

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

)	
In re:)	Chapter 11
)	
STAGE STORES, INC., <i>et al.</i> , ¹)	Case No. 20-32564 (DRJ)
)	
Debtors.)	(Joint Administration Requested)
)	

**DECLARATION OF ELAINE D. CROWLEY,
CHIEF RESTRUCTURING OFFICER OF STAGE STORES, INC., IN
SUPPORT OF DEBTORS' CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS**

I, Elaine D. Crowley, hereby declare under penalty of perjury:

1. I am the Chief Restructuring Officer of Stage Stores, Inc., a corporation organized under the laws of Nevada and one of the above-captioned debtors and debtors in possession (collectively, the “Debtors” or “Stage Stores”).

2. I have been Chief Restructuring Officer of Stage Stores since May 10, 2020. I have over 30 years of retail industry experience, including serving as Audit Committee Chair of Stage Stores for the past three years. I was formerly the Senior Vice President, Chief Financial Officer, and Treasurer of The Bombay Company, Inc.; Executive Vice President and Chief Financial Officer of Michaels Stores, Inc.; Executive Vice President and Chief Financial Officer of Mattress Giant Corp.; and a Senior Manager at PricewaterhouseCoopers LLP. I received my undergraduate degree from Texas Christian University’s M.J Neeley School of Business. I am a Certified Public Accountant licensed in the state of Texas.

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are: Stage Stores, Inc. (6900) and Specialty Retailers, Inc. (1900). The Debtors’ service address is: 2425 West Loop South, Houston, Texas 77027.



3. Since February 2020, I have served as Chairman of the Special Committee to the Board of Directors and have been involved in discussions regarding attempts to effect an out-of-court reorganization. In connection with this chapter 11 filing, I have been appointed as Chief Restructuring Officer. As a result of my tenure as a member of the Board of Directors of Stage Stores and my discussions with other members of Stage Stores' management team, I am generally familiar with Stage Stores' businesses, financial affairs, policies and procedures, day-to-day operations, and books and records.

4. I submit this declaration to assist the Court and parties in interest in understanding the circumstances compelling the commencement of these chapter 11 cases and in support of the Debtors' chapter 11 petitions and certain motions and applications filed today.

5. Except as otherwise indicated, all facts in this declaration are based upon my personal knowledge, my discussions with the Debtors' management team and advisors, my review of relevant documents and information concerning the Debtors' operations, financial affairs, and restructuring initiatives, or my opinions based upon my experience and knowledge. I am over the age of eighteen and authorized to submit this declaration on behalf of the Debtors. If called upon to testify, I could and would testify competently to the facts set forth in this declaration.

Preliminary Statement

6. In late 2018 and into 2019, Stage Stores—a leading retailer of trend-right, moderately priced, name-brand apparel, accessories, cosmetics, footwear, and home goods in small and mid-size markets across the United States—tested and began to implement a new business model in an effort to position the company for future success. More specifically, Stage Stores began to transition all of its stores from a full-price retail model operating under the Bealls, Palais Royal, Peebles, Stage, and Goody’s brands to an off-price business model under the Gordmans brand name. Based on the encouraging results of 82 store transitions completed before September 2019, Stage Stores believed that the off-price model would buffer the company against the general shift in consumer

behavior away from brick-and-mortar retail and help alleviate liquidity challenges.² While the Debtors missed their fourth quarter holiday forecasts, the market nevertheless supported the changes: Stage



² The Debtors converted nine department stores to the off-price model in 2018 and, based on the success of those conversions, announced plans to convert approximately 220 department stores to off-price stores by the middle of 2020. Throughout 2019, the off-price stores continued to exceed expectations.

Stores stock (NYSE: SSI) rose from lows of under a dollar in January 2019 to a high of \$9.50 in early 2020, including a 13% jump after Stage Stores announced its plans.³

7. And then COVID-19 happened. In this new reality and complete uncertainty, absent a third-party investor or purchaser, Stage Stores does not have the liquidity to implement its plan and continue operations. To preserve liquidity over the last few months, the Debtors closed their stores and furloughed approximately 14,694 employees on March 27, 2020. The Debtors have not made rent payments on most of their 734 leases since March, resulting in approximately \$31 million in past due rent.⁴ Many landlords have sent the Debtors notices of default and began to take other actions, including locking the Debtors out of their stores, commencing (or threatening to commence) eviction proceedings, or resorting to other “self-help” remedies. Combined with zero revenue and uncertainty associated with consumer demand in the coming months, Stage Stores, like so many others, is in the middle of a perfect storm.

8. Accordingly, the Debtors commenced these chapter 11 cases to stabilize their store base and operations. The Debtors continue to believe that there is value in their brands and operations as a going-concern, and have explored potential transactions in the preceding months. The Debtors and their advisors will continue to explore any and all alternatives throughout the course of the chapter 11 cases to maximize value for their estates. To implement these objectives, the Debtors filed these chapter 11 cases with several objectives and related motions:

- a. **Sale Process.** The Debtors propose a speedy, public, and flexible auction process as set forth in the Notice of Sale Process [Docket No. 19] to pursue a going-concern transaction or otherwise monetize the Debtors’ assets. The Debtors will manage their inventory during the store closings as best as able to increase the likelihood of a

³ See Stage Stores stock jumps 13% after announcing off-price store conversion, 40 store closures Sept. 17, 2019. Available Online. <https://www.marketwatch.com/story/stage-stores-stock-jumps-13-after-announcing-off-price-store-conversion-40-store-closures-2019-09-17>.

