

STAGE STORES INC  
Form 4  
April 05, 2017

**FORM 4**

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

OMB APPROVAL

OMB Number: 3235-0287  
Expires: January 31, 2015  
Estimated average burden hours per response... 0.5

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
**WEBER THORSTEN I**

(Last) (First) (Middle)  
2425 WEST LOOP SOUTH  
(Street)

HOUSTON, TX 77027

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
**STAGE STORES INC [SSI]**

3. Date of Earliest Transaction  
(Month/Day/Year)  
04/03/2017

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

\_\_\_\_ Director \_\_\_\_\_ 10% Owner  
 Officer (give title below) \_\_\_\_\_ Other (specify below)  
EVP, Chief Merch. Officer

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
\_\_\_\_ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D)	Price		
Common Stock	04/03/2017		F	186	\$ 2.615	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr
				Code V (A) (D)		Date Exercisable      Expiration Date	Title	Amount or Number of Shares	

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WEBER THORSTEN I 2425 WEST LOOP SOUTH HOUSTON, TX 77027			EVP, Chief Merch. Officer	

## Signatures

/s/ R.E. Stasyszen, Attorney in Fact for Thorsten I. Weber 04/04/2017

\*\*Signature of Reporting Person Date

## Explanation of Responses:

- To cast an advisory vote on executive compensation; and
- To transact any and all other business that may properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof.

The Board of Directors has fixed the close of business on March 26, 2012, as the record date (the Record Date) for the determination of stockholders entitled to notice of and to vote at the Annual Meeting or any adjournment(s) or postponement(s) thereof. Only stockholders of record at the close of business on the Record Date are entitled to notice of and to vote at the Annual Meeting. The stock transfer books will not be closed. A list of stockholders entitled to vote at the Annual Meeting will be available for examination at the Company's principal executive offices for ten days prior to the Annual Meeting.

**Important Notice Regarding Availability of Proxy Materials for the Stockholders Meeting to be held on May 23, 2012: The Proxy Statement and the 2011 Annual Report to Stockholders are also available at [www.proxydocs.com/csu](http://www.proxydocs.com/csu).**

You are cordially invited to attend the Annual Meeting; however, whether or not you expect to attend the Annual Meeting in person, you are urged to mark, sign, date, and mail the enclosed WHITE proxy card promptly so that your shares of stock may be represented and voted in accordance with your preferences and in order to help establish the presence of a quorum at the Annual Meeting. If you attend the Annual Meeting and would like to vote in person, you may do so even if you have already dated, signed and returned your WHITE proxy card.

Pursuant to the rules of the New York Stock Exchange, if you hold your shares in street name, brokers, banks or other nominees will not have discretion to vote your shares on the election of directors and the advisory vote on executive compensation. Accordingly, if your shares are held in street name and you do not submit voting instructions to your broker, bank or other nominee, then your shares will not be counted in determining the outcome of the election of the director nominees or the advisory vote on executive compensation. We encourage you to provide voting instructions to your broker, bank or other nominee if you hold your shares in street name so that your voice is heard on these

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proposals.

By Order of the Board of Directors

James A. Moore

Lawrence A. Cohen

Chairman of the Board

Chief Executive Officer

April 18, 2012

Dallas, Texas

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**CAPITAL SENIOR LIVING CORPORATION**

**14160 Dallas Parkway, Suite 300**

**Dallas, Texas 75254**

**PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held May 23, 2012**

**Solicitation and Revocability of Proxies**

The accompanying proxy is solicited by the Board of Directors on our behalf to be voted at the annual meeting of our stockholders to be held on May 23, 2012 (the "Annual Meeting"), at the time and place and for the purposes set forth in the accompanying notice and at any adjournment(s) or postponement(s) thereof. When proxies in the accompanying form are properly executed and received, the shares represented thereby will be voted at the Annual Meeting in accordance with the directions noted thereon, unless the proxy is subsequently revoked.

Any stockholder giving a proxy has the unconditional right to revoke his or her proxy at any time prior to the voting thereof either in person at the Annual Meeting by delivering a duly executed proxy bearing a later date or by giving written notice of revocation to us addressed to David R. Brickman, Vice President, General Counsel and Secretary, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254. However, no such revocation shall be effective unless such notice of revocation has been received by us at or prior to the Annual Meeting.

Our principal executive offices are located at, and our mailing address is, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254.

Our management does not intend to present any business at the Annual Meeting for a vote other than the matters set forth in the accompanying notice and has no knowledge that others will do so. If other matters requiring a vote of our stockholders properly come before the Annual Meeting, then it is the intention of the persons named in the accompanying form of proxy to vote the shares represented by the proxies held by them in accordance with their judgment on such matters.

This proxy statement and accompanying form of proxy are being mailed on or about April 18, 2012. The annual report to our stockholders covering our fiscal year ended December 31, 2011, which was mailed to our stockholders on or about April 18, 2012, does not form any part of the materials for solicitation of proxies.

In addition to the solicitation of proxies by mail, our officers, directors and employees may solicit proxies by telephone, telecopy, or through personal contact. Such officers, directors and employees will not be additionally compensated by us but will be reimbursed for any out-of-pocket expenses. We have retained Georgeson Shareholder Communications Inc. to assist in the solicitation of proxies for a fee of \$7,500. This amount includes fees payable to Georgeson, but excludes salaries and expenses of our officers, directors and employees. Brokerage houses and other custodians, nominees, and fiduciaries will, in connection with shares of our common stock registered in their names, be requested to forward solicitation material to the beneficial owners of such shares of our common stock.

The cost of preparing, printing, assembling, and mailing the annual report, the accompanying notice, this proxy statement, and the enclosed form of proxy, as well as the reasonable cost of forwarding solicitation materials to the beneficial owners of shares of our common stock, and other costs of solicitation, will be exclusively borne by us.

Some banks, brokers and other record holders have begun the practice of "householding" proxy statements and annual reports. "Householding" is the term used to describe the practice of delivering a single copy of this proxy statement and the annual report to any household at which two or more stockholders share an address. This procedure would reduce the volume of duplicative information and our printing and mailing costs. We will

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deliver promptly, upon written or oral request, a separate copy of this proxy statement and the annual report to a stockholder at a shared address to which a single copy of such documents was delivered. Any stockholder who would like to receive a separate copy of the proxy statement and annual report, now or in the future, should submit this request to David R. Brickman, Vice President, General Counsel and Secretary, at our principal executive offices, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254 or by calling (972) 770-5600. Beneficial owners sharing an address who receive multiple copies of proxy materials and annual reports and who would like to receive a single copy of such materials in the future will need to contact their broker, bank or other nominee to request that only a single copy of each document be mailed to all stockholders at the shared address in the future.

### **Date for Receipt of Stockholder Proposals**

Stockholder proposals to be included in the proxy statement for the 2013 annual meeting of our stockholders must be received by us at our principal executive offices on or before December 19, 2012 for inclusion in the proxy statement relating to that meeting.

Our Amended and Restated Certificate of Incorporation establishes an advance notice procedure with regard to certain matters, including stockholder proposals and nominations of individuals for election to the Board of Directors to be made at an annual meeting of our stockholders. Notice of a stockholder proposal or a director nomination to be brought at an annual meeting of our stockholders must be delivered to, or mailed and received at, our principal executive offices not less than 60 but not more than 90 days before the scheduled date of the meeting, regardless of any postponement, deferral or adjournment of that meeting to a later date; *provided, however*, that if less than 70 days notice or prior public disclosure of the date of the meeting is given or made to stockholders, the notice must be delivered or received no later than the close of business on the tenth day following the earlier of (1) the day on which such notice of the date of meeting was mailed or (2) the day on which such public disclosure was made. The notice of a stockholder proposal or a director nomination must also contain specified information and conform to certain requirements set forth in our Amended and Restated Certificate of Incorporation. The chairman of the meeting may disregard the introduction of any such proposal or nomination if it is not made in compliance with the foregoing procedures or the applicable provisions of our Amended and Restated Certificate of Incorporation.

### **Quorum and Voting**

The record date for the determination of our stockholders entitled to notice of and to vote at the Annual Meeting was the close of business on March 26, 2012. At such time, there were 28,155,854 shares of our common stock issued and outstanding.

Each holder of our common stock is entitled to one vote per share on all matters to be acted upon at the Annual Meeting, and neither our Amended and Restated Certificate of Incorporation nor our Amended and Restated Bylaws allow for cumulative voting rights. The presence, in person or by proxy, of the holders of a majority of the issued and outstanding shares of our common stock entitled to vote at the Annual Meeting is necessary to constitute a quorum to transact business. If a quorum is not present or represented at the Annual Meeting, the stockholders entitled to vote at the Annual Meeting, present in person or by proxy, may adjourn the Annual Meeting, from time to time, without notice or other announcement until a quorum is present or represented. Assuming the presence of a quorum, the affirmative vote of the holders of at least a majority of the outstanding shares of our common stock represented in person or by proxy at the Annual Meeting and entitled to vote is required to (1) approve the election of directors, (2) ratify the appointment of the independent auditors, and (3) approve, on an advisory basis, the Company's executive compensation. Each proposal is tabulated separately. Abstentions and broker non-votes (as described below) will not be counted as votes cast **FOR** or **AGAINST** the proposal to which it relates, and therefore, generally have no effect on the outcome of the proposals.

The Board of Directors unanimously recommends that you vote (1) **FOR** the election of each of the director nominees, (2) **FOR** the ratification of the appointment of Ernst & Young LLP as our independent

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auditors for 2012, and (3) **FOR** the approval, on an advisory basis, of the Company's executive compensation. The Board of Directors also recommends that you vote **FOR** the ability of the proxy holders to vote the proxy in their discretion with respect to any other matters that properly come before the Annual Meeting.

If you hold shares registered directly in your name and you sign and return a proxy card without giving specific voting instructions, the persons named as proxy holders will vote your proxy in favor of the election of each director nominee named in this proxy statement, in favor of the ratification of the appointment of Ernst & Young LLP as our independent auditors, in favor of the approval, on an advisory basis, of the Company's executive compensation, and as the proxy holders may determine in their discretion with respect to any other matters that properly come before the Annual Meeting.

If you hold shares in street name and do not submit specific voting instructions to your broker, bank or other nominee, the organization that holds your shares may generally vote your shares with respect to discretionary items, but not with respect to non-discretionary items. Discretionary items are proposals considered to be routine under the rules of the New York Stock Exchange ( NYSE ) and in the absence of voting instructions, your broker, bank or other nominee may vote the shares it holds in street name on such items. On non-discretionary items for which you do not submit specific voting instructions to your broker, bank, or other nominee, the shares will be treated as broker non-votes. Broker non-votes will be considered present at the Annual Meeting for purposes of determining a quorum at the Annual Meeting. The proposal to ratify the appointment of Ernst & Young LLP, independent accountants, as our independent auditors (Proposal 2) is considered to be routine, and therefore, may be voted upon by your broker, bank, or other nominee if you do not provide instructions to such broker, bank, or other nominee. However, pursuant to the NYSE's rules, brokers, banks, or other nominees will not have discretion to vote your shares on the election of directors (Proposal 1) and the advisory vote on executive compensation (Proposal 3) as such proposals are considered to be non-routine items. Accordingly, if your shares are held in street name and you do not submit voting instructions to your broker, bank or other nominee, your shares will not be counted in determining the outcome of the Proposals 1 and 3 at the Annual Meeting. We encourage you to provide voting instructions to your broker, bank or other nominee if you hold your shares in street name so that your voice is heard on such proposals.

### **Requests for Written Copies of Annual Report**

We will provide, without charge, a copy of our annual report as filed with the SEC upon the written request of any registered or beneficial owner of our common stock entitled to vote at the Annual Meeting. Requests should be made by mailing David R. Brickman, Vice President, General Counsel and Secretary, at our principal executive offices, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254 or by calling (972) 770-5600. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) which contains reports, proxy statements and other information regarding registrants, including us.

### **Forward-Looking Statements**

*Certain information contained in this proxy statement constitutes Forward-Looking Statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which can be identified by the use of forward-looking terminology such as may, will, would, intend, could, believe, expect, anticipate, estimate or continue or the or other variations thereon or comparable terminology. We caution readers that forward-looking statements, including, without limitation, those relating to our future business prospects, revenues, working capital, liquidity, capital needs, interest costs, and income, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to several important factors herein identified. These factors include our ability to find suitable acquisition properties at favorable terms, financing, licensing and business conditions, risks of downturn in economic conditions generally, satisfaction of closing conditions such as those pertaining to licensure, the availability of insurance at commercially reasonable rates, and changes in accounting principles and interpretations, among others, and other risks and factors identified from time to time in our reports filed with the SEC.*

**Table of Contents****PRINCIPAL STOCKHOLDERS AND STOCK OWNERSHIP OF MANAGEMENT**

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of March 30, 2012 by: (i) each person known by us to be the beneficial owner of more than five percent of our common stock; (ii) each of our directors; (iii) our Chief Executive Officer, our Chief Financial Officer and the three other most highly compensated executive officers during 2011, or our named executive officers; and (iv) all of our executive officers and directors as a group. Except as otherwise indicated, the address of each person listed below is 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254.

Name of Beneficial Owner	Shares Beneficially Owned(1)(2)	
	Number	Percent of Class
FMR LLC	3,597,853(3)	12.8%
Dimensional Fund Advisors LP	2,334,304(4)	8.3%
T. Rowe Price Associates, Inc.	2,083,160(5)	7.4%
BlackRock, Inc.	1,571,924(6)	5.6%
Fort Hoosac Management, LLC	1,415,703(7)	5.0%
Lawrence A. Cohen	801,775(8)	2.8%
Keith N. Johannessen	335,406(9)	1.2%
Ralph A. Beattie	158,636(10)	*
David R. Brickman	136,020(11)	*
James A. Moore	65,200(12)	*
Jill M. Krueger	38,000(13)	*
Craig F. Hartberg	37,367(14)	*
Ronald A. Malone	31,000(15)	*
Philip A. Brooks	27,887(16)	*
Michael W. Reid	24,000(17)	*
Joseph G. Solari	18,500(18)	*
E. Rodney Hornbake	18,000(19)	*
All directors and executive officers as a group (17 persons)	1,794,191(20)	6.3%

\* Less than one percent.

