

STAGE STORES INC
Form 10-K
March 28, 2012

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

FORM 10-K

(Mark One)

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

For the fiscal year ended January 28, 2012

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 No. 1-14035

Stage Stores, Inc.
(Exact Name of Registrant as Specified in Its Charter)

NEVADA
(State or Other Jurisdiction of Incorporation or
Organization)

91-1826900
(I.R.S. Employer Identification No.)

10201 MAIN STREET, HOUSTON, TEXAS
(Address of Principal Executive Offices)

77025
(Zip Code)

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

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

| Title of each class | Name of each exchange on which registered |
|---------------------------------|---|
| Common Stock (\$0.01 par value) | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

As of July 30, 2011 (the last business day of the registrant's most recently completed second quarter), the aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates of the registrant was \$505,243,637 (based upon the closing price of the registrant's common stock as reported by the New York Stock Exchange on July 29, 2011).

As of March 21, 2012, there were 30,532,504 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to the registrant's Annual Meeting of Shareholders to be held on June 7, 2012, which will be filed within 120 days of the end of the registrant's fiscal year ended January 28, 2012 (the "Proxy Statement"), are incorporated by reference into Part III of this Form 10-K to the extent described therein.

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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 "2009" is a reference to the fiscal year ended January 30, 2010, "2010" is a reference to the fiscal year ended January 29, 2011 and "2011" is a reference to the fiscal year ended January 28, 2012. 2009, 2010 and 2011 consisted of 52 weeks.

PART I

ITEM 1. BUSINESS

Overview

Stage Stores, Inc. (the "Company" or "Stage Stores") is a Houston, Texas-based retailer, which operates both department stores and off-price stores. Its department stores, which operate under the Bealls, Goody's, Palais Royal, Peebles and Stage nameplates, offer moderately priced, nationally recognized brand name and private label apparel, accessories, cosmetics and footwear for the entire family. Its off-price stores, which are called Steele's, offer brand name family apparel, accessories, shoes and home décor at significant savings to department store prices. The Company also has an eCommerce website. The Company's principal focus is on consumers in small and mid-sized markets which the Company believes are under-served and less competitive. The Company differentiates itself from the competition in the small and mid-sized communities that it serves by offering consumers access to basic, as well as fashionable, brand name merchandise not typically carried by other retailers in the same market area.

The Company was formed in 1988 when the management of Palais Royal, together with several venture capital firms, acquired the family-owned Bealls and Palais Royal chains, both of which were originally founded in the 1920s. At the time of the acquisition, Palais Royal operated primarily larger stores, located in and around the Houston metropolitan area, while Bealls operated primarily smaller stores, principally located in rural Texas towns. Since its formation, the Company has pursued a growth strategy that is focused on expanding the Company's presence in small markets across the country through new store openings and strategic acquisitions.

In 2003, the Company acquired Peebles Inc. ("Peebles"), a privately held, similarly small-market focused retail company headquartered in South Hill, Virginia operating 136 stores in the Mid Atlantic, Southeastern and Midwestern states under the "Peebles" name. The Company retained the Peebles name and continues to use it on its stores in markets where it believes there is strong customer awareness and recognition of the name.

In early 2009, Goody's Family Clothing, Inc. ("Goody's"), which was a retail company and a competitor of Stage Stores, went out of business. In July 2009, the Company acquired the "Goody's" name through the Goody's bankruptcy auction. The Company has used the Goody's name in select new store markets in which there is strong customer awareness and recognition of the name, as well as rebranding a number of non-Goody's stores with the Goody's name.

In 2010, the Company began developing its off-price concept with the goal to leverage its small market expertise with a complementary format to its department store model. In developing its new concept, the Company determined that there was significant growth potential in the under-served small market off-price niche. Steele's, its off-price concept, was launched November 1, 2011 with the opening of three stores. The Company expects to continue opening new stores under the Steele's name. Steele's operates as a stand-alone buying division, headquartered in New York City.

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Stores

At January 28, 2012, the Company operated 813 stores located in 40 states. The Company's stores are divided into seven distinct geographic regions, with a total of 57 districts within these regions. The store count and selling square footage by region are as follows:

| | Number of Stores 2011 Activity | | | Selling Square Footage (in thousands) 2011 Activity | | |
|---------------|--------------------------------------|--------------------------------|---------------------|--|-----------------------------|---------------------|
| | January 29, 2011 | Net Additions (Closures) | January 28, 2012 | January 29, 2011 | Net Additions (Closures) | January 28, 2012 |
| South Central | 348 | 4 | 352 | 6,903 | 81 | 6,984 |
| Mid Atlantic | 144 | (1) | 143 | 2,918 | (38) | 2,880 |
| Southeast | 158 | 12 | 170 | 2,618 | 225 | 2,843 |
| Southwest | 36 | - | 36 | 608 | 8 | 616 |
| Midwest | 72 | 8 | 80 | 1,124 | 79 | 1,203 |
| Northeast | 24 | 2 | 26 | 451 | 7 | 458 |
| Northwest | 4 | 2 | 6 | 59 | 20 | 79 |
| | 786 | 27 | 813 | 14,681 | 382 | 15,063 |

The Company operates its stores under the nameplates of Bealls, Goody's, Palais Royal, Peebles, Stage and Steele's. The store count and selling square footage by nameplate are as follows:

| | Number of Stores 2011 Activity | | | Selling Square Footage (in thousands) 2011 Activity | | | | |
|-----------------|-----------------------------------|--------------------------------|---------------------|--|------------------------|--------------------------------|---------------------|------------------------|
| | January 29, 2011 | Net Additions (Closures) | Rebranded Stores | January 28, 2012 | January 29, 2011 | Net Additions (Closures) | Rebranded Stores | January 28, 2012 |
| Bealls | 209 | 1 | - | 210 | 4,218 | 22 | - | 4,240 |
| Goody's | 71 | 24 | 148 | 243 | 1,310 | 369 | 2,322 | 4,001 |
| Palais Royal | 55 | - | - | 55 | 1,177 | 12 | - | 1,189 |
| Peebles | 308 | - | (129) | 179 | 5,551 | (32) | (2,060) | 3,459 |
| Stage | 143 | (1) | (19) | 123 | 2,425 | (25) | (262) | 2,138 |
| Steele's | - | 3 | - | 3 | - | 36 | - | 36 |
| | 786 | 27 | - | 813 | 14,681 | 382 | - | 15,063 |

Utilizing a ten-mile radius from each store, approximately 65% of the Company's stores are located in small towns and communities with populations below 50,000 people, while an additional 19% of the Company's stores are located in mid-sized communities with populations between 50,000 and 150,000 people. The remaining 16% of the Company's stores are located in metropolitan areas with populations greater than 150,000, such as Houston and San Antonio, Texas. The store count and selling square footage by market area population are as follows:

| | Number of Stores 2011 Activity | Selling Square Footage (in thousands) 2011 Activity |
|--|--------------------------------------|---|
|--|--------------------------------------|---|

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| | January 29, 2011 | Net Additions (Closures) | January 28, 2012 | January 29, 2011 | Net Additions (Closures) | January 28, 2012 |
|-------------------------|------------------------|--------------------------------|---------------------|------------------------|--------------------------------|---------------------|
| Less than 50,000 | 510 | 23 | 533 | 8,512 | 293 | 8,805 |
| 50,000 to 150,000 | 146 | 6 | 152 | 3,068 | 121 | 3,189 |
| Greater than 150,000 | 130 | (2) | 128 | 3,101 | (32) | 3,069 |
| | 786 | 27 | 813 | 14,681 | 382 | 15,063 |

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In targeting small and mid-sized markets, the Company has developed a store format which is smaller than typical department stores yet large enough to offer a well-edited, but broad selection of merchandise. With an average store size of approximately 18,500 selling square feet, approximately 87% of the Company's stores are located in strip shopping centers in which they are typically one of the anchor stores. An additional 10% of the Company's stores are located in local or regional shopping malls, while the remaining 3% are located in either free standing or downtown buildings. The Company attempts to locate its stores by, or in the vicinity of, other tenants that it believes will help attract additional foot traffic to the area, such as grocery stores, drug stores or major discount stores such as Wal-Mart. Store count and selling square footage by store location/format are as follows:

| | Number of Stores | | | Selling Square Footage (in thousands) | | |
|-------------------------------------|------------------------|--------------------------------------|---------------------|---------------------------------------|--------------------------------------|---------------------|
| | January 29, 2011 | 2011 Activity Net Additions | January 28, 2012 | January 29, 2011 | 2011 Activity Net Additions | January 28, 2012 |
| Strip shopping centers | 685 | 21 | 706 | 12,413 | 257 | 12,670 |
| Local or regional shopping malls | 76 | 6 | 82 | 1,913 | 125 | 2,038 |
| Free-standing or downtown buildings | 25 | - | 25 | 355 | - | 355 |
| | 786 | 27 | 813 | 14,681 | 382 | 15,063 |

Store Openings. The cornerstone of the Company's growth strategy continues to be to identify locations in small and mid-sized markets that meet its demographic and competitive criteria. The Company believes that the long-term potential of its smaller markets is positive and wants to be well positioned in these markets with locations that are convenient to its customers.

During 2011, the number of new stores opened by state is as follows:

| State | Number of Stores |
|----------------|------------------------|
| Alabama | 4 |
| Connecticut | 1 |
| Florida | 1 |
| Georgia | 2 |
| Idaho | 1 |
| Indiana | 3 |
| Kansas | 4 |
| Louisiana | 2 |
| Mississippi | 3 |
| Missouri | 2 |
| New York | 2 |
| North Carolina | 1 |
| Oklahoma | 3 |
| Tennessee | 4 |
| Texas | 2 |

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| | |
|---------------|----|
| West Virginia | 1 |
| Wyoming | 1 |
| | 37 |

The Company believes that there are sufficient opportunities in small and mid-sized markets to continue with its new store growth into the foreseeable future. In 2012, the Company anticipates opening 30 to 35 new department stores and 25 to 30 new off-price stores.

Store Rebranding. The Company took advantage of the Goody's brand equity by rebranding 148 of its non-Goody's stores to the Goody's nameplate in 2011.

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Expansion, Relocation and Remodeling. In addition to opening new stores, the Company has continued to invest in the expansion, relocation and remodeling of its existing stores. The Company believes that remodeling keeps its stores looking fresh and up-to-date, which enhances its customers' shopping experience and helps maintain and improve its market share. Store remodeling projects can range from updating and improving in-store lighting, fixtures, wall merchandising and signage, to more extensive expansion projects. Relocations are intended to improve the store's location and to help it capitalize on incremental sales potential. During 2011, the Company relocated 3 stores, expanded a store and remodeled 11 stores.

Store Closures. The Company closed 10 stores during 2011. The Company continually reviews the trend of each store's performance and will close a store if the expected store performance does not support the required investment of capital at that location.

Competition

The retail industry is highly competitive. However, as a result of its small and mid-sized market focus, the Company generally faces less competition for its brand name merchandise since branded merchandise is typically available only in regional malls, which are normally located more than 30 miles away. In small and mid-sized markets where the Company does compete for brand name apparel sales, competition generally comes from local retailers, small regional chains and, to a lesser extent, national department stores. The Company believes it has a competitive advantage over local retailers and small regional chains due to its (i) broader selection of brand name merchandise, (ii) distinctive retail concept, (iii) economies of scale, (iv) strong vendor relationships and (v) private label credit card program. The Company also believes it has a competitive advantage in small and mid-sized markets over national department stores due to its experience with smaller markets. In addition, due to minimal merchandise overlap, the Company generally does not directly compete for branded apparel sales with national discounters such as Wal-Mart. In the highly competitive metropolitan markets where the Company competes against other national department store chains, the Company offers consumers a high level of customer service and the advantage of generally being in locations with convenient parking and easy access. In addition, over the years, the Company has endeavored to nurture customer loyalty and foster name recognition through loyalty and direct marketing programs.

Merchandising

The Company's merchandising strategy focuses on matching merchandise assortments and offerings with customers' aspirations for fashionable, quality brand name apparel. Further, care is taken to avoid duplication and to ensure in-stock position on size and color in all merchandise categories. The Company offers a well-edited selection of moderately priced, branded merchandise within distinct merchandise categories, such as women's, men's and children's apparel, as well as accessories, cosmetics and footwear.

The following table sets forth the distribution of net sales among the Company's various merchandise categories:

| Department | Fiscal Year | | |
|-------------------|-------------|------|------|
| | 2011 | 2010 | 2009 |
| Men's/Young Men's | 17 % | 17 % | 18 % |
| Misses Sportswear | 16 | 17 | 17 |
| Footwear | 13 | 12 | 12 |
| Children's | 12 | 12 | 12 |
| Junior Sportswear | 9 | 8 | 8 |
| Accessories | 8 | 8 | 8 |
| Cosmetics | 8 | 8 | 7 |

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| | | | |
|-------------------------------|-------|-------|-------|
| Special Sizes | 6 | 6 | 6 |
| Dresses | 4 | 5 | 5 |
| Intimates | 3 | 4 | 4 |
| Home & Gifts | 2 | 2 | 2 |
| Outerwear, Swimwear and Other | 2 | 1 | 1 |
| | 100 % | 100 % | 100 % |

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Merchandise selections range from basics, including denim, underwear and foundations, to more upscale and fashionable clothing offerings. Merchandise mix may also vary from store to store to accommodate differing demographic, regional and climatic characteristics. Approximately 90% of sales consist of nationally recognized brands such as Levi Strauss, Nike, Calvin Klein, Chaps, Izod, Dockers, Carters, Jockey, Estee Lauder, Clinique, Nautica, Skechers and New Balance, while the remaining 10% of sales consist of the Company's private label merchandise.

The Company's private label portfolio includes several brands, which are developed and sourced through its agreements with third party vendors. The Company's private label, exclusive and quasi-exclusive brands offer quality merchandise and excellent value. In 2012, the Company plans to introduce additional private label brands, such as Valerie Stevens, while growth is targeted for its Hannah and Rebecca Malone labels.

The Company is also focused on growing its cosmetics business. In 2011, the Company opened 10 Estee Lauder and 10 Clinique counters, bringing the total number of counters to 186 and 179, respectively. These new counters helped drive a comparable store sales increase of 9% in cosmetics for the year.

Merchandising activities are conducted from the Company's corporate headquarters in Houston, Texas (the "Houston Division"), from its South Hill, Virginia administrative offices (the "South Hill Division") and from its New York City, New York administrative offices (the "Steele's Division"). At January 28, 2012, the Houston Division was responsible for 490 stores, located primarily in the South Central, Southeastern, Southwestern and Northwestern states, which bear the nameplates of Bealls, Goody's, Palais Royal, Peebles or Stage. The South Hill Division was responsible for 320 stores, located primarily in the Mid Atlantic, Midwestern, Southeastern and Northeastern states, which bear the nameplates of Goody's, Peebles or Stage. The Steele's Division was responsible for 3 stores, located in the South Central states of Louisiana and Texas, which bear the nameplate of Steele's.

Merchandise Distribution

The Company currently distributes all merchandise to its stores through three distribution centers located in Jacksonville, Texas, South Hill, Virginia and Jeffersonville, Ohio. Incoming merchandise received at the distribution centers is inspected for quality control purposes. The Company has formal guidelines for vendors with respect to shipping and invoicing for merchandise. Vendors that do not comply with the guidelines are charged specified fees depending upon the degree of non-compliance. These fees are intended to be a deterrent to non-compliance, as well as to offset higher costs associated with the processing of such merchandise.

Integrated merchandising and warehouse management systems support all corporate and distribution center locations that support the stores. All of the Company's distribution centers are equipped with modern sortation equipment to support distribution of quantities to meet specific store needs. The configurations of the distribution centers permit daily shipments to stores, if needed, with the majority of stores receiving merchandise within two days of shipment from the distribution centers. The Company utilizes a third party contract carrier to deliver merchandise from the distribution centers to its stores.

Marketing Strategy

The Company's marketing strategy is designed to establish brand loyalty, convenience and promotional positioning to support each store's position as the local destination for basic and fashionable, moderately priced, brand name merchandise. The Company's marketing strategy leverages (i) emerging technology and trends in retail marketing, (ii) consumer insight from brand and customer research and (iii) identified customer purchase history to plan and execute targeted multi-channel marketing to its customers. In addition, the Company captures customer point-of-sale data on selected check, debit and other third party credit card transactions, as well as data from other affinity programs to

incorporate into its marketing and merchandising programs. In 2011, the Company captured customer data on approximately 66% of its sales. Through marketing sponsorship, the Company also encourages individual store-level involvement in local community activities.

The Company's primary target customers for its department stores are women who are generally 25 and older with annual household incomes over \$45,000, who, based on customer research, are shown to be the primary decision makers for their family's clothing purchases. The Company uses a multi-media advertising approach, including broadcast media, online digital media and local newspaper inserts. In addition, the Company promotes its private label credit card and attempts to create strong customer loyalty through continuous one-on-one communication with its core private label credit card holders.

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The Company's primary target customers for its off-price stores are women who are 18 to 35 years old, with annual household income of less than \$35,000, who the Company believes are motivated by brand and style, but limited by price. The off-price stores are significantly less promotional, with brand name family apparel, accessories, shoes and home décor offered at significant savings to department store prices. Ongoing marketing costs are much lower than the Company's department stores, with the majority of expenditures focused on driving brand awareness through broadcast media. Marketing to support Steele's grand openings is consistent with the Company's approach to its department stores with expenditures in broadcast media, local marketing, and promotional giveaways. Steele's accepts the same forms of tender as the Company's department stores, including a Steele's private label credit card.

Private Label Credit Card. The Company considers its private label credit card program to be an important component of its retailing concept because it (i) enhances customer loyalty, (ii) allows the Company to identify and regularly contact its best customers and (iii) creates a comprehensive database that enables the Company to implement detailed, segmented marketing and merchandising strategies for each store. Frequent private label credit card users, through the Company's VIP credit card program, enjoy an increasing array of benefits. The Company's most active charge customers are awarded a bronze, silver or gold VIP card based on their level of annual purchases. Depending on their level, holders of these cards receive such benefits as discounted or free gift-wrapping, special promotional discounts and invitations to private "VIP Only" sales. In addition, new holders of the Company's credit card receive a 10% discount the first time they use their new card. To encourage associates to focus on getting customers to open new Company credit card accounts, the Company provides increasing incentive award payments based on the number of new private label credit card accounts activated. The penetration rate for the Company's private label credit card was approximately 32%, 32% and 33% of net sales in 2011, 2010 and 2009, respectively.

Enhanced Visual Merchandising and In-store Shopping Strategies. The Company has undertaken a number of initiatives designed to enhance its customers' in-store shopping experience and to make its stores more visually appealing. The Company's typical interior store layouts and visual merchandising displays are designed to create a friendly, modern department store environment. The Company's carefully edited assortment of merchandise is divided into distinct departments within each store which are clearly marked and easy to navigate as a result of the Company's standard "racetrack" configuration. In this configuration, the various merchandise departments are situated throughout the store in such a way that a central loop, or "racetrack," is created, which the Company believes enhances the customer's shopping experience by providing an open, easy-to-shop interior. Another aspect of the in-store shopping experience is convenience, which includes convenient parking, knowledgeable staff, and fast and friendly checkouts. The Company also continues to invest in impactful, updated visual trend collateral and enhanced brand identification throughout the store.