⁴ The Debtors have received notices of non-payment and demands to cure many of such non-payments.

going-concern transaction and, to the extent one materializes, will quickly pivot to cease store closings at any stores needed to implement the going-concern transaction. The Debtors believe that this dual-path process will best maximize value for all stakeholders.

- b. **Cash Collateral.** The Debtors filed an emergency motion seeking the use of cash collateral with their prepetition secured lenders. This financing is expected to be sufficient for the duration of these chapter 11 cases, but, to the extent the Debtors need incremental debtor-in-possession financing, they will file a motion seeking approval of such financing at the appropriate time.
- c. **Store Operations.** In light of the COVID-19 pandemic and non-payment of rent, the Debtors have received many notices of default from landlords and anticipate a flurry of requests for relief from landlords related thereto. Additionally, the Debtors' stores remain closed as a result of COVID-19 restrictions, with some stores scheduled to reopen in the coming weeks. Accordingly, the Debtors are seeking certain direct relief (delayed rent payments pursuant to section 365(d)(3) of the Bankruptcy Code for non-operating stores) and administrative procedures (process to efficiently handle motions seeking to lift the automatic stay or collect payment) similar to relief granted in other retail cases in order to best manage challenges related to the current global crisis in these chapter 11 cases.
- d. **Wind-Down Motion.** The Debtors are seeking authority to liquidate their inventory, wind-down operations, and close stores, utilizing procedures commonly used in retail store closings.

9. To familiarize the Court with the Debtors, their business, the circumstances leading to these chapter 11 cases, and the relief the Debtors are seeking in those certain motions and applications filed contemporaneously herewith, I have organized this declaration as follows:

- **Part I** provides a general overview of the Debtors' corporate history and operations;
- **Part II** describes the circumstances leading to these chapter 11 cases;
- **Part III** provides an overview of the Debtors' prepetition corporate and capital structure;
- **Part IV** describes the Debtors' prepetition restructuring efforts; and

- **Part V** summarizes the relief requested in, and the legal and factual basis supporting, the Debtors’ first day motions.

I. Corporate History and Business Operations.

A. History.

10. Stage Stores, then Specialty Retailers, Inc. (“Specialty Retailers”), was founded in 1988 as a private company with the concurrent acquisition of Palais Royal and Bealls. At the time of the acquisition, Palais Royal operated primarily larger stores in the Houston metropolitan area and Bealls operated primarily smaller stores principally located in rural Texas towns. In the early 1990s, Specialty Retailers was focused on integrating the two businesses, identifying their respective strengths, and developing and refining its growth strategy. During this period, Specialty Retailers developed a growth strategy that was focused on expanding its presence in small markets across the country through new store openings and strategic acquisitions and consolidations of complementary apparel retailers. As part of this strategy, in 1993, Apparel Retailers, Inc. (“Apparel Retailers”) was formed and concurrently became the parent company of Specialty Retailers, Inc. In 1996, Apparel Retailer, Inc. changed its name to Stage Stores, Inc. and went public in conjunction with a stepped-up expansion strategy, with a particular focus on small market growth. In 1999, Stage Stores filed for chapter 11 bankruptcy in the Southern District of Texas following a period of rapid expansion.



11. Following the IPO and throughout the 2000s, Stage Stores continued to implement its growth strategy in small and mid-size markets across the United States, acquiring Peebles Inc. and the Goody’s name. In 2017, with the goal of benefitting from the recent growth in the off-price

segment of the retail industry, Stage Stores entered the off-price segment with its strategic acquisition of the Gordmans brand. Since the Gordmans acquisition, Stage Stores has announced its decision to convert all of its stores to the Gordmans off-price model by mid-2020.

B. Business Operations.

12. Stage Stores—through its wholly owned subsidiary, Specialty Retailers—operates a network of specialty department stores and off-price retail stores across the United States that offer nationally recognized, moderately priced, brand-name and private-label apparel, accessories, fragrances, cosmetics, footwear, and home goods for the entire family. Stage Stores' merchandise is sourced from primarily domestic vendors and is distributed through Stage Stores' distribution centers located in Jacksonville, Texas; Jeffersonville, Ohio; and Omaha, Nebraska; as well as five smaller, overflow locations.