- (1) Pursuant to SEC rules, a person has beneficial ownership of any securities as to which such person, directly or indirectly, through any contract, arrangement, undertaking, relationship or otherwise has or shares voting power and/or investment power and as to which such person has the right to acquire such voting and/or investment power within 60 days. Percentage of beneficial ownership as to any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person by the sum of the number of shares outstanding as of such date and the number of shares as to which such person has the right to acquire voting and/or investment power within 60 days (rounded to the nearest tenth of a percent).
- (2) Except for the percentages of certain parties that are based on presently exercisable options, which are indicated in the following footnotes to the table, the percentages indicated are based on 28,157,854 shares of our common stock issued and outstanding on March 30, 2012. In the case of parties holding presently exercisable options, the percentage ownership is calculated on the assumption that the shares presently held or purchasable within the next 60 days underlying such options are outstanding.
- (3) Represents shares beneficially owned by Fidelity Management & Research Company ( Fidelity ) together with certain affiliates. According to a Schedule 13G/A, filed February 14, 2012, Fidelity, whose address is 82 Devonshire Street, Boston, Massachusetts 02109, is a wholly-owned subsidiary of FMR LLC and an investment advisor. Fidelity is the beneficial owner of 2,756,650 shares of our common stock as a result of acting as investment advisor to various investment companies. Edward C. Johnson 3rd, Chairman of FMR LLC, and FMR LLC, through its control of Fidelity and the funds, each has sole power to dispose of the 2,756,650 shares of our common stock owned by the funds. Neither FMR LLC nor Mr. Johnson has the sole power to vote or direct the voting of the shares of our



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common stock owned directly by the funds, which

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power resides with funds' Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the funds' Board of Trustees. Members of Mr. Johnson's family are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders' voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed to form a controlling group with respect to FMR LLC. Pyramis Global Advisors Trust Company ( PGATC ), 900 Salem Street, Smithfield, Rhode Island, 02917, an indirect wholly-owned subsidiary of FMR LLC and a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, as amended, is the beneficial owner of 825,703 shares of our common stock as a result of its serving as investment manager of institutional accounts owning such shares. Mr. Johnson and FMR LLC, through its control of PGATC, each has sole dispositive power over the 825,703 shares and sole power to vote or to direct the voting of 668,103 shares owned by the institutional accounts managed by PGATC. Pyramis Global Advisors, LLC ( PGALLC ), 900 Salem Street, Smithfield, Rhode Island, 02917, an indirect wholly-owned subsidiary of FMR LLC and an investment adviser, is the beneficial owner of 15,500 shares of our common stock as a result of its serving as investment adviser to institutional accounts, non-U.S. mutual funds, or investment companies owning such shares. Mr. Johnson and FMR LLC, through its control of PGALLC, each has the sole dispositive power over the 15,500 shares and sole power to vote or direct the voting of 0 shares owned by the institutional accounts or funds advised by PGALLC.

- (4) According to a Schedule 13G/A, filed February 14, 2012, the address for Dimensional Fund Advisors LP ( Dimensional ) is Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas 78746. Dimensional, an investment advisor, furnishes investment advice to four investment companies and serves as investment manager to certain other commingled group trusts and separate accounts (such investment companies, trusts and accounts, collectively, the Dimensional Funds ). In certain cases, subsidiaries of Dimensional may act as an adviser or sub-adviser to certain Dimensional Funds. In its role as investment advisor, sub-adviser and/or manager, neither Dimensional or its subsidiaries possess investment and/or voting power over the shares of our common stock that are owned by the Dimensional Funds.
- (5) Represents shares beneficially owned by T. Rowe Price Associates, Inc. ( Price Associates ) and certain of its affiliates. According to a Schedule 13G/A, filed February 9, 2012, the address of each of Price Associates and T. Rowe Price Small-Cap Value Fund, Inc. ( Price Small-Cap ), is 100 E. Pratt Street, Baltimore, Maryland 21202. Price Associates beneficially owns 2,083,160 shares of our common stock, has the sole voting power with respect to 88,760 shares and the sole dispositive power with respect to all 2,083,160 shares. Price Small-Cap beneficially owns 1,985,000 of these shares and has the sole voting power with respect to all 1,985,000 shares and the sole dispositive power with respect to 0 of these shares.
- (6) According to a Schedule 13G/A filed February 13, 2012, the address of BlackRock, Inc. is 40 East 52<sup>nd</sup> Street, New York, NY 10022. BlackRock, Inc. beneficially owns 1,571,924 shares of our common stock and has the sole voting and dispositive power with respect to all of these shares.
- (7) According to a Schedule 13G filed February 14, 2012, the address of Fort Hoosac Management, LLC ( FHM ) is 11 E. 4<sup>th</sup> Street, Suite 700, New York, NY 10017. FHM, an investment advisor, and Paul J. Isaac, a control person of FHM, beneficially owns 1,415,703 shares of our common stock and has the sole voting and dispositive power with respect to all of these shares.
- (8) Consists of 524,026 shares held by Mr. Cohen directly, 177,749 unvested shares of restricted stock (67,000 of which are subject to the Company's achievement of certain performance targets) and 100,000 shares that Mr. Cohen may acquire upon the exercise of options immediately or within 60 days after March 30, 2012.
- (9) Consists of 130,692 shares held by Mr. Johannessen directly, 148,174 unvested shares of restricted stock (53,600 of which are subject to the Company's achievement of certain performance targets) and 56,540 shares that Mr. Johannessen may acquire upon the exercise of options immediately or within 60 days after March 30, 2012.



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- (10) Consists of 70,866 shares held by Mr. Beattie directly and 87,770 unvested shares of restricted stock (33,500 of which are subject to the Company's achievement of certain performance targets).
- (11) Consists of 29,900 shares held by M. Brickman directly, 65,000 unvested shares of restricted stock (20,100 of which are subject to the Company's achievement of certain performance targets) and 41,120 shares that Mr. Brickman may acquire upon the exercise of options immediately or within 60 days after March 30, 2012.
- (12) Consists of 32,200 shares held by Mr. Moore directly, 18,000 unvested shares of restricted stock, and 15,000 shares that Mr. Moore may acquire upon the exercise of options immediately or within 60 days after March 30, 2012.
- (13) Consists of 11,000 shares held by Ms. Krueger directly, 18,000 unvested shares of restricted stock and 9,000 shares that Ms. Krueger may acquire upon the exercise of options immediately or within 60 days after March 30, 2012.
- (14) Consists of 16,367 shares held by Mr. Hartberg directly, 18,000 unvested shares of restricted stock and 3,000 shares that Mr. Hartberg may acquire upon the exercise of options immediately or within 60 days after March 30, 2012.
- (15) Consists of 13,000 shares held by Mr. Malone directly and 18,000 unvested shares of restricted stock.
- (16) Consists of 9,887 shares held by Mr. Brooks directly and 18,000 unvested shares of restricted stock.
- (17) Consists of 5,940 shares held by Mr. Reid directly and 18,060 unvested shares of restricted stock.
- (18) Consists of 18,500 unvested shares of restricted stock held by Mr. Solari.
- (19) Consists of 18,000 unvested shares of restricted stock held by Dr. Hornbake.
- (20) Includes 888,598 shares held directly by the executive officers and or directors of the Company, 655,253 unvested shares of restricted stock and 250,340 shares that such executive officers and/or directors, collectively, may acquire upon the exercise of options immediately or within 60 days after March 30, 2012.

**Table of Contents****ELECTION OF DIRECTORS****(PROPOSAL 1)****Nominees and Continuing Directors**

Unless otherwise directed in the enclosed proxy, it is the intention of the persons named in such proxy to vote the shares represented by such proxy for the election of each of the following nominees as a member of the Board of Directors, each to hold office until the annual meeting of our stockholders to be held in 2015 and until his or her successor is duly qualified and elected or until his or her earlier resignation or removal. Each of the nominees is presently a member of the Board of Directors.

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>	<b>Director's Term Expires</b>
<b>Nominees:</b>			
Keith N. Johannessen	55	President and Chief Operating Officer and Director	2015
Jill M. Krueger	53	Director	2015
Michael W. Reid	58	Director	2015
<b>Continuing Directors:</b>			
James A. Moore	77	Chairman of the Board	2013
Philip A. Brooks	53	Director	2013
Ronald A. Malone	57	Director	2013
Lawrence A. Cohen	58	Vice Chairman of the Board and Chief Executive Officer	2014
Craig F. Hartberg	75	Director	2014
E. Rodney Hornbake	61	Director	2014

The following is a brief biography of each nominee and each current director, including each director whose term will continue after the Annual Meeting.

**Nominees for Election for Three-Year Terms Expiring at the 2015 Annual Meeting:**

**Keith N. Johannessen** has been a director since 1999. Mr. Johannessen has served as our President since 1994 and our Chief Operating Officer since 1999. He previously served as our Executive Vice President from May 1993 to February 1994. Mr. Johannessen has more than 33 years of operational experience in seniors housing. He began his senior housing career in 1978 with Life Care Services Corporation and then joined Oxford Retirement Services, Inc. as Executive Vice President. Mr. Johannessen later served as Senior Manager in the health care practice of Ernst & Young LLP prior to joining the Company in 1993. He has served on the State of the Industry and Model Assisted Living Regulations Committees of the American Seniors Housing Association. Mr. Johannessen holds a BA degree.

**Jill M. Krueger** has been a director since February 2004. Ms. Krueger has served as President and Chief Executive of Health Resources Alliance, Inc., a company specializing in providing rehabilitative and wellness services, institutional pharmacy services and products and programs designed to promote independence, health and wellness for elderly persons. Ms. Krueger also manages Senior Care Network, a St. Louis based alliance, and ACCN Billing Service, a New York based physician billing company. Ms. Krueger was a partner at KPMG LLP responsible for overseeing the firm's national Long-term Care and Retirement Housing Practice. Ms. Krueger served as a public commissioner for the Continuing Care Accreditation Commission and as a member of its financial advisory board from 1987 to 2001. Ms. Krueger serves on the Board of Directors and as the Treasurer for a non-profit organization known as Wisconsin Illinois Senior Housing. Ms. Krueger has served on the Board of Directors and is the Chairperson for the Audit Committee for Franciscan Sisters Communities of Chicago since 2003. She is also on the Fifth Third Bank Illinois Affiliate Board of Directors and is a member of the advisory board for the Coalition in Leadership Aging Services Advisory Group.

**Michael W. Reid** has been a director since October 2009. Mr. Reid has nearly 32 years of investment banking and real estate experience, including heading Lehman Brothers REIT equity practice for nine years as

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Managing Director in the Global Real Estate Department. In that capacity, he was responsible for developing and implementing the business strategy for a successful REIT equity underwriting business. Mr. Reid also served as Chief Operating Officer at SL Green Realty Corp. from 2001-2004, where some of his responsibilities included strategic planning, finance and reporting, capital markets, operations and budgeting for a \$4 billion publicly traded REIT. From 2004-2006, he served as President of Ophir Energy Corp., a company that invested in oil and gas production in Oklahoma. From 2006-2008, he served as Chief Operating Officer of Twining Properties, a real estate company specializing in high rise development in Cambridge, Massachusetts. Mr. Reid is currently a partner at Herald Square Properties, a real estate investment and management company focused on opportunities in the midtown Manhattan office market. Mr. Reid holds a Bachelor of Arts and Master of Divinity, both from Yale University.

**Directors Continuing in Office Until the 2013 Annual Meeting:**

**James A. Moore** has been a director since October 1997. Following the 2010 Annual Meeting of Stockholders, the Board of elected Mr. Moore as independent Chairman of the Board. Mr. Moore is also a member of the board of Atlantic Shores Senior Living Community, a cooperative ownership organization that owns a CCRC located in Virginia Beach, Virginia and a member of the board of Patmos Senior Living, a non-profit organization that oversees the boards of Kirby Pines and The Farms at Bailey Station, two CCRC communities in Memphis, Tennessee. Mr. Moore is President of Moore Diversified Services, Inc., a senior living consulting firm engaged in market feasibility studies, investment advisory services, and marketing and strategic consulting in the senior living industry. Mr. Moore has over 42 years of industry experience and has conducted over 1,800 senior living consulting engagements in approximately 600 markets, in 49 states and six countries. Mr. Moore has authored numerous senior living and health care industry technical papers and trade journal articles, as well as the books *Assisting Living Pure & Simple Development and Operating Strategies* and *Assisted Living 2000, Assisted Living Strategies for Changing Markets*, which was released in May 2001, and *Independent Living and CCRCs*, which was released in September 2009. Mr. Moore holds a Bachelor of Science degree in Industrial Technology from Northeastern University in Boston and an MBA in Marketing and Finance from Texas Christian University in Fort Worth, Texas.

**Philip A. Brooks** has been a director since 2010. Mr. Brooks serves as Senior Vice President, Loan Production for CWCcapital, LLC, a Boston-based mortgage finance company owned by affiliates of Fortress Investment Group. From 1996 to October 2010, Mr. Brooks served as Senior Vice President, Seniors Housing and Healthcare Finance Group for Berkadia Commercial Mortgage, LLC, a national mortgage bank ( Berkadia ), which was previously known as Capmark Finance Inc. and GMAC Commercial Mortgage. Prior to joining Capmark Finance, Inc., Mr. Brooks worked in the Fannie Mae Multifamily Group responsible for researching and launching finance products and helped manage the Delegated Underwriting and Servicing Products ( DUS ). While at Fannie Mae, he also launched Fannie s DUS mortgage-backed securities program and implemented its seniors housing product line. Prior to Fannie Mae, Mr. Brooks was a mortgage banker with B.F. Saul Company, a large Mid-Atlantic investment firm, from 1988-1992. From 1983-1988, Mr. Brooks was an associate director for the Mortgage Bankers Association of America. Mr. Brooks has over 26 years experience in the commercial real estate finance industry. He was a founding member of the American Seniors Housing Association, a leading trade association promoting seniors housing, and was on the Board of Directors of the National Investment Center for the Seniors Housing & Care Industry, a leading trade association promoting the industry to the capital markets. On October 25, 2009, Capmark Financial Group Inc. and certain of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code.