Customer Service Initiatives. A primary corporate objective is to provide exceptional customer service through conveniently located stores staffed with well-trained and motivated sales associates. In order to ensure consistency of execution, each sales associate is evaluated based on the attainment of specific customer service standards, such as offering prompt and knowledgeable assistance, suggesting complementary items, helping customers open private label credit card accounts and establishing consistent contact with customers to facilitate repeat business. The Company also conducts customer satisfaction surveys to measure and monitor attainment of customer service expectations. The results of customer surveys are frequently discussed with the appropriate sales associates so that excellent service can be recognized and, conversely, counseling can be used if improvements are needed. To further reinforce the Company's focus on customer service, the Company has various programs in place to recognize associates for providing outstanding customer service. Further, senior management, store operations and merchandising personnel regularly visit the stores to enhance their knowledge of the trade area, store management and customer base. For span-of-control purposes, the Company's stores are divided into distinct regions and districts, as previously discussed. The number of stores that each District Manager oversees depends on their proximity to each other and generally varies from a low of 8 stores to a high of 17 stores. Each store is managed by a team consisting of a Manager and a number of Assistant Managers, determined by the size of the store. The selling floor staff within each

store consists of both full-time and part-time associates, with temporary associates added during peak selling seasons. The Company believes that this structure provides an appropriate level of oversight, management and control over its store operations.

Information Systems

The Company supports its retail concepts by using multiple, highly integrated systems in areas such as merchandising, store operations, distribution, sales promotion, personnel management, store design and accounting. The Company's core merchandising systems assist in planning, ordering, allocating and replenishing merchandise assortments for each store, based on specific characteristics and recent sales trends. The price change management system allows the

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Company to identify and mark down slow moving merchandise. The replenishment/fulfillment system allows the Company to maintain planned levels of in-stock positions in basic items such as jeans and underwear. In addition, a fully integrated warehouse management system is in place in all three distribution centers.

The Company has also installed a markdown optimization tool, which is focused on pricing items on a style-by-style basis at the appropriate price, based on inventory levels and sales history, in order to maximize revenue and profitability. The Company continues to expand the utilization and effectiveness of its merchandise planning system in order to maximize the generation of sales and gross margin.

The Company utilizes a point-of-sale (“POS”) platform with bar code scanning, electronic credit authorization, instant credit, returns database and gift card processing in all its stores. The POS platform allows the Company to capture customer specific sales data for use in its merchandising, marketing and loss prevention systems, while quickly servicing its customers. The POS platform also manages coupon management and deal-based pricing, which streamlines the checkout process and improves store associate adherence to promotional markdown policies. The Company also utilizes an automated store personnel scheduling system that analyzes historical sales trends to schedule sales staff to match customer traffic patterns, thereby minimizing store labor costs. In 2011, the Company enhanced the system to manage the routing of eCommerce and store orders based upon fulfillment store locations and availability of inventory. The enhancements allow the Company to more effectively and efficiently fulfill the growing orders in eCommerce.

In 2010, the Company undertook the development of its eCommerce platform, which was officially launched on November 30, 2010. The eCommerce website makes its merchandise more accessible to consumers across the country, provides existing customers with an on-line shopping experience and allows the opportunity to introduce the Company to a new customer base. The Company anticipates that its eCommerce initiative will continue to drive incremental sales as total eCommerce sales were \$8.6 million for 2011.

Employees

At January 28, 2012, the Company employed approximately 14,000 hourly and salaried employees. Employee levels will vary during the year as the Company traditionally hires additional employees, and increases the hours of part-time employees, during peak seasonal selling periods. There are no collective bargaining agreements in effect with respect to any of the Company’s employees. The Company believes that it maintains a good relationship with its employees.

Seasonality

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 as well and generally reach their highest levels during the third and fourth quarters.

Trademarks

The Company regards its trademarks and their protection as important to its success. In addition to the Bealls, Goody’s, Palais Royal, Peebles and Stage trademarks, the United States Patent and Trademark Office (the “USPTO”) has issued federal registrations to the Company for the following trademarks: Accessory Crossing, Baxter & Wells, Cape Classic, Cape Classic LTD, Casual Options, Choose To Be You, Denim Planet, Goody’s 4 Shoes, Goodclothes and Design, Goody’s and design, Goody’s Family Clothing, Goody’s It’s All About You, Goody’s Family Clothing (and

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design), Graphite, Hannah, Ivy Crew, Kid Crew, Meherrin River Outfitters, Mistletoe Mountain, Mountain Lake, Old College Inn, On Stage, Pebblebrook, Private Expressions, Rebecca Malone, Signature Studio, Specialty Girl, Specialty Baby, Sun River Clothing Co., Take A Good Look, Thomas & Ashmore, Whispers, Wishful Park, www.goodysonline.com, Y.E.S. Your Everyday Savings and Your Everyday Y.E.S. Savings Brands Value Quality. The Company has also filed applications with the USPTO seeking federal registrations for the following trademarks: Christopher Chen Collections, Hannah Comfort, H.O.M.E Helping Our Military and Environment, Mad Money, One Bag Can Make A Difference, Steele's, The Big Event and Valerie Stevens.

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Available Information

The Company makes available, free of charge, through its website, among other things, corporate governance documents, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after they have been electronically filed with the Securities and Exchange Commission (“SEC”). They can be obtained by accessing the Company’s website at www.stagestoresinc.com and clicking on “Investor Relations.” To access corporate governance documents, click “Corporate Governance” and to access SEC filings, click “SEC Filings,” then the report to be obtained. Information contained on the Company’s website is not part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Forward Looking Statements

Certain statements in this Form 10-K contain or may 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” or similar words.

Forward-looking statements are based on various assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, the ability of the Company and its subsidiaries to maintain normal trade terms with vendors, the ability of the Company and its subsidiaries to comply with the various covenant requirements contained in the Company’s Revolving Credit Facility, 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 merchandise 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 carefully review this Form 10-K in its entirety, including but not limited to the Company’s financial statements and the accompanying notes, and the risks and uncertainties described in this Item 1A. Readers should consider the risks and uncertainties described in any forward-looking statement contained in this Form 10-K. Forward-looking statements contained in this Form 10-K are made as of the date of this Form 10-K. The Company does not undertake to update its forward-looking statements.

Described below are certain risk factors that management believes are applicable to the Company’s business and the industry in which it operates. There may also be additional risks that are presently not material or are unknown.

An economic downturn or decline in consumer confidence could negatively impact the Company's business and financial condition. The Company’s results of operations are sensitive to changes in general economic conditions that

impact consumer discretionary spending, such as employment levels, energy and gasoline prices and other factors influencing consumer confidence. The Company has extensive operations in the South Central, Southeastern and Mid Atlantic states. In addition, many stores are located in small towns and rural environments that are substantially dependent upon the local economy. If there is an economic downturn or decline in consumer confidence, particularly in the South Central, Southeastern and Mid Atlantic states and any state (such as Texas or Louisiana) from which the Company derives a significant portion of its net sales, the Company's business, financial condition and cash flows will be negatively impacted and such impact could be material.

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There can be no assurance that the Company's liquidity will not be affected by changes in economic conditions. The Company believes that the macroeconomic environment will continue to be difficult and that it will face highly promotional market conditions. Recent economic conditions have not had, nor does the Company anticipate that current economic conditions will have, a significant impact on its liquidity. Due to the Company's significant operating cash flow and availability under its Revolving Credit Facility, the Company continues to believe that it has the ability to meet its financing needs for the foreseeable future. However, there can be no assurance that the Company's liquidity will not be materially and adversely affected by changes in economic conditions.

The Company faces the risk of significant competition in the retail apparel industry which could result in the loss of customers and adversely affect revenues. The retail apparel business is highly competitive. Although competition varies widely from market to market, the Company faces the risk of increased competition, particularly in its more highly populated markets from national, regional and local department and specialty stores. Some of its competitors are considerably larger than the Company and have substantially greater resources. Although the Company offers a unique product mix and brands that are not available at certain other retailers, including regional and national department stores, there is no assurance that the Company's existing or new competitors will not carry similar branded merchandise in the future. This could have a material and adverse effect on the Company's business, financial condition and cash flows. In addition to traditional store-based retailers, the Company also faces competition from the Internet business, which could materially affect its revenues and profitability.

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

The Company is highly dependent upon cash flows and net earnings generated during the fourth quarter, which includes the holiday season. 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 as well and generally reach their highest levels during the third and fourth quarters.

Unusual weather patterns or natural disasters, whether due to climate change or otherwise, could negatively impact the Company's financial condition. The Company's business depends, in part, on normal weather patterns across the Company's markets. The Company is susceptible to unseasonable or extreme weather conditions, including natural disasters, such as hurricanes and tornadoes in its markets. Any such unusual or prolonged weather patterns in the Company's markets, especially in states such as Texas and Louisiana, whether due to climate change or otherwise, could have a material and adverse impact on its business, financial condition and cash flows. In addition, the Company's business, financial condition and cash flow could be adversely affected if the businesses of our key vendors and their merchandise manufacturers, shippers, carriers and other merchandise transportation service providers, especially those outside the United States, are disrupted due to severe weather, such as, but not limited to, hurricanes, tornadoes or floods, whether due to climate change or otherwise.

Climate change and government laws and regulations related to climate change could negatively impact the Company's financial condition. In addition to other climate-related risks set forth in this "Risk Factors" section, the Company is and will be, directly and indirectly, subject to the effects of climate change and may, directly or indirectly, be affected by government laws and regulations related to climate change. The Company cannot predict,

with any degree of certainty, what effect, if any, climate change and government laws and regulations related to climate change will have on the Company and its operations, whether directly or indirectly. While we believe that it is difficult to assess the timing and effect of climate change and pending legislation and regulation related to climate change on the Company's business, we believe that climate change and government laws and regulations related to climate change may affect, directly or indirectly, (i) the cost of the merchandise we purchase, (ii) the timeliness of delivery and the cost of transportation paid by the Company and the Company's vendors and other providers of merchandise, (iii) insurance premiums, deductibles and the availability of coverage, and (iv) the cost of utilities paid by the Company. In addition, climate change may increase the likelihood of

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property damage and the disruption of our operations, especially in stores located in coastal states. As a result, our financial condition could be negatively impacted and that impact could be material.

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

Government laws and regulations could adversely impact the Company's business, financial condition and cash flows. The Company, like other businesses, is subject to various federal, state and local government laws and regulations including, but not limited to, tax laws. These may change periodically in response to economic or political conditions. The Company cannot predict whether existing laws or regulations, as currently interpreted or as reinterpreted in the future, or future laws and regulations, could materially and adversely affect the results of its operations, financial condition and cash flows.

The Company's failure in the pursuit or execution of new acquisitions or strategic expansion could adversely affect its business. The success of the Company's expansion strategy depends upon many factors, including its ability to obtain suitable sites for new stores at acceptable costs, to hire, train and retain qualified personnel and to integrate new stores into existing information systems and operations. The Company cannot guarantee that it will reach its targets for opening new stores or that such stores, including those opened through acquisition, will operate profitably when opened. Failure to effectively implement its expansion strategy could have a material and adverse effect on its business, financial condition and cash flows.

The Company's failure to obtain merchandise product on normal trade terms and/or its inability to pass on any price increases related to its merchandise could adversely impact its business, financial condition and cash flows. The Company is highly dependent on obtaining merchandise product on normal trade terms. Failure to meet its performance objectives could cause key vendors and factors to become more restrictive in granting trade credit. The tightening of credit, such as a reduction in the Company's lines of credit or payment terms from the vendor or factor community, could have a material adverse impact on the Company's business, financial condition and cash flows. The Company is also highly dependent on obtaining merchandise at competitive and predictable prices. In the event the Company experiences rising prices related to its merchandise, whether due to cost of materials, inflation, transportation costs, or otherwise, and it is unable pass on those rising prices to its customers, its business, financial condition and cash flows could be adversely and materially affected.

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

A disruption of the Company's information technology systems could have a material adverse impact on its business and financial condition. The Company is heavily dependent on its information technology systems for day to day business operations. In addition, as part of the Company's normal course of business, it collects, processes and retains sensitive and confidential customer information. Today's information technology risks are largely external and their

consequences could affect the entire Company. Potential risks include, but are not limited to, the following: (i) an intrusion by a hacker, (ii) the introduction of malware (virus, Trojan, spyware), (iii) hardware failure, (iv) outages due to software defects and (v) human error. Although the Company runs anti-virus and anti-spyware software and takes other steps to ensure that its information technology systems will not be disabled or otherwise disrupted, there are no assurances that disruptions will not occur. The consequences of a disruption, depending on the severity, could have a material adverse affect on the Company's business and financial condition and could expose the Company to civil, regulatory and industry actions and possible judgments, fees and fines. In addition, any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer information could severely damage the Company's reputation, expose it to

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the risks of legal proceedings, disrupt its operations and otherwise adversely affect the Company's business and financial condition. While the Company has taken significant steps to protect customer and confidential information, there is no assurance that advances in computer capabilities, new discoveries in the field of cryptography, or other developments will prevent the compromise of customer transaction processing capabilities and personal data. If any such compromise of the Company's information security were to occur, it could have a material adverse effect on the Company's reputation, business, operating results, financial condition and cash flows.

The Company's eCommerce platform provides another channel to generate sales. The Company anticipates that the website will drive incremental sales, provide existing customers the on-line shopping experience and also provide the opportunity to introduce the Company to a new customer base. If the Company does not successfully meet the challenges of operating a website or fulfilling customer expectations, the Company's business and sales could be adversely affected.

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

The inability or unwillingness of one or more lenders to fund their commitment under the Company's Revolving Credit Facility could have a material adverse impact on the Company's business and financial condition. The Company's Revolving Credit Facility, which matures on June 30, 2016, is a \$250.0 million senior secured revolving credit facility that 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, interest payments and other general corporate purposes, as well as to support its outstanding letters of credit requirements. The lenders under the Revolving Credit Facility are as follows: Bank of America, N.A., Wells Fargo Bank, National Association, JPMorgan Chase Bank, N.A. and Regions Bank (collectively, the "Lenders"). Notwithstanding that the Company may be in full compliance with all covenants contained in the Revolving Credit Facility, the inability or unwillingness of one or more of those lenders to fund their commitment under the Company's Revolving Credit Facility could have a material adverse impact on the Company's business and financial condition unless the Lenders or another lender covered any shortfall.

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

Risks associated with the Company's carriers, shippers and other providers of merchandise transportation services could have a material adverse effect on its business and financial condition. The Company's vendors rely on shippers, carriers and other merchandise transportation service providers (collectively "Transportation Providers") to deliver merchandise from their manufacturers, both in the United States and abroad, to the vendors' distribution centers in the United States. Transportation Providers are also responsible for transporting merchandise from their vendors' distribution centers to the Company's distribution centers. The Company also relies on Transportation Providers to

transport merchandise from its distribution centers to its stores and to its customers in the case of eCommerce sales. However, if work slowdowns, stoppages, weather or other disruptions affect the transportation of merchandise between the vendors and their manufacturers, especially those manufacturers outside the United States, between the vendors and the Company, or between the Company and its eCommerce customers, the Company's business, financial condition and cash flows could be adversely affected.

Risks associated with the Company's vendors from whom its products are sourced could have a material adverse effect on its business and financial condition. The Company's merchandise is sourced from a variety of domestic and international vendors. All of the Company's vendors must comply with applicable laws, including the Company's required standards of conduct. Political or financial instability, trade restrictions, tariffs, currency exchange rates, transport

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capacity and costs and other factors relating to foreign trade, the ability to access suitable merchandise on acceptable terms and the financial viability of its vendors are beyond the Company's control and could adversely impact its performance.

Any devaluation of the Mexican peso, or imposition of restrictions on the access of citizens of Mexico to the Company's stores could adversely impact the Company's business and financial condition. Approximately 3% of the Company's stores are located in cities that either border Mexico or are in close proximity to Mexico. The Company estimates that approximately 7% of its 2011 sales were derived from these stores. While purchases in these stores are made in United States dollars, a devaluation of the Mexican peso could reduce the purchasing power of those customers who are citizens of Mexico. In such an event, revenues attributable to these stores could be reduced. In addition, due to global uncertainties, including threats, acts of terrorism or Mexican border violence, it is possible that tighter restrictions may be imposed by the Federal and State governments on the ability of citizens of Mexico to cross the border into the United States. In that case, revenues attributable to the Company's stores regularly frequented by citizens of Mexico could be reduced.

The Company's failure to attract, develop and retain qualified employees could deteriorate the results of its operations. The Company's performance is dependent on attracting and retaining a large and growing number of employees. The Company believes that its competitive advantage is providing well-trained and motivated sales associates in order to provide customers exceptional customer service. The Company's success depends in part upon its ability to attract, develop and retain a sufficient number of qualified associates, including store, service and administrative personnel.

The Company's failure to successfully implement Steele's could adversely impact the Company's business and financial condition. In November 2011, the Company launched Steele's, its new off-price concept for small town America. As of January 28, 2012, the Company had opened 3 Steele's stores in 2 states. The Company plans to open between 25 and 30 additional new Steele's stores in 2012. While the Company's research indicates that there is significant growth potential in the under-served small market off-price niche and while the Company believes that its solid balance sheet and strong cash flows provide it with the financial flexibility to accelerate its growth with the launch of Steele's, there can be no assurance that Steele's will be successful. The Company's failure to successfully implement Steele's could adversely impact the Company's business and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company's corporate headquarters and Houston Division merchandising offices are located in a leased 130,000 square-foot building in Houston, Texas. The Company owns the 28,000 square-foot office building housing the administrative and merchandising offices for the South Hill Division, which is located in South Hill, Virginia. The Steele's Division's administrative and merchandising offices are located in a leased 3,000 square-foot suite in New York City, New York.

The Company owns its distribution centers in Jacksonville, Texas and South Hill, Virginia, and leases its third distribution center in Jeffersonville, Ohio. The Company's Jacksonville distribution center has approximately 437,000 square feet of processing area and is capable of servicing 600 stores, the South Hill distribution center has

approximately 162,000 square feet of processing area and is capable of servicing 240 stores, and the Jeffersonville distribution center has approximately 202,000 square feet of processing area and is capable of servicing 310 stores.

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The Company's stores, of which all but 3 are leased, are primarily located in strip shopping centers. The majority of leases, which are typically for a 10-year term and often with 2 renewals of five years each, provide for a base rent plus payments for expenses incurred by the landlord, such as common area maintenance and insurance. Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on a percentage of sales that are in excess of a predetermined level. Stores range in size from approximately 5,000 to 54,000 selling square feet, with the average being approximately 18,500 selling square feet. At January 28, 2012, the Company operated 813 stores, located in 40 states within 7 regions, as follows:

| | Number of Stores | | Number of Stores |
|------------------------|------------------------|---------------------|------------------------|
| South Central Region | | Midwestern Region | |
| Arkansas | 24 | Illinois | 4 |
| Louisiana | 57 | Indiana | 24 |
| Oklahoma | 37 | Iowa | 3 |
| Texas | 234 | Kansas | 11 |
| | 352 | Michigan | 14 |
| Mid Atlantic Region | | Minnesota | 2 |
| Delaware | 3 | Missouri | 18 |
| Kentucky | 30 | Wisconsin | 4 |
| Maryland | 6 | | 80 |
| New Jersey | 6 | Northeastern Region | |
| Ohio | 25 | Connecticut | 2 |
| Pennsylvania | 28 | Massachusetts | 2 |
| | | New Hampshire | 2 |
| Virginia | 35 | | |
| West | | New York | 16 |
| Virginia | 10 | Vermont | 4 |
| | 143 | | |
| Southeastern Region | | | 26 |
| Alabama | 27 | Northwestern Region | |
| Florida | 5 | Idaho | 3 |
| Georgia | 34 | Oregon | 2 |
| Mississippi | 23 | Wyoming | 1 |
| North | | | |
| Carolina | 24 | | 6 |
| South | | | |
| Carolina | 22 | Total Stores | 813 |
| Tennessee | 35 | | |
| | 170 | | |
| Southwestern Region | | | |
| Arizona | 9 | | |
| Colorado | 5 | | |
| Nevada | 1 | | |
| New Mexico | 18 | | |
| Utah | 3 | | |
| | 36 | | |

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The Company's stock trades on the New York Stock Exchange under the symbol "SSI." The following table sets forth the high and low market prices per share of the Company's common stock for each quarter in 2011 and 2010 as reported by the New York Stock Exchange:

| | Fiscal Year | | | |
|-------------|-------------|----------|----------|----------|
| | 2011 | | 2010 | |
| | High | Low | High | Low |
| 1st Quarter | \$ 19.97 | \$ 15.44 | \$ 16.47 | \$ 12.16 |
| 2nd Quarter | 19.39 | 14.07 | 16.03 | 10.14 |
| 3rd Quarter | 18.15 | 12.18 | 13.96 | 10.00 |
| 4th Quarter | 16.36 | 11.21 | 17.99 | 13.10 |

Holders

As of March 21, 2012, there were 328 holders of record of the Company's common stock.