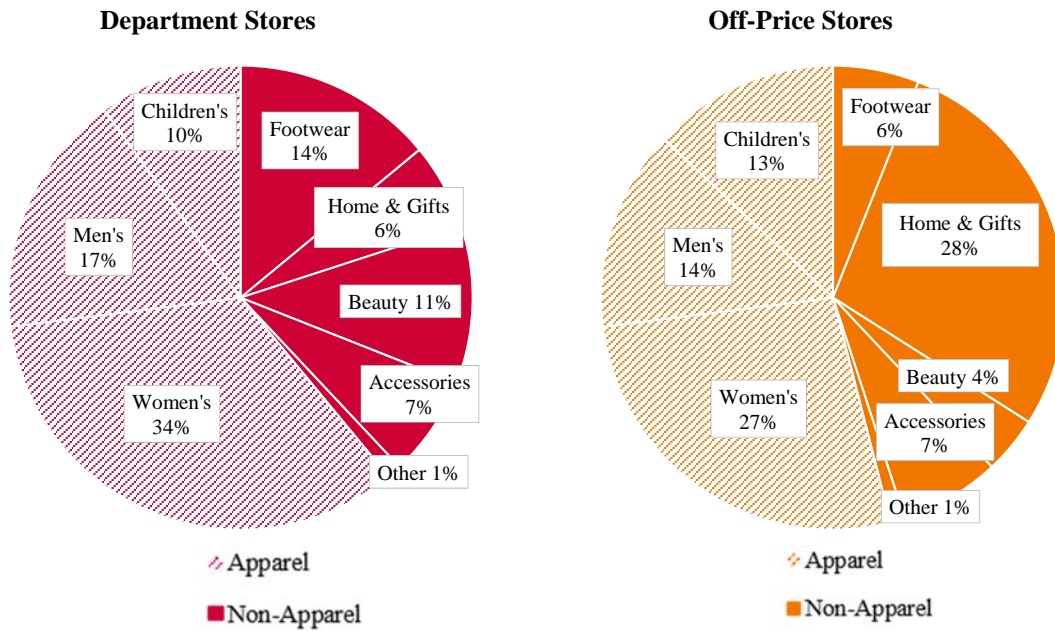
1. Department Stores and Off-Price Stores.

13. As of the Petition Date, Stage Stores operates in 42 states through 437 department stores under the Bealls, Goody's, Palais Royal, Peebles, and Stage nameplates and 289 off-price stores under the Gordmans brand. Stage Stores also historically operated e-commerce business for its department stores, which was closed prior to Petition Date. Stage Stores' department stores are predominately located in small towns and rural communities in south and south central states and its off-price stores are located in mid-sized, non-rural Midwestern states.

2. Merchandising.

14. Stage Stores business is highly dependent on identifying on-trend merchandise that reflect current styles and trends. Stage Stores offers a well-edited selection of moderately priced, branded merchandise within merchandise categories of women's, men's, and children's apparel, accessories, cosmetics, footwear, and home goods in its department stores, and off-price stores.

Stage Stores' department stores merchandise offers more apparel categories, while its off-price stores carry a larger selection of home goods.



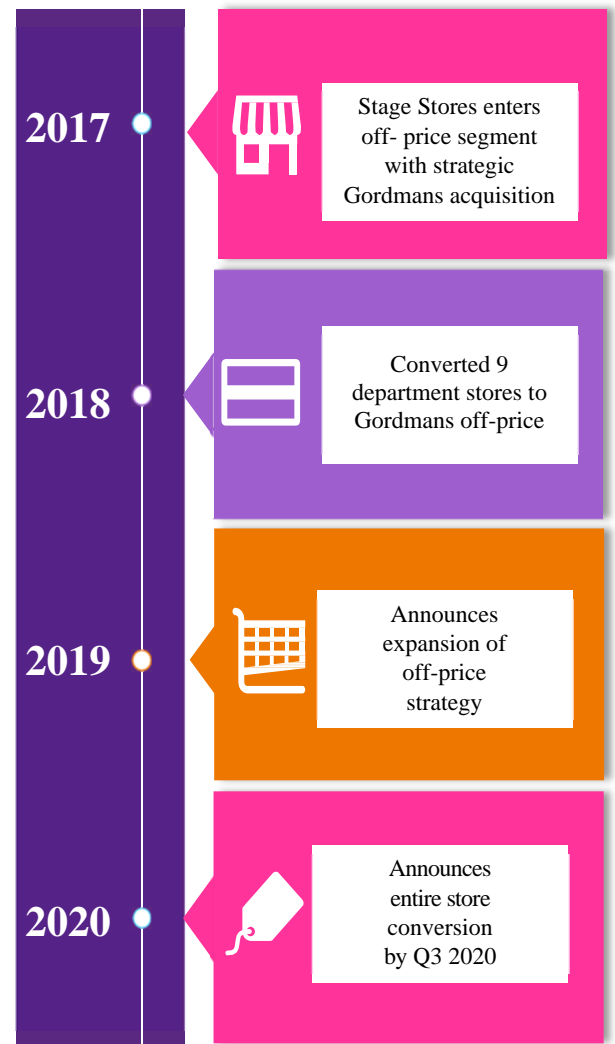
15. Stage Stores' department stores and off-price stores each offer different assortments of merchandise and employ different merchandising techniques and selling strategies. For instance, Stage Stores' department stores offer a deeper, more curated selection of assortments with sales driven by high-low pricing promotions, value coupons, and in-person advice from knowledgeable employees. Approximately 83% of Stage Stores' department store sales are related to nationally recognized brand names, such as Adidas, Calvin Klein, Carters, Chaps, Clinique, Dockers, Estée Lauder, G by Guess, Izod, Jessica Simpson, Levi's, Nike, Nine West, and Skechers, and the remaining 17% of sales are related to Stage Stores' private label and exclusive brand merchandise. On the other hand, Stage Stores' off-price stores offer a varied assortment of top trends, brand-name apparel, and stylish home décor at everyday value pricing in a treasure-hunt environment with sales driven by calendar events such as holidays, back-to-school, graduations, birthdays, and anniversaries. Moreover, Stage Stores' stores vary in merchandise to

accommodate the different demographic, regional, and climate characteristics where stores are located.