**Ronald A. Malone** has been a director since 2010. Mr. Malone has served as a member of the Board of Directors of Gentiva Health Services, Inc. ( Gentiva ) since January 2009, having served as Chairman and Chief Executive Officer of Gentiva from June 2002 to December 2008. He served as Executive Vice President of Gentiva from March 2000 until June 2002 and as President of Gentiva s home health services division from January 2001 to June 2002. Prior to joining Gentiva, Mr. Malone served in various positions with Olsten Corporation including Executive Vice President of Olsten Corporation and President, Olsten Staffing Services,

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United States and Canada. Mr. Malone has been a director of Hill-Rom Holdings, Inc. since July 2007. He is a former director of the National Association for Home Care & Hospice and a director and chairman of the Alliance for Home Health Quality and Innovation.

**Directors Continuing in Office Until the 2014 Annual Meeting:**

**Lawrence A. Cohen** has served as one of our directors since November 1996 and as Vice Chairman of the Board since November 1996. He has served as our Chief Executive Officer since May 1999 and was our Chief Financial Officer from November 1996 to May 1999. From 1991 to 1996, Mr. Cohen served as President and Chief Executive Officer of Paine Webber Properties Incorporated. Mr. Cohen serves on the boards of various charitable organizations and is active in several industry associations. Mr. Cohen was a founding member and is on the Executive Committee of the Board of Directors of the American Seniors Housing Association, serves on the board of the Assisted Living Federation of America (ALFA), and serves on the Operator Advisory Board of the National Investment Center for the Seniors Housing & Care Industry. Mr. Cohen is a licensed attorney and is also a Certified Public Accountant. He received an LL.M. in Taxation from New York University School of Law, a JD from St. John's University School of Law, and a BBA in Accounting from The George Washington University. Mr. Cohen has had positions with businesses involved in senior living for 27 years.

**Craig F. Hartberg** has been a director since February 2001. Mr. Hartberg served as a Small Business Advisor for the Louisiana Department of Development until his resignation effective February 1, 2010. Mr. Hartberg retired from the commercial banking industry in May 2000, having served in several capacities during his 28-year career. At the time of his retirement, Mr. Hartberg served as First Vice President, Senior Housing Finance for Bank One, Texas, N.A. Mr. Hartberg graduated from the Southwestern Graduate School of Banking at Southern Methodist University. He earned his Masters of Business Administration at the University of Wyoming, following his Honorable Discharge from twelve years active duty in the United States Air Force. Mr. Hartberg served as a member of the Board of Directors of the National Association of Senior Living Industry Executives and as a member of the Assisted Living Federation of America.

**E. Rodney Hornbake, M.D.** has been a director since 2011. Dr. Hornbake serves as the Managing Partner of Essex Internal Medicine, a private practice of internal medicine and geriatrics, that he formed in 2002. Dr. Hornbake served as Senior Vice President and Chief Medical Officer of Gentiva, a provider of comprehensive home health services, from March 2000 to April 2002, and he has continued to serve in a consulting role to Gentiva since April 2002. Gentiva was spun-off from Olsten Corporation, a staffing services company, that Dr. Hornbake joined as part of its management team in 1999. Dr. Hornbake also served as Medical Director of Care Centrix, a home care benefits management company, from November 1999 until 2002, and he continued to serve in a consulting role to Care Centrix from 2002 to 2010. Dr. Hornbake previously served as Vice President and Medical Director of the North Shore-LIJ Health System in New York from 1996 to 1999, as Chief Medical Officer for Aetna Professional Management Corporation from 1994 to 1996, and as Chief of Medicine for the Park Medical Group/Park Ridge Health System in New York from 1993 to 1994. Dr. Hornbake served as Clinical Assistant Professor of Medicine at the University of Connecticut from August 2002 to 2010 and as an Associate Professor (Adjunct) of Hofstra University from 1998 to 2004. Dr. Hornbake has served on the board of Equity Health Partners, a privately-held start-up technology company, since 2008, and served on the Commission on Office Laboratory Accreditation for ten years, including two years as its Chairman.

When considering whether directors and nominees have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of the Company's business and structure, the Board of Directors and the Nominating and Corporate Governance Committee of the Board of Directors (the Nominating Committee) focused primarily on the information discussed in each of the Directors' individual biographies set forth above. In particular, with regard to Messrs. Cohen, Johannessen and Moore, the Board of Directors considered their strong background in the senior living industry—over 27 years in the case of Mr. Cohen, over 33 years in the case of Mr. Johannessen, and over 42 years in the case of Mr. Moore—in addition to the many years of experience with the Company represented by

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Messrs. Cohen and Johannessen, our Chief Executive Officer and Chief Operating Officer, respectively, and Mr. Moore, a director of our Company for over 14 years. The Board of Directors also considered the broad perspective brought by Mr. Moore's significant experience in consulting in the senior living industry. With respect to Ms. Krueger, the Board of Directors considered her significant experience, expertise and background with regard to accounting matters, which includes specialization in health care, and rehabilitative and wellness services for elderly persons. With regard to Mr. Hartberg, the Board of Directors considered his strong background in commercial banking as well as his strong organizational and management skills, since the Company's ability to finance its communities and realize the benefit from such financings are important factors in the success of the Company. With regard to Mr. Reid, the Board of Directors considered his nearly 32 years of experience in investment banking and real estate, including heading Lehman Brothers REIT equity practice for nine years as Managing Director in the Global Real Estate Department, and his senior level public company experiences, which experiences will help the Company identify and capitalize on opportunities to build its business as well as bring fresh insights that will benefit both the Board of Directors and the Company. With respect to Mr. Malone, the Board of Directors considered his executive level and board experience with public companies and his extensive senior level operational experiences, particularly in health care and wellness services. Mr. Malone has an intimate knowledge of the home health industry and expertise in the legislative and regulatory landscape affecting healthcare companies. With respect to Mr. Brooks, the Board of Directors considered his extensive experience in the senior living industry and strong background in senior housing financing. With regard to Dr. Hornbake, the Board of Directors considered his position as a practicing physician specializing in geriatrics, his strong understanding of emerging needs of the aging population, his service as Chief Medical Officer for a large health services organization, and his involvement in public policy as it affects seniors.

The Board of Directors does not anticipate that any of the aforementioned nominees for director will refuse or be unable to accept election as a director, or be unable to serve as a director. Should any of them become unavailable for nomination or election or refuse to be nominated or to accept election as a director, then the persons named in the enclosed form of proxy intend to vote the shares represented in such proxy for the election of such other person or persons as may be nominated or designated by the Board of Directors.

There are no family relationships among any of our directors, director nominees or executive officers.

**The Board of Directors unanimously recommends a vote FOR the election of each of the individuals nominated for election as a director.**



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**BOARD OF DIRECTORS AND COMMITTEES**

**General**

Our Board of Directors currently consists of nine directors. The Board of Directors has determined that Philip A. Brooks, Craig F. Hartberg, Dr. E. Rodney Hornbake, Jill M. Krueger, Ronald A. Malone, James A. Moore and Michael W. Reid, each an existing director, are independent within the meaning of the corporate governance rules of the NYSE and no such individual has any relationship with us, except as a director and stockholder or as a nominee for director, as applicable. In addition, we have adopted a Director Independence Policy, as described in greater detail below under the heading Director Independence Policy, which establishes guidelines for the Board of Directors to follow in making the determination as to which of our directors is independent. Our Director Independence Policy is available on our website at <http://www.capital senior.com> in the Investor Relations section and is available in print to any stockholder who requests it. The Board of Directors has determined that Messrs. Brooks, Hartberg, Hornbake, Malone, Moore and Reid and Ms. Krueger, each an existing director, are independent in accordance with our Director Independence Policy.

During 2011, the Board of Directors held 9 meetings, including regularly scheduled and special meetings, and acted twice by unanimous written consent during 2011. During 2011, no director attended fewer than 75% of the aggregate of (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings held by all committees of the Board of Directors on which such director served. Under our Corporate Governance Guidelines, each of our directors is expected to attend all meetings of the Board of Directors, the annual stockholders meeting and meetings of the committees of the Board of Directors on which they serve. Messrs. Cohen, Johannessen, Brooks, Hartberg, Hornbake, Malone, Moore and Reid and Ms. Krueger attended our 2011 annual meeting of stockholders. Our independent directors meet in executive sessions without any management directors, and Mr. Moore, the independent Chairman of the Board, presided over these meetings during 2011.

**Director Independence Policy**

The Board of Directors undertakes an annual review of the independence of all non-management directors. In advance of the meeting at which this review occurs, each non-management director is asked to provide the Board of Directors with full information regarding the director's business and other relationships with us to enable the Board of Directors to evaluate the director's independence. Directors have an affirmative obligation to inform the Board of Directors of any material changes in their circumstances or relationships that may impact their designation by the Board of Directors as independent. This obligation includes all business relationships between, on the one hand, directors or members of their immediate family, and, on the other hand, us, whether or not such business relationships are described above.

No director qualifies as independent unless the Board of Directors affirmatively determines that the director has no material relationship with us. The following guidelines are considered in making this determination:

a director who is, or has been within the last three years, employed by us, or whose immediate family member is, or has been within the last three years, one of our executive officers, is not independent ;

a director who received, or whose immediate family member received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from us, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent ;

a director (a) who is a current partner or employee of a firm that is our internal or external auditor, (b) has an immediate family member who is a current partner of such a firm, (c) has an immediate family member who is a current employee of such a firm and personally works on the listed company's audit, or (d) who was, or has an immediate family member who was, within the last three years a partner or employee of such a firm and personally worked on the listed company's audit within that time, is not independent ;

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a director who is, or whose immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of our present executive officers at the same time serves or served on that other company's compensation committee, is not independent ;

a director who is a current employee, or whose immediate family member is a current executive officer, of a company that has made payments to, or received payments from, us for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues, is not independent ;

a director who serves as an executive officer, or whose immediate family member serves as an executive officer, of a tax exempt organization that, within the preceding three years, received contributions from us, in any single fiscal year, of an amount equal to the greater of \$1 million or 2% of such organization's consolidated gross revenue, is not independent ; and

a director who has a beneficial ownership interest of 10% or more in a company which has received remuneration from us in any single fiscal year in an amount equal to the greater of \$1 million or 2% of such company's consolidated gross revenue is not independent until three years after falling below such threshold.

In addition, members of the Audit Committee may not accept any consulting, advisory or other compensatory fee from us or any of our subsidiaries or affiliates other than directors' compensation.

The terms us, we and our refer to Capital Senior Living Corporation and any direct or indirect subsidiary of Capital Senior Living Corporation, which is part of the consolidated group. An immediate family member includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than domestic employees) who shares such person's home.

### **Committees**

Committees of the Board of Directors include the Audit Committee, the Nominating Committee, and the Compensation Committee.

#### ***Audit Committee***

The Audit Committee consists of Messrs. Hartberg and Reid and Ms. Krueger, each of whom is independent as defined by the listing standards of the NYSE in effect as of the date of this proxy statement. The Board of Directors has determined that Ms. Krueger qualifies as an audit committee financial expert within the meaning of SEC regulations. The Board of Directors has adopted an amended and restated Audit Committee Charter, which is available on our website at <http://www.capital senior.com> in the Investor Relations section and is also available in print to any stockholder who requests a copy. Pursuant to its charter, the Audit Committee serves as an independent party to oversee our financial reporting process and internal control system, to appoint, replace, provide for compensation of and to oversee our independent accountants and provide an open avenue of communication among our independent accountants, senior management and Board of Directors. The Audit Committee held 4 meetings during 2011, including regularly scheduled and special meetings, and did not act by unanimous written consent during 2011.

#### ***Nominating Committee***

The Nominating Committee consists of Messrs. Malone, Brooks and Moore, each of whom is independent as defined by the listing standards of the NYSE in effect as of the date of this proxy statement. The Board of Directors has adopted an amended and restated Nominating Committee Charter, which, along with our Code of Business Conduct and Ethics and Corporate Governance Guidelines, is available on our website at <http://www.capital senior.com> in the Investor Relations section and each is also available in print to any stockholder who requests a copy. Pursuant to its charter, the Nominating Committee:

identifies individuals qualified to become directors;



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recommends director nominees to the Board of Directors;

develops and recommends for Board of Directors approval our Corporate Governance Guidelines;

oversees the evaluation of the Board of Directors and management; and

conducts an annual review of the adequacy of its charter and recommends proposed changes to the Board of Directors for its approval. The Nominating Committee held 4 meetings during 2011, including regularly scheduled and special meetings, and acted once by unanimous written consent during 2011.

***Compensation Committee***

The Compensation Committee consists of Messrs. Moore, Hartberg and Reid, each of whom is independent as defined by the listing standards of the New York Stock Exchange in effect as of the date of this proxy statement. The Board of Directors has adopted an amended and restated Compensation Committee Charter, which is available on our website at <http://www.capital senior.com> in the Investor Relations section and is also available in print to any stockholder who requests a copy. Pursuant to its charter, the Compensation Committee's responsibilities include, among other things, the responsibility to:

review and approve, on an annual basis, the corporate goals and objectives relevant to the compensation of our Chief Executive Officer and our other executive officers, evaluate each such individual's performance in light of such objectives and, either as a committee or together with other independent directors (as directed by the Board of Directors), determine and approve the compensation for each such individual based on such evaluation (including base salary, bonus, incentive and equity compensation);

review director compensation levels and practices, and recommend, from time to time, changes in such compensation levels and practices;

review our compensation, incentive compensation and equity-based plans and recommend, from time to time, changes in such compensation levels and practices to the Board of Directors;

review and discuss with our management the Compensation Discussion and Analysis to be included in our annual proxy statement, annual report on Form 10-K or information statement, as applicable, and make a recommendation as to whether it should be included therein;

conduct an annual review of the adequacy of its charter and recommend any proposed changes to the Board of Directors for its approval; and

perform any other activities consistent with our Amended and Restated Certificate of Incorporation, Bylaws and governing law as the Compensation Committee or the Board of Directors deems appropriate.

The Compensation Committee held 4 meetings during 2011, including regularly scheduled and special meetings, and did not act by unanimous written consent during 2011.

The Compensation Committee's processes for fulfilling its responsibilities and duties with respect to executive compensation and the role of our executive officers and management in the compensation process are each described under Compensation Discussion and Analysis

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Overview of Compensation Process beginning on page 19 of this proxy statement.