Dividends

The Company paid quarterly cash dividends in 2011 and 2010 of \$11.0 million and \$9.5 million, respectively. On June 13, 2011, the Company announced that its Board of Directors (the "Board") approved a 20% increase in the Company's quarterly cash dividend rate to 9 cents per share from the previous quarterly rate of 7.5 cents per share. The new quarterly dividend rate of 9 cents per share is applicable to dividends declared after June 22, 2011. On February 22, 2012, the Company announced that the Board declared a quarterly cash dividend of 9 cents per share on the Company's common stock, payable on March 21, 2012 to shareholders of record at the close of business on March 6, 2012.

While the Company expects to continue payment of quarterly cash dividends, the declaration and payment of future dividends by the Company are subject to the discretion of the Board. Any future determination to pay dividends will depend on the Company's results of operations and financial condition, as well as meeting certain criteria under its Revolving Credit Facility (as defined in "Liquidity and Capital Resources") and other factors deemed relevant by the Board.

Performance Graph

The annual changes for the five-year period shown in the following graph are based on the assumption that \$100 had been invested in Stage Stores stock, the S&P 500 Index and the S&P 500 Retail Index on February 2, 2007 (the last trading date of fiscal 2006), and that all quarterly dividends were reinvested at the average of the closing prices at the beginning and end of the quarter. The total cumulative dollar returns shown on the graph represent the value that such investments would have had on January 27, 2012 (the last trading date of fiscal 2011). The calculations exclude

trading commissions and taxes.

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| Date | Stage Stores, Inc. | S&P 500 Index | S&P 500 Retail Index |
|-----------|--------------------|---------------|----------------------|
| 2/2/2007 | \$100.00 | \$100.00 | \$100.00 |
| 2/1/2008 | 57.97 | 96.34 | 80.76 |
| 1/30/2009 | 33.10 | 57.02 | 49.47 |
| 1/29/2010 | 60.85 | 74.14 | 75.66 |
| 1/28/2011 | 75.43 | 88.12 | 94.92 |
| 1/27/2012 | 77.29 | 90.88 | 106.21 |

Stock Repurchase Program

On March 8, 2011, the Company announced that the Board approved a new stock repurchase program, which authorized the Company to repurchase up to \$200.0 million of its outstanding common stock (the “2011 Stock Repurchase Program”) from time to time, either on the open market or through privately negotiated transactions. During 2011, the Company spent \$100.0 million under the 2011 Stock Repurchase Program to repurchase approximately 6.1 million shares of its common stock. The Company has \$100.0 million remaining under the 2011 Stock Repurchase Program and intends to complete the 2011 Stock Repurchase Program by the end of 2013.

The Board has also granted the Company the authority to repurchase additional amounts of its outstanding common stock using available proceeds from the exercise of stock options, as well as the tax benefits that accrue to the Company from the exercise of stock options, stock appreciation rights (“SARs”) and from other equity grants. During 2011, the Company repurchased approximately 0.7 million shares for \$10.0 million using proceeds from these sources. At January 28, 2012, approximately \$0.3 million was available to the Company for stock repurchases using proceeds from the exercise of employee stock options and SARs.

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The following table is a summary of stock repurchase activity during the fourth quarter of 2011:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | 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 |
|--|----------------------------------|------------------------------|--|--|
| October 30, 2011 to November 26, 2011 | 3,456 | \$ 14.01 | 3,456 | \$ 100,000,008 |
| November 27, 2011 to December 31, 2011 | - | - | - | 100,000,008 |
| January 1, 2012 to January 28, 2012 | - | - | - | 100,000,008 |
| Total | 3,456 | \$ 14.01 | 3,456 | |

The table above does not include shares acquired from employees in lieu of amounts required to satisfy minimum tax withholding requirements upon the vesting of employee non-vested stock and performance shares, and shares related to the Company's deferred compensation plan's stock investment option.

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ITEM 6. SELECTED FINANCIAL DATA

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

| | Fiscal Year | | | | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|---|------|---|------|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 | | | | | |
| Statement of operations data: | | | | | | | | | | |
| Net sales | \$ 1,511,919 | \$ 1,470,590 | \$ 1,431,927 | \$ 1,515,820 | \$ 1,545,606 | | | | | |
| Cost of sales and related buying, occupancy and distribution expenses | 1,101,319 | 1,053,766 | 1,040,120 | 1,106,236 | 1,100,892 | | | | | |
| Gross profit | 410,600 | 416,824 | 391,807 | 409,584 | 444,714 | | | | | |
| Selling, general and administrative expenses | 353,834 | 350,865 | 338,551 | 351,246 | 350,248 | | | | | |
| Store opening costs | 5,670 | 3,192 | 3,041 | 6,479 | 4,678 | | | | | |
| Goodwill impairment (1) | - | - | - | 95,374 | - | | | | | |
| Interest expense, net | 3,821 | 3,875 | 4,388 | 5,216 | 4,792 | | | | | |
| Income (loss) before income tax | 47,275 | 58,892 | 45,827 | (48,731) | 84,996 | | | | | |
| Income tax expense | 16,315 | 21,252 | 17,106 | 16,804 | 31,916 | | | | | |
| Net income (loss) | \$ 30,960 | \$ 37,640 | \$ 28,721 | \$ (65,535) | \$ 53,080 | | | | | |
| Basic earnings (loss) per common share | \$ 0.93 | \$ 1.00 | \$ 0.76 | \$ (1.71) | \$ 1.27 | | | | | |
| Basic weighted average common shares outstanding | 33,021 | 37,656 | 38,029 | 38,285 | 41,764 | | | | | |
| Diluted earnings (loss) per common share | \$ 0.92 | \$ 0.99 | \$ 0.75 | \$ (1.71) | \$ 1.24 | | | | | |
| Diluted weighted average common shares outstanding | 33,278 | 38,010 | 38,413 | 38,285 | 42,720 | | | | | |
| Margin and other data: | | | | | | | | | | |
| Gross profit margin | 27.2 | % | 28.3 | % | 27.4 | % | 27.0 | % | 28.8 | % |
| Selling, general and administrative expense rate | 23.4 | % | 23.9 | % | 23.6 | % | 23.2 | % | 22.7 | % |
| Capital expenditures | \$ 45,731 | \$ 36,990 | \$ 42,707 | \$ 99,841 | \$ 95,311 | | | | | |

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| | | | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|---------|---------|
| Construction allowances from landlords | 4,499 | 5,476 | 3,875 | 17,536 | 18,765 | | |
| Stock repurchases | 110,919 | 31,976 | 1,327 | 9,060 | 112,597 | | |
| Cash dividends per share | 0.33 | 0.25 | 0.20 | 0.20 | 0.20 | | |
| Store data: | | | | | | | |
| Comparable store sales growth (decline) | 0.5 | % | 0.2 | % | (7.9 %) | (6.1 %) | (1.1 %) |
| Store openings | 37 | | 33 | | 28 | 56 | 47 |
| Store closings | 10 | | 5 | | 9 | 11 | 8 |
| Number of stores open at end of period | 813 | | 786 | | 758 | 739 | 694 |
| Total selling area square footage at end of period | 15,063 | | 14,681 | | 14,077 | 13,730 | 12,929 |
| | January 28, 2012 | January 29, 2011 | January 30, 2010 | January 31, 2009 | February 2, 2008 | | |
| Balance sheet data: | | | | | | | |
| Working capital | \$ 213,700 | \$ 262,100 | \$ 244,153 | \$ 201,971 | \$ 236,038 | | |
| Total assets | 735,339 | 796,084 | 800,431 | 768,043 | 871,490 | | |
| Debt obligations | 49,503 | 38,492 | 51,218 | 57,012 | 100,594 | | |
| Stockholders' equity | 412,706 | 489,509 | 476,046 | 450,003 | 520,846 | | |

(1) In fiscal year 2008, as a result of the decline in market capitalization and other factors, the Company recorded a one-time goodwill impairment charge of \$95.4 million to write-off the carrying value of the Company's goodwill.

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ITEMMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
7. OPERATIONS

Executive Summary

Stage Stores, Inc. (the "Company" or "Stage Stores") is a Houston, Texas-based retailer, which operates both department stores and off-price stores. Its department stores, which operate under the Bealls, Goody's, Palais Royal, Peebles and Stage nameplates, offer moderately priced, nationally recognized brand name and private label apparel, accessories, cosmetics and footwear for the entire family. Its off-price stores, which are called Steele's, offer brand name family apparel, accessories, shoes and home décor at significant savings to department store prices. The Company also has an eCommerce website.

The Company's principal focus is on consumers in small and mid-sized markets which the Company believes are under-served and less competitive. In those small town markets where it operates a department store and an off-price store, the Company targets a different customer for each store and, therefore, believes that customer overlap between the two formats is minimal. At January 28, 2012, the Company operated 813 stores located in 40 states, 65% of which are in small markets with populations of less than 50,000 people.

Fiscal 2011

During 2011, the Company's core moderate income customers continued to experience economic pressures and were motivated by price, which created a highly promotional environment. In response, the Company stepped up its promotional activities, which resulted in lower merchandise margins. Overall, total sales for the year were \$1,511.9 million, an increase of 2.8% from the prior year and comparable store sales increased 0.5%. SG&A expenses achieved a 50 basis point improvement in the rate, while operating 27 net additional stores. The Company also prudently managed inventory levels and ended the year with comparable store inventories up 1.7%. The Company's strong balance sheet and cash flow allowed the Company to increase its quarterly dividend rate by 20% and spend \$110.0 million to repurchase 6.8 million shares of its common stock.

Operationally, the Company continued to make progress on a number of its strategic initiatives during 2011. The Company opened 28 new Goody's stores, rebranded 148 non-Goody's stores with the Goody's name and ended the year with 243 Goody's stores. The Company added 10 Estee Lauder and 10 Clinique counters throughout the year, which helped drive a comparable store sales increase of 9% in cosmetics. During the year, the Company moved forward on the development of an off-price concept, with the goal to leverage its small market expertise with a complementary format to its department store model. Steele's, its off-price concept, was launched November 1, 2011 with the opening of three stores. The Company also expanded its eCommerce business in 2011 as the number of offerings on the eCommerce website has grown from less than 1,000 products at the beginning of the year to approximately 13,200 products at January 28, 2012. Total eCommerce sales reached \$8.6 million for 2011. The Company also completed the roll-out of its markdown optimization tool.

Fiscal 2012 Outlook and Trends

The Company's strategy in 2012 will be focused on building on its 2011 achievements and pursuing growth in sales, operating margin and earnings. In 2012, the Company plans additional new store growth in under-served, small markets in accordance with its business model and expects to open 25 to 30 off-price stores and 30 to 35 department stores. Further, the Company will continue its commitment to providing superior customer service and compelling merchandise assortments within existing product categories in an effort to grow the Company's share of business with its core customers and improve the in-store shopping experience. The Company expects to benefit from moderate

improvements in the economy and from reduced cost pressures in the second half of 2012, while maintaining strong control over inventories and expenses.

The financial information, discussion and analysis that follow should be read in conjunction with the Company's Consolidated Financial Statements included elsewhere herein.

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Results of Operations

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

| | 2011 | | Fiscal Year (1) 2010 | | 2009 | |
|---|-------|---|-------------------------|---|-------|---|
| Net sales | 100.0 | % | 100.0 | % | 100.0 | % |
| Cost of sales and related buying, occupancy and distribution expenses | 72.8 | | 71.7 | | 72.6 | |
| Gross profit | 27.2 | | 28.3 | | 27.4 | |
| Selling, general and administrative expenses | 23.4 | | 23.9 | | 23.6 | |
| Store opening costs | 0.4 | | 0.2 | | 0.2 | |
| Interest expense, net | 0.3 | | 0.3 | | 0.3 | |
| Income before income tax | 3.1 | | 4.0 | | 3.2 | |
| Income tax expense | 1.1 | | 1.4 | | 1.2 | |
| Net income | 2.0 | % | 2.6 | % | 2.0 | % |

(1) Percentages may not foot due to rounding.

2011 Compared to 2010

Sales for 2011 increased 2.8% to \$1,511.9 million from \$1,470.6 million for 2010. The sales increase was driven primarily by the strength of the Company's new stores. Comparable store sales, which are sales in stores that are open for at least 14 full months prior to the reporting period, increased by 0.5% in the current year. This compares to a 0.2% increase in comparable store sales in the prior year. In 2011, comparable stores sales increased \$7.4 million, while non-comparable store sales increased \$23.1 million, driven primarily by the net increase of 27 additional stores. The 0.5% increase in comparable store sales for 2011 reflects a combination of a 1.7% increase in the number of transactions, a decrease of 1.3% in average unit retail and an increase of 0.1% in units per transaction.

Comparable store sales increase (decrease) by quarter is presented below:

| | Fiscal Year | |
|-------------|-------------|--------|
| | 2011 | 2010 |
| 1st Quarter | 0.2% | (0.6)% |
| 2nd Quarter | 0.9 | (1.6) |
| 3rd Quarter | (0.6) | (0.3) |
| 4th Quarter | 1.3 | 2.5 |
| Total Year | 0.5 | 0.2 |

On a merchandise category basis, the Company experienced comparable store sales increases in a number of key merchandise categories (i.e., those categories comprising greater than 5% of sales). Footwear, children's, cosmetics and junior sportswear all had comparable store sales gains in 2011. The Company continues to grow its cosmetics line of business through the installation of Estee Lauder and Clinique counters, as 10 new Estee Lauder and 10 new Clinique counters were opened during the fiscal year, which raised the total number of counters to 186 and 179, respectively.

On a market population basis, utilizing a ten-mile radius from each store, the Company's small market stores (those in market areas with populations of less than 50,000) outperformed stores in its mid-sized (those in market areas with populations of 50,000 to 150,000) and large markets (those in market areas with populations greater than 150,000) in 2011. Comparable store sales increased 1.1% in its small market stores, were flat in its mid-sized market stores and decreased 1.6% in its large market stores. The small markets continue to be the focus of the Company's new store expansion plans, as stores in these markets have consistently outperformed stores in mid-sized and large markets.

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The following is a summary of the changes in the components of cost of sales between 2011 and 2010, expressed as a percent of sales:

| | Increase (Decrease) in the Components of Cost of Sales |
|--|--|
| Merchandise cost of sales rate | 1.4 % |
| Buying, occupancy and distribution expenses rate | (0.3) |
| Cost of sales rate | 1.1% |

Gross profit in 2011 was \$410.6 million, a decrease of 1.5% from \$416.8 million in 2010. Gross profit, as a percent of sales, was 27.2% in 2011 and 28.3% in 2010. The increase in the merchandise cost of sales rate is reflective of higher product costs in the fall, increased markdowns due to the continuing promotional environment and the Company's efforts to drive business and manage its inventory levels. The decrease in buying, occupancy and distribution expenses rate was mainly due to leverage from higher sales in the current year and lower impairment charges in the current year, partially offset by higher buying expenses in the current year, which includes the Steele's Division's buying expenses, and higher distribution expenses.

SG&A expenses in 2011 increased by \$3.0 million, or 0.8%, to \$353.8 million from \$350.8 million in 2010. As a percent of sales, SG&A expenses decreased to 23.4% in 2011 from 23.9% in 2010. The increase in SG&A expenses in 2011 was primary due to increases in expenses related to eCommerce and Steele's, while operating 27 net additional stores. The SG&A rate decreased 50 basis points, which was primarily due to improved leveraging of store expenses and higher yield on the private label credit card.

Store opening costs in 2011 were \$5.7 million, which included costs related to the opening of 37 new stores, the relocation of 3 stores and the rebranding of 148 stores. In 2010, the Company incurred \$3.2 million in store opening costs related to 33 new stores, the relocation of 2 stores and the rebranding of 26 stores. Store opening costs are expensed as incurred and include costs of stores opening in future quarters.

Net interest expense was \$3.8 million in 2011 as compared to \$3.9 million in 2010. Interest expense is primarily comprised of interest on borrowings under the Company's Revolving Credit Facility, related letters of credit and commitment fees, amortization of debt issue costs and interest on financing lease obligations and equipment financing notes. The decrease in interest expense is primarily due to a lower average amount outstanding on equipment financing notes, partially offset by higher borrowings under the Company's Revolving Credit Facility (see "Liquidity and Capital Resources"). The weighted average balance on the Company's equipment financing notes outstanding was \$23.9 million in 2011 as compared to \$37.1 million in 2010.

The Company's effective tax rate in 2011 was 34.5%, resulting in tax expense of \$16.3 million. This compares to income tax expense of \$21.3 million in 2010 at an effective rate of 36.1%. The current year benefited from domestic production activities and additional employment tax credits.

As a result of the foregoing, the Company had net income of \$31.0 million for 2011 as compared to net income of \$37.6 million for 2010.

2010 Compared to 2009

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Sales for 2010 increased 2.7% to \$1,470.6 million from \$1,431.9 million for 2009. The sales increase was driven by the strength of the Company's new stores, as comparable store sales, which are sales in stores that are open for at least 14 full months prior to the reporting period, increased by 0.2% in 2010. This compares to a 7.9% decrease in comparable store sales in 2009. In 2010, comparable store sales increased \$2.5 million, while non-comparable store sales increased \$36.2 million, driven primarily by the net increase of 28 additional stores. The 0.2% increase in comparable store sales for 2010 reflects a combination of a 6.7% increase in average transactions, offset by decreases in average unit retail and units per transaction of 4.2% and 2.3%, respectively.

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Comparable store sales (decrease) increase by quarter is presented below:

| | Fiscal Year | |
|-------------|-------------|--------|
| | 2010 | 2009 |
| 1st Quarter | (0.6)% | (9.0)% |
| 2nd Quarter | (1.6) | (10.7) |
| 3rd Quarter | (0.3) | (5.4) |
| 4th Quarter | 2.5 | (6.5) |
| Total Year | 0.2 | (7.9) |

On a merchandise category basis, the Company experienced comparable store sales increases in a number of key merchandise categories (i.e., those categories comprising greater than 5% of sales). Footwear, cosmetics, accessories and junior sportswear all had comparable store sales gains in 2010. The Company continued to focus on growing its cosmetics line of business through the installation of Estee Lauder and Clinique counters, as 8 new Estee Lauder and 17 new Clinique counters were opened during 2010, which raised the total number of counters to 176 and 169, respectively.

On a market population basis, utilizing a ten-mile radius from each store, the Company's small market stores outperformed stores in its mid-sized and large markets in 2010. The Company experienced a 2.6% comparable store sales increase in its small market stores, or those in market areas with populations of less than 50,000, a 0.9% decrease in its mid-sized market stores, or those in market areas with populations of 50,000 to 150,000, and a 4.8% decrease in its large market stores, or those in market areas with populations greater than 150,000. The small markets continue to be the focus of the Company's new store expansion plans as stores in these markets have consistently outperformed stores in mid-sized and large markets.