3. Off-Price Conversions.

16. As discussed above, starting in 2017, Stage Stores took significant steps towards entering the off-price segment of the retail industry by acquiring select assets of Gordmans Stores, Inc. After strong performance results from the Gordmans off-price stores, in 2018, Stage Stores converted nine of its department stores to the Gordmans off-price model. By November 2018, the Gordmans off-price stores' comparable sales increased approximately 10% and the converted department stores were also showing strong results. Stage Stores department stores' comparable sales, however, decreased by 5.5% and total company comparable sales decreased by 2.8%.

17. During the last quarter of 2018, the off-price stores continued to succeed while the department stores did not materially improve. As a result, in January 2019, Stage Stores introduced its new multi-year plan to accelerate off-price growth by converting approximately 220 department stores to the off-price model by the middle of 2020, which included another 37 off-price conversions in the first quarter of 2019 alone. By mid-March of that year, the converted stores completed in both 2018 and 2019 exceeded performance expectations, which became the catalyst for Stage Stores' announcement of an



acceleration and slight expansion of its off-price store conversion strategy, this time with the goal of converting 85 department stores to the Gordmans off-price model by 2019 and another 300 conversions by the middle of 2020. Then in July of 2019, Stage Stores announced its plan to convert substantially all of its stores to the Gordmans off-price model with expectations to end 2020 with more than 400 conversions. As of the Petition Date, Stage Stores has converted 233 of its department stores to the Gordmans off-price model.

C. Critical Components of the Debtors' Cost Structure.

1. Supply Chain.

18. The Debtors maintain an integrated supply chain aimed at ensuring the uninterrupted flow of inventory and other goods to off-price and department store locations. Generally, the Debtors contract with various domestic and foreign vendors and manufacturers to supply merchandise in connection with the Debtors' business operations. The Debtors obtain a substantial majority of their merchandise from domestic vendors. This merchandise is consolidated separately on the East and West coasts by contracted consolidators. The remainder of the merchandise, including the Debtors' private label goods, is shipped from China and consolidated in California. Domestic shippers then ship the merchandise to the Debtors' distribution centers located in Jacksonville, Texas; Jeffersonville, Ohio; and Omaha, Nebraska; and five additional overflow locations. The flow of merchandise from the vendors to the Debtors' brick-and-mortar stores primarily depends on services provided by third-party delivery service companies. In some instances, however, the Debtors also act as a carrier and shipper.

2. Employee Compensation and Benefits.

19. The Debtors employ approximately 14,659 employees, including approximately 4,324 full-time employees, approximately 7,650 part-time employees, and approximately 2,772 seasonal employees (collectively, the "Employees"). The Debtors offer their Employees the

ability to participate in a number of insurance and benefits programs, including medical insurance programs, workers' compensation benefits, short and long-term disability coverage, retirement savings plans, time-off policies, and certain other benefits that the Debtors have historically provided in the ordinary course.

3. Real Estate Obligations.

20. The Debtors lease substantially all of their store locations. The majority of the Debtors' leased premises consist of department stores throughout the United States. The Debtors also lease their corporate headquarters in Houston, Texas, distribution centers in Jeffersonville, Ohio and Omaha, Nebraska; as well as five smaller overflow locations. The Debtors own their primary distribution center in Jacksonville, Texas.

21. Recognizing the need to right-size their store footprint to align with industry conditions, the Debtors' management team and advisors undertook an extensive analysis of the Debtors' existing store footprint to determine if (and how many) stores the Debtors should close in connection with their broader financial and operational restructuring initiatives. Although the Debtors believe that there are multiple potential, profitable footprints, the COVID-19 epidemic has severely curtailed the Debtors' ability to right-size their footprint under the circumstances without third-party investment. As such, while the Debtors continue to market and pursue all alternatives, at the time being, the Debtors intend to initiate store closures at all of their retail locations.

22. Delay in consummating the store closings would diminish the recovery tied to monetization of the store closure. First, the store closure process drives revenue to the Debtors' estates, offsetting fixed costs and rent obligations. Second and relatedly, the swift and orderly commencement of sales will allow the Debtors to timely reject the applicable store leases, and therefore avoid the accrual of unnecessary administrative expenses on account of rent

payments. The delay of the store closings may cause the Debtors to incur additional postpetition rent at many of these stores, at a possible cost to the estate of up to \$12.6 million per month.

II. Events Leading to These Chapter 11 Cases.

23. A confluence of factors contributed to the Debtors' need to commence these chapter 11 cases. These include macroeconomic factors—including most significantly, the general downturn in the retail industry, which has led to a decrease in sales, competitive sales promotions resulting in reduced profit margins, and the marked shift away from brick-and-mortar retail to online channels. Over time, these factors have tightened the Debtors' liquidity and complicated their vendor relationships. As described above and in further detail below, these factors culminated in liquidity challenges beginning in winter 2019 and continued into 2020.

A. Challenging Operating Environment.

24. The Debtors, along with many other apparel and retail companies, have faced a challenging commercial environment over the past several years brought on by increased competition and the shift away from shopping at brick-and-mortar stores. Given the Debtors' brick-and-mortar presence, and the expenses associated therewith, the Debtors' business has been heavily dependent on physical consumer traffic, and resulting sales conversion, to meet sales and profitability targets. The combination of the above factors, and others plaguing the retail industry as a whole, contributed to the Debtors falling short of their sales targets and depressed profitability performance. COVID-19 was the proverbial "nail in the coffin" for the Debtors, coming just as the Debtors were working to resolve liquidity concerns and greatly exacerbating the Debtors' challenges.