In fulfilling its responsibilities and duties with respect to the compensation of our directors, the Compensation Committee periodically reviews the compensation paid to the non-employee directors of the companies in our peer group, and may recommend to the Board of Directors adjustments to our director compensation levels and practices so as to remain competitive with the companies in our peer group.

Pursuant to its charter, the Compensation Committee may retain such compensation consultants, outside counsel and other advisors as it may deem appropriate in its sole discretion and it has the sole authority to

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approve related fees and other retention terms. From time to time, the Compensation Committee has engaged third parties to compile statistical information with respect to the executive compensation practices of other comparable public companies. In July 2006, the Compensation Committee engaged Hewitt Associates LLC, an executive compensation consulting firm, to conduct a formal review of our compensation arrangements for our named executive officers and to provide advice regarding compensation trends and best practices, plan design, and the reasonableness of individual compensation awards. The Compensation Committee did not engage the services of compensation consultants, outside counsel or other advisors during 2011.

### **Board of Director s Leadership Structure**

Our Board separated the roles of Chairman of the Board and Chief Executive Officer by electing James A. Moore, a non-executive, independent director, as Chairman of the Board at the annual Board meeting held immediately following the 2010 Annual Meeting of Stockholders. The separation of the roles was implemented to allow Mr. Cohen, our Chief Executive Officer, to continue to focus his efforts on the successful management of the Company while allowing Mr. Moore, our independent Chairman, to focus his efforts on the continued development of a high-performing Board of Directors, including (1) ensuring the Board of Directors remains focused on the Company s long-term strategic plans, (2) working with Company management to ensure the Board of Directors continues to receive timely and adequate information, (3) coordinating activities of the committees of the Board of Directors, and (4) ensuring effective stakeholder communications. The Board believes, due to the continued leadership and experience provided by these two individuals, that having separate positions is the appropriate leadership structure for the Company at this time and demonstrates our commitment to good corporate governance.

### **Board of Director s Role in Risk Oversight**

Our Company, like others, faces a variety of enterprise risks, including credit risk, liquidity risk, and operational risk. In fulfilling its risk oversight role, the Board focuses on the adequacy of the Company s risk management process and overall risk management system. The Board believes an effective risk management system will (1) adequately identify the material risks that the Company faces in a timely manner, (2) implement appropriate risk management strategies that are responsive to the Company s risk profile and specific material risk exposures, (3) integrate consideration of risk and risk management into business decision-making throughout the Company, and (4) include policies and procedures that adequately transmit necessary information with respect to material risks to senior executives and, as appropriate, to the Board or relevant committee.

The Audit Committee has been designated to take the lead in overseeing risk management at the Board level. Accordingly, the Audit Committee schedules time for periodic review of risk management, in addition to its other duties. In this role, the Audit Committee receives information from management and other advisors, and strives to generate serious and thoughtful attention to the Company s risk management process and system, the nature of the material risks the Company faces, and the adequacy of the Company s policies and procedures designed to respond to and mitigate these risks.

Although the Board s primary risk oversight has been assigned to the Audit Committee, the full Board also periodically receives information about the Company s risk management system and the most significant risks that the Company faces. This is principally accomplished through the Audit Committee s discussions with the full Board and summary versions of the briefings provided by management and advisors to the Audit Committee.

In addition to the formal compliance program, the Board and the Audit Committee encourage management to promote a corporate culture that understands risk management and incorporates it into the overall corporate strategy and day-to-day business operations. The Company s risk management structure also includes an ongoing effort to assess and analyze the most likely areas of future risk for the Company. As a result, the Board and Audit Committee periodically ask the Company s executives to discuss the most likely sources of material future risks and how the Company is addressing any significant potential vulnerability.

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### **Director Nominations**

The Nominating Committee is responsible under its charter for identifying and recommending qualified candidates for election to the Board of Directors. In addition, stockholders who would like to recommend a candidate for election to the Board of Directors may submit the recommendation to the chairman of the Nominating Committee, in care of our General Counsel. Any recommendation must include name, contact information, background, experience and other pertinent information on the proposed candidate and must be received in writing by November 15, 2012 for consideration by the Nominating Committee for the 2013 annual meeting of our stockholders.

Although the Nominating Committee is willing to consider candidates recommended by our stockholders, it has not adopted a formal policy with regard to the consideration of any director candidates recommended by our stockholders. The Nominating Committee believes that a formal policy is not necessary or appropriate because of the small size of the Board of Directors and because the current Board of Directors already has a diversity of business background and industry experience.

The Nominating Committee does not have specific minimum qualifications that must be met by a candidate for election to the Board of Directors in order to be considered for nomination by the Nominating Committee. In identifying and evaluating nominees for director, the Nominating Committee considers each candidate's qualities, experience, background and skills, as well as any other factors that the candidate may be able to bring to the Board of Directors that the Board of Directors currently does not possess. The process is the same whether the candidate is recommended by a stockholder, another director, management or otherwise. Although the Nominating Committee does not have a formal diversity policy in place for the director nomination process, an important factor in the Nominating Committee's consideration and assessment of a candidate is the diversity of the candidate's viewpoints, professional experience, education and skill set. The Nominating Committee does not pay a fee to any third party for the identification of candidates, but it has paid a fee in the past to a third party for a background check for a candidate.

With respect to this year's nominees for director, Messrs. Johannessen and Reid and Ms. Kruger currently serve as directors of the Company.

### **Code of Business Conduct and Ethics**

The Board of Directors has adopted a Code of Business Conduct and Ethics governing all of our employees, including our Chief Executive Officer, Chief Financial Officer, our principal accounting officer and corporate controller. A copy of this Code of Business Conduct and Ethics is available in the Corporate Governance Documents section of the Investor Relations section of our website at [www.capitalsenior.com](http://www.capitalsenior.com). We intend to make all required disclosures concerning any amendments to, or waivers from, this Code of Business Conduct and Ethics on our website.

### **Website**

Our Internet website, [www.capitalsenior.com](http://www.capitalsenior.com), contains an Investor Relations section, which provides links to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, SEC stock ownership reports, amendments to those reports and filings, Code of Business Conduct and Ethics, Corporate Governance Guidelines, Director Independence Policy and charters of the Nominating, Compensation and Audit Committees of the Board of Directors. These documents are available in print, free of charge, to any stockholder who requests a copy as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The materials on our website are not incorporated by reference into this proxy statement and do not form any part of the materials for solicitation of proxies.

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**Communication with Directors**

Correspondence from stockholders and other interested parties may be sent to our directors, including our non-management directors, individually or as a group, in care of James A. Moore, the independent Chairman of our Board of Directors, with a copy to the Vice President, General Counsel and Secretary, David R. Brickman, at our principal executive offices, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254.

All communications received as set forth above will be opened by the Chairman and Vice President, General Counsel and Secretary for the sole purpose of determining whether the contents represent a message to our directors. Appropriate communications other than advertising, promotions of a product or service, or patently offensive material will be forwarded promptly to the addressee.



**Table of Contents****EXECUTIVE COMPENSATION****Compensation Discussion and Analysis**

This Compensation Discussion and Analysis focuses on the compensation of the Company's executive officers, including our named executive officers who are the individuals included in the Summary Compensation Table beginning on page 33 of this proxy statement. This section summarizes our executive compensation program and objectives and provides an overview of how and why the Compensation Committee of our Board of Directors, who is responsible for the oversight of our executive compensation program, made specific decisions involving the compensation of our named executive officers. We also refer you to our Annual Report on Form 10-K for the year ended December 31, 2011 for additional information regarding the Company's 2011 financial results discussed below.

***Executive Summary***

Our executive compensation program is designed to meet three principal objectives:

employ, retain and reward executives who are capable of leading us to the achievement of our business objectives, which include maximizing the value of our operations, generating cash flow, preserving a strong financial position, increasing our geographic concentration, maximizing our competitive strengths in each of our markets, capitalizing on long-term growth opportunities, and most importantly, enhancing stockholder value;

a significant amount of total compensation should be in the form of short-term and long-term incentive awards to align compensation with our financial and operational performance goals as well as individual performance goals; and

incentive awards should be tied to and vary with our financial and operational performance, as well individual performance.

We believe these objectives collectively link compensation to overall Company performance and directly link compensation to the objectives set forth in the Company's 2011 Business Plan that was approved by our Board of Directors. These objectives help ensure that the interests of our named executive officers are closely aligned with the interests of our stockholders. We believe that Capital Senior has successfully achieved these objectives as demonstrated by the Company's strong financial results during 2011, which exceeded the Company's business plan despite a challenging economic environment. As described in Management's Discussion and Analysis of Financial Conditions and Results of Operations in our Annual Report on Form 10-K, our fiscal 2011 financial results, based upon various measures, significantly increased relative to our fiscal 2010 financial results. The following table highlights the year-over-year comparison of some of the key financial metrics that we use in evaluating the Company's performance for purposes of making compensation decisions.

<b>Performance Measures</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>	<b>% Increase</b>
Adjusted CFFO	\$25.1 million (or \$0.93 per share)	\$17.1 million (or \$0.64 per share)	46.55%
Adjusted EBITDAR	\$92.3 million	\$68.6 million	34.58%
Adjusted Net Income	\$6.9 million (or \$0.25 per share)	\$4.7 million (or \$0.17 per share)	47.58%
Revenue	\$263.5 million	\$211.9 million	24.34%

The above table utilizes non-GAAP financial measures such as adjusted CFFO, adjusted EBITDAR and adjusted net income. These non-GAAP measures are used by many research analysts and investors to evaluate the performance and valuations of companies in our industry. Please refer to [Appendix A](#) to this proxy statement for important information concerning such non-GAAP financial measures, including a reconciliation of such measures to GAAP.

For fiscal 2011, we believe our compensation programs, which are designed to reward our named executive officers for the achievement of short-term and long-term strategic and operational goals and the achievement of



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increased stockholder value, delivered payments commensurate with Capital Senior's strong financial performance. Below are the highlights of our executive compensation program for 2011:

*Emphasis on Pay for Performance.* Our fiscal 2011 performance, including our performance relative to our peers, along with the individual performance of our eligible named executive officers, served as key factors in determining compensation for 2011, including as follows:

CFFO per share and adjusted EBITDAR were the key metrics for our eligible named executive officers' annual cash incentive awards related to corporate goals during 2011. These metrics provide for a balanced approach to measuring annual company performance. In addition, these measures are used by many research analysts and investors to evaluate the performance and valuations of companies in our industry. Our eligible named executive officers also had the opportunity to receive an annual cash incentive award based upon the aggregate transaction value of the Company's acquired senior housing communities during 2011. We believe our named executive officers should be rewarded for their efforts in helping the Company complete such strategic acquisitions, which we expect will help generate a meaningful increase in the Company's CFFO and earnings. The Company's performance with respect to each of these metrics was above target, and therefore resulted in the payment of annual cash incentive awards at above target levels for our eligible named executive officers for 2011.

For 2011, we linked a significant portion of the total compensation opportunity available to each of our eligible named executive officers to the achievement of certain corporate and individual goals bearing a direct relationship to the accomplishment of our business plan. As reflected in the Summary Compensation Table below, approximately 67%, 69% and 63% of the total compensation opportunity awarded to our Chief Executive Officer, President and Chief Operating Officer, and Executive Vice President and Chief Financial Officer, respectively, in 2011 was subject to the achievement of performance targets under our Incentive Compensation Plan for 2011 or under the long-term performance-based equity awards discussed below.

*Periodic Grants of Long-Term Equity Awards.* Another way that we try to link pay and performance is through periodically granting time-based and performance-based equity awards to our named executive officers. In March 2011, we granted 100,000, 80,000, 50,000 and 30,000 shares of performance-based restricted stock to our Chief Executive Officer, President and Chief Operating Officer, Executive Vice President and Chief Financial Officer and Vice President, General Counsel and Secretary, respectively. The periodic vesting of these awards is subject to the Company's achievement of certain performance targets over a three-year period, which is primarily designed to encourage our named executive officers to focus on the long-term performance of the Company. If a performance target is not met, then the shares subject to such performance target are forfeited. In addition, we periodically grant shares of time-based restricted stock to our named executive officers. The vesting of these awards is generally subject to the named executive officer's continued employment by the Company over a three-year period, which is primarily designed to encourage such key executive officers to remain with the Company during such period and continue to work to achieve the Company's long-term goals for growth and profitability. If our stock price improves, these equity awards will become more valuable to our executives.

*Establishment of Recoupment Policy (or Clawback) for Incentive Compensation.* As part of the Incentive Compensation Plan for 2011, the Compensation Committee adopted a recoupment policy pursuant to which, in the event that it is determined that a participant in the Incentive Compensation Plan has committed fraud or a willful misstatement related to the calculations used in determining an award under the plan, the participant involved in such fraud or willful misstatement must return to the Company any awards that were paid as a result of such fraud or willful misstatement. This feature of the Incentive Compensation Plan is separate from and in addition to any clawback provisions under applicable law, including the Sarbanes-Oxley Act of 2002.

*Stockholder-Friendly Pay Practices.* We do not use many common pay practices that are considered to be unfriendly to stockholders. For example, we do not provide extensive prerequisites to our named

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executive officers. In addition, our named executive officers are only eligible to participate in certain benefit plans generally available to all of our employees, and the benefits available to our named executive officers are generally the same as all of our employees. Further, our executive compensation arrangements do not contain excess parachute payment tax gross-up provisions. We have no guaranteed non-performance-based bonuses for our named executive officers.

*Independent Compensation Committee.* The Compensation Committee is composed solely of outside, independent directors who satisfy the independence requirements of the NYSE. In addition, to obtain and evaluate independent information with respect to our executive compensation program, each year the Compensation Committee typically reviews information compiled by independent third parties, including, without limitation, Aon Hewitt Consulting, Watson Wyatt and Christenson Advisors. In addition, in July of 2006 the Compensation Committee engaged Hewitt Associates, an independent executive compensation consulting firm, to conduct a formal review of the Company's compensation arrangements for its executives and to provide advice regarding compensation trends and best practices, plan design, and the reasonableness of individual compensation awards. As a result, the Compensation Committee continually endeavors to provide independent oversight and engages in an ongoing independent review of all aspects of our executive compensation programs.