The following is a summary of the changes between 2010 and 2009 in the components of cost of sales, expressed as a percent of sales:

| | Decrease in the Components of Cost of Sales |
|---|---|
| Merchandise cost of sales rate | (0.5)% |
| Buying, occupancy and distribution expenses rate | (0.4) |
| Cost of sales rate | (0.9)% |

Gross profit increased 6.4% to \$416.8 million in 2010 from \$391.8 million in 2009. Gross profit, as a percent of sales, was 28.3% in 2010 and 27.4% in 2009. The gross profit increase is due to both increased sales and a 0.9% lower merchandise cost of sales rate in 2010. The improvement in merchandise cost of sales is attributable to the Company's strong inventory controls and lower freight costs. The decrease in buying, occupancy and distribution expenses over 2009 is principally due to better leverage from higher sales, lower store depreciation and distribution costs, partially offset by higher store occupancy expense, which is due to the increased store count as compared to 2009.

SG&A expenses in 2010 increased approximately \$12.3 million, or 3.6%, to \$350.8 million from \$338.5 million in 2009. As a percent of sales, SG&A expenses increased to 23.9% in 2010 from 23.6% in 2009. The increase in the

SG&A rate in 2010 over 2009 was primary due to increases in variable stores expenses as a result of higher sales and increased store count. The Company operated 28 net additional stores in 2010 as compared to 2009.

Store opening costs in 2010 of \$3.2 million included costs related to the opening of 33 new stores, the relocation of 2 stores and the rebranding of 26 stores. In 2009, the Company incurred \$3.0 million in store opening costs related to 28 new stores and 10 relocated stores. Store opening costs are expensed as incurred and include costs of stores opening in future quarters.

Net interest expense was \$3.9 million in 2010 as compared to \$4.4 million in 2009. Interest expense is primarily comprised of interest on borrowings under the Company's Revolving Credit Facility, related letters of credit and commitment

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fees, amortization of debt issue costs and interest on financing lease obligations and equipment financing notes. The decrease in interest expense is primarily due to a lower average amount outstanding on equipment financing notes. The weighted average balance on the Company's equipment financing notes outstanding was \$37.1 million in 2010 as compared to \$44.6 million in 2009.

The Company's effective tax rate in 2010 was 36.1%, resulting in tax expense of \$21.3 million. This compares to income tax expense of \$17.1 million in 2009 at an effective rate of 37.3%. The effective tax rate for 2010 benefited from reductions in state income taxes.

As a result of the foregoing, the Company had net income of \$37.6 million for 2010 as compared to net income of \$28.7 million in 2009.

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. During the current year, the Company experienced increases in its merchandise costs, particularly in those classifications that are heavily cotton-based, as well as higher freight costs, which resulted in lower merchandise margins. The Company anticipates that pressures on product costs will be reduced in the second half of 2012. 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.

The following table shows quarterly information (unaudited) for the Company (in thousands, except per share amounts):

| | Fiscal Year 2011 | | | |
|--|------------------|------------|--------------|------------|
| | Q1 | Q2 | Q3 | Q4 |
| Net sales | \$ 346,483 | \$ 352,832 | \$ 333,508 | \$ 479,096 |
| Gross profit | \$ 85,220 | \$ 103,857 | \$ 71,163 | \$ 150,360 |
| Net (loss) income | \$ (461) | \$ 10,013 | \$ (11,306) | \$ 32,714 |
| Basic (loss) earnings per common share | \$ (0.01) | \$ 0.29 | \$ (0.36) | \$ 1.06 |
| Diluted (loss) earnings per common share | \$ (0.01) | \$ 0.29 | \$ (0.36) | \$ 1.05 |
| Basic weighted average shares | 36,279 | 34,236 | 31,139 | 30,432 |
| Diluted weighted average shares | 36,279 | 34,635 | 31,139 | 30,603 |
| | Fiscal Year 2010 | | | |
| | Q1 | Q2 | Q3 | Q4 |
| Net sales | \$ 340,042 | \$ 345,019 | \$ 331,850 | \$ 453,679 |
| Gross profit | \$ 89,895 | \$ 104,150 | \$ 76,590 | \$ 146,189 |
| Net income (loss) | \$ 2,198 | \$ 10,327 | \$ (6,865) | \$ 31,980 |

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| | | | | |
|--|---------|---------|------------|---------|
| Basic earnings (loss) per common share | \$ 0.06 | \$ 0.27 | \$ (0.18) | \$ 0.87 |
| Diluted earnings (loss) per common share | \$ 0.06 | \$ 0.27 | \$ (0.18) | \$ 0.86 |
| Basic weighted average shares | 38,273 | 38,359 | 37,362 | 36,629 |
| Diluted weighted average shares | 38,773 | 38,587 | 37,362 | 37,083 |

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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, (iv) equipment financing and (v) its 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 are summarized below (in thousands):

| | 2011 | Fiscal Year 2010 | 2009 |
|---------------------------------|------------|---------------------|------------|
| Net cash provided by (used in): | | | |
| Operating activities | \$ 78,055 | \$ 77,875 | \$ 120,936 |
| Investing activities | (45,318) | (36,459) | (39,753) |
| Financing activities | (103,465) | (45,781) | (13,747) |

Operating Activities

During 2011, the Company generated \$78.1 million in cash from operating activities. Net income, adjusted for non-cash expenses, provided cash of approximately \$107.5 million. Changes in operating assets and liabilities used net cash of approximately \$33.9 million, which included a \$22.4 million increase in merchandise inventories, an increase in other assets of \$4.4 million and a \$7.1 million decrease in accounts payable and other liabilities. Additionally, cash flows from operating activities also included construction allowances from landlords amounting to \$4.5 million, which funded a portion of the capital expenditures related to store leasehold improvements in new and relocated stores.

During 2010, the Company generated \$77.9 million in cash from operating activities. Net income, adjusted for non-cash expenses, provided cash of approximately \$110.3 million. Changes in operating assets and liabilities used net cash of approximately \$37.9 million, which included a \$19.1 million increase in merchandise inventories due to a net increase of 28 stores and a more aggressive approach in stocking inventory in 2010 as compared to 2009, an increase in other assets of \$8.2 million mainly due to an increase in vendor allowances and a \$10.6 million decrease in accounts payable and other liabilities, which included a decrease in merchandise payables and a decrease in pension liability. Additionally, cash flows from operating activities also included construction allowances from landlords amounting to \$5.5 million, which funded a portion of the capital expenditures related to store leasehold improvements in new and relocated stores.

During 2009, the Company generated \$120.9 million in cash from operating activities. Net income, adjusted for non-cash expenses, provided cash of approximately \$99.7 million. Changes in operating assets and liabilities provided net cash of approximately \$17.3 million, which included an \$8.2 million decrease in merchandise inventories due to tight inventory management and control, a decrease in other assets of \$1.9 million mainly due to a decrease in income taxes receivable and a \$7.2 million increase in accounts payable and other liabilities, which included a \$12.1 million increase in income taxes payable. Cash flows from operating activities also included construction allowances from landlords amounting to \$3.9 million, which funded a portion of the capital expenditures related to store leasehold improvements in new and relocated stores.

Investing Activities

Capital expenditures for 2011 were \$45.7 million compared to \$37.0 million in 2010 and \$42.7 million in 2009. The Company opened 37 new stores, reopened 2 fire-damaged stores, a flood-damaged store and a snow damaged store, rebranded 148 stores and relocated 3 stores in 2011. In 2010, it opened 33 new stores, reopened a tornado-damaged store and relocated 2 stores. In 2009, the Company opened 27 new stores, reopened a hurricane-damaged store and relocated 10 stores. The Company received construction allowances from landlords of \$4.5 million in 2011 to fund a portion of the capital expenditures related to store leasehold improvements in new and relocated stores, while \$5.5 million and \$3.9 million were received from landlords in 2010 and 2009, respectively. These funds have been recorded as deferred rent credits in the balance sheet and are amortized as an offset to rent expense over the lease term commencing with the date the allowances were contractually earned.

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Management currently estimates that capital expenditures in 2012, net of construction allowances to be received from landlords, will be approximately \$45 million. The expenditures will principally be for the opening of new stores, store expansions, relocations and remodels.

Free Cash Flow. Free cash flow is a non-U.S. GAAP financial measure that the Company defines as net cash provided by operating activities less capital expenditures net of proceeds related to retirements. Management believes that free cash flow represents the Company's ability to generate additional cash flow from its business operations and uses it as a measure in the evaluation and management of the business. Free cash flow should be evaluated in addition to, and not considered a substitute for, other financial measures such as net income and cash flow provided by operations. The following table reconciles net cash provided by operating activities, a U.S. GAAP measure, to free cash flow, a non-U.S. GAAP measure as defined by the Company. Free cash flow is summarized below (in thousands):

| | Fiscal Year | | |
|---|-------------|-----------|------------|
| | 2011 | 2010 | 2009 |
| Net cash provided by operating activities | \$ 78,055 | \$ 77,875 | \$ 120,936 |
| Additions to property, equipment and leasehold improvements | (45,731) | (36,990) | (42,707) |
| Proceeds from insurance and retirements of property, equipment and leasehold improvements | 413 | 531 | 2,954 |
| Free cash flow | \$ 32,737 | \$ 41,416 | \$ 81,183 |

Financing Activities

On June 30, 2011, the Company entered into an Amended and Restated Credit Agreement for a \$250.0 million senior secured revolving credit facility (the "Amended and Restated Credit Agreement" or "Revolving Credit Facility") that matures on June 30, 2016. The Revolving Credit Facility includes an uncommitted accordion feature to increase the size of the facility to \$350.0 million. 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. The daily interest rates under the Revolving Credit Facility are determined by a prime rate or LIBOR rate plus an applicable margin, as set forth in the Revolving Credit Facility agreement. Inventory and cash and cash equivalents are pledged as collateral under the Revolving Credit Facility. The Revolving Credit Facility is used by the Company to provide financing for working capital, capital expenditures and other general corporate purposes, as well as to support its outstanding letters of credit requirements. During 2011, the weighted average interest rate on outstanding borrowings and the average daily borrowings under the Revolving Credit Facility were 2.1% and \$25.0 million, respectively, as compared to 3.3% and \$0.1 million in 2010 and 3.3% and \$0.6 million in 2009. The outstanding balance on the Company's Revolving Credit Facility was \$24.5 million as of January 28, 2012 and zero as of January 29, 2011 and January 30, 2010.

The Company also issues letters of credit to support certain merchandise purchases and to collateralize retained risks and deductibles under various insurance programs. The Company had outstanding letters of credit totaling approximately \$5.6 million at January 28, 2012 under its Revolving Credit Facility. These letters of credit expire within twelve months of issuance. Excess borrowing availability under the Revolving Credit Facility at January 28, 2012, net of letters of credit outstanding and outstanding borrowings, was \$203.2 million.

The Revolving Credit Facility contains covenants that, 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 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 January 28, 2012, the Company was in compliance with all of the financial covenants of the Revolving Credit Facility and expects to continue to be in compliance in 2012.

The Company has outstanding borrowings under equipment financing notes and finance lease obligations. Equipment financing notes are payable in monthly installments over a five-year term and are secured by certain fixtures and equipment. The Company did not incur any new borrowings under equipment financing notes during 2011 and 2010 and borrowings amounted to \$4.0 million during 2009. Payments for equipment financing notes were \$12.9 million in 2011, \$12.1 million in 2010 and \$10.9 million in 2009. Proceeds from finance lease obligations amounted to \$1.6 million in 2009. The Company

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made principal payments of \$0.6 million in 2011, \$0.6 million in 2010 and \$0.5 million in 2009 on its outstanding finance lease obligations.

On June 13, 2011, the Company announced the Board approved a 20% increase in the Company's quarterly cash dividend rate to 9 cents per share from the previous quarterly rate of 7.5 cents per share. The new quarterly dividend rate of 9 cents per share is applicable to dividends declared after June 22, 2011. Dividend payments totaled \$11.0 million, \$9.5 million and \$7.6 million for 2011, 2010 and 2009, respectively. On February 22, 2012, the Company announced that the Board declared a quarterly cash dividend of 9 cents per share on the Company's common stock, payable on March 21, 2012, to shareholders of record at the close of business on March 6, 2012.

On March 8, 2011, the Company announced that the Board approved a Stock Repurchase Program which authorizes the Company to repurchase up to \$200.0 million of its outstanding common stock (the "2011 Stock Repurchase Program") from time to time, either on the open market or through privately negotiated transactions. During 2011, the Company spent \$100.0 million under the 2011 Stock Repurchase Program to repurchase approximately ---6.1 million shares of its common stock. The Company has \$100.0 million remaining under the 2011 Stock Repurchase Program and intends to complete the 2011 Stock Repurchase Program by the end of 2013.

The Board has also granted the Company the authority to repurchase additional amounts of its outstanding common stock using proceeds from the exercise of stock options as well as the tax benefits that accrue to the Company from the exercise of stock options, SARs and other equity grants. During 2011, the Company repurchased approximately 0.7 million shares for \$10.0 million using proceeds from these sources. In 2010 and 2009, the Company repurchased stock amounting to \$6.8 million and \$1.3 million, respectively, using proceeds from the exercise of awards and related tax benefits and deferred compensation. At January 28, 2012, approximately \$0.3 million was available to the Company for stock repurchases using proceeds from the exercise of employee stock options and SARs.

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 next year and foreseeable future.

Contractual Obligations

The Company has numerous contractual commitments for purchases of merchandise inventories, services arising in the ordinary course of business, letters of credit, Revolving Credit Facility and other debt service and leases. Presented below is a summary of the Company's contractual obligations as of January 28, 2012 (in thousands). These items are discussed in further detail in Note 7 and Note 11 to the Consolidated Financial Statements.

| Contractual Obligations | Total | Payment Due by Period | | | |
|---|-----------|-----------------------|--------------|--------------|----------------------|
| | | Less Than One Year | 1-3 Years | 4-5 Years | More than 5 Years |
| Long-term debt obligations | | | | | |
| Equipment financing | \$ 17,996 | \$ 13,105 | \$ 4,891 | \$ - | \$ - |
| Interest payments on equipment financing | 832 | 670 | 162 | - | - |
| Documentary letters of credit (1) | 810 | 810 | - | - | - |

Capital (finance) lease obligations

| | | | | | |
|--|------------|------------|------------|------------|------------|
| Finance lease obligations | 7,007 | 677 | 1,603 | 2,017 | 2,710 |
| Interest payments on finance lease obligations | 2,727 | 629 | 1,049 | 715 | 334 |
| Operating lease obligations | | | | | |
| Office, property and equipment leases (2) | 414,551 | 79,887 | 134,982 | 100,047 | 99,635 |
| Purchase obligations (3) | 18,602 | 7,906 | 10,694 | 2 | - |
| Other long-term liabilities (4) | - | - | - | - | - |
| Total contractual obligations | \$ 462,525 | \$ 103,684 | \$ 153,381 | \$ 102,781 | \$ 102,679 |

(1) These documentary letters of credit support the importing of private label merchandise. The Company also had outstanding stand-by letters of credit that totaled approximately \$4.2 million at January 28, 2012, of which \$0.8

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million were also issued in support of importing the Company's private label merchandise. The remaining stand-by letters of credit of \$3.4 million are required to collateralize retained risks and deductibles under various insurance programs. The estimated liability that will be paid in cash related to stand-by letters of credit supporting insurance programs is reflected in accrued expenses. If the Company fails to make payments when due, the beneficiaries of letters of credit could make demand for payment under the letters of credit.

(2)The Company has certain operating leases with provisions for step rent or escalation payments. The Company records rent expense on a straight-line basis, evenly dividing rent expense over the lease term, including the build-out period, if any, and where appropriate, applicable available lease renewal option periods. However, this accounting treatment does not affect the future annual operating lease cash obligations as shown herein. The Company records construction allowances from landlords as a deferred rent credit when earned. Such deferred rent credit is amortized over the related term of the lease, commencing with the date the Company contractually earned the construction allowance, as a reduction of rent expense.

Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on a percentage of sales that are in excess of a predetermined level. These amounts are excluded from minimum rent and are included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

(3)Purchase obligations include legally binding contracts such as firm commitments for utility purchases, capital expenditures, software acquisition/license commitments and legally binding service contracts. For the purposes of this table, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. If the obligation to purchase goods or services is noncancelable, the entire value of the contract is included in the above table. If the obligation is cancelable, but the Company would incur a penalty if cancelled, the dollar amount of the penalty is included as a "purchase obligation." The Company fully expects to receive the benefits of the goods or services in connection with fulfilling its obligation under these agreements. The expected timing for payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the timing of receipt of goods or services or changes to agreed-upon amounts for some obligations.

(4)Other long-term liabilities consist of deferred rent, deferred compensation and pension liability (see Note 6 to the Consolidated Financial Statements). Deferred rent of \$59.5 million is included as a component of "operating lease obligations" in the contractual obligations table. Deferred compensation and pension liability are not included in the contractual obligations table as the timing of future payments is indeterminable.

In the ordinary course of business, the Company enters into arrangements with vendors to purchase merchandise typically up to six months in advance of expected delivery. These purchase orders do not contain any significant termination payments or other penalties if cancelled. As of January 28, 2012, the Company had outstanding purchase orders of \$158.8 million.

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 short-term liquidity needs of its defined benefit plan (the "Plan") in order to maintain current invested positions. The Company expects to contribute approximately \$0.1 million during 2012. The Company contributed \$1.0 million and \$1.4 million to the Plan in 2011 and 2010, respectively.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The primary estimates underlying the Company's consolidated financial statements include the valuation of inventory, the estimated useful life of property, equipment and leasehold improvements, the impairment analysis on long-lived assets, the valuation of the intangible asset, the reserve for sales returns, breakage income on

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gift cards and merchandise credits, self-insurance reserves and the estimated liability for pension obligations. The Company cautions that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. Therefore, actual results could differ from these estimates. Management bases its estimates on historical experience and on various assumptions which are believed to be reasonable under the circumstances. The following critical accounting policies affect the Company's more significant judgments and estimates used in the preparation of its consolidated financial statements.

Inventory valuation. The Company values merchandise inventories using the lower of cost or market with cost determined using the weighted average cost method. The Company capitalizes distribution center costs associated with preparing inventory for sale, such as distribution payroll, benefits, occupancy, depreciation and other direct operating expenses as part of merchandise inventories. The Company also includes in inventory the cost of freight to the Company's distribution centers and to stores as well as duties and fees related to import purchases.

Vendor allowances. The Company receives consideration from its merchandise vendors in the form of allowances and reimbursements. Given the promotional nature of the Company's business, the allowances are generally intended to offset the Company's costs of handling, promoting, advertising and selling the vendors' products in its stores. Vendor allowances related to the purchase of inventory are recorded as a reduction to the cost of inventory. Vendor allowances are recognized as a reduction of cost of goods sold or related selling expense when the purpose for which the vendor funds were intended to be used has been fulfilled and amounts have been authorized by vendors.

Property, equipment and leasehold improvements. Additions to property, equipment and leasehold improvements are recorded at cost and depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of leasehold improvements do not exceed the term of the related lease, including applicable available renewal options where appropriate. The estimated useful lives in years are generally as follows:

| | |
|---|-------|
| Buildings & improvements | 20 |
| Store and office fixtures and equipment | 5-10 |
| Warehouse equipment | 5-15 |
| Leasehold improvements - stores | 5-15 |
| Leasehold improvements - corporate office | 10-20 |

Impairment of long-lived assets. Property, plant and equipment and other long-lived assets are reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. For long-lived assets to be held and used, the Company bases its evaluation on impairment indicators such as the nature of the assets' physical condition, the future economic benefit of the asset, any historical or future profitability measurements and other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate the carrying amount of the asset may not be recoverable, the Company determines whether an impairment has occurred through the use of an undiscounted cash flows analysis of the asset at the lowest level for which identifiable cash flows exist. If an impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the estimated fair value of the asset. Management's judgment is necessary to estimate fair value. Accordingly, actual results could vary from those estimates.