B. Underperforming Department Stores.

25. Despite relatively strong performance results from Stage Stores' off-price stores, comparable sales for Stage Stores' department stores remained depressed in early 2020 and

counterbalanced the strong performance of the off-price stores. Additionally, the Debtors' sales for the holiday season did not meet expectation, primarily impacted by lower pre-conversion department store sales. These losses from Stage Stores' department stores, compounded with the foregoing factors, have rendered Stage Stores unable to meet its sale targets.

C. Supply Chain and Borrowing Base Challenges.

26. The Debtors' retail stores underperformed in the fourth quarter 2019 holiday season and in early 2020. As a result, the Debtors' lenders added incremental borrowing base reserves to their Revolving Credit Facility related to anticipated performance. These reserves tightened an already limited liquidity situation.

27. Additionally, during the first months of 2020, merchandise shipments and inventory receipts began to slow due to liquidity tightness and a lack of vendor and factor support. Prior to the Petition Date, substantial numbers of vendors refused to ship inventory unless the Debtors paid cash on delivery, resulting in shelf-ready merchandise being stranded. The lack of fresh and sufficient inventory further tightened the Debtors' liquidity (including by reducing the borrowing base under the ABL (as defined below)), creating a negative feedback loop. Without the flow of fresh inventory, the Debtors' retail business effectively starved.

D. COVID-19 and Lease Challenges

28. As a result of COVID-19, the Debtors closed their stores in March and furloughed substantially all of their employees.⁵ They also did not pay most of their rent due for March,⁶ April, and May. The Debtors received some default notices in March and early April, but the rate

⁵ At this time, the Debtors anticipate that approximately 567 stores will open on or about May 15, 2020, approximately 67 stores will open on or about May 28, 2020, and the balance of the stores will open on or about June 4, 2020. These dates are subject to change.

⁶ The majority of March rent was not paid as the Debtors were preserving liquidity while engaging in discussions with their lenders.

of such notices picked up materially in late April and early May. In addition, landlords began to lock the Debtors out of certain stores and threatened to evict the Debtors and dispose of the in-store inventory. Because the Debtors operate retail stores, these threats represented an existential threat to their operations, as well as potential safety threats to the communities which they have both depended upon and supported. Responding to and managing these default notices and related litigation outside of chapter 11 would have been a monumentally difficult task.

III. The Debtors' Prepetition Corporate and Capital Structure.

29. The Debtors' corporate enterprise consists of Debtor entities Stage Stores, Inc. and Specialty Retailers, Inc. A summary chart depicting the Debtors' corporate structure is attached to this Declaration as **Exhibit A**. As of the Petition Date, the Debtors have outstanding debt obligations in the aggregate principal amount of (a) approximately \$178.6 million under the ABL (as defined below), and (b) approximately \$47.4 million under the Term Loan (as defined below) that is secured on a first priority basis by substantially all of the Debtors' assets under the Prepetition Credit Agreement (as defined below).

Funded Debt	Lenders	Maturity	Interest Rates	Principal Amount
\$178.6 million	Wells Fargo Bank, National, N.A. JPMorgan Chase Bank, N.A. Regions Bank Bank of America, N.A Truist Bank	December 16, 2021	LIBOR + 1.40% with one step-down to LIBOR + 1.25% if average daily excess availability is equal to or greater than 40% of the revolving loan cap (0.00% LIBOR floor)	\$250 million
\$47.4 million	Wells Fargo Bank, National, N.A. Pathlight Capital Fund I LP Pathlight Capital Offshore Fund I LLC Pathlight Capital LLC	December 16, 2021	LIBOR + 6.125% (1.00% LIBOR floor)	\$50 million

30. In addition to funded debt obligations, the Debtors have outstanding unsecured trade debts (*e.g.*, amounts owed to trade vendors, suppliers, landlords) that total approximately \$173 million as of the Petition Date.

A. The Revolving Credit Facility and Term Loan Facility.

31. The Debtors are party to that certain Second Amended and Restated Credit Agreement, dated as of October 6, 2014 (as amended, restated, supplemented, or otherwise modified from time to time prior to the Petition Date, the “Prepetition Credit Agreement”), by and among Specialty Retailers, Inc., as borrower, and the remaining Debtor as guarantor party thereto, the Lenders, and Wells Fargo, National Association, as administrative agent, collateral agent, and term loan agent (in such capacities, together with its successors and assigns, the “Prepetition Agent”). The Prepetition Credit Agreement provides for a \$250 million asset-based loan with a maturity date of December 16, 2021 (the “ABL”). In addition, the Prepetition Credit Agreement provides for a \$50 million last-out term loan, also with a maturity date of December 16, 2021 (the “Term Loan,” and together with the ABL, the “Prepetition Credit Facility”).

32. The Interest rates under the ABL and the Term Loan are determined with reference to either the LIBO Rate or the Prime Rate (each as defined in the Prepetition Credit Agreement). The LIBO Loans under the ABL bear interest at the LIBO Rate plus 1.50%, with one step-down to the LIBO Rate plus 1.25% if the Average Daily Excess Availability (as defined in the Prepetition Credit Agreement) is equal to or greater than 40% of the Revolving Loan Cap (as defined in the Prepetition Credit Agreement). The Prime Rate Loans bear interest at the Prime Rate plus 0.50% with a step-down to the Prime Rate plus 0.25% if the Average Daily Excess Availability is equal to or greater than 40% of the Revolving Loan Cap.