***Overview of Compensation Process***

The Compensation Committee is ultimately responsible for reviewing and approving the base salary increases, other than annual base salary increases contemplated by existing employment agreements, and bonus levels of our executive officers, including our named executive officers, evaluating the performance of such individuals and reviewing any related matters. Equity and other forms of compensation for our executive officers, including our named executive officers, are also considered by the Compensation Committee. In applying the above-described objectives for our executive compensation program, the Compensation Committee primarily relies upon the following factors.

*Input Received from our Senior Management.* As discussed in greater detail below, the Compensation Committee has historically relied in part upon the input and recommendations of our senior management, which has historically consisted of Messrs. Beattie, Cohen and Johannessen and whom we refer to in this section as our senior management, when considering annual increases to base salaries for our named executive officers, the annual establishment of our Incentive Compensation Plan, and whether to grant long-term incentive awards to our named executive officers, and if so, in what forms and amounts.

*Peer Group Data.* Since our initial public offering in 1997, the Compensation Committee has consistently sought to structure our executive compensation program to provide amounts and forms of compensation to our named executive officers that are generally commensurate with those paid to executive officers with comparable duties and responsibilities at those companies in the senior living industry which the Compensation Committee, in consultation with our senior management, periodically determines to be the most directly comparable to us. In order to determine which companies in the senior living industry are the most directly comparable to us, the Compensation Committee and our senior management conduct an annual review to determine which such companies have a similar business focus to ours and a similar revenue and/or asset base to ours. We refer to such public companies collectively as our peer group. For 2011, the companies which comprised our peer group were Assisted Living Concepts, Inc., Brookdale Senior Living Inc., Emeritus Corporation, Five Star Quality Care, Inc. and Sunrise Assisted Living, Inc.

The Compensation Committee reviews publicly available information regarding the compensation arrangements offered by the companies in our peer group on an annual basis for purposes of obtaining a general understanding of current compensation practices, and generally endeavors to make the total compensation for our named executive officers comparable to the total compensation paid to executive officers with comparable duties and responsibilities at the companies in our peer group. The information reviewed is part of a larger competitive

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analysis and does not mandate a particular decision regarding the compensation received by the Company's named executive officers. The Compensation Committee does not target the compensation of the Company's named executive officers to fall within a specific percentile range of the peer group companies, but rather considers several factors, such as the experience levels of individuals and market factors, before exercising its discretion in determining the total compensation of the Company's named executive officers. Based upon the results of such review, the Compensation Committee may determine to modify the amounts and/or the forms of compensation that are available to our named executive officers, in light of the objectives we have identified for our executive compensation program.

*Industry Surveys.* The Compensation Committee typically reviews information compiled by third parties including, but not limited to, Aon Hewitt Consulting, Watson Wyatt and Christenson Advisors, with respect to the executive compensation practices of other companies in order to assist it in determining the percentage range within which the base salary for our named executive officers for the upcoming year may increase from that paid to such individuals in the preceding year. For a more detailed description of the process by which the Compensation Committee determines the increases in base salaries for our named executive officers, please read "Forms of Compensation - Base Salary" below.

*Other Factors.* Key factors that also affect the Compensation Committee's judgment with respect to our executive compensation program include our financial performance, to the extent that it may be fairly attributed or related to the performance of a particular named executive officer, as well as the contribution of each named executive officer relative to his individual responsibilities and capabilities. While the Compensation Committee does consider our stock price performance, the Compensation Committee has not utilized it as the only measure of our financial performance, or the performance of our named executive officers, given the fact that it may not take into account a variety of factors including, but not limited to, the business conditions within the senior living industry as well as our long-term strategic direction and goals. Also, in applying these objectives, the Compensation Committee endeavors to achieve consistency with respect to the difference between the compensation of our named executive officers and the compensation of our other officers and employees and such differences found in the companies in our peer group.

***Forms of Compensation***

The following forms of compensation are currently utilized by the Compensation Committee in compensating our named executive officers.

**BASE SALARY**

The base salary for our named executive officers is established pursuant to the terms of each such individual's employment agreement and is subject to an annual increase. Base salaries are paid in cash and are intended to reward our named executive officers for their performance during the fiscal year relative to their authority and responsibilities in their respective positions with us.

In the fourth quarter of each year, the Compensation Committee typically establishes a percentage range within which the base salary for our named executive officers for the upcoming year may increase from the preceding year. In determining this percentage range, the Compensation Committee typically reviews information compiled by third parties including, but not limited to, Aon Hewitt Consulting, Watson Wyatt and Christenson Advisors, and generally targets the base salary of our named executive officers to be comparable to the base salaries paid to the members of management and executive officers with comparable duties and responsibilities at other companies. For 2011, the Compensation Committee set such percentage range at 2.5% - 3.0%.

At each quarterly meeting, the Compensation Committee typically reviews a list of those senior executives, including our named executive officers, whose employment agreements have anniversary dates arising in the

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upcoming quarter and authorizes our senior management to approve base salary increases for each such individual in its discretion within such percentage range. Each annual performance and compensation review takes place at the same quarterly meeting of the Compensation Committee at which it was authorized. In exercising its discretion, our senior management typically considers each such individual's historical performance in his or her position with us, as reflected by the results of the annual performance and compensation review, as well as our financial performance within each such individual's sphere of influence.

In the event that our senior management, following such evaluation, determines that the amount of any increase to the base salary of any such individual should be either greater than or less than the increase permitted by the percentage range, then our senior management informs the Compensation Committee of its recommendation. Then, the Compensation Committee ultimately determines the amount of the increase based upon both the recommendations of our senior management as well as its review of publicly-available information with respect to the base salaries paid to executives with comparable duties and responsibilities at the companies in our peer group. Any increase to the base salary of any such individual is typically effective as of the beginning of the pay period immediately following the anniversary date of such individual's employment agreement.

The Compensation Committee believes that the members of our senior management are the most appropriate individuals to conduct the annual performance and compensation reviews by virtue of their role in overseeing the day-to-day performance of our senior executives, other than our Chief Executive Officer. The Compensation Committee believes that the members of our senior management are also the most appropriate individuals to ultimately determine the amount of the annual base salary increases within the percentage range since each member occupies a position with us which provides the requisite knowledge and experience to properly evaluate the performance of our senior executives, including our named executive officers, in their respective positions with us and in the context of our overall performance. Whenever our senior management considers an increase to the base salary of an individual member of our senior management, such individual is not permitted to participate in the deliberations of our senior management relating to an increase in such individual's base salary.

For a further description of the base salaries paid to our named executive officers for 2011, please refer to the Summary Compensation Table beginning on page 33 of this proxy statement.

**PERFORMANCE BONUS**

Bonuses are typically awarded to our named executive officers, other than Messrs. Brickman and Solari, annually pursuant to the incentive compensation plan, which we refer to as our Incentive Compensation Plan. The purpose of the Incentive Compensation Plan is to assist us in employing and retaining certain of our named executive officers by providing them with a competitive compensation opportunity based upon the achievement of specified performance objectives that the Compensation Committee identifies as having a direct relation to the accomplishment of our business plan for the applicable year.

Under the Incentive Compensation Plan, performance bonuses are typically targeted at a pre-determined percentage of each eligible named executive officer's base salary for such year. These percentages are typically established by the Compensation Committee based upon its review of publicly-available information with respect to similar programs offered by the companies in our peer group. For 2011, the maximum target bonus percentages were established at 75% for our Chief Executive Officer and 58% for our other eligible named executive officers. The Compensation Committee determined that the maximum target performance bonus opportunity for our Chief Executive Officer should represent a higher percentage of his base salary than that of the other eligible named executive officers based upon (i) a general review of publicly available information regarding similar programs offered by the companies in our peer group, and (ii) its belief that our Chief Executive Officer, by virtue of his position with us, is in a position to exert a more significant influence as compared to the other eligible named executive officers over a number of the factors upon which performance bonuses under the Incentive Compensation Plan are contingent.

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The target and maximum bonus opportunities under the Incentive Compensation Plan for 2011 for Messrs. Cohen, Johannessen, and Beattie were as follows:

Named Executive Officer	2011 Target Bonus		2011 Maximum Target Bonus	
	% of Base Salary	Amount	% of Base Salary	Amount
Lawrence A. Cohen	39%	\$ 258,839	75%	\$ 497,768
Keith N. Johannessen	32%	\$ 125,158	58%	\$ 226,849
Ralph A. Beattie	32%	\$ 116,848	58%	\$ 211,786

There were no minimum bonus award opportunities under the Incentive Compensation Plan for 2011 for our eligible named executive officers, and as a result, if the performance targets discussed in this section were not achieved, no performance bonuses would be payable to our eligible named executive officers for 2011.

Typically, of the performance bonus amount that an eligible named executive officer may earn pursuant to the Incentive Compensation Plan, pre-determined percentages of such amount are contingent upon:

achieving or exceeding certain corporate goals for the applicable year; and

the achievement by the eligible named executive officer of certain individual goals for the corresponding year within such named executive officer's sphere of influence.

During the first quarter of each year, our senior management typically makes recommendations to the Compensation Committee regarding the percentage allocations to be made among the above-described categories for the year based upon its determinations as to the relative importance that the goals in each such category should bear to the goals in the other categories in order to achieve our business plan for the applicable year. In addition, for each category that contains multiple goals, our senior management also typically makes recommendations to the Compensation Committee regarding the percentage allocations among the goals within each such category based upon its determinations as to the relative importance that the goals in each such category should bear to the other goal(s) in such category in order to achieve our business plan for the applicable year. The Compensation Committee typically takes into account these recommendations from our senior management due to the fact that the members of our senior management are primarily responsible for the establishment of our business plan each year.

By approving the Incentive Compensation Plan in the first quarter of each year, the Compensation Committee and our senior management may examine the performance of each of our eligible named executive officers during the previous year, establish performance goals for our eligible named executive officers relative to such performance, as well as determine the financial performance targets for the new fiscal year based in part upon the previous year's performance.

The Compensation Committee typically meets annually to determine, among other things, whether performance bonuses are to be paid under the Incentive Compensation Plan to any of our eligible named executive officers based upon our achievement, or any eligible named executive officer's individual achievement, as applicable, of any performance objective of the Incentive Compensation Plan during the previous year (provided that performance bonuses awardable pursuant to metrics that are determined on a quarterly basis are considered by the Compensation Committee at their quarterly meetings). In 2011, the only performance bonuses considered at the Compensation Committee's quarterly meetings were those awardable pursuant to the aggregate acquisition transaction value target discussed below. The payment of performance bonuses, if any, to the eligible named executive officers is normally made, subject to payroll taxes and tax withholdings, in the pay period immediately following the date of such determination by the Compensation Committee.

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The Incentive Compensation Plan represents the Compensation Committee's determination that, although a substantial portion of the performance bonus opportunity for our eligible named executive officers should be dependent upon measures that are reflective of our overall financial performance, the Incentive Compensation Plan should also reward the individual contributions of each eligible named executive officer for the achievement of elements of our business plan that are within such individual's sphere of influence. In determining the corporate and individual performance metrics under our Incentive Compensation Plan, the Compensation Committee endeavors to undertake a thoughtful process to establish performance metrics that will reflect a balanced approach for measuring annual Company performance. This process typically includes a general review of publicly-available compensation information with respect to similar programs utilized by the companies in our peer group and discussions with research analysts covering our industry and Company stockholders as to the most appropriate measures for measuring the performance and valuations of companies in our industry. During the first quarter of 2011, the Compensation Committee met twice during which it considered the most appropriate performance targets for the 2011 fiscal year and whether adjustments should be made to the structure of the Incentive Compensation Plan, in light of the objectives that the Compensation Committee has established for our executive compensation program.

**Corporate Goals.** Of the maximum performance bonus amount that an eligible named executive officer may earn pursuant to the Incentive Compensation Plan, a pre-determined percentage of that amount is typically contingent upon our achievement of certain objectively verifiable measures for our performance for the applicable year. These corporate goals are typically approved by the Compensation Committee in the first quarter of each fiscal year based upon the recommendations of our senior management regarding certain initiatives and the related corresponding metrics that our senior management believes are directly related to the achievement of our business plan for that year. Typically, two or three distinct corporate goals are established and, of the percentage of the maximum performance bonus amount that is contingent upon the achievement of such corporate goals, varying percentages of such amount are allocated by the Compensation Committee to each corporate goal.

Under the Incentive Compensation Plan for 2011, our eligible named executive officers were entitled to receive a performance bonus equal to a maximum of 24% (29% for our Chief Executive Officer) of their respective base salaries for the year based upon our achievement of three distinct corporate goals with respect to Cash From Facility Operations, or CFFO, per share, adjusted EBITDAR, and the aggregate transaction value of the Company's acquired senior housing communities during 2011. The table below sets forth the target performance bonus opportunities of our eligible named executive officers under the Incentive Compensation Plan for 2011 with respect to the achievement of these corporate goals.

<b>Named Executive Officer</b>	<b>% of Base Salary</b>	<b>Amount</b>
Lawrence A. Cohen	29%	\$ 192,470
Keith N. Johannessen	24%	\$ 93,868
Ralph A. Beattie	24%	\$ 87,636

**CFFO Per Share.** First, of the maximum bonus percentage attributable to the achievement of corporate goals, 12% (13% for our Chief Executive Officer) was based upon the Company's achievement of a CFFO per outstanding share target during 2011, which was viewed as a challenging performance target (particularly given the existing market and economic conditions). For purposes of the Incentive Compensation Plan for 2011, CFFO was defined as net cash provided by (used in) operating activities adjusted for changes in operating assets and liabilities and recurring capital expenditures. Recurring capital expenditures included expenditures capitalized in accordance with GAAP that were funded from reserves pursuant to the Company's mortgage loans and leases.

The targeted level of performance under the CFFO portion of the Incentive Compensation Plan for 2011 was CFFO per share of \$0.71, which was based on the Company's internal business plan. Achievement of the threshold level of CFFO performance under the Incentive Compensation Plan for 2011 would result in our eligible named executive officers receiving a bonus equal to 12% (13% for our Chief Executive Officer) of their



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respective base salaries paid for the year. If the Company did not achieve the CFFO per share target, no amounts would be paid to the eligible named executive officers with respect to this bonus opportunity.

The following table sets forth the cash performance bonus opportunities of our eligible named executive officers under the Incentive Compensation Plan for 2011 with respect to the CFFO per share goal. As the Company achieved CFFO per share of \$0.93 for 2011, which was approximately 131% of the target amount, the target was achieved and the amounts below were awarded to such named executive officers.