Intangible asset and impairment of intangible assets. As a part of the acquisition of Peebles in 2003, the Company acquired the rights to the tradename and trademark (collectively the "Tradename") of "Peebles," which was identified as an indefinite life intangible. The value of the Tradename was determined to be \$14.9 million at the time of the Peebles acquisition. Indefinite life intangible assets are not amortized but are tested for impairment annually or more

frequently when indicators of impairment exist. The Company completed its annual impairment test during the fourth quarter of 2011 and determined there was no impairment.

Revenue recognition. Net sales, which excludes sales tax and are net of estimated returns, are recorded at point of sale in stores when payment is received and the customer takes possession of merchandise and at time of shipment for eCommerce sales. Shipping and handling fees charged to customers are also included in net sales with the corresponding costs recorded as costs of goods sold. The Company records deferred revenue on its balance sheet for the sale of gift cards and recognizes this revenue upon the redemption of gift cards in net sales. The Company similarly records deferred revenue on its balance sheet for merchandise credits issued related to customer returns and recognizes this revenue upon the redemption of the merchandise credits.

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Gift card and merchandise credits liability. Unredeemed gift cards and merchandise credits are recorded as a liability. Gift card and merchandise credit breakage income (“breakage income”) represents the balance of gift cards and merchandise credits for which the Company believes the likelihood of redemption is remote. Breakage income is recognized based on usage or historical redemptions. The Company’s gift cards and merchandise credits are considered to be a large pool of homogeneous transactions. The Company uses historical data to determine the breakage rate and objectively determines the estimated time period of actual redemptions. The Company recognized approximately \$0.8 million, \$0.8 million and \$0.9 million of breakage income in 2011, 2010 and 2009, respectively, which is included in the Consolidated Statements of Income as a reduction in selling, general and administrative expenses.

Self-insurance reserves. The Company maintains self-insurance retentions with respect to general liability, workers compensation and health benefits for its employees. The Company estimates the accruals for the liabilities based on industry development factors and historical claim trend experience. Although management believes adequate reserves have been provided for expected liabilities arising from the Company’s self-insured obligations, projections of future losses are inherently uncertain, and it is reasonably possible that estimates of these liabilities will change over the near term as circumstances develop.

Frozen defined benefit plan. The Company maintains a frozen defined benefit plan. The plan’s obligations and related assets are presented in Note 10 to the Consolidated Financial Statements. The plan’s assets are invested in actively managed and indexed mutual funds of domestic and international equities and investment-grade corporate bonds and U.S. government securities. The plan’s obligations and the annual pension expense are determined by independent actuaries using a number of assumptions. Key assumptions in measuring the plan’s obligations include the discount rate applied to future benefit obligations and the estimated future return on plan assets. At January 28, 2012, assumptions used were a weighted average discount rate of 5.1% and a weighted average long-term rate of return on the plan assets of 7.5%.

Recent Accounting Standards and Disclosures

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-05, Presentation of Comprehensive Income, which eliminates the current option to present components of other comprehensive income as part of the statements of changes in stockholders’ equity and requires entities to present comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the components of other comprehensive income. For public companies, the new disclosure requirements are effective for fiscal years and interim periods beginning after December 15, 2011, with early adoption permitted and will have presentation changes only.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and International Financial Reporting Standards (“IFRS”). ASU 2011-04 clarifies existing fair value measurement and disclosure requirements, amends certain fair value measurement principles and requires additional disclosures about fair value measurements. For public companies, the amendments in ASU 2011-04 are effective for fiscal years and interim periods beginning after December 15, 2011. The Company does not expect the adoption of the provisions under ASU 2011-04 to have a material impact on the Company’s consolidated financial statements.

Borrowings under the Company's Revolving Credit Facility bear a floating rate of interest. As of January 28, 2012, the outstanding borrowings under the Company's Revolving Credit Facility were \$24.5 million. On future borrowings, an increase in interest rates may have a negative impact on the Company's results of operations and cash flows. The Company had average daily borrowings of \$25.0 million bearing a weighted average interest rate of 2.1% during 2011. A hypothetical 10% change from the weighted average interest rate would have a \$0.1 million effect on the Company's 2011 annual results of operations and cash flows.

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ITEM FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

8.

See “Index to Consolidated Financial Statements of Stage Stores, Inc.” included on page F-1 for information required under this Item 8.

ITEM CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL
9. DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As defined in Rules 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 January 28, 2012.

Management’s Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) 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 Company are being made only in accordance with authorizations of management and the directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements, and provide reasonable assurance as to the detection of fraud.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time.

With the participation of the Chief Executive Officer and Chief Financial Officer, the Company's management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework and criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of January 28, 2012.

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Our independent registered public accounting firm, Deloitte & Touche LLP, with direct access to our Board of Directors through our Audit Committee, has audited the consolidated financial statements prepared by the Company and has issued an attestation report on the effectiveness of the Company's internal control over financial reporting.

Changes in Internal Control over Financial Reporting

Management of the Company, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the internal control over financial reporting and concluded that no change in the Company's internal control over financial reporting occurred during the fourth quarter ended January 28, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

10.

The following information pertains to the executive officers of the Company as of March 21, 2012:

| Name | Age | Position |
|----------------------|-----|--|
| Andrew T. Hall | 51 | President and Chief Executive Officer, Director |
| Edward J. Record | 44 | Chief Operating Officer |
| Oded Shein | 50 | Executive Vice President, Chief Financial Officer |
| Michael Searles | 62 | President and Chief Operating Officer of the South Hill Division |
| Ron D. Lucas | 64 | Executive Vice President, Human Resources |
| Steven L. Hunter | 41 | Executive Vice President, Chief Information Officer |
| Richard E. Stasyszen | 51 | Senior Vice President, Finance and Controller |

Mr. Hall joined the Company in February 2006 as President and Chief Operating Officer and assumed the position of President and Chief Executive Officer in November 2008. From June 2003 to February 2006, he served as Chairman of Foley's, a Houston-based division of Federated Department Stores, Inc. From June 2002 to June 2003, he served as Foley's Chief Financial Officer.

Mr. Record joined the Company in May 2007 as Executive Vice President and Chief Administrative Officer, became Chief Financial Officer in September 2007 and was promoted to Chief Operating Officer in February 2010. From October 2005 to May 2007, he served as Senior Vice President of Finance of Kohl's Corporation. From June 2002 to October 2005, Mr. Record served as Senior Vice President of Finance, Controller of Belk, Inc.

Mr. Shein joined the Company in January 2011 as Executive Vice President, Chief Financial Officer. From July 2004 to January 2011, he served in various financial positions at Belk, Inc., which included Vice President, Finance and Vice President and Treasurer. Prior to joining Belk, Inc., Mr. Shein served as the Vice President, Treasurer of Charming Shoppes, Inc.

Mr. Searles joined the Company in September 2011 as President and Chief Operating Officer of the South Hill Division. From December 2004 to April 2008 he served as President and CEO of Wilsons Leather Stores, Inc., a leading specialty retailer of accessories and outerwear. Prior to that time, he served as Chairman and CEO of Factory 2-U Stores, Inc., in addition to holding senior executive positions at several other national retail chains.

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Mr. Lucas joined the Company in July 1995 as Senior Vice President, Human Resources and was promoted to Executive Vice President, Human Resources in March 1998.

Mr. Hunter joined the Company in June 2008 as Senior Vice President, Chief Information Officer and was promoted to Executive Vice President, Chief Information Officer in March 2010. From May 2003 to June 2008, Mr. Hunter served as Senior Vice President of Information Technology at Belk, Inc.

Mr. Stasyszen joined the Company in March 1998 as Assistant Controller and was subsequently promoted to Vice President and Controller in February 1999. In July 2001, Mr. Stasyszen was promoted to Senior Vice President, Finance and Controller.

The remaining information called for by this item is incorporated by reference to “Information Relating to the Board of Directors and Committees” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation called for by this item is incorporated by reference to “Information Relating to Board of Directors and Committees – Compensation Committee-Compensation Committee Interlocks and Insider Participation,” “Compensation of Directors and Executive Officers” and “Compensation of Directors and Executive Officers – Compensation Committee Report” in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding the security ownership of certain beneficial owners and management and related stockholder matters called for by this item is incorporated by reference to “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement.

The remaining information called for by this item is incorporated by reference to “Securities Authorized For Issuance Under Equity Compensation Plans” in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information called for by this item is incorporated by reference to “Transactions with Related Persons,” “Information Relating to Directors and Director Nominees-In General” and “Information Related to the Board of Directors and Committees-Director Independence” in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding fees billed to the Company by its independent registered public accounting firm, Deloitte & Touche LLP, is incorporated by reference to “Principal Accountant Fees and Services” in the Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

1. Financial Statements:

See “Index to Consolidated Financial Statements of Stage Stores, Inc.” on page F-1, the Report of Independent Registered Public Accounting Firm on page F-2, and the Financial Statements on pages F-4 to F-27, of this Form 10-K, all of which are incorporated herein by reference.

2. Financial Statement Schedules:

All schedules are omitted because they are not applicable or not required or because the required information is shown in the Consolidated Financial Statements or Notes thereto on pages F-4 to F-27, which are incorporated herein by reference.

3. Exhibits Index:

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

| Exhibit Number | Description |
|-------------------|---|
| 3.1 | Amended and Restated Articles of Incorporation of Stage Stores, Inc. dated June 7, 2007 are incorporated by reference to Exhibit 3.1 of Stage Stores’ Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed September 12, 2007. |
| 3.2 | Amended and Restated By-Laws of Stage Stores, Inc. dated March 28, 2007 are incorporated by reference to Exhibit 3.3 of Stage Stores’ Annual Report on Form 10-K (Commission File No, 1-14035) filed April 3, 2007. |
| 4.1 | Form of Common Stock Certificate of Stage Stores, Inc. is incorporated by reference to Exhibit 4.1 of Stage Stores’ Registration Statement on Form 10 (Commission File No. 000-21011) filed October 29, 2001. |
| 4.2# | Amended and Restated Credit Agreement dated as of June 30, 2011, among Specialty Retailers, Inc., as Borrower, Stages Stores, Inc. and Specialty Retailers (TX) LLC, as Facility Guarantors, the Lenders Party thereto, Bank of America, N.A., as Administrative Agent and as Collateral Agent, Wells Fargo Capital Finance, LLC, as Documentation Agent, and JPMorgan Chase Bank, N.A. and Regions Bank, as Co-Syndication Agents is incorporated by reference to Exhibit 4.1 of Stage Stores’ Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed September 11, 2011. |
| 10.1§ | Stage Stores, Inc. Amended and Restated 2001 Equity Incentive Plan is incorporated by reference to Appendix B of Stage Stores’ Proxy Statement on Schedule 14A (Commission File No. 1-14035) filed April 16, 2004. |
| 10.2§ | Stage Stores, Inc. Second Amended and Restated 2008 Equity Incentive Plan is incorporated by reference to Appendix A of Stage Stores’ Proxy Statement on Form DEF 14A (Commission File No. 1-14035) filed April 18, 2011. |

10.3 Stage Stores, Inc. Amended and Restated 2003 Non-Employee Director Equity Compensation Plan effective December 19, 2008 is incorporated by reference to Exhibit 10.9 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2009.

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- 10.4 Form of Stock Appreciation Rights Agreement (Employee) under the Stage Stores, Inc. Amended and Restated 2001 Equity Incentive Plan is incorporated by reference to Exhibit 10.4 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2010.
- 10.5 Form of Stock Appreciation Rights Agreement (Employee) under the Stage Stores, Inc. Amended and Restated 2008 Equity Incentive Plan is incorporated by reference to Exhibit 10.5 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2010.
- 10.6 Form of Performance Based Share Agreement under the Stage Stores, Inc. Amended and Restated 2001 Equity Incentive Plan is incorporated by reference to Exhibit 10.9 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed June 9, 2011.
- 10.7 Form of Performance Based Share Agreement under the Stage Stores, Inc. Amended and Restated 2008 Equity Incentive Plan is incorporated by reference to Exhibit 10.7 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2010.
- 10.8 Form of Restricted Stock Award Agreement (Employee) under the Stage Stores, Inc. Amended and Restated 2001 Equity Incentive Plan is incorporated by reference to Exhibit 10.10 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed June 9, 2011.
- 10.9 Form of Restricted Stock Award Agreement (Employee) under the Stage Stores, Inc. Amended and Restated 2008 Equity Incentive Plan is incorporated by reference to Exhibit 10.9 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2010.
- 10.10 Form of Nonstatutory Stock Option Agreement (Employee) under the Stage Stores, Inc. Amended and Restated 2001 Equity Incentive Plan is incorporated by reference to Exhibit 10.10 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2010.
- 10.11 Form of Nonstatutory Stock Option Agreement (Employee) under the Stage Stores, Inc. Amended and Restated 2008 Equity Incentive Plan is incorporated by reference to Exhibit 10.11 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2010.
- 10.12 Form of Nonstatutory Stock Option Agreement (Director) under the Stage Stores, Inc. Amended and Restated 2001 Equity Incentive Plan is incorporated by reference to Exhibit 10.12 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2010.
- 10.13 Form of Initial Grant Restricted Stock Award Agreement (Director) under the Stage Stores, Inc. Amended and Restated 2001 Equity Incentive Plan is incorporated by reference to Exhibit 10.13 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2010.
- 10.14 Form of Initial Grant Restricted Stock Award Agreement (Director) under the Stage Stores, Inc. Amended and Restated 2008 Equity Incentive Plan is incorporated by reference to Exhibit 10.14 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2010.
- 10.15 Form of Reelection Grant Restricted Stock Award Agreement (Director) under the Stage Stores, Inc. Amended and Restated 2001 Equity Incentive Plan is incorporated by reference to Exhibit 10.2 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed September 8, 2010.

10.16 Form of Reelection Grant Restricted Stock Award Agreement (Director) under the Stage Stores, Inc. Amended and Restated 2008 Equity Incentive Plan is incorporated by reference to Exhibit 10.3 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed September 8, 2010.

10.17 Form of Shareholder Agreement for restricted stock (Director) under the Stage Stores, Inc. Amended and Restated 2003 Non-Employee Director Equity Compensation Plan is incorporated by reference to Exhibit 10.17 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2010.

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- 10.18 Stage Stores, Inc. Nonqualified Deferred Compensation Plan, as Amended and Restated effective June 5, 2008 is incorporated by reference to Exhibit 4.4 of Stage Stores' Form S-8 (Commission File No. 333-151568) filed June 10, 2008.
- 10.19 Amended and Restated Private Label Credit Card Program Agreement Between World Financial Network National Bank and Stage Stores, Inc. and Specialty Retailers (TX) LP dated as of March 5, 2004 is incorporated by reference to Exhibit 10.8 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed April 15, 2004.
- 10.20 Amendment to Private Label Credit Card Program Agreement dated as of December 21, 2005, by and among Stage Stores, Inc., Specialty Retailers (TX) LP and World Financial Network National Bank is incorporated by reference to Exhibit 10.1 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed October 24, 2006.
- 10.21 Second Amendment to Amended and Restated Private Label Credit Card Program Agreement dated as of May 24, 2006, by and among Stage Stores, Inc., Specialty Retailers (TX) LP and World Financial Network National Bank is incorporated by reference to Exhibit 10.2 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed October 24, 2006.
- 10.22 Third Amendment to Amended and Restated Private Label Credit Card Program Agreement dated as of May 18, 2007, by and among Stage Stores, Inc., Specialty Retailers (TX) LP and World Financial Network National Bank is incorporated by reference to Exhibit 10.2 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed June 7, 2007.
- 10.23 Fourth Amendment to Amended and Restated Private Label Credit Card Program Agreement dated as of June 30, 2007, by and among Stage Stores, Inc., Specialty Retailers (TX) LP and World Financial Network National Bank is incorporated by reference to Exhibit 10.2 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed September 12, 2007.
- 10.24 Fifth Amendment to Amended and Restated Private Label Credit Card Program Agreement dated as of November 1, 2008, by and among Stage Stores, Inc., Specialty Retailers, Inc. and World Financial Network National Bank is incorporated by reference to Exhibit 10.25 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2009.
- 10.25 Sixth Amendment to Amended and Restated Private Label Credit Card Program Agreement dated as of July 30, 2009, by and among Stage Stores, Inc., Specialty Retailers (TX) LP and World Financial Network National Bank is incorporated by reference to Exhibit 10.2 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed September 9, 2009.
- 10.26 Seventh Amendment to Amended and Restated Private Label Credit Card Program Agreement dated as of January 1, 2010, by and among Stage Stores, Inc., Specialty Retailers, Inc. and World Financial Network National Bank is incorporated by reference to Exhibit 10.35 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2010.
- 10.27 Eighth Amendment to Amended and Restated Private Label Credit Card Program Agreement dated as of July 15, 2010, by and among Stage Stores, Inc., Specialty Retailers (TX) LP and World Financial Network National Bank is incorporated by reference to Exhibit 10.1 of Stage Stores' Quarterly Report on Form 10-Q/A (Commission File No. 1-14035) filed November 19, 2010.

10.28#Ninth Amendment to Amended and Restated Private Label Credit Card Program Agreement dated as of October 27, 2011, by and among Stage Stores, Inc., Specialty Retailers, Inc., Specialty Retailers (TX) LLC and World Financial Network Bank is incorporated by reference to Exhibit 10.2 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed December 7, 2011.

10.29Employment Agreement between Andrew Hall and Stage Stores, Inc. dated April 11, 2011 is incorporated by reference to Exhibit 10.1 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed June 9, 2011.

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- 10.30 Employment Agreement between Ed Record and Stage Stores, Inc. dated April 11, 2011 is incorporated by reference to Exhibit 10.3 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed June 9, 2011.
- 10.31 Employment Agreement between Richard Maloney and Stage Stores, Inc. dated April 11, 2011 is incorporated by reference to Exhibit 10.2 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed June 9, 2011.
- 10.32 Employment Agreement between Oded Shein and Stage Stores, Inc. dated January 10, 2011 is incorporated by reference to Exhibit 10.4 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed June 9, 2011.
- 10.33 Employment Agreement between Steven Hunter and Stage Stores, Inc. dated April 11, 2011 is incorporated by reference to Exhibit 10.5 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed June 9, 2011.
- 10.34 Employment Agreement between Ronald Lucas and Stage Stores, Inc. dated April 11, 2011 is incorporated by reference to Exhibit 10.6 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed June 9, 2011.
- 10.35 Employment Agreement between Joanne Swartz and Stage Stores, Inc. dated April 11, 2011 is incorporated by reference to Exhibit 10.7 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed December 9, 2010.
- 10.36 Employment Agreement between Michael Searles and Stage Stores, Inc. dated September 12, 2011 is incorporated by reference to Exhibit 10.1 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No. 1-14035) filed December 7, 2011.
- 10.37†* Separation agreement between Joanne Swartz and Stage Stores, Inc. dated January 14, 2012.
- 14 Code of Ethics for Senior Officers dated January 25, 2011 is incorporated by reference to Exhibit 14 of Stage Stores' Annual Report on Form 10-K (Commission File No. 1-14035) filed March 30, 2011.
- 18 Preferability Letter from Independent Registered Public Accounting Firm dated October 19, 2006 is incorporated by reference to Exhibit 18 of Stage Stores' Quarterly Report on Form 10-Q (Commission File No 1-14035) filed October 24, 2006.
- 21* Subsidiary of Stage Stores, Inc.
- 23* Consent of Independent Registered Public Accounting Firm
- 24.1* Power of Attorney: Directors (Form 10-K).
- 24.2* Power of Attorney: Section 16 Filers.
- 24.3* Power of Attorney: Director (Ralph Scozzafava - Section 16 Filer).
- 31.1*

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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.