33. The LIBO Loans under the Term Loan bear interest at the LIBO Rate plus 6.125%, and the Prime Rate Loans bear interest at the Prime Rate plus 5.125%. Interest on the Term Loan

is due on the first calendar day of each month. As of the Petition Date, approximately \$47.4 million in aggregate principal amount remained outstanding under the Term Loan. Upon an Event of Default and an acceleration of the obligations in connection with an exercise of remedies under the Prepetition Credit Agreement, the Term Loan payments are subordinate to payment to the lenders under the ABL until the ABL obligations are paid in full, other than obligations in respect of Bank Products (as defined in the Credit Agreement) in excess of a \$2 million cap.

34. Obligations under the Prepetition Credit Facility are secured by a lien on substantially all of the Debtors' assets, including, without limitation, a first priority lien on the Debtors' accounts (including receivables), inventory, deposit accounts, security accounts, cash and cash equivalents, and intellectual property. There are also mortgages in favor of the Prepetition Agent with respect to four parcels of real property. Additionally, the Debtors have entered into deposit account control agreements in favor of the Prepetition Agent with respect to their bank accounts. Thus, substantially all of the Debtors' cash is subject to a perfected security interest in favor of the Prepetition Agent.

IV. Prepetition Restructuring Efforts.

35. The Debtors diligently worked with their financial advisors since 2019 to develop and explore strategic alternatives to maximize value for the Debtors and their assets. In June 2019, the Debtors engaged Berkeley Research Group, LLC ("BRG") to act as their financial advisor and in September 2019, engaged PJ Solomon Securities, LLC ("PJ Solomon") as investment banker. The Debtors, with the assistance of their advisors, engaged in a significant marketing process to solicit bids for an equity investment or the purchase of the Debtors' assets in order to obtain the greatest proceeds to maximize the value for the Debtors' stakeholders. To date, PJ Solomon has reached out to 42 parties regarding sale and junior financing opportunities of the Debtors' assets. Additionally, PJ Solomon contacted 16 strategic parties. Despite significant interest, this process

was derailed by the COVID-19 pandemic. The Debtors intend to build off this process to pursue a sale in connection with the chapter 11 cases.

A. Landlord Engagement.

36. The Debtors undertook efforts to obtain lease concessions and rent abatements from their landlords throughout early 2020 in conjunction with their sale efforts. The Debtors retained A&G Realty Partners (“A&G”) to assist in this process. A&G has reached out to 595 landlords and to date has negotiated 315 lease modifications consisting of abatement savings, go-forward reductions, and/or termination agreements.

B. The Need for Liquidity.

37. In response to the liquidity shortfall described above, the Debtors, with the assistance of their advisors, evaluated funding alternatives (including equity investors and third-party purchasers) necessary to obtain liquidity and implementing Stage Stores’ go-forward business plan. These efforts were ultimately derailed by the COVID-19 pandemic and no incremental liquidity became available. Since late March—when the Debtors had no revenue as a result of store closures—the Debtors have been working closely with their lenders to ensure they have adequate liquidity to meet a minimum level of obligations, including for employee benefits paid during the furlough period.

V. First Day Motions.⁷

38. The Debtors have filed a number of first day motions in these chapter 11 cases seeking orders granting various forms of relief intended to stabilize the Debtors’ business

⁷ Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the respective first day motions.

operations, facilitate the efficient administration of these chapter 11 cases, continue necessary store closings, and provide postpetition financing.

A. Cash Collateral Motion.

39. As discussed above, the Debtors' prepetition lenders have agreed to allow the Debtors to use cash collateral during these chapter 11 cases. Under the circumstances, the Debtors believe that this is the most reasonable and cost-effective method of funding these chapter 11 cases and will therefore ultimately maximize the value of the Debtors' estates for all stakeholders. Accordingly, the Debtors filed a motion (the "Cash Collateral Motion") and order (the "Cash Collateral Order") on the first day of these chapter 11 cases allowing for their use of the prepetition lenders' cash collateral during these chapter 11 cases.

40. The Cash Collateral Order was heavily negotiated, and I believe that the Cash Collateral Order is in the best interests of the Debtors' estates. The Debtors have an urgent need to use the cash collateral to maintain their operations while pursuing a value-maximizing transaction. Because the Debtors' cash is substantially all encumbered, the Debtors could not utilize this cash during the chapter 11 cases absent entry of the Cash Collateral Order. Without use of the cash collateral, the Debtors will not be able to fund their postpetition operations, pay wages for their employees, preserve and maximize the value of their estates, or effectively administer these chapter 11 cases, causing immediate and irreparable harm to the value of the Debtors' estates to the detriment of all stakeholders.