Named Executive Officer	Bonus as % of Base Salary	Amount
Lawrence A. Cohen	13%	\$ 86,280
Keith N. Johannessen	12%	\$ 46,934
Ralph A. Beattie	12%	\$ 43,818

*Adjusted EBITDAR.* Second, of the maximum bonus percentage attributable to the achievement of corporate goals, 8% (11% for our Chief Executive Officer) was based upon the Company's achievement of an adjusted EBITDAR target during 2011, which was viewed as a challenging performance target (again, given the existing market and economic conditions). For purposes of the Incentive Compensation Plan for 2011, adjusted EBITDAR was defined as income from operations before provision for income taxes, interest, depreciation and amortization (including non-cash charges), facility lease expense, non-cash compensation expense, and provision for bad debts.

The targeted level of performance under the adjusted EBITDAR portion of the Incentive Compensation Plan for 2011 was \$89,274,989, which was based on the Company's internal business plan. Achievement of 95% of the adjusted EBITDAR performance target under the Incentive Compensation Plan for 2011 would result in 95% of the portion of the award subject to the adjusted EBITDAR target being earned by our eligible named executive officers. Achievement of the minimum threshold level of adjusted EBITDAR performance under the Incentive Compensation Plan for 2011 would result in between 95% and 100% of the portion of the award subject to the adjusted EBITDAR target being earned, subject to proration based on the actual adjusted EBITDAR results reported for 2011. If the Company did not achieve 95% of the adjusted EBITDAR target, no amounts would be paid to the eligible named executive officers with respect to this bonus opportunity.

The following tables set forth the cash performance bonus opportunities of our eligible named executive officers under the Incentive Compensation Plan for 2011 with respect to the adjusted EBITDAR target. As the Company achieved Adjusted EBITDAR of \$92,328,000 for 2011, which equaled approximately 103% of the target amount, the target was achieved and the amounts listed below at the 100% level were awarded to such named executive officers.

**Lawrence A. Cohen**

Adjusted EBITDAR	% of Adjusted EBITDAR Target	Bonus as % of Base Salary	Amount
\$84,811,239.55	95%	10.5%	\$ 69,356
\$89,274,989.00	100%	11.0%	\$ 73,006

**Keith N. Johannessen**

Adjusted EBITDAR	% of Adjusted EBITDAR Target	Bonus as % of Base Salary	Amount
\$84,811,239.55	95%	7.6%	\$ 29,725
\$89,274,989.00	100%	8.0%	\$ 31,289

**Table of Contents****Ralph A. Beattie**

<b>Adjusted EBITDAR</b>	<b>% of Adjusted EBITDAR Target</b>	<b>Bonus as % of Base Salary</b>	<b>Amount</b>
\$84,811,239.55	95%	7.6%	\$ 27,751
\$89,274,989.00	100%	8.0%	\$ 29,212

*Aggregate Value of Transactions.* Third, of the maximum cash bonus percentage attributable to the achievement of corporate goals, 4% (5% for our Chief Executive Officer) was based upon the Company's achievement of a target aggregate transaction value with respect to the Company's acquired senior housing communities during 2011, which was viewed as a challenging performance target (particularly given the existing market and economic conditions). The target level of performance under the aggregate value of transactions portion of the Incentive Compensation Plan for 2011 was \$100,000,000 (excluding any acquisition of the Company's wholly-owned communities), which was based on the Company's internal business plan. 33% such goal would be realized upon the Company's acquisition of an aggregate of \$50,000,000 of senior housing communities during 2011 and 66% of such goal would be realized upon the Company's acquisition of an aggregate of \$75,000,000 of senior housing communities during 2011. If the Company did not acquire an aggregate of at least \$50,000,000 of senior housing communities, no amounts would be paid to our eligible named executive officers with respect to this bonus opportunity.

The following tables sets forth the cash performance bonus opportunities of our eligible named executive officers under the Incentive Compensation Plan for 2011 with respect to the acquisition aggregate transaction value goal. As the Company acquired senior housing communities with an aggregate transaction value of \$224,450,000 during 2011, the target was achieved and the amount listed below at the \$100,000,000 aggregate transaction value level was awarded to such named executive officers.

**Lawrence A. Cohen**

<b>Aggregate Transaction Value</b>	<b>% of Target Bonus</b>	<b>Bonus as a % of Base Salary</b>	<b>Amount</b>
\$50,000,000	33%	1.7%	\$ 10,951
\$75,000,000	66%	3.3%	\$ 21,902
\$100,000,000	100%	5.0%	\$ 33,185

**Keith N. Johannessen**

<b>Aggregate Transaction Value</b>	<b>% of Target Bonus</b>	<b>Bonus as a % of Base Salary</b>	<b>Amount</b>
\$50,000,000	33%	1.3%	\$ 5,163
\$75,000,000	66%	2.6%	\$ 10,326
\$100,000,000	100%	4.0%	\$ 15,645

**Ralph A. Beattie**

<b>Aggregate Transaction Value</b>	<b>% of Target Bonus</b>	<b>Bonus as a % of Base Salary</b>	<b>Amount</b>
\$50,000,000	33%	1.3%	\$ 4,820
\$75,000,000	66%	2.6%	\$ 9,640
\$100,000,000	100%	4.0%	\$ 14,606

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**Excess CFFO Per Share.** Under the Incentive Compensation Plan for 2011, our eligible named executive officers were also eligible to receive an additional award in excess of the target bonus amounts of up to 26% (36% for CEO) of their respective base salaries for the year (in the amounts set forth in the tables below) to the extent the CFFO per share target, or \$0.71 per share, was exceeded by at least 5%, or \$0.75 per share. If the Company's actual CFFO per share did not exceed the target CFFO per share amount by 5%, no amounts would be paid to the eligible named executive officers with respect to this additional bonus. With respect to the amounts listed below, (1) the awards at the 105% and 110% CFFO per share excess levels were payable in cash and (2) the awards listed at the 115%, 120% and 125% CFFO per share excess levels were payable as follows: (i) 50% of the additional award in cash and (ii) 50% of the additional award in a grant of the Company's common stock, which vests in three annual installments of 33%, 34% and 34%.

As the Company achieved CFFO per share of \$0.93 for 2011, which equaled approximately 131% of the target amount of CFFO per share of \$0.71, each eligible named executive officers received the amounts listed at the 125% level below. As discussed above, 50% of the additional award was payable in cash and 50% of the additional award was payable in a grant of the Company's common stock, which vests in three annual installments of 33%, 33% and 34%.

**Lawrence A. Cohen**

CFFO Per Share	CFFO Per Share Excess of Target	Bonus as % of Base Salary	Amount
\$0.75	105%	7.2%	\$ 47,786
\$0.78	110%	14.4%	\$ 95,571
\$0.82	115%	21.6%	\$ 143,357
\$0.86	120%	28.8%	\$ 191,143
\$0.89	125%	36.0%	\$ 238,928

**Keith N. Johannessen**

CFFO Per Share	CFFO Per Share Excess	Bonus as % of Base Salary	Amount
\$0.75	105%	5.2%	\$ 20,338
\$0.78	110%	10.4%	\$ 40,676
\$0.82	115%	15.3%	\$ 59,841
\$0.86	120%	20.8%	\$ 81,353
\$0.89	125%	26.0%	\$ 101,691

**Ralph A. Beattie**

CFFO Per Share	CFFO Per Share Excess	Bonus as % of Base Salary	Amount
\$0.75	105%	5.2%	\$ 18,988
\$0.78	110%	10.4%	\$ 37,975
\$0.82	115%	15.6%	\$ 55,868
\$0.86	120%	20.8%	\$ 75,951
\$0.89	125%	26.0%	\$ 94,939

**Individual Goals.** Of the maximum performance bonus amount that an eligible named executive officer may earn pursuant to the Incentive Compensation Plan, a pre-determined percentage of that amount is typically contingent upon the achievement by the eligible named executive officer of certain objectively verifiable individual goals for the corresponding year within such named executive officer's sphere of influence. These

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individual goals are typically approved by the Compensation Committee in the first quarter of each fiscal year based upon the recommendations of our senior management regarding certain initiatives and the corresponding measures therefor that our senior management believes are directly related to the achievement of our business plan for that year. Typically, several distinct individual goals are established for each eligible named executive officer and of the percentage of the maximum performance bonus amount that is contingent upon the achievement of such individual goals, varying percentages of such amount are allocated by the Compensation Committee based upon the recommendations of our senior management to each individual goal.

Under the Incentive Compensation Plan for 2011, our eligible named executive officers were eligible to receive a cash performance bonus equal to a maximum of 8% (10% for our Chief Executive Officer) of their respective base salaries for the year based upon the achievement of such individual goals. The table below sets forth the performance bonus opportunities of our eligible named executive officers under the Incentive Compensation Plan for 2011 with respect to the achievement of individual goals.

Named Executive Officer	% of Base Salary	Amount
Lawrence A. Cohen	10%	\$ 66,369
Keith N. Johannessen	8%	\$ 31,289
Ralph A. Beattie	8%	\$ 29,212

**Lawrence A. Cohen**

*CFFO Per Share.* With respect to our Chief Executive Officer, the entire cash bonus percentage attributable to the achievement of individual goals was based upon the Company's achievement of a CFFO per share target during 2011, upon the same terms and conditions as described above regarding the corporate goals portion of the Incentive Compensation Plan for 2011. The Compensation Committee determined to establish a separate individual CFFO per share bonus opportunity for our Chief Executive Officer based upon its belief that our Chief Executive Officer by virtue of his position with us, is in a position to exert a more significant influence as compared to the other eligible named executive officers over this important performance metric. Achievement of the threshold level of CFFO performance under the Incentive Compensation Plan for 2011, or CFFO per share of \$0.71, would result in our Chief Executive Officer receiving a bonus equal to 10% of his base salary paid for the year. If the Company did not achieve the CFFO per share target, no amounts would be paid to Mr. Cohen with respect to this bonus opportunity.

The following table sets forth the performance bonus opportunity of Mr. Cohen under the Incentive Compensation Plan for 2011 with respect to his individual CFFO per share goal. As the Company achieved CFFO per share of \$0.93 for 2011, the target was achieved and the amount listed below was awarded to Mr. Cohen.

CFFO Per Share Target	Bonus as % of Base Salary	Amount
\$0.71	10%	\$ 66,369

**Keith N. Johannessen**

*Facility NOI.* With respect to our President and Chief Operating Officer, of the maximum cash bonus percentage attributable to the achievement of individual goals, 4% was based upon facility net operating income, or Facility NOI. Facility NOI was defined as facility resident revenue less facility operating expenses, not including management fees, taxes, insurance and casualty losses. The targeted level of performance under the Facility NOI portion of award for 2011 was \$116,195,000, which was based on the Company's internal business plan. Achievement of the threshold level of Facility NOI performance under the Incentive Compensation Plan for 2011 would result in our President and Chief Operating Officer receiving a bonus equal to 4% of his base salary

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paid for the year. If the Company did not achieve the Facility NOI target, no amounts would be paid to Mr. Johannessen with respect to this bonus opportunity.

The following table sets forth the performance bonus opportunity of Mr. Johannessen under the Incentive Compensation Plan for 2011 with respect to the Facility NOI target. As the Company achieved Facility NOI of \$116,553,000 for 2011, the target was achieved and the amount listed below was awarded to Mr. Johannessen.

Facility NOI	Bonus as % of Base Salary	Amount
\$116,195,000	4%	\$ 15,645

*Resident Satisfaction.* Second, of the maximum cash bonus percentage attributable to the achievement of individual goals, 4% was based upon resident satisfaction, which is surveyed each year in our communities by an independent third party. The receipt of a 93% or higher favorable rating in such survey on all properties would result in 100% of the portion of the award subject to resident satisfaction being earned by our President and Chief Operating Officer. If the Company did not achieve the resident satisfaction percentage target, no amounts would be paid to Mr. Johannessen with respect to this bonus opportunity.

The following table sets forth the performance bonus opportunity of Mr. Johannessen under the Incentive Compensation Plan for 2011 with respect to resident satisfaction. As the Company achieved resident satisfaction of 95% for 2011, the target was achieved and the amount listed below was awarded to Mr. Johannessen.

Resident Satisfaction	Bonus as % of Base Salary	Amount
93%	4%	\$ 15,645

**Ralph A. Beattie**

*Controllable G&A.* With respect to our Chief Financial Officer, of the maximum cash bonus percentage attributable to the achievement of individual goals, 4% was based upon the achievement of the Company's target budget for controllable general and administrative expense categories—accounting, finance, payroll/benefits, information systems, investor relations and administration, or the Controllable G&A Categories. The target budget for Controllable G&A Categories for 2011 was \$7,425,000, excluding bonus accruals, which was based on the Company's internal business plan. Achievement of the target budget for Controllable G&A Categories under the Incentive Compensation Plan for 2011, as reported in the Company's Annual Report on Form 10-K, would result in our Chief Financial Officer receiving a bonus equal to 4% of his base salary for the year. If the Company did not achieve the target budget for Controllable G&A Categories, no amounts would be paid to Mr. Beattie with respect to this bonus opportunity.

The following table sets forth the performance bonus opportunity of Mr. Beattie under the Incentive Compensation Plan for 2011 with respect to the target budget for Controllable G&A. As the Company's Controllable G&A for 2011 was \$6,538,000, the target budget was achieved and the amount listed below was awarded to Mr. Beattie.

Controllable G&A	Bonus as % of Base Salary	Amount
\$7,425,000	4%	\$ 14,606

*Acquisition Financing.* Second, of the maximum cash bonus percentage attributable to the achievement of individual goals, 4% was based upon the Company's ability to secure mortgage financing for acquisitions of senior housing communities in 2011. Upon the Company's closing of acquisitions of senior housing communities valued, individually or in the aggregate, at \$50,000,000 or more in 2011 with mortgage financing secured by the Company, 100% of the portion of the award subject to acquisition financing would be earned by our Chief

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Financial Officer. If the Company did not achieve the acquisition financing target, no amounts would be paid to the Mr. Beattie with respect to this bonus opportunity.

The following table sets forth the performance bonus opportunity of Mr. Beattie under the Incentive Compensation Plan for 2011 with respect to the acquisitions financing target. As the Company acquired senior housing communities valued, individually or in the aggregate, at \$83,450,000 in 2011 with mortgage financing secured by the Company, the target was achieved and the amount listed below was awarded to Mr. Beattie.

