenditures related to new stores, store relocations and remodeling, and seasonal and new store inventory purchases.

Key components of the Company's cash flows for the current year and the prior year are summarized below (in thousands):

	Thirteen Weeks Ended	
	May 3, 2014	May 4, 2013
Net cash provided by (used in):		
Operating activities	$ (6,122)	$ (34,779)
Investing activities	(13,317)	(16,809)
Financing activities	29,038	60,249

Operating Activities

During the current year, the Company used $6.1 million in cash from operating activities. Net loss, adjusted for non-cash expenses, provided cash of approximately $2.0 million. Changes in operating assets and liabilities used net cash of approximately $6.5 million, which included a $15.1 million increase in merchandise inventories primarily due to the seasonal build and the strategic investments in cosmetics, partly offset by the reduction associated with the sale of the Steele's operations, and an increase in other assets of $8.5 million. These increases were partially offset by an increase in accounts payable and other liabilities of $17.2 million. Additionally, cash flows from operating activities included construction allowances from landlords of $2.4 million, which funded a portion of the capital expenditures related to store leasehold improvements in new and relocated stores.

During the prior year, the Company used $34.8 million in cash from operating activities. Net loss, adjusted for non-cash expenses, provided cash of approximately $10.1 million. Changes in operating assets and liabilities used net cash of approximately $45.9 million, which included a $38.7 million increase in merchandise inventories primarily due to planned investments in inventory and the seasonal build of inventories, and an increase in other assets of $7.5

million. These increases were partially offset by an increase in accounts payable and other liabilities of $0.4 million. Additionally, cash flows from operating activities included construction allowances from landlords of $1.0 million, which funded a portion of the capital expenditures related to store leasehold improvements in new and relocated stores.

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Investing Activities

Capital expenditures were $14.7 million in the current year as compared to $16.8 million in the prior year. For the current year, the Company opened 7 new stores and relocated one store, as compared to 10 new stores in the prior year. As noted above, the Company received construction allowances from landlords of $2.4 million in the current year and $1.0 million in the prior year to fund a portion of the capital expenditures related to store leasehold improvements in new and relocated stores. These funds are recorded as a deferred rent credit on the balance sheet and are recognized as an offset to rent expense over the lease term commencing with the date the allowances are earned.

Management currently estimates that capital expenditures in 2014, net of construction allowances to be received from landlords, will be approximately $60 million. The expenditures will principally be for the opening of new stores, store expansions, relocations and remodels and investments in technology.

Financing Activities

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. For the thirteen weeks ended May 3, 2014, the weighted average interest rate on outstanding borrowings and the average daily borrowings under the Revolving Credit Facility were 1.72% and $61.4 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 May 3, 2014, the Company had outstanding letters of credit totaling approximately $4.9 million. These letters of credit expire within twelve months of issuance. Excess borrowing availability under the Revolving Credit Facility at May 3, 2014, net of letters of credit outstanding, outstanding borrowings and accrued interest of $0.1 million, was $159.3 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 May 3, 2014, 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 2014.

The Company currently pays a cash dividend of $0.125 cents per share on its common stock. On May 22, 2014, the Company's Board of Directors declared a quarterly cash dividend of $0.125 per share of common stock, payable on June 18, 2014 to shareholders of record at the close of business on June 3, 2014. In the current year, the Company has paid cash dividends totaling $4.0 million.

While there can be no assurances, management believes that there should be sufficient liquidity to cover both the Company's short-term and long-term funding needs. The Company anticipates that it has adequate cash flows to cover its working capital needs, planned capital expenditures and debt service requirements for the remainder of 2014 and the foreseeable future.

Recent Accounting Standards

Disclosure concerning recent accounting standards is incorporated by reference to Note 1 of the Company's Condensed Consolidated Financial Statements (Unaudited) contained in this Form 10-Q.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management of the Company, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures and concluded that the Company's disclosure controls and procedures were effective as of May 3, 2014.

Internal Control Over Financial Reporting

As defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act, the term "internal control over financial reporting" means a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

(1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material adverse effect on the financial statements.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. There were no changes in the Company's internal control over financial reporting during the quarter ended May 3, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During the current year first quarter ended May 3, 2014, the Company did not have any material legal proceedings brought against it, its subsidiary or their properties.

ITEM 1A. RISK FACTORS

There have not been any material changes from the risk factors as previously disclosed in the Form 10-K.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On March 7, 2011, the Board of Directors (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. 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.

The table below sets forth information regarding the Company's repurchases of its common stock during the current year first quarter:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
February 2, 2014 to March 1, 2014	1,371	$19.20	—	$99,938,428
March 2, 2014 to April 5, 2014	67,134	24.40	—	$99,938,428
April 6, 2014 to May 3, 2014	13,479	21.50	—	$99,938,428
Total	81,984	$23.84	—	

(1) Although the Company did not repurchase any of its common stock during the current year first quarter under the 2011 Stock Repurchase Program:

- The Company reacquired 80,258 shares of common stock from certain employees to cover tax withholding obligations from exercises of Stock Appreciation Rights and the vesting of restricted stock and performance shares at a weighted average acquisition price of $23.88 per share; and

- The trustee of the grantor trust established by the Company for the purpose of holding assets under the Company's Deferred Compensation Plan (the "Plan") purchased an aggregate of 1,726 shares of the Company's common stock in the open market at a weighted average price of $21.99 in connection with the Company Stock Investment Option under the Plan and in connection with the reinvestment of dividends paid on the Company's common stock held in trust in the Plan.

(2) Reflects the $200.0 million authorized under the 2011 Stock Purchase Program, less the $100.1 million repurchased using the Company's existing cash, cash flow and other liquidity sources since March 2011.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

The following documents are the exhibits to this Form 10-Q. For convenient reference, each exhibit is listed according to the Exhibit Table of Item 601 of Regulation S-K.

Exhibit Number	Description
10.1*#	Amendment No. Two to Amended and Restated Private Label Credit Card Plan Agreement dated as of February 13, 2014 Between World Financial Network Bank (now Comenity Bank) and Stage Stores, Inc. and Specialty Retailers, Inc.
10.2*†	Employment Agreement between Stephen Parsons and Stage Stores, Inc. dated April 28, 2014.
24.1*	Power of Attorney: Executive Officer (William E. Gentner - Section 16 Filer).
24.2*	Power of Attorney: Executive Officer (Stephen B. Parsons - Section 16 Filer).
31.1*	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
32*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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*	Filed electronically herewith.
†	Management contract or compensatory plan or agreement.
#	Certain confidential portions marked with a [****] have been omitted pursuant to a confidential treatment request that has been filed separately with the Securities and Exchange Commission.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	STAGE STORES, INC.
June 10, 2014 (Date)	/s/ Michael L. Glazer Michael L. Glazer President and Chief Executive Officer (Principal Executive Officer)
June 10, 2014 (Date)	/s/ Oded Shein Oded Shein Executive Vice President, Chief Financial Officer (Principal Financial Officer)

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