41. Indeed, in determining the Debtors' debtor-in-possession financing needs, the company reviewed and analyzed the Debtors' cash flow forecasts. These forecasts take into account anticipated cash receipts and disbursements during the projected period and consider a number of factors, including the effect of the chapter 11 filing on the operations of the business, uncertainty associated with COVID-19, expenses associated with the use of cash collateral,

professional fees, and additional operational payments. Prior to filing, the Prepetition Lenders allowed the Debtors to draw down approximately \$13.5 million under their Prepetition Credit Agreement, of which approximately \$10.3 million remains available for the Debtors to use. Based on current projections and estimates, the Debtors believe that this amount, along with the proceeds of sales, will be sufficient to fund these chapter 11 cases, subject in all respects to the terms of the Interim Order and the Budget. To the extent additional cash is needed, the Debtors may seek such entry into a postpetition financing facility at another time.

B. Wind-Down Motion.

42. The Debtors have also filed the *Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Close Stores and Wind-Down Operations, (II) Authorizing the Debtors to Assume and Perform Under the Consulting Agreement Related to the Store Closings, (III) Approving Procedures for Store Closing Sales, (IV) Approving Modifications to Certain Customer Programs, and (V) Granting Related Relief* (the "Wind-Down Motion"). Pursuant to the Wind-Down Motion, the Debtors seek entry of interim and final orders: (a) authorizing the Debtors to Wind-Down their operations; (b) authorizing the Debtors to assume and perform under the Consulting Agreement by and among Stage Stores, Inc. and Gordon Brothers; (c) approving the Store Closing Procedures, with any such related sales to be free and clear of all liens, claims and encumbrances; (d) approving the Wind-Down Incentive Program; (e) approving modifications to certain customer programs, including the Debtors' return policy and acceptance of gift cards; (f) authorizing the sale or disposition of the Store Closing Assets free and clear of all liens, claims, and encumbrances; (g) approving the abandonment of certain burdensome Merchandise, FF&E, and personal property; and (h) granting related relief.

43. I understand that the Debtors plan to conduct the Wind-Down in a manner that maximizes the value of their assets and benefits the estate. I understand that the purpose of the

Wind-Down Motion is to put everything in place so that the Debtors can move to commence and conclude the Wind-Down as expeditiously as possible under the circumstances. Furthermore, I believe that assumption and performance under the Consulting Agreement with Gordon Brothers is an appropriate use of the Debtors' business judgment.

44. I understand that the Consultant will effectuate the Wind-Down at the Closing Locations in accordance with the Store Closing Procedures. I believe that the Debtors have determined, in the sound exercise of their business judgment and in consultation with their advisors, that the Store Closing Procedures provide the best and most efficient means of selling the Store Closing Assets to maximize the value to their estates. In addition, I understand that the Debtors seek approval of the Wind-Down Incentive Program, and that the Debtors and Prepetition Lenders recognize that, absent a financial incentive to meet certain goals, the Remaining Employees may not be sufficiently motivated to wind-down the business efficiently.

45. I understand that the Wind-Down requires that the Debtors make certain modifications to their customer programs to reflect new realities, including setting limitations on returns and gift cards. Such changes will be clearly posted for customers at cash registers and on the Debtors' website for the duration of the Wind-Down.

46. Finally, I understand that, in effectuating the Wind-Down, the Debtors intend to liquidate saleable personal property, Merchandise, and FF&E. I understand further that, to the extent Burdensome Property exceeds the scope of the property abandoned pursuant to the Store Closing Procedures—such as Burdensome Property held by shippers or other agents of the Debtors—that the Debtors are requesting the Court's approval to abandon any Burdensome Property for the benefit of their estates and creditors.

47. Accordingly, I believe that the Wind-Down Motion lays out the best path forward for the Debtors and is in the best interest of the estate.

C. 365(d)(3) Motion.

48. The Debtors have filed the *Debtors' Emergency Motion For Entry of an Order (I) Extending Time for Performance Under Certain Unexpired Leases, and (II) Setting Administrative Procedures with Respect to Certain Motions and Applications for Payments, and (III) Granting Related Relief* (the "365(d)(3) Motion"). Pursuant to the 365(d)(3) Motion, I understand that the Debtors seek establishment of the Limited Operational Period Case Administration Procedures for the efficient and organizational management of these chapter 11 cases:

- Any motion, application, action, or pleading filed by a counterparty to an unexpired lease of real property seeking (a) to lift the automatic stay to pursue any actions on account of any alleged prepetition default by the Debtors or (b) to compel payment, rejection, assumption, or assumption and assignment of any unexpired leases shall be automatically set for an Initial Status Conference.
- If at the Initial Status Conference or a Subsequent Status Conference it is determined that the underlying basis for any Pleading is a Postpetition Payment Default, then the Court shall set such motion for hearing within thirty (30) days from the applicable status conference or such other time as may be set by the Court in its sole discretion. For the purposes of these Limited Operation Period Case Administration Procedures, the failure of the Debtors to pay any "stub" rent shall not constitute a Postpetition Payment Default.
- If at the Initial Status Conference or a Subsequent Status Conference it is determined that the underlying basis for any Pleading is anything other than a Postpetition Payment Default, then the Pleading shall be set for a Subsequent Status Conference.
- Any pleading may be resolved consensually by the parties by stipulation, without further order of the Court, including, but not limited to, by agreed rejections, terminations, and/or surrender of the applicable premises.
- Notwithstanding the foregoing, all parties shall be permitted to seek relief from this Court with respect to exigent and unforeseen circumstances not otherwise inconsistent with this Order and which the Debtors and such parties are unable to resolve consensually.