Acquisition Financing	Bonus as % of Base Salary	Amount
\$50,000,000	4%	\$ 14,606

**Other Named Executive Officers.** The Compensation Committee does not believe that the Incentive Compensation Plan is an appropriate method to determine the cash performance bonus that Messrs. Brickman and Solari are entitled to receive each year since the Incentive Compensation Plan has historically been heavily dependent upon measures that are related to the achievement of our overall business plan. The Compensation Committee does not believe that, in their capacities as our Vice President General Counsel and Vice President Acquisitions, respectively, Messrs. Brickman and Solari are in positions to influence the achievement of our overall business plan each year in the same manner as our other named executive officers. Although Messrs. Brickman and Solari do not participate in the Incentive Compensation Plan, the Compensation Committee has retained the ability to award annual cash performance bonuses to such named executive officers in its discretion pursuant to the terms of their employment agreements.

**David R. Brickman**

The determination as to whether Mr. Brickman will receive a cash performance bonus with respect to a particular year is typically made by the Compensation Committee in the first quarter of the following year. In determining whether Mr. Brickman is entitled to receive a cash performance bonus, and if so, in what amount, the Compensation Committee typically reviews our financial performance for the relevant fiscal year, the past performance of each, total cash compensation necessary to retain top executive talent, and the budget for their respective internal departments. Based upon such review, the Compensation Committee decided to award Mr. Brickman a cash performance bonus of \$75,000 for 2011.

**Joseph G. Solari**

For 2011, the Compensation Committee determined that Mr. Solari would be eligible to receive a cash performance bonus of up to 75% of his annual base salary based upon the aggregate value of the Company's completed qualified acquisitions. Qualified acquisitions include wholly-owned acquisitions, acquisitions made in joint ventures, long-term management contracts and leases with a term of three or more years but exclude acquisitions (i) of communities currently operated by the Company, (ii) initiated by existing Company relationships, and (iii) of communities that are widely marketed by brokers and investment bankers. The Compensation Committee selected this performance metric based upon the recommendations of our senior management regarding certain strategic initiatives and the corresponding measures therefor that our senior management believed were directly related to the achievement of our business plan for 2011 and were within Mr. Solari's sphere of influence. These initiatives consisted of helping the Company identify and complete certain strategic acquisitions that our senior management believed would help generate a meaningful increase in the Company's CFFO and earnings. There were no minimum nor target amounts with respect to this performance bonus opportunity, but rather the performance bonus was awardable in increments of \$7,500 per \$10,000,000 of completed qualified acquisitions, subject to the cap set forth above. As the Company completed qualified acquisitions with an aggregate value of \$53,500,000 in 2011, Mr. Solari was awarded \$37,500 with respect to this performance bonus opportunity.

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For a further description of the cash performance bonuses paid to our named executive officers for 2011, please refer to the Summary Compensation Table beginning on page 33 of this proxy statement.

**LONG-TERM INCENTIVES**

In May 2007, our stockholders approved the Company's 2007 Omnibus Stock and Incentive Plan, as amended, which we refer to as the 2007 Stock Incentive Plan. Upon approval of the 2007 Stock Incentive Plan, the Company's 1997 Omnibus Stock and Incentive Plan, which we refer to as the 1997 Stock Incentive Plan, terminated and no additional awards will be granted under that plan. Awards granted under the 2007 Stock Incentive Plan may be made at such times and upon such vesting and other conditions as determined by the Compensation Committee, and may be made in the form of stock options, restricted share awards, stock appreciation rights, cash awards and performance-based equity and cash awards. Pursuant to the terms of the 2007 Stock Incentive Plan, the Chief Executive Officer and each of the four highest paid employees as of December 31, 2011 are not eligible to receive awards under the 2007 Stock Option Plan in any fiscal year exceeding 250,000 shares.

The Compensation Committee has historically granted long-term incentive awards to our named executive officers on a case-by-case basis in connection with certain events, which it determined have positively impacted our performance and/or increased stockholder value, and which it determined were substantially attributable to the performance of an individual named executive officer in their position with us. The Compensation Committee has also historically granted long-term incentive awards to our named executive officers in connection with events which have increased the number of outstanding shares of our common stock, so that our named executive officers maintained a relatively proportionate ownership interest in our equity after giving effect to such event as existed before such event.

In March 2011, the Compensation Committee granted our named executive officers, other than Mr. Solari, shares of performance-based restricted stock in the amounts set forth in the chart below.

Name	Number of Performance-Based Shares Awarded
Lawrence A. Cohen	100,000
Keith N. Johannessen	80,000
Ralph A. Beattie	50,000
David R. Brickman	30,000

These shares are scheduled to vest in three installments of 33%, 33% and 34% on March 1, 2012, March 1, 2013 and March 1, 2014, respectively, subject to the named executive officer's continued employment with the Company and the Company's achievement of certain Adjusted EBITDAR performance targets that were established by the Compensation Committee for each of fiscal 2011, fiscal 2012 and fiscal 2013 and are primarily designed to encourage our named executive officers to focus on the long-term performance of the Company. The Compensation Committee selected an Adjusted EBITDAR target because it believes this metric provides a balanced approach for measuring long-term Company performance. In addition, this metric is used by many research analysts and investors to evaluate the performance and valuations of companies in our industry. If the Adjusted EBITDAR performance target is not met for a particular year, then the shares subject to such performance target are forfeited. For fiscal 2011, the vesting of 33% of the performance shares was subject to the Company achieving an Adjusted EBITDAR target of at least \$91.2 million, which was based on the Company's internal business plan. Adjusted EBITDAR was defined as income from operations before provision for income taxes, interest, depreciation and amortization (including non-cash charges), facility lease expense, non-cash compensation expense, and provision for bad debt. As the Company's Adjusted EBITDAR was \$93,328,000 for fiscal 2011, the Company achieved such performance target and 33,000, 26,400, 16,500, and 9,900 shares with respect to this performance-based award vested and were issued to Messrs. Cohen, Johannessen, Beattie and Brickman, respectively, on March 1, 2012.

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In addition, on September 1, 2011, in connection with the one year anniversary of Joseph Solari's employment with the Company, the Compensation Committee granted Mr. Solari 18,500 shares of restricted stock. The shares of restricted stock vest in three installments of 33%, 33% and 34% on September 1, 2012, September 1, 2013 and September 1, 2014, respectively.

In March 2012, as a result of the Company's achievement of the excess CFFO per share performance target under the Incentive Compensation Plan, Messrs. Cohen, Johannessen and Beattie were also awarded 8,882, 3,780 and 3,529 shares of restricted stock, respectively. These shares of restricted stock vest in three installments of 33%, 33% and 34% on March 6, 2013, March 6, 2014 and March 6, 2015, respectively.

Except as described above, the Compensation Committee did not to grant any equity awards to our named executive officers for 2011.

In determining the amount and types of long-term incentive awards to be granted to our named executive officers, the Compensation Committee primarily relies upon:

objective data with respect to the size and/or the financial impact of the transaction(s), if any, giving rise to such long-term incentive award;

its own judgment with respect to the contributions of our named executive officers to such transaction(s) giving rise to the long-term incentive award, if any, which may involve input from members of our senior management;

publicly-available information with respect to long-term incentive awards paid to named executive officers at companies in our peer group;

the amount of equity held by each named executive officer; and

the amount of cash compensation, in the form of base salary and cash performance bonus, that each named executive officer is eligible to earn for the relevant fiscal year.

For a description of the long-term incentives awarded to our named executive officers for 2011, please refer to the Grants of Plan-Based Awards Table beginning on page 36 of this proxy statement.

**SEVERANCE ARRANGEMENTS**

We have entered into employment agreements with each of our named executive officers which, among other things, provide for severance benefits to be paid upon the occurrence of certain events. Our employment agreements with Messrs. Brickman, Cohen and Johannessen were each entered into in connection with our initial public offering in 1997. Leading up to our initial public offering, our Board of Directors, based upon input received from our legal counsel and legal counsel for our underwriters, determined that it was in our best interests to implement a company-wide severance plan structure, whereby severance benefits would be paid to members of our executive and senior management, including such named executive officers, upon the occurrence of certain events. Accordingly, our Board of Directors relied in large part upon both input received from such legal counsel as well as publicly-available information with respect to the severance practices of similarly-situated companies in order to determine which measures to use to calculate the amounts payable upon the happening of certain events as well as the selection of the types of events which would trigger a payment obligation under our severance plan structure.

Upon the commencement of Mr. Beattie's employment with us in 1999 and Mr. Solari's employment with us in 2010, we entered into employment agreements with Mr. Beattie and Mr. Solari, respectively. In the course of negotiating these each employment agreement, we relied upon publicly-available information with respect to the severance practices of the companies in our peer group in order to determine which measures to use to calculate the amounts payable upon the occurrence of certain events as well as the selection of the types of events





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which would trigger a payment obligation in the event that these individuals' employment with us is terminated. In addition, the Compensation Committee also sought to achieve a degree of consistency with respect to the severance benefits available to our other named executive officers.

The Compensation Committee believes that such severance benefits advance the objectives which the Compensation Committee has identified for our executive compensation program by facilitating our ability to employ, retain and reward executives who are capable of leading us to the achievement of our business objectives.

In addition, the Compensation Committee believes that the formalization of our severance practices benefits us by providing certainty in terms of our obligations to our named executive officers in the event that our relationship with such individuals is severed.

Any time that the Compensation Committee considers the amount and mix of total compensation to be paid to our named executive officers it considers, among other things, the severance payments that each named executive officer would be entitled to receive upon the occurrence of the specified events. The Compensation Committee considers such information a relevant factor in analyzing proposed compensation arrangements, including raises in salary, bonus opportunities and grants of long-term incentive awards.

For a more detailed description of the severance arrangements which apply to our named executive officers, please refer to "Termination of Employment and Change in Control Arrangements" beginning on page 39 of this proxy statement.

**PERQUISITES AND OTHER PERSONAL BENEFITS**

Our named executive officers are eligible to participate in certain benefit plans generally available to all of our employees. The benefits available are the same for all of our employees, including our named executive officers, and include medical and dental coverage, long-term disability insurance and supplemental life insurance.

In addition, all of our employees, including our named executive officers, are eligible to participate in our 401(k) plan, which represents the only retirement benefit which we provide to our named executive officers. We may make discretionary matching cash contributions to the 401(k) plan in the amount of 100% of the named executive officer's contributions, up to an amount not to exceed 2% of the named executive officer's base salary. In establishing the amount of cash contributions made by our named executive officers to the 401(k) plan that we will match, we rely on publicly-available information with respect to the practices employed by the companies in our peer group.

Historically, our executive compensation program has contained limited perquisites. Other than the receipt of an automobile allowance by Mr. Cohen of approximately \$500 per month, our named executive officers did not receive any special perquisites during 2011.

The Compensation Committee has determined to offer the above-described perquisites and other personal benefits in order to attract and retain our named executive officers by offering compensation opportunities that are competitive with those offered by similarly-situated companies in the senior living industry. In determining the total compensation payable to our named executive officers for a given fiscal year, the Compensation Committee will examine such perquisites and other personal benefits in the context of the total compensation which our named executive officers are eligible to receive. However, given the fact that such perquisites and other personal benefits which are available to our named executive officers represent a relatively insignificant portion of their total compensation, the availability of such items does not materially influence the decisions made by the Compensation Committee with respect to other elements of the total compensation to which our

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named executive officers are entitled or awarded. For a description of the perquisites and other personal benefits received by our named executive officers during 2011, please refer to the Summary Compensation Table beginning on page 33 of this proxy statement.

The foregoing discussion describes the compensation objectives and policies that were utilized with respect to our named executive officers during 2011. In the future, as the Compensation Committee continues to review each element of the executive compensation program with respect to our named executive officers, the objectives of our executive compensation program, as well as the methods which the Compensation Committee utilizes to determine both the types and amounts of compensation to award to our named executive officers, may change.

### ***2011 Say-on-Pay Advisory Vote on Executive Compensation***

Capital Senior provided stockholders a say on pay advisory vote on its executive compensation in 2011 under recently adopted Section 14A of the Securities Exchange Act of 1934, as amended. At our 2011 Annual Meeting of Stockholders, our stockholders expressed overwhelming support for the compensation of our named executive officers, with approximately 99% of the votes cast for approval of the say on pay advisory vote on executive compensation. The Compensation Committee evaluated the results of the 2011 advisory vote at a meeting on August 2, 2011. The Compensation Committee also considered many other factors in evaluating the Company's executive compensation programs as discussed in this Compensation Discussion and Analysis, including the Compensation Committee's assessment of the interaction of our compensation programs with our corporate business objectives, input received from our senior management, a general review of publicly-available information with respect to the executive compensation practices of certain companies in our peer group, industry surveys and its own judgment. While each of these factors bore on the Compensation Committee's decisions regarding our named executive officers compensation, the Compensation Committee did not make any changes to our executive compensation program and policies as a result of the 2011 say on pay advisory vote.

### **Compensation Committee Report on Executive Compensation**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with our management and, based upon such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the proxy statement on Schedule 14A related to the Annual Meeting, for filing with the SEC.

Compensation Committee

JAMES A. MOORE, CHAIRMAN

CRAIG F. HARTBERG

MICHAEL W. REID

### **Summary Compensation Table**

The following table summarizes the compensation earned by our named executive officers in 2011, 2010 and 2009. The table specifically identifies the dollar value of compensation related to 2011, 2010 and 2009 earned by such named executive officers in the form of:

base salary, which is paid in cash;

cash performance bonus, with respect to Messrs. Brickman and Solari;

non-equity incentive plan compensation, listing the aggregate dollar value of awards earned by our named executive officers under our Incentive Compensation Plan for 2011, 2010 and 2009, and

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all other compensation, which includes amounts paid by us to the named executive officers as matching contributions under our 401(k) plan.

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Other than Messrs. Brickman and Solari, our named executive officers were not entitled to receive payments that would be characterized as Bonus payments for purposes of the Summary Compensation Table for 2011, 2010 and 2009. Amounts listed under Non-Equity Incentive Plan Compensation, represent cash performance bonus awards earned by our eligible named executive officers for 2011, 2010 and 2009 pursuant to our Incentive Compensation Plan.