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101**The following materials from Stage Stores Inc.'s Annual Report on Form 10-K for the fiscal year ended January 28, 2012, formatted in XBRL (eXtensible Business Reporting Language) are filed electronically herewith: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Stockholders' Equity, and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.

* Filed electronically herewith.

† Management contract or compensatory plan or arrangement.

#Certain confidential portions have been omitted pursuant to a confidential treatment request that has been filed separately with the Securities and Exchange Commission.

**Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

| | |
|---------------------------------------|----------------|
| /s/ Andrew T. Hall | March 28, 2012 |
| Andrew T. Hall | |
| President and Chief Executive Officer | |
| (Principal Executive Officer) | |

STAGE STORES, INC.

| | |
|---|----------------|
| /s/ Oded Shein | March 28, 2012 |
| Oded Shein | |
| Executive Vice President, Chief Financial Officer | |
| (Principal Financial Officer) | |

STAGE STORES, INC.

| | |
|---|----------------|
| /s/ Richard E. Stasyszen | March 28, 2012 |
| Richard E. Stasyszen | |
| Senior Vice President, Finance and Controller | |
| (Principal Accounting Officer) | |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | | | |
|------------------------|----------------------------|--------------------------------|----------------------------|
| * | March 28, Director 2012 | * | March 28, Director 2012 |
| Alan J. Barocas | | Earl J. Hesterberg | |
| * | March 28, Director 2012 | * | March 28, Director 2012 |
| Michael L. Glazer | | W i l l i a m J . Montgoris | |
| * | March 28, Director 2012 | * | March 28, Director 2012 |
| Gabrielle E. Greene | | David Y. Schwartz | |
| /s/ Andrew T. Hall | March 28, Director 2012 | | |
| Andrew T. Hall | | | |

(Constituting a majority of the Board of Directors)

*By:/s/ Oded Shein
Oded Shein
Attorney-in-Fact

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Stage Stores, Inc.
Houston, Texas

We have audited the accompanying consolidated balance sheets of Stage Stores, Inc. and subsidiary (the "Company") as of January 28, 2012 and January 29, 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended January 28, 2012. We also have audited the Company's internal control over financial reporting as of January 28, 2012 based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting at Item 9A. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company'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. A company's internal control over financial reporting 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 company; (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 company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stage Stores, Inc. and subsidiary as of January 28, 2012 and January 29, 2011 and the results of their operations and their cash flows for each of the three years in the period ended January 28, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2012, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas
March 28, 2012

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

| | January 28, 2012 | January 29, 2011 |
|--|-------------------|-------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 18,621 | \$ 89,349 |
| Merchandise inventories, net | 347,944 | 325,501 |
| Prepaid expenses and other current assets | 33,434 | 30,423 |
| Total current assets | 399,999 | 445,273 |
| Property, equipment and leasehold improvements, net | 300,717 | 317,954 |
| Intangible asset | 14,910 | 14,910 |
| Other non-current assets, net | 19,713 | 17,947 |
| Total assets | \$ 735,339 | \$ 796,084 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable | \$ 106,022 | \$ 95,365 |
| Income taxes payable | 6,187 | 12,657 |
| Current portion of debt obligations | 13,782 | 13,490 |
| Accrued expenses and other current liabilities | 60,308 | 61,661 |
| Total current liabilities | 186,299 | 183,173 |
| Long-term debt obligations | 35,721 | 25,002 |
| Deferred taxes | 17,830 | 14,399 |
| Other long-term liabilities | 82,783 | 84,001 |
| Total liabilities | 322,633 | 306,575 |
| Commitments and contingencies | | |
| Common stock, par value \$0.01, 100,000 shares authorized, | | |
| 30,444 and 56,946 shares issued, respectively | 304 | 569 |
| Additional paid-in capital | 349,366 | 516,079 |
| Less treasury stock - at cost, 0 and 20,508 shares, respectively | (835) | (320,055) |
| Accumulated other comprehensive loss | (4,748) | (2,935) |
| Retained earnings | 68,619 | 295,851 |
| Total stockholders' equity | 412,706 | 489,509 |
| Total liabilities and stockholders' equity | \$ 735,339 | \$ 796,084 |

The accompanying notes are an integral part of these statements.

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

| | Fiscal Year | | |
|--|--------------|--------------|--------------|
| | 2011 | 2010 | 2009 |
| Net sales | \$ 1,511,919 | \$ 1,470,590 | \$ 1,431,927 |
| Cost of sales and related buying, occupancy and distribution expenses | 1,101,319 | 1,053,766 | 1,040,120 |
| Gross profit | 410,600 | 416,824 | 391,807 |
| Selling, general and administrative expenses | 353,834 | 350,865 | 338,551 |
| Store opening costs | 5,670 | 3,192 | 3,041 |
| Interest expense, net of income of \$24, \$88 and \$96, respectively | 3,821 | 3,875 | 4,388 |
| Income before income tax | 47,275 | 58,892 | 45,827 |
| Income tax expense | 16,315 | 21,252 | 17,106 |
| Net income | \$ 30,960 | \$ 37,640 | \$ 28,721 |
| Basic and diluted earnings per share data: | | | |
| Basic earnings per share | \$ 0.93 | \$ 1.00 | \$ 0.76 |
| Basic weighted average shares outstanding | 33,021 | 37,656 | 38,029 |
| Diluted earnings per share | \$ 0.92 | \$ 0.99 | \$ 0.75 |
| Diluted weighted average shares outstanding | 33,278 | 38,010 | 38,413 |

The accompanying notes are an integral part of these statements.

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

| | 2011 | Fiscal Year 2010 | 2009 |
|---|------------|---------------------|------------|
| Cash flows from operating activities: | | | |
| Net income | \$ 30,960 | \$ 37,640 | \$ 28,721 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation, amortization and impairment of long-lived assets | 61,680 | 62,417 | 63,459 |
| (Gain) loss on retirements of property, equipment and leasehold improvements | (101) | 169 | (1,460) |
| Deferred income tax expense | 6,768 | 3,548 | 2,443 |
| Tax benefits (deficiency) from stock-based compensation | 738 | 1,081 | (872) |
| Stock-based compensation expense | 7,690 | 6,775 | 6,659 |
| Amortization of debt issuance costs | 347 | 298 | 290 |
| Excess tax benefits from stock-based compensation | (1,339) | (2,172) | (136) |
| Deferred compensation obligation | 134 | 85 | 121 |
| Amortization of employee benefit related costs | 592 | 427 | 520 |
| Construction allowances from landlords | 4,499 | 5,476 | 3,875 |
| Other changes in operating assets and liabilities: | | | |
| (Increase) decrease in merchandise inventories | (22,443) | (19,141) | 8,157 |
| (Increase) decrease in other assets | (4,369) | (8,216) | 1,938 |
| (Decrease) increase in accounts payable and other liabilities | (7,101) | (10,512) | 7,221 |
| Net cash provided by operating activities | 78,055 | 77,875 | 120,936 |
| Cash flows from investing activities: | | | |
| Additions to property, equipment and leasehold improvements | (45,731) | (36,990) | (42,707) |
| Proceeds from insurance and retirements of property, equipment and leasehold improvements | 413 | 531 | 2,954 |
| Net cash used in investing activities | (45,318) | (36,459) | (39,753) |
| Cash flows from financing activities: | | | |
| Proceeds from revolving credit facility borrowings | 238,800 | 4,300 | 139,278 |
| Payments of revolving credit facility borrowings | (214,300) | (4,300) | (139,278) |
| Proceeds from long-term debt obligations | - | - | 5,585 |
| Payments of long-term debt obligations | (13,489) | (12,726) | (11,379) |
| Payments of debt issuance costs | (1,149) | - | (40) |
| Repurchases of common stock | (110,919) | (31,976) | (1,327) |
| Proceeds from issuance of equity awards | 7,286 | 6,199 | 907 |
| Excess tax benefits from stock-based compensation | 1,339 | 2,172 | 136 |
| Cash dividends paid | (11,033) | (9,450) | (7,629) |
| Net cash used in financing activities | (103,465) | (45,781) | (13,747) |
| Net (decrease) increase in cash and cash equivalents | (70,728) | (4,365) | 67,436 |

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Cash and cash equivalents:

| | | | |
|---------------------|-----------|-----------|-----------|
| Beginning of period | 89,349 | 93,714 | 26,278 |
| End of period | \$ 18,621 | \$ 89,349 | \$ 93,714 |

Supplemental disclosures:

| | | | |
|---|----------|----------|----------|
| Interest paid | \$ 3,516 | \$ 3,702 | \$ 4,249 |
| Income taxes paid | 14,920 | 16,990 | 4,457 |
| Unpaid liabilities for capital expenditures | 3,887 | 5,257 | 3,636 |

The accompanying notes are an integral part of these statements.

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Stage Stores, Inc.
Consolidated Statements of Stockholders' Equity
(in thousands, except per share amounts)

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Treasury Stock Shares | Treasury Stock Amount | Accumulated Other Comprehensive Loss | Retained Earnings | Total |
|--|---------------------------|---------------------------|----------------------------------|-----------------------------|-----------------------------|---|----------------------|------------|
| Balance, January 31, 2009 | 55,849 | \$ 558 | \$ 494,765 | (17,986) | \$ (286,751) | \$ (5,138) | \$ 246,569 | \$ 450,003 |
| Net income | - | - | - | - | - | - | 28,721 | 28,721 |
| Employee benefit related adjustment, net of tax of \$0.7 million | - | - | - | - | - | (1,078) | - | (1,078) |
| Amortization of employee benefit related costs, net of tax of \$0.2 million | - | - | - | - | - | 319 | - | 319 |
| Comprehensive income | | | | | | | | 27,962 |
| Dividends on common stock, \$0.20 per share | - | - | - | - | - | - | (7,629) | (7,629) |
| Deferred compensation | - | - | 121 | - | (121) | - | - | - |
| Repurchases of common stock | - | - | - | (85) | (1,207) | - | - | (1,207) |
| Issuance of equity awards, net | 231 | 3 | 905 | - | - | - | - | 908 |
| Stock-based compensation expense | - | - | 6,659 | - | - | - | - | 6,659 |
| Tax deficiency from stock-based compensation | - | - | (872) | - | - | - | - | (872) |
| Recognition of pre-reorganization deferred tax assets | - | - | 222 | - | - | - | - | 222 |
| Balance, January 30, 2010 | 56,080 | \$ 561 | \$ 501,800 | (18,071) | \$ (288,079) | \$ (5,897) | \$ 267,661 | \$ 476,046 |
| Net income | - | - | - | - | - | - | 37,640 | 37,640 |
| Employee benefit related adjustment, net of tax of \$1.6 | - | - | - | - | - | 2,697 | - | 2,697 |

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| | | | | | | | | |
|---|----------|--------|------------|----------|--------------|-------------|------------|------------|
| million | | | | | | | | |
| Amortization of employee benefit related costs, net of tax of \$0.2 million | - | - | - | - | - | 265 | - | 265 |
| Comprehensive income | | | | | | | | 40,602 |
| Dividends on common stock, \$0.25 per share | - | - | - | - | - | - | (9,450) | (9,450) |
| Deferred compensation | - | - | 85 | - | (85) | - | - | - |
| Repurchases of common stock | - | - | - | (2,437) | (31,891) | - | - | (31,891) |
| Issuance of equity awards, net | 866 | 8 | 6,191 | - | - | - | - | 6,199 |
| Stock-based compensation expense | - | - | 6,775 | - | - | - | - | 6,775 |
| Tax benefit from stock-based compensation | - | - | 1,081 | - | - | - | - | 1,081 |
| Recognition of pre-reorganization deferred tax assets | - | - | 147 | - | - | - | - | 147 |
| Balance, January 29, 2011 | 56,946 | \$ 569 | \$ 516,079 | (20,508) | \$ (320,055) | \$ (2,935) | \$ 295,851 | \$ 489,509 |
| Net income | - | - | - | - | - | - | 30,960 | 30,960 |
| Employee benefit related adjustment, net of tax of \$1.3 million | - | - | - | - | - | (2,186) | - | (2,186) |
| Amortization of employee benefit related costs, net of tax of \$0.2 million | - | - | - | - | - | 373 | - | 373 |
| Comprehensive income | | | | | | | | 29,147 |
| Dividends on common stock, \$0.33 per share | - | - | - | - | - | - | (11,033) | (11,033) |
| Deferred compensation | - | - | 134 | - | (134) | - | - | - |
| Repurchases of common stock | - | - | - | (6,819) | (109,985) | - | - | (109,985) |
| Retirement of treasury stock | (27,327) | (273) | (181,907) | 27,327 | 429,339 | | (247,159) | - |
| Issuance of equity awards, net | 825 | 8 | 7,278 | - | - | - | - | 7,286 |
| | - | - | (800) | - | - | - | - | (800) |

| | | | | | | | | |
|--|--------|--------|------------|---|-----------|-------------|-----------|------------|
| Tax withholdings paid for net settlement of stock awards | | | | | | | | |
| Stock-based compensation expense | - | - | 7,690 | - | - | - | - | 7,690 |
| Tax benefit from stock-based compensation | - | - | 738 | - | - | - | - | 738 |
| Recognition of pre-reorganization deferred tax assets | - | - | 154 | - | - | - | - | 154 |
| Balance, January 28, 2012 | 30,444 | \$ 304 | \$ 349,366 | - | \$ (835) | \$ (4,748) | \$ 68,619 | \$ 412,706 |

The accompanying notes are an integral part of these statements.

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Stage Stores, Inc.
Notes to Consolidated Financial Statements

NOTE 1 - DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of business: Stage Stores, Inc. (the “Company”) is a Houston, Texas-based retailer, which operates both department stores and off-price stores. Its department stores, which operate under the Bealls, Goody’s, Palais Royal, Peebles and Stage names, offer moderately priced, nationally recognized brand name and private label apparel, accessories, cosmetics and footwear for the entire family. Its off-price stores, which are called Steele’s, offer brand name family apparel, accessories, shoes and home décor at significant savings to department store prices. The Company also has an eCommerce website. As of January 28, 2012, the Company operated 813 stores located in 40 states. The Company operates its stores under the six nameplates of Bealls, Goody’s, Palais Royal, Peebles, Stage and Steele’s.

Principles of consolidation: The consolidated financial statements include the accounts of Stage Stores, Inc. and its subsidiaries, Specialty Retailers, Inc., a Texas corporation, and Specialty Retailers (TX) LLC, a Texas limited liability company. All intercompany transactions have been eliminated in consolidation. The Company reports in a single operating segment – the operation of retail department stores. Revenues from customers are derived from merchandise sales. The Company does not rely on any major customer as a source of revenue.

Fiscal year: References to a particular year are to the Company’s fiscal year which is the 52- or 53-week period ending on the Saturday closest to January 31st of the following calendar year. For example, a reference to “2009” is a reference to the fiscal year ended January 30, 2010, “2010” is a reference to the fiscal year ended January 29, 2011 and “2011” is a reference to the fiscal year ended January 28, 2012. 2009, 2010 and 2011 consisted of 52 weeks.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, the Company evaluates its estimates, including those related to inventory, deferred tax assets, intangible asset, long-lived assets, sales returns, gift card breakage, pension obligations, self-insurance and contingent liabilities. Actual results could differ from these estimates. Management bases its estimates on historical experience and on various assumptions which are believed to be reasonable under the circumstances.

Cash and cash equivalents: The Company considers highly liquid investments with initial maturities of less than three months to be cash equivalents.

Concentration of credit risk: Financial instruments which potentially subject the Company to concentrations of credit risk are primarily cash. The Company’s cash management and investment policies restrict investments to low-risk, highly-liquid securities and the Company performs periodic evaluations of the relative credit standing of the financial institutions with which it deals.

Merchandise inventories: The Company values merchandise inventories using the lower of cost or market with cost determined using the weighted average cost method. The Company capitalizes distribution center costs associated with preparing inventory for sale, such as distribution payroll, benefits, occupancy, depreciation and other direct operating expenses as part of merchandise inventories. The Company also includes in inventory the cost of freight to the Company’s distribution centers and to stores as well as duties and fees related to import purchases.

Vendor allowances: The Company receives consideration from its merchandise vendors in the form of allowances and reimbursements. Given the promotional nature of the Company’s business, the allowances are generally intended

to offset the Company's costs of handling, promoting, advertising and selling the vendors' products in its stores. Vendor allowances related to the purchase of inventory are recorded as a reduction to the cost of inventory until sold. Vendor allowances are recognized as a reduction of cost of goods sold or the related selling expense when the purpose for which the vendor funds were intended to be used has been fulfilled and amounts have been authorized by vendors.

Stock-based compensation: The Company recognizes compensation expense in an amount equal to the fair value of share-based payments granted to employees and independent directors. That cost is recognized ratably in selling, general and administrative expense over the period during which an employee or independent director is required to provide service in exchange for the award.

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

Property, equipment and leasehold improvements: Additions to property, equipment and leasehold improvements are recorded at cost and depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of leasehold improvements do not exceed the term of the related lease, including applicable available renewal options where appropriate. The estimated useful lives in years are generally as follows:

| | |
|---|-------|
| Buildings & improvements | 20 |
| Store and office fixtures and equipment | 5-10 |
| Warehouse equipment | 5-15 |
| Leasehold improvements - stores | 5-15 |
| Leasehold improvements - corporate office | 10-20 |

Impairment of long-lived assets: Property, plant and equipment and other long-lived assets are reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. For long-lived assets to be held and used, the Company bases its evaluation on impairment indicators such as the nature of the assets' physical condition, the future economic benefit of the asset, any historical or future profitability measurements and other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate the carrying amount of the asset may not be recoverable, the Company determines whether an impairment has occurred through the use of an undiscounted cash flows analysis of the asset at the lowest level for which identifiable cash flows exist. If an impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the estimated fair value of the asset. Management's judgment is necessary to estimate fair value. Accordingly, actual results could vary from those estimates.

Intangible asset and impairment of intangible assets: As a part of the acquisition of Peebles in 2003, the Company acquired the rights to the tradename and trademark (collectively the "Tradename") of "Peebles," which was identified as an indefinite life intangible. The value of the Tradename was determined to be \$14.9 million at the time of the Peebles acquisition. Indefinite life intangible assets are not amortized but are tested for impairment annually or more frequently when indicators of impairment exist. The Company completed its annual impairment test during the fourth quarter of 2011 and determined there was no impairment.

Insurance recoveries: During 2008, Hurricanes Ike and Gustav forced the temporary closure of a significant number of the Company's stores in the Gulf Coast region. The stores were covered by both property damage and business interruption insurance and the Company settled its claims with insurance companies during 2009. The Company received total proceeds of \$7.5 million and \$0.4 million for property damage and business interruption claims, respectively, and recognized a gain of \$1.8 million in 2009, which is included in the Consolidated Statements of Income as a reduction in selling, general and administrative expenses.

The Company incurred other casualty losses during 2011 and 2010. The Company received total insurance proceeds of \$1.7 million and \$0.8 million during 2011 and 2010, respectively, and recognized a net gain of \$0.4 million and a net loss of \$0.3 million, respectively, which are included in the Consolidated Statements of Income as selling, general and administrative expenses.

Debt issuance costs: Debt issuance costs are accounted for as a deferred charge and amortized on a straight-line basis over the term of the related financing agreement. The balance of debt issuance costs, net of accumulated amortization of \$2.9 million and \$2.6 million, is \$1.3 million and \$0.5 million at January 28, 2012 and January 29, 2011, respectively.