49. I believe that the 365(d)(3) Motion is absolutely vital to the Debtors' efforts to facilitate a going-concern sale or wind-down and gives creditors the best opportunity to have a going-concern partner at the conclusion of these chapter 11 cases. As outlined more fully in the 365(d)(3) Motion, the Debtors, like most businesses in the United States, have been confronted with numerous operating challenges during the COVID-19 crisis. I believe that the 365(d)(3) Motion sets forth the best path forward for all parties in interest in this unprecedented and difficult time.

D. Other First Day Motions.

50. Additionally, the Debtors have filed a number of first day motions seeking orders granting various forms of relief intended to stabilize the Debtors' business operations, minimize the adverse effects of the commencement of these chapter 11 cases, facilitate the efficient administration of these chapter 11 cases, and expedite a swift and smooth restructuring of the Debtors' balance sheet. Further, a vast majority of these motions are both procedural and non-adversarial, in addition to having the support of the secured lenders. These motions include:

- *Debtors' Emergency Motion for Entry of an Order (I) Directing Joint Administration of Chapter 11 Cases and (II) Granting Related Relief;*
- *Debtors' Emergency Motion for Entry of an Order Extending Time to File Schedules of Assets and Liabilities, Schedules of Current Income and Expenditures, Schedules of Executory Contracts and Unexpired Leases, and Statements of Financial Affairs;*
- *Debtors' Emergency Motion for Entry of an Order (I) Authorizing the Debtors to File a Consolidated Creditor Matrix and List of Fifty Largest Unsecured Creditors, (II) Authorizing Redaction of Certain Personal Identification Information, (III) Waiving the Requirement to File Equity Lists and Modifying Equity Holder Notice Requirements, and (IV) Approving the Form and Manner of Notifying Creditors of Commencement and other Information, and (V) Granting Related Relief;*
- *Debtors' Emergency Application for Entry of an Order Appointing Kurtzman Carson Consultants LLC as Claims, Noticing, and Solicitation Agent;*
- *Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Continue to Operate Their Cash Management System and Maintain*

Existing Bank Accounts and (B) Continue to Perform Intercompany Transactions, and (II) Granting Related Relief;

- *Debtors' Emergency Motion for Entry of an Order (I) Authorizing the Debtors to (A) Pay Prepetition Wages, Salaries, Other Compensation, and Reimbursable Expenses and (B) Continue Employee Benefits Programs and (II) Granting Related Relief;*
- *Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Maintain and Administer Their Existing Customer Programs and Honor Certain Prepetition Obligations Related Thereto and (II) Granting Related Relief;*
- *Debtors' Emergency Motion for Entry of an Order (I) Authorizing the Debtors to (A) Continue Insurance Coverage Entered Into Prepetition And Satisfy Prepetition Obligations Related Thereto, (B) Renew, Amend, Supplement, Extend, or Purchase Insurance Policies, and (C) Continue to Pay Brokerage Fees and (II) Granting Related Relief;*
- *Debtors' Emergency Motion for Entry of an Order (I) Authorizing the Payment of Certain Taxes and Fees and (II) Granting Related Relief;*
- *Debtors' Emergency Motion for Entry of Interim and Final Orders Approving Notification and Hearing Procedures for Certain Transfers of and Declarations of Worthlessness with Respect to Common Stock;*
- *Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Pay Prepetition Claims of Lien Claimants, (II) Confirming Administrative Expense Priority of Outstanding Orders, and (III) Granting Related Relief;*
- *Debtors' Emergency Motion for Entry of an Order (I) Approving the Debtors' Proposed Adequate Assurance of Payment for Future Utility Services, (II) Prohibiting Utility Providers from Altering, Refusing, or Discontinuing Services, (III) Approving the Debtors' Proposed Procedures for Resolving Adequate Assurance Requests, and (IV) Granting Related Relief; and*
- *Debtors' Emergency Motion for Entry of an Order (I) Approving Procedures to Reject or Assume Executory Contracts and Unexpired Leases, and (II) Granting Related Relief.*

51. These motions seek authority to, among other things, ensure the continuation of the Debtors' cash management systems and other business operations without interruption. I believe that the relief requested in the motions is necessary to give the Debtors an opportunity to work towards successful chapter 11 cases that will benefit all of the Debtors' stakeholders.

52. Several of these motions request authority to pay certain prepetition claims. I understand that Rule 6003 of the Federal Rules of Bankruptcy Procedure provides, in relevant part, that the Court shall not consider motions to pay prepetition claims during the first 20 days following the filing of a chapter 11 petition, “except to the extent relief is necessary to avoid immediate an irreparable harm.” In light of this requirement, the Debtors have narrowly tailored their requests for immediate authority to pay certain prepetition claims to those circumstances where the failure to pay such claims would cause immediate and irreparable harm to the Debtors and their estates. Other relief will be deferred for consideration at a later hearing.

53. I am familiar with the content and substance of the motions. In my opinion, approval of the relief sought in each of the motions is critical to successfully implementing the Debtors’ chapter 11 strategy efficiently and with minimal disruption to their business operations, thereby permitting the Debtors to preserve and maximize value for the benefit of all stakeholders.

[Remainder of page intentionally left blank]

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing statements are and true correct.

Dated: May 10, 2020
Houston, Texas

/s/ Elaine D. Crowley
Name: Elaine D. Crowley
Title: Chief Restructuring Officer
Stage Stores Inc.

EXHIBIT A

Corporate Structure