Based on the base salaries of our named executive officers for 2011, Salary accounted for approximately 33%, 30%, 37%, 43% and 52% of the total compensation of Messrs. Cohen, Johannessen, Beattie, Brickman and Solari, respectively, while cash performance bonuses earned by our named executive officers, whether pursuant to our Incentive Compensation Plan for 2011 or otherwise, accounted for approximately 21%, 15%, 18%, 13% and 11% of the total compensation of Messrs. Cohen, Johannessen, Beattie, Brickman and Solari, respectively. Based on the base salaries of our named executive officers for 2010, Salary accounted for approximately 62%, 67%, 67% and 77% of the total compensation of Messrs. Cohen, Johannessen, Beattie and Brickman, respectively, while cash performance bonuses earned by our named executive officers, whether pursuant to our Incentive Compensation Plan for 2010 or otherwise, accounted for approximately 38%, 32%, 31% and 22% of the total compensation of Messrs. Cohen, Johannessen, Beattie and Brickman, respectively. Based on the base salaries of our named executive officers for 2009, Salary accounted for approximately 38%, 35%, 46% and 63% of the total compensation of Messrs. Cohen, Johannessen, Beattie and Brickman, respectively, while cash performance bonuses earned by our named executive officers, whether pursuant to our Incentive Compensation Plan for 2009 or otherwise, accounted for approximately 36%, 26%, 32% and 14% of the total compensation of Messrs. Cohen, Johannessen, Beattie and Brickman, respectively. Mr. Solari was not one of our named executive officers for 2010 or 2009, and accordingly, information with respect to Mr. Solari's compensation for such years is not provided.

**Summary Compensation Table**

Name and Principal Position	Year	Salary	Bonus	Stock Awards(1)	Non-Equity	All Other	Total
					Incentive Plan Compensation		
Lawrence A. Cohen, Vice Chairman of the Board	2011	\$ 663,690		\$ 905,679	\$ 426,089(3)	\$ 6,000	\$ 2,001,458
	2010	\$ 645,646		\$ 23,243	\$ 368,018	\$ 6,000	\$ 1,042,907
and Chief Executive Officer Keith N. Johannessen,	2009	\$ 436,558		\$ 300,300	\$ 406,173	\$ 6,000	\$ 1,143,037
	2011	\$ 391,119		\$ 697,707	\$ 196,342(4)	\$ 4,900	\$ 1,290,068
President and Chief Operating Officer Ralph A. Beattie,	2010	\$ 380,481		\$ 9,893	\$ 171,216	\$ 8,250	\$ 569,840
	2009	\$ 278,538		\$ 300,300	\$ 209,023	\$ 7,384	\$ 795,245
Executive Vice President and Chief Financial Officer David R. Brickman,	2011	\$ 365,149		\$ 445,482	\$ 183,304(5)	\$ 4,900	\$ 998,835
	2010	\$ 355,221		\$ 9,236	\$ 152,745	\$ 9,722	\$ 526,924
Vice President - General Counsel and Secretary Joseph G. Solari,	2009	\$ 260,050		\$ 115,500	\$ 183,699	\$ 7,289	\$ 566,538
	2011	\$ 250,000	\$ 75,000	\$ 250,200		\$ 4,167	\$ 579,367
Vice President - Acquisitions	2010	\$ 209,557	\$ 60,000			\$ 4,191	\$ 273,748
	2009	\$ 203,622	\$ 45,000	\$ 69,300		\$ 4,072	\$ 321,994
	2011	\$ 176,750		\$ 125,985	\$ 37,500(6)		\$ 340,235

(1) Amounts reflect the aggregate fair value of awards of restricted stock computed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 718 (formerly, FASB Statement 123R, ASC 718). Assumptions used in the calculation of these amounts are included in footnote 11 to our audited financial statements for the fiscal year ended December 31, 2011

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included in our Annual Report on Form 10-K filed with the SEC on March 12, 2012. Represents (i) 8,882 shares, 3,780 shares and 3,529 shares of restricted stock that were granted to Messrs. Cohen, Johannessen and Beattie, respectively, on March 6, 2012 under the 2007 Stock Incentive Plan as a result of the Company's achievement of a performance target under the Incentive Compensation Plan for 2011 (which vest in equal installments of 33%, 33% and 34% on March 6, 2013, March 6, 2014, and March 6, 2015, respectively), (ii) 100,000 shares,

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80,000 shares, 50,000 shares and 30,000 shares of restricted stock that were granted to Messrs. Cohen, Johannessen, Beattie and Brickman, respectively, on March 1, 2011 under the 2007 Stock Incentive Plan (which vest in installments of 33%, 33% and 34% on March 1, 2012, March 1, 2013 and March 1, 2014, respectively, provided the Company satisfies certain Adjusted EBITDAR performance measures with respect to fiscal 2011, fiscal 2012 and fiscal 2013), and (iii) 18,500 shares of restricted stock that were granted to Mr. Solari on September 1, 2011 under the 2007 Stock Incentive Plan (which vest in installments of 33%, 33% and 34% on September 1, 2012, September 1, 2013 and September 1, 2014, respectively).

- (2) The amounts in this column reflects auto allowances with respect to Mr. Cohen only and annual contributions or other allocations by us to our 401(k) plan with respect to our other named executive officers.
- (3) This amount reflects Mr. Cohen's cash performance bonus pursuant to our Incentive Compensation Plan for 2011. Mr. Cohen's target cash performance bonus under our Incentive Compensation Plan for 2011 was established at 39% of his annual base salary and Mr. Cohen's maximum cash performance under our Incentive Compensation Plan for 2011 was established at 75% of his annual base salary. Since the Company achieved the CFFO per outstanding share target, the adjusted EBITDAR target and the aggregate value of transactions target under the Incentive Compensation Plan for 2011, Mr. Cohen earned \$192,471, or 29% of his annual base salary. Since Mr. Cohen achieved his individual goal under the Incentive Compensation Plan for 2011 related to CFFO per outstanding share, Mr. Cohen earned an additional \$167,250, or 10% of his annual base salary. Since the Company exceeded its CFFO per outstanding share goal under the Incentive Compensation Plan for 2011 by approximately 131%, Mr. Cohen also earned \$238,929, or 36% of his annual base salary of which \$71,679 was awarded in restricted Company stock, as reflected in footnote 1 above.
- (4) This amount reflects Mr. Johannessen's cash performance bonus pursuant to our Incentive Compensation Plan for 2011. Mr. Johannessen's target cash performance bonus under our Incentive Compensation Plan for 2011 was established at 32% of his annual base salary and Mr. Johannessen's maximum cash performance under our Incentive Compensation Plan for 2011 was established at 58% of his annual base salary. Since the Company achieved the CFFO per outstanding share target, the adjusted EBITDAR target and the aggregate value of transactions target under the Incentive Compensation Plan for 2011, Mr. Johannessen earned \$93,868, or 24% of his annual base salary. Since Mr. Johannessen achieved each of his individual goals under the Incentive Compensation Plan for 2011 related to the Company's Facility NOI and resident satisfaction, Mr. Johannessen earned an additional \$31,290, or 8% of his annual base salary. Since the Company exceeded its CFFO per outstanding share goal under the Incentive Compensation Plan for 2011 by approximately 131%, Mr. Johannessen also earned \$101,691, or 26% of his annual base salary of which \$30,507 was awarded in restricted stock of the Company, as reflected in footnote 1 above.
- (5) This amount reflects Mr. Beattie's cash performance bonus pursuant to our Incentive Compensation Plan for 2011. Mr. Beattie's target cash performance bonus under our Incentive Compensation Plan for 2011 was established at 32% of his annual base salary and Mr. Beattie's maximum cash performance under our Incentive Compensation Plan for 2011 was established at 58% of his annual base salary. Since the Company achieved the CFFO per outstanding share target, the adjusted EBITDAR target and the aggregate value of transactions target under the Incentive Compensation Plan for 2011, Mr. Beattie earned \$87,636, or 24% of his annual base salary. Since Mr. Beattie achieved his individual goals under the Incentive Compensation Plan for 2011 related to the Company's Controllable G&A budget and acquisition financing, Mr. Beattie earned an additional \$29,212, or 8% of his annual base salary. Since the Company exceeded its CFFO per outstanding share goal under the Incentive Compensation Plan for 2011 by approximately 131%, Mr. Beattie also earned \$94,939, or 26% of his annual base salary of which \$28,482 was awarded in restricted stock of the Company, as reflected in footnote 1 above.
- (6) This amount reflects the cash performance bonus awarded to Mr. Solari based upon the aggregate value of the Company's completed qualified acquisitions in 2011. This performance bonus was awardable to Mr. Solari in increments of \$7,500 per \$10,000,000 of completed qualified acquisitions, subject to a maximum of us to 75% of his annual base salary. As the Company completed qualified acquisitions with an aggregate value of \$53,500,000 in 2011, Mr. Solari was awarded \$37,500 with respect to this performance bonus opportunity.

**Table of Contents****Grants of Plan-Based Awards**

The following table sets forth certain information with respect to grants of plan-based awards to the named executive officers in 2011. The estimated possible payouts under non-equity incentive plan awards represent the bonus award opportunities granted to our eligible named executive officers in 2011 under the Incentive Compensation Plan.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares or Units	All Other Option Awards: Number of Securities Underlying Option Awards	Closing Price on Grant	Grant Date Fair Value of Stock and Option Awards	
		Threshold	Target	Maximum	Threshold	Target	Maximum					
(a)	(b)	(\$)(c)	(\$)(d)	(\$)(e)	(#)(f)	(#)(g)	(#)(h)	(#)(i)	(#)(j)	(\$/Sh)(k)	(\$/Sh)(l)	(\$)(m)
Lawrence A. Cohen	1/26/11 3/1/11		\$ 258,839	\$ 497,768							\$ 8.34	\$ 834,000
Keith N. Johannessen	1/26/11 3/1/11		\$ 125,158	\$ 226,849			100,000				\$ 8.34	\$ 667,200
Ralph A. Beattie	1/26/11 3/1/11		\$ 116,847	\$ 211,786			50,000				\$ 8.34	\$ 417,000
David R. Brickman	3/1/11						30,000				\$ 8.34	\$ 250,200
Joseph G. Solari	9/1/11							18,500(3)			\$ 6.81	\$ 125,985

(1) These columns show the value of the possible payouts of the incentive bonuses under the Incentive Compensation Plan for 2011 for each eligible named executive officer if the target and maximum performance levels are achieved. There were no minimum (or threshold) bonus awards under the Incentive Compensation Plan for 2011 for any of our named executive officers. The potential payout is performance-based and driven by Company and individual performance. The actual amount of the incentive bonuses paid pursuant to the Incentive Compensation Plan for 2011 is shown in the Summary Compensation Table under the Non-Equity Incentive Plan Compensation column. As the Company achieved excess CFFO per share of \$0.93, which equaled approximately 131% of the target amount of CFFO per share of \$0.71, 50% of the additional award attributable to the excess CFFO per share performance target was paid with shares of restricted stock. Accordingly, Messrs. Cohen, Johannessen and Beattie received 8,882, 3,780 and 3,529 shares of restricted stock, respectively, on March 6, 2012, which vest in three installments of 33%, 33% and 34% on March 6, 2013, March 6, 2014 and March 6, 2015, respectively. Messrs. Brickman and Solari did not participate in the Incentive Compensation Plan for 2011.

(2) Represents shares of restricted stock that were granted to Messrs. Cohen, Johannessen, Beattie and Brickman, respectively, on March 1, 2011, which vest in installments of 33%, 33% and 34% on March 1, 2012, March 1, 2013 and March 1, 2014, respectively, provided the Company satisfies certain Adjusted EBITDAR performance targets with respect to fiscal 2011, fiscal 2012 and fiscal 2013. If the Adjusted EBITDAR performance target is not met for a particular year, then the shares subject to such performance target are forfeited. As the Company achieved the Adjusted EBITDAR performance target for fiscal 2011, 33,000, 26,400, 16,500, and 9,900 shares with respect to this performance-based award vested and were issued to Messrs. Cohen, Johannessen, Beattie and Brickman, respectively, on March 1, 2012.

(3) Represents shares of restricted stock awarded under the 2007 Stock Incentive Plan, which vest in installments of 33%, 33% and 34% on September 1, 2012, September 1, 2013 and September 1, 2014, respectively.

**Employment Agreements**

We entered into an employment agreement with Mr. Cohen in November 1996 which was subsequently amended in May 1999, August 2002, January 2003, February 2004 and April 2010. Mr. Cohen's employment agreement is for a term of three years and automatically extends for a two-year term on a consecutive basis, and his compensation thereunder generally consists of (i) a minimum annual base salary of



\$636,366, subject to annual

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adjustments, (ii) an annual bonus as determined by the Compensation Committee, and (iii) participation in our employee benefit plans for senior executive officers.

We entered into an employment agreement with Mr. Johannessen in November 1996 which was subsequently amended in June 1999, January 2003 and April 2010. Mr. Johannessen's employment agreement is for a term of three years and automatically extends for a two-year term on a consecutive basis, and his compensation thereunder generally consists of (i) an annual base salary of \$375,006, subject to annual adjustments, (ii) an annual bonus as determined by the Compensation Committee, and (iii) participation in our employee benefit plans for senior executive officers.

We entered into an employment agreement with Mr. Beattie in May 1999 which was subsequently amended in January 2003 and April 2010. Mr. Beattie's employment agreement is for a term of three years and automatically extends for a two-year term on a consecutive basis, and his compensation thereunder generally consists of (i) an annual base salary of \$350,115, subject to annual adjustments, (ii) an annual bonus as determined by the Compensation Committee, and (iii) participation in our employee benefit plans for senior executive officers.

We entered into an employment agreement with Mr. Brickman in December 1996 which was subsequently amended in December 2000 and January 2003. Mr. Brickman's employment agreement is for a term of three years and automatically extends for a two-year term on a consecutive basis, and the compensation thereunder generally consists of (i) an annual base salary of \$146,584, subject to annual adjustments, (ii) an annual bonus as determined by the Compensation Committee, and (iii) participation in our employee benefit plans for senior executive officers.

We entered into an employment agreement with Mr. Solari in July 2010 (effective September 2010). Mr. Solari's