Revenue recognition: Net sales, which excludes sales tax and are net of estimated returns, are recorded at point of sale in stores when payment is received and the customer takes possession of merchandise and at time of shipment for eCommerce sales. Shipping and handling fees charged to customers are also included in net sales with the corresponding costs recorded as costs of goods sold. The Company records deferred revenue on its balance sheet for the sale of gift cards and recognizes this revenue upon the redemption of gift cards in net sales. The Company similarly records deferred revenue on its balance sheet for merchandise credits issued related to customer returns and recognizes this revenue upon the redemption of the merchandise credits.

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

Gift card and merchandise credit liability: Unredeemed gift cards and merchandise credits are recorded as a liability. Gift card and merchandise credit breakage income (“breakage income”) represents the balance of gift cards and merchandise credits for which the Company believes the likelihood of redemption is remote. Breakage income is recognized based on usage or historical redemptions. The Company’s gift cards and merchandise credits are considered to be a large pool of homogeneous transactions. The Company uses historical data to determine the breakage rate and objectively determines the estimated time period of actual redemptions. The Company recognized approximately \$0.8 million, \$0.8 million and \$0.9 million of breakage income in 2011, 2010 and 2009, respectively, which is included in the Consolidated Statements of Income as a reduction in selling, general and administrative expenses.

Store opening expenses: Costs related to the opening of new stores and the rebranding of current stores to a new nameplate are expensed as incurred. Store opening expenses include the rent accrued during the rent holiday period on new and relocated stores.

Advertising expenses: Advertising costs are charged to operations when the related advertising takes place. Advertising costs were \$64.7 million, \$63.4 million and \$62.1 million, for 2011, 2010 and 2009, respectively, which are net of advertising allowances received from vendors of \$16.9 million, \$16.3 million and \$13.0 million, respectively.

Rent expense: The Company records rent expense on a straight-line basis over the lease term, including the build out period, and where appropriate, applicable available lease renewal option periods. The difference between the payment and expense in any period is recorded as deferred rent in other long-term liabilities in the Consolidated Balance Sheets. The Company records construction allowances from landlords when contractually earned as a deferred rent credit in other long-term liabilities. Such deferred rent credit is amortized over the related term of the lease, commencing the date the Company contractually earned the construction allowance, as a reduction of rent expense. The deferred rent credit was \$59.5 million and \$63.3 million as of January 28, 2012 and January 29, 2011, respectively.

Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on a percentage of sales that are in excess of a predetermined level. These amounts are excluded from minimum rent and are included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

Income taxes: The provision for income taxes is computed based on the pretax income included in the Consolidated Statements of Income. The asset and liability approach is used to recognize deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts for financial reporting purposes and the tax basis of assets and liabilities. A valuation allowance is established if it is more likely than not that some portion of the deferred tax asset will not be realized. See Note 12 for additional disclosures regarding income taxes and deferred income taxes.

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. Stock options, stock appreciation rights (“SARs”) and non-vested stock grants were the only potentially dilutive share equivalents the Company had outstanding at January 28, 2012.

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. In 2011, all non-vested stock granted contained non-forfeitable rights to dividends and are considered participating securities under ASC 260-10. As such, earnings per share (“EPS”) has been calculated under the two-class method for 2011.

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

The following tables show the computation of basic and diluted earnings per share for the fiscal years ended 2011, 2010 and 2009 (in thousands, except per share amounts):

| | 2011 | Fiscal Year 2010 | 2009 |
|--|-----------|---------------------|-----------|
| Basic EPS: | | | |
| Net Income | \$ 30,960 | \$ 37,640 | \$ 28,721 |
| Less: Allocation of earnings to participating securities | (375) | | |
| Net income allocated to common shares | 30,585 | | |
| Basic weighted average shares outstanding | 33,021 | 37,656 | 38,029 |
| Basic EPS | \$ 0.93 | \$ 1.00 | \$ 0.76 |
| Diluted EPS: | | | |
| Net Income | \$ 30,960 | \$ 37,640 | \$ 28,721 |
| Less: Allocation of earnings to participating securities | (373) | | |
| Net income allocated to common shares | 30,587 | | |
| Basic weighted average shares outstanding | 33,021 | 37,656 | 38,029 |
| Add: Dilutive effect of stock awards | 257 | 354 | 384 |
| Diluted weighted average shares outstanding | 33,278 | 38,010 | 38,413 |
| Diluted EPS | \$ 0.92 | \$ 0.99 | \$ 0.75 |

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

| | 2011 | Fiscal Year 2010 | 2009 |
|--|-------|---------------------|-------|
| Number of anti-dilutive stock options and SARs outstanding | 1,910 | 2,746 | 2,635 |

Recent accounting standards: In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-05, Presentation of Comprehensive Income, which eliminates the current option to present components of other comprehensive income as part of the statements of changes in stockholders’ equity and requires entities to present comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the components of other comprehensive income. For public companies, the new disclosure requirements are effective for fiscal years and interim periods beginning after December 15, 2011, with early adoption permitted and will have presentation changes only.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and International Financial Reporting Standards (“IFRS”). ASU 2011-04 clarifies

existing fair value measurement and disclosure requirements, amends certain fair value measurement principles and requires additional disclosures about fair value measurements. For public companies, the amendments in ASU 2011-04 are effective for fiscal years and interim periods beginning after December 15, 2011. The Company does not expect the adoption of the provisions under ASU 2011-04 to have a material impact on the Company's consolidated financial statements.

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

NOTE 2 - PRIVATE LABEL CREDIT CARD
PORTFOLIO

On September 12, 2003, the Company sold the private label credit card accounts, as well as other assets related to its private label credit card program, to World Financial Network Bank (the “Bank”) and Alliance Data Systems, Inc. (“ADS”). As part of the sale, the Company entered into a ten year program agreement (the “Program Agreement”) as of the sale date with ADS that provides for automatic one-year renewal terms at expiration. Under the Program Agreement, the Company receives a premium or pays a discount on certain private label credit card sales and a share of certain fees generated by the portfolio. The Company realized \$11.9 million, \$8.9 million and \$9.2 million of premiums on credit sales and fees related to this agreement during 2011, 2010 and 2009, respectively, which have been recorded as a reduction to selling, general and administrative expenses. In connection with the sale, the Company also received prepaid marketing funds of \$13.3 million, which are being recognized as an offset to marketing expense pro rata over the ten year term of the agreement. At January 28, 2012 and January 29, 2011, \$0.9 million and \$2.2 million, respectively, of these prepaid marketing funds were recorded as other long-term liabilities.

NOTE 3 – 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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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

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

| | Balance | January 28, 2012 | | |
|---|-----------|--|---|--|
| | | 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) | \$ 17,087 | \$ 17,087 | \$ - | \$ - |
| Accrued expenses and other current liabilities: | | | | |
| Deferred non-employee director equity compensation plan liability (2) | \$ 169 | \$ 169 | \$ - | \$ - |

| | Balance | January 29, 2011 | | |
|---|-----------|--|---|--|
| | | 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) | \$ 15,771 | \$ 15,771 | \$ - | \$ - |
| Accrued expenses and other current liabilities: | | | | |
| Deferred non-employee director equity compensation plan liability (2) | \$ 176 | \$ 176 | \$ - | \$ - |

- (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 during 2011 and 2010.

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

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

| | Balance | January 28, 2012 | | |
|--|----------|---|---|--|
| | | 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) | \$ 5,026 | \$ - | \$ - | \$ 5,026 |

| | Balance | January 29, 2011 | | |
|--|----------|---|---|--|
| | | 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) | \$ 9,412 | \$ - | \$ - | \$ 9,412 |

(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. Long-lived assets with a carrying amount of \$5.5 million in 2011 and \$13.5 million in 2010 were written down to their estimated fair value of \$5.0 million in 2011 and \$9.4 million in 2010, resulting in impairment charges of approximately \$0.5 million during 2011 and \$4.1 million during 2010, which were included in cost of sales and related buying, occupancy and distribution expenses in the Consolidated Statements of Income.

Financial instruments not measured at fair value are cash and cash equivalents, payables and debt obligations. At January 28, 2012, the Company believes that the carrying amount of debt obligations approximates fair value based on recent financing transactions for similar debt issuances. The Company also believes that the Revolving Credit Facility approximates fair value since interest rates are adjusted to reflect current rates.

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

NOTE 4 - PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

The components of property, equipment and leasehold improvements were as follows (in thousands):

| | January 28, 2012 | January 29, 2011 |
|--|------------------|------------------|
| Land | \$ 1,859 | \$ 1,722 |
| Buildings and improvements | 16,604 | 16,071 |
| Fixtures and equipment | 391,246 | 367,376 |
| Leasehold improvements | 316,709 | 302,995 |
| Property, equipment and leasehold improvements | 726,418 | 688,164 |
| Accumulated depreciation | 425,701 | 370,210 |
| Property, equipment and leasehold improvements, net | \$ 300,717 | \$ 317,954 |

Depreciation expense was \$61.2 million, \$58.3 million and \$59.1 million for 2011, 2010 and 2009, respectively. During 2011, 2010 and 2009, the Company, as a result of its ongoing review of the performance of its stores, identified certain stores whose cash flow trends indicated that the carrying value of property, equipment and leasehold improvements may not be fully recoverable. Impairment charges for these stores of \$0.5 million, \$4.1 million and \$4.3 million were recorded in 2011, 2010 and 2009, respectively. The charges reflect the difference between these stores' carrying value and their fair value. Cost of sales includes \$47.6 million, \$49.5 million and \$50.6 million in 2011, 2010 and 2009, respectively, related to depreciation expense and impairment charges.

NOTE 5 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

The components of accrued expenses and other current liabilities were as follows (in thousands):

| | January 28, 2012 | January 29, 2011 |
|--|------------------|------------------|
| Accrued compensation and benefits | \$ 12,028 | \$ 14,390 |
| Gift card and merchandise credit liability | 8,575 | 8,185 |
| Accrued sales and use tax | 6,298 | 5,430 |
| Accrued occupancy | 6,212 | 6,134 |
| Self-insurance liability | 6,039 | 6,913 |
| Accrued advertising | 5,721 | 5,471 |
| Accrued capital expenditures | 2,599 | 3,836 |
| Other | 12,836 | 11,302 |
| Accrued expenses and other current liabilities | \$ 60,308 | \$ 61,661 |

NOTE 6 – OTHER LONG-TERM LIABILITIES

The components of other long-term liabilities were as follows (in thousands):

| | January 28, 2012 | January 29, 2011 |
|-----------------------|------------------|------------------|
| Deferred rent | \$ 59,464 | \$ 63,308 |
| Deferred compensation | 17,087 | 15,771 |

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| | | |
|-----------------------------|-----------|-----------|
| Pension liability | 4,525 | 2,424 |
| Other | 1,707 | 2,498 |
| Other long-term liabilities | \$ 82,783 | \$ 84,001 |

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

NOTE 7 - DEBT OBLIGATIONS

Debt obligations consist of the following (in thousands):

| | January 28, 2012 | January 29, 2011 |
|---|------------------|------------------|
| Revolving Credit Facility | \$ 24,500 | \$ - |
| Equipment financing | 17,996 | 30,869 |
| Finance lease obligations | 7,007 | 7,623 |
| Total debt obligations | 49,503 | 38,492 |
| Less: Current portion of debt obligations | 13,782 | 13,490 |
| Long-term debt obligations | \$ 35,721 | \$ 25,002 |

On June 30, 2011, the Company entered into an Amended and Restated Credit Agreement for a \$250.0 million senior secured revolving credit facility (the “Amended and Restated Credit Agreement” or “Revolving Credit Facility”) that matures on June 30, 2016. The Revolving Credit Facility includes an uncommitted accordion feature to increase the size of the facility to \$350.0 million. 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. The daily interest rates under the Revolving Credit Facility are determined by a prime rate or LIBOR rate plus an applicable margin, as set forth in the Revolving Credit Facility agreement. Inventory and cash and cash equivalents are pledged as collateral under the Revolving Credit Facility. The Revolving Credit Facility is used by the Company to provide financing for working capital, capital expenditures, interest payments and other general corporate purposes, as well as to support its outstanding letters of credit requirements. During 2011 and 2010, the weighted average interest rate on outstanding borrowings and the average daily borrowings under the Revolving Credit Facility were 2.1% and \$25.0 million and 3.3% and \$0.1 million, respectively.

The Company also issues letters of credit to support certain merchandise purchases and to collateralize retained risks and deductibles under various insurance programs. The Company had outstanding letters of credit totaling approximately \$5.6 million at January 28, 2012 under its Revolving Credit Facility. These letters of credit expire within twelve months of issuance. Excess borrowing availability under the Revolving Credit Facility at January 28, 2012, net of letters of credit outstanding and outstanding borrowings, was \$203.2 million.

The Revolving Credit Facility contains covenants that, 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 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 January 28, 2012, the Company was in compliance with all of the debt covenants of the Revolving Credit Facility.

The Company has equipment financing notes outstanding bearing interest ranging from 4.6% to 6.0%. The notes are payable in monthly installments over a five-year term and are secured by certain fixtures and equipment. The following table sets forth the expected principal payments on the equipment financing notes (in thousands):

| Fiscal Year | Principal Payments |
|-------------|-----------------------|
| 2012 | \$ 13,105 |
| 2013 | 4,001 |

| | | |
|-------|----|--------|
| 2014 | | 890 |
| Total | \$ | 17,996 |

While infrequent in occurrence, occasionally the Company is responsible for the construction of leased stores and for paying project costs. ASC No. 840-40-55, 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

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

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. Where ASC No. 840-40-55 was applicable, the Company has recorded finance lease obligations with interest rates ranging from 6.1% to 16.9% on its Consolidated Balance Sheets related to five store leases as of January 28, 2012. Minimum annual payments required under existing finance lease obligations as of January 28, 2012 are as follows (in thousands):

| Fiscal Year | Minimum Lease | | |
|-------------|---------------|----------------|--------------------|
| | Payments | Less: Interest | Principal Payments |
| 2012 | \$ 1,306 | \$ 629 | \$ 677 |
| 2013 | 1,306 | 562 | 744 |
| 2014 | 1,346 | 487 | 859 |
| 2015 | 1,366 | 404 | 962 |
| 2016 | 1,366 | 311 | 1,055 |
| Thereafter | 3,044 | 334 | 2,710 |
| Total | \$ 9,734 | \$ 2,727 | \$ 7,007 |

NOTE 8 - STOCKHOLDERS' EQUITY

The Company's deferred compensation plan covering executives and certain officers provides an investment option that allows participants to elect to purchase shares of Stage Stores common stock (the "Company Stock Investment Option"). The Company established a grantor trust to facilitate the collection of funds and purchase of Company shares on the open market at prevailing market prices. All shares purchased through the grantor trust are held in the trust until the participants are eligible to receive the benefits under the terms of the plan. At the time of the participant's eligibility, the deferred compensation obligation related to the Company Stock Investment Option is settled by the delivery of the fixed number of shares held by the grantor trust on the participant's behalf. In 2011, 2010 and 2009, participants in the Company's deferred compensation plan elected to invest approximately \$0.1 million, \$0.1 million and \$0.1 million, respectively, of the total amount of deferred compensation withheld, in the Company Stock Investment Option. The purchase of shares made by the grantor trust on behalf of the participants is included in treasury stock and the corresponding deferred compensation obligation is included in additional paid-in capital.

On June 13, 2011, the Company announced that its Board of Directors (the "Board") approved a 20% increase in the Company's quarterly cash dividend rate to 9 cents per share from the previous quarterly rate of 7.5 cents per share. The new quarterly dividend rate of 9 cents per share is applicable to dividends declared after June 22, 2011. On February 22, 2012, the Company announced that the Board declared a quarterly cash dividend of 9 cents per share on the Company's common stock, payable on March 21, 2012 to shareholders of record at the close of business on March 6, 2012.

On March 8, 2011, the Company announced that the Board approved a new Stock Repurchase Program which authorized the Company to repurchase up to \$200.0 million of its outstanding common stock (the "2011 Stock Repurchase Program") from time to time, either on the open market or through privately negotiated transactions. During 2011, the Company spent \$100.0 million under the 2011 Stock Repurchase Program to repurchase approximately 6.1 million shares of its common stock. The Company has \$100.0 million remaining under the 2011 Stock Repurchase Program.

The Board has also granted the Company the authority to repurchase additional amounts of its outstanding common stock using available proceeds from the exercise of stock options, as well as the tax benefits that accrue to the Company from the exercise of stock options, SARs and from other equity grants. During 2011, the Company repurchased approximately 0.7 million shares for \$10.0 million using proceeds from these sources. In addition, the Company paid \$0.8 million, \$0.1 million and \$0.2 million in 2011, 2010 and 2009, respectively, on behalf of the recipients who relinquished shares to satisfy the tax liability associated with performance shares and stock awards. At January 28, 2012, approximately \$0.3 million was available to the Company for stock repurchases using proceeds from the exercise of employee stock options and SARs.

During 2011, the Company retired 27.3 million shares of its treasury stock at a cost of \$429.3 million.

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

NOTE 9 – 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 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, SARs, performance shares or units, stock units and stock grants. To fund the 2001 Equity Incentive Plan, 12,375,000 shares of the Company's common stock were reserved for issuance upon exercise of awards. On June 9, 2011, the Company's shareholders approved the Second Amended and Restated 2008 Equity Incentive Plan to increase the number of shares available for stock awards under the 2008 Equity Incentive Plan from 2,750,000 shares to 4,550,000 shares.

The following table summarizes the stock compensation expense by type of grant for 2011, 2010 and 2009 (in thousands, except per share amounts):

| | Fiscal Year | | |
|-----------------------------------|-----------------|-----------------|-----------------|
| | 2011 | 2010 | 2009 |
| Stock options and SARs | \$ 4,244 | \$ 3,779 | \$ 3,815 |
| Non-vested stock | 2,027 | 1,353 | 1,091 |
| Performance shares | 1,419 | 1,643 | 1,753 |
| Total compensation expense | 7,690 | 6,775 | 6,659 |
| Related tax benefit | (2,653) | (2,446) | (2,484) |
| | \$ 5,037 | \$ 4,329 | \$ 4,175 |
| Earnings per share: | | | |
| Basic | \$ 0.15 | \$ 0.11 | \$ 0.11 |
| Diluted | 0.15 | 0.11 | 0.11 |

As of January 28, 2012, the Company had unrecognized compensation cost of \$14.0 million related to stock-based compensation awards granted. That cost is expected to be recognized over a weighted average period of 2.4 years.

The following table provides the significant weighted average assumptions used in determining the estimated fair value, at the date of grant under the Black-Scholes option-pricing model, for stock options and SARs granted in 2011, 2010 and 2009:

| | Fiscal Year | | |
|-------------------------------------|---------------|---------------|---------------|
| | 2011 | 2010 | 2009 |
| Expected volatility | 63.4% - 63.7% | 62.1% - 63.7% | 59.4% - 63.0% |
| Weighted average volatility | 63.6% | 62.2% | 59.5% |
| Risk-free rate | 1.5% - 1.9% | 1.2% - 2.3% | 1.6% - 2.0% |
| Expected life of options (in years) | 4.3 | 4.3 | 4.1 |
| Expected dividend yield | 1.6% - 1.9% | 1.3% - 2.3% | 1.5% - 2.1% |

The expected volatility was based on historical volatility for a period equal to the award's expected life. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life (estimated period of time outstanding) of awards granted was estimated using the historical exercise behavior of employees. The expected dividend yield is based on the current dividend payout activity and the market price of the Company's stock.

Stock Options and SARs

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. Options issued prior to January 29, 2005, will generally expire, if not exercised, within ten years from the date of the grant, while options and SARs granted after that date generally expire, if not exercised, within seven years from

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

the date of grant. The weighted average grant date fair value for SARs granted during 2011, 2010 and 2009 is \$8.69, \$6.76 and \$4.06, respectively.

The following table summarizes information about stock options and SARs outstanding under the Equity Incentive Plans as of January 28, 2012 and changes during the fifty-two weeks ended January 28, 2012:

| | Number of Outstanding Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value (in thousands) |
|------------------------------------|---------------------------------|---------------------------------------|---|--|
| Outstanding at January 29, 2011 | 4,295,148 | \$ 14.99 | | |
| Granted | 661,950 | 18.84 | | |
| Exercised | (635,001) | 11.47 | | |
| Forfeited | (317,840) | 16.02 | | |
| Outstanding at January 28, 2012 | 4,004,257 | \$ 16.10 | 3.6 | \$ 5,855 |
| Vested or expected to vest at | | | | |
| January 28, 2012 | 3,735,105 | \$ 16.16 | 3.5 | \$ 5,407 |
| Exercisable at January 28, 2012 | 2,209,907 | \$ 16.83 | 2.4 | \$ 2,865 |

The following table summarizes information about non-vested stock options and SARs outstanding as of January 28, 2012 and changes during the fifty-two weeks ended January 28, 2012:

| Stock Options/ SARs | Number of Shares | Weighted Average Grant Date Fair Value |
|--------------------------------|------------------|--|
| Non-vested at January 29, 2011 | 2,040,565 | \$ 5.61 |
| Granted | 661,950 | 8.69 |
| Vested | (718,815) | 5.51 |
| Forfeited | (189,350) | 6.23 |
| Non-vested at January 28, 2012 | 1,794,350 | 6.72 |

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 option, exercised during 2011, 2010 and 2009 was \$4.2 million, \$6.0 million and \$0.4 million, respectively.

Non-vested Stock

The Company has granted shares of non-vested stock to 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.

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

The following table summarizes information about non-vested stock granted by the Company as of January 28, 2012 and changes during the fifty-two weeks ended January 28, 2012:

| Non-vested Stock | Number of Shares | Weighted Average Grant Date Fair Value |
|---------------------------------|------------------|--|
| Outstanding at January 29, 2011 | 283,123 | \$ 12.16 |
| Granted | 336,120 | 17.88 |
| Vested | (147,337) | 11.37 |
| Forfeited | (94,941) | 15.70 |
| Outstanding at January 28, 2012 | 376,965 | 16.68 |

The aggregate intrinsic value of non-vested stock that vested during 2011, 2010 and 2009 was \$2.3 million, \$0.8 million and \$0.6 million, respectively. The weighted-average grant date fair value for non-vested shares granted in 2011, 2010 and 2009 was \$17.88, \$12.68 and \$13.29, respectively. The payment of the employees' tax liability for a portion of the non-vested shares that vested during 2011 was satisfied by withholding shares with a fair value equal to the tax liability. As a result, the actual number of shares issued was 125,160.

Performance Shares

The Company has granted 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 ("Target Shares"), as reflected in the table below. The actual number of shares issued is determined by the Company's shareholder return performance relative to a specific group of companies over a three-year performance cycle. Compensation expense, which is recorded ratably over the vesting period, is based on the fair value at grant date and the anticipated number of shares of the Company's common stock, which is determined on a Monte Carlo probability model. Grant recipients do not have any shareholder rights until the granted shares have been issued.

The following table summarizes information about the performance shares that remain outstanding as of January 28, 2012:

| Period Granted | Target Shares Outstanding at Beginning of Year | Target Shares Granted | Target Shares Forfeited | Target Shares Outstanding at End of Year | Weighted Average Grant Date Fair Value per Share |
|-------------------|---|-----------------------------|-------------------------------|---|--|
| 2009 | 118,500 | - | (11,000) | 107,500 | \$ 12.79 |
| 2010 | 138,000 | - | (31,000) | 107,000 | 19.75 |
| 2011 | - | 74,375 | (10,150) | 64,225 | 25.00 |
| Total | 256,500 | 74,375 | (52,150) | 278,725 | |

During 2011, 90,298 shares, with an aggregate intrinsic value of \$1.7 million, vested related to the 2008 performance share grant. The payment of the recipients' tax liability of approximately \$0.5 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 65,246. On March 28, 2012, 40,314 shares of common stock were deemed to have been earned related to the 2009 performance stock grant.

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

NOTE 10 - BENEFIT PLANS

401(k) Plan: The Company has a contributory 401(k) savings plan (the “401(k) Plan”) covering all full and part-time employees with 60 days of service, who are age 21 or older. Under the 401(k) Plan, participants may contribute up to 50% of their qualifying earnings on a pre-tax basis, and up to 10% of their qualifying earnings on a post-tax basis, subject to certain restrictions. The Company currently matches 50% of each participant’s pre-tax contributions, limited up to 6% of each participant’s compensation under the Plan. The Company may make discretionary matching contributions during the year. The Company’s matching contributions expense for the 401(k) Plan were approximately \$1.4 million, \$1.3 million and \$1.2 million in 2011, 2010 and 2009, respectively.

Deferred Compensation Plans: The Company has two deferred compensation plans (the “Deferred Compensation Plans”) which provide executives, certain officers and key employees of the Company with the opportunity to participate in unfunded, deferred compensation programs that are not qualified under the Internal Revenue Code of 1986, as amended, (the “Code”). Generally, the Code and the Employee Retirement Income Security Act of 1974, as amended, restrict contributions to a 401(k) plan by highly compensated employees. The Deferred Compensation Plans are intended to allow participants to defer income on a pre-tax basis. Under the Deferred Compensation Plans, participants may defer up to 50% of their base salary and up to 100% of their bonus and earn a rate of return based on actual investments chosen by each participant. The Company has established grantor trusts for the purposes of holding assets to provide benefits to the participants. For the plan involving the executives and certain officers, the Company will match 100% of each participant’s contributions, up to 10% of the sum of their base salary and bonus. For the plan involving other key employees, the Company may make a bi-weekly discretionary matching contribution. The Company currently matches 50% of each participant’s contributions, up to 6% of the participant’s compensation offset by the contribution the Company makes to the participant’s 401(k) account, if any. For both plans, Company contributions are vested 100%. In addition, the Company may, with approval by the Board of Directors, make an additional employer contribution in any amount with respect to any participant as is determined in its sole discretion. The Company’s matching contribution expense for the Deferred Compensation Plans was approximately \$0.9 million, \$1.1 million and \$1.0 million for 2011, 2010 and 2009, respectively.

Non-Employee Director Equity Compensation Plan: In 2003, the Company adopted, and the Company’s shareholders approved, the 2003 Non-Employee Director Equity Compensation Plan. The plan was amended and restated effective December 19, 2009. 225,000 shares of the Company’s stock have been reserved to fund this plan. Under this plan, non-employee Directors have the option to defer all or a portion of their annual compensation fees and to receive such deferred fees in the form of restricted stock or deferred stock units as defined in this plan. At January 28, 2012 and January 29, 2011, \$0.2 million and \$0.2 million, respectively, were deferred under this plan.

Frozen Defined Benefit Plan: The Company sponsors a defined benefit plan (the “Plan”), which covers substantially all employees who had met eligibility requirements and were enrolled prior to June 30, 1998. This plan was frozen effective June 30, 1998.

Benefits for the Plan are administered through a trust arrangement, which provides monthly payments or lump sum distributions. Benefits under the Plan were based upon a percentage of the participant’s earnings during each year of credited service. Any service after the date the Plan was frozen will continue to count toward vesting and eligibility for normal and early retirement for existing participants. The measurement dates used to determine pension benefit obligations were January 28, 2012 and January 29, 2011.

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

Information regarding the Plan is as follows (in thousands):

| | Fiscal Year | |
|--|-------------|-----------|
| | 2011 | 2010 |
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | \$ 35,261 | \$ 38,908 |
| Interest cost | 2,063 | 2,116 |
| Actuarial loss (gain) | 4,744 | (2,532) |
| Plan disbursements | (2,030) | (3,231) |
| Settlement (1) | (2,150) | - |
| Projected benefit obligation at end of year | 37,888 | 35,261 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | 32,837 | 30,696 |
| Actual return on plan assets | 3,706 | 4,022 |
| Employer contributions | 1,000 | 1,350 |
| Plan disbursements | (2,030) | (3,231) |
| Settlement paid (1) | (2,150) | - |
| Fair value of plan assets at end of year | 33,363 | 32,837 |
| Underfunded status | (4,525) | (2,424) |
| Amounts recognized in the consolidated balance sheet consist of: | | |
| Accrued benefit liability - included in other long-term liabilities | (4,525) | (2,424) |
| Amount recognized in accumulated other comprehensive loss, pre-tax (2) | 7,650 | 4,768 |

- (1) The settlement was caused by lump sum payments exceeding the interest cost for 2011. Settlements of this nature may occur in future years.
- (2) Consists solely of net actuarial losses as there are no prior service costs.

| | Fiscal Year | | |
|---|-------------|-------|------------------------------|
| | 2011 | 2010 | |
| Weighted-average assumptions: | | | |
| For determining benefit obligations at year-end: | | | |
| Discount rate | 5.10% | 5.99% | |
| For determining net periodic pension cost for year: | | | |
| Discount rate | 5.99% | 5.84% | Fiscal Year 2009 6.75% |

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| | | | |
|---------------------------|-------|-------|-------|
| Expected return on assets | 7.50% | 7.50% | 8.00% |
|---------------------------|-------|-------|-------|

The discount rate was determined using yields on a hypothetical bond portfolio that matches the approximated cash flows of the Plan. The Company develops its long-term rate of return assumptions using long-term historical actual return data considering the mix of investments that comprise plan assets and input from professional advisors. The Plan's trustees have engaged investment advisors to manage and monitor performance of the investments of the Plan's assets and consult with the Plan's trustees.

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

The allocations of Plan's assets by category are as follows:

| | 2012 Target | | Fiscal Year | | | |
|-------------------------|-------------|---|-------------|---|------|---|
| | Allocation | | 2011 | | 2010 | |
| Equity securities | 50 | % | 50 | % | 52 | % |
| Fixed income securities | 50 | | 49 | | 47 | |
| Other - primarily cash | - | | 1 | | 1 | |
| Total | 100 | % | 100 | % | 100 | % |

The Company employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return on Plan assets for a prudent level of risk. The investment portfolio consists of actively managed and indexed mutual funds of domestic and international equities and investment-grade corporate bonds and U.S. government securities. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews and annual liability measurements.

The following Plan assets are measured at fair value on a recurring basis (in thousands):

| | Balance | January 28, 2012 | | |
|-------------------------|-----------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Mutual funds: | | | | |
| Equity securities | \$ 16,784 | \$ 16,784 | \$ - | \$ - |
| Fixed income securities | 16,365 | 16,365 | - | - |
| Other - primarily cash | 214 | 214 | - | - |
| Total | \$ 33,363 | \$ 33,363 | \$ - | \$ - |

The components of net periodic benefit cost for the Plan were as follows (in thousands):

| | Fiscal Year | | |
|--|-------------|----------|----------|
| | 2011 | 2010 | 2009 |
| Net periodic pension cost for the fiscal year: | | | |
| Interest cost | \$ 2,063 | \$ 2,116 | \$ 2,322 |
| Expected return on plan assets | (2,437) | (2,224) | (2,005) |
| Net loss amortization | 158 | 427 | 520 |
| Net pension (income) cost | (216) | 319 | 837 |
| Loss due to settlement | 434 | - | - |

| | | | |
|--------------------|--------|--------|--------|
| Total pension cost | \$ 218 | \$ 319 | \$ 837 |
|--------------------|--------|--------|--------|

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

Other changes in Plan assets and benefit obligations recognized in other comprehensive loss are as follows (in thousands):

| | Fiscal Year | |
|--|-------------|-------------|
| | 2011 | 2010 |
| Amortization of net loss | \$ (158) | \$ (427) |
| Settlement | (434) | - |
| Net loss (gain) | 3,474 | (4,331) |
| Net change recognized in other comprehensive loss, pre-tax | \$ 2,882 | \$ (4,758) |

The estimated net loss that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is \$0.4 million.

The Company's funding policy is to make contributions to maintain the minimum funding requirements for its pension obligation 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 short-term liquidity needs of the Plan in order to maintain current invested positions. The Company expects to contribute approximately \$0.1 million during 2012.

The following benefit payments are expected to be paid (in thousands):

| Fiscal Year | Payments |
|--------------------------|----------|
| 2012 | \$ 2,649 |
| 2013 | 2,981 |
| 2014 | 2,829 |
| 2015 | 2,697 |
| 2016 | 3,282 |
| Fiscal years 2017 - 2021 | 15,090 |

The accumulated benefit obligation for the Plan was \$37.9 million and \$35.3 million at January 28, 2012 and January 29, 2011, respectively.

NOTE 11 - OPERATING LEASES

The Company leases stores, its corporate headquarters, one distribution center and equipment under operating leases. Such leases generally contain renewal options and require that the Company pay for utilities, taxes and maintenance expense. A number of store leases provide for escalating minimum rent. Rent expense for operating leases for 2011, 2010 and 2009 was \$72.9 million, \$72.5 million and \$71.1 million, respectively, and includes minimum rentals of \$69.2 million, \$68.9 million and \$68.5 million in 2011, 2010 and 2009, respectively. Rent expense also includes contingent rentals of \$3.7 million, \$3.6 million and \$2.6 million in 2011, 2010 and 2009, respectively, and sublease rental income of \$0.01 million, \$0.01 million and \$0.01 million in 2011, 2010 and 2009, respectively.

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

Minimum rental commitments on long-term, non-cancelable operating leases at January 28, 2012, net of sub-lease rental income, are as follows (in thousands):

| Fiscal Year | Commitments |
|-------------|-------------|
| 2012 | \$ 79,887 |
| 2013 | 72,511 |
| 2014 | 62,471 |
| 2015 | 54,972 |
| 2016 | 45,075 |
| Thereafter | 99,635 |
| Total | \$ 414,551 |

NOTE 12 - INCOME TAXES

All Company operations are domestic. Income tax expense consisted of the following (in thousands):

| | 2011 | Fiscal Year 2010 | 2009 |
|-----------------------------|-----------|---------------------|-----------|
| Federal income tax expense: | | | |
| Current | \$ 8,108 | \$ 14,646 | \$ 13,145 |
| Deferred | 6,101 | 4,744 | 1,144 |
| | 14,209 | 19,390 | 14,289 |
| State income tax expense: | | | |
| Current | 1,673 | 1,741 | 2,593 |
| Deferred | 433 | 121 | 224 |
| | 2,106 | 1,862 | 2,817 |
| | \$ 16,315 | \$ 21,252 | \$ 17,106 |

Reconciliation between the federal income tax expense charged to income before income tax computed at statutory tax rates and the actual income tax expense recorded follows (in thousands):

| | 2011 | Fiscal Year 2010 | 2009 |
|----------------------------|-----------|---------------------|-----------|
| Federal income tax expense | | | |
| at the statutory rate | \$ 16,546 | \$ 20,612 | \$ 16,039 |
| State income taxes, net | 1,411 | 1,354 | 1,910 |
| Job credits and other, net | (1,642) | (714) | (843) |
| | \$ 16,315 | \$ 21,252 | \$ 17,106 |

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

Deferred tax assets (liabilities) consist of the following (in thousands):

| | January 28, 2012 | January 29, 2011 |
|----------------------------------|------------------|------------------|
| Gross deferred tax assets: | | |
| Net operating loss carryforwards | \$ 1,195 | \$ 1,857 |
| Accrued expenses | 2,633 | 4,029 |
| Lease obligations | 25,503 | 27,115 |
| Deferred compensation | 16,694 | 14,896 |
| Deferred income | 1,648 | 2,071 |
| Other | 820 | 903 |
| | 48,493 | 50,871 |
| Gross deferred tax liabilities: | | |
| Inventory | (6,255) | (6,262) |
| Depreciation and amortization | (61,698) | (58,558) |
| | (67,953) | (64,820) |
| Valuation allowance | (654) | (831) |
| Net deferred tax liabilities | \$ (20,114) | \$ (14,780) |

ASC No. 740, Income Taxes, requires recognition of future tax benefits of deferred tax assets to the extent such realization is more likely than not. Net non-current deferred tax liabilities were \$17.8 million and \$14.4 million and net current deferred tax liabilities were \$2.3 million and \$0.4 million at January 28, 2012 and January 29, 2011, respectively. Consistent with the requirements of ASC No. 740, the tax benefits recognized related to pre-reorganization deferred tax assets have been recorded as a direct addition to additional paid-in capital. The remaining valuation allowance of \$0.7 million and \$0.8 million at January 28, 2012 and January 29, 2011, respectively, was established for pre-reorganization state net operating losses, which may expire prior to utilization. Adjustments are made to reduce the recorded valuation allowance when positive evidence exists that is sufficient to overcome the negative evidence associated with those losses.

The Company has net operating loss carryforwards for state income tax purposes of approximately \$19.2 million which, if not utilized, will expire in varying amounts between 2013 and 2021. The Company has net operating loss carryforwards for federal income tax purposes of approximately \$1.0 million, which, if not utilized, will expire in varying amounts between 2023 and 2026.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. The Company is subject to U.S. federal income tax examinations by tax authorities for the fiscal year ended January 31, 2009 and forward. Although the outcome of tax audits is uncertain, the Company has concluded that there were no significant uncertain tax positions, as defined by ASC No. 740-10, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, requiring recognition in its financial statements. However, the Company may, from time to time, be assessed interest and/or penalties. In the event the Company receives an assessment for interest and/or penalties, it will be classified in the financial statements as income tax expense.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

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

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Stage Stores, Inc.
Notes to Consolidated Financial Statements – (continued)

NOTE 14 - QUARTERLY FINANCIAL INFORMATION (unaudited)

The following table shows quarterly information (in thousands, except per share amounts):

| | Fiscal Year 2011 | | | |
|--|------------------|------------|--------------|------------|
| | Q1 | Q2 | Q3 | Q4 |
| Net sales | \$ 346,483 | \$ 352,832 | \$ 333,508 | \$ 479,096 |
| Gross profit | \$ 85,220 | \$ 103,857 | \$ 71,163 | \$ 150,360 |
| Net (loss) income | \$ (461) | \$ 10,013 | \$ (11,306) | \$ 32,714 |
| Basic (loss) earnings per common share | \$ (0.01) | \$ 0.29 | \$ (0.36) | \$ 1.06 |
| Diluted (loss) earnings per common share | \$ (0.01) | \$ 0.29 | \$ (0.36) | \$ 1.05 |
| Basic weighted average shares | 36,279 | 34,236 | 31,139 | 30,432 |
| Diluted weighted average shares | 36,279 | 34,635 | 31,139 | 30,603 |
| | Fiscal Year 2010 | | | |
| | Q1 | Q2 | Q3 | Q4 |
| Net sales | \$ 340,042 | \$ 345,019 | \$ 331,850 | \$ 453,679 |
| Gross profit | \$ 89,895 | \$ 104,150 | \$ 76,590 | \$ 146,189 |
| Net income (loss) | \$ 2,198 | \$ 10,327 | \$ (6,865) | \$ 31,980 |
| Basic earnings (loss) per common share | \$ 0.06 | \$ 0.27 | \$ (0.18) | \$ 0.87 |
| Diluted earnings (loss) per common share | \$ 0.06 | \$ 0.27 | \$ (0.18) | \$ 0.86 |
| Basic weighted average shares | 38,273 | 38,359 | 37,362 | 36,629 |
| Diluted weighted average shares | 38,773 | 38,587 | 37,362 | 37,083 |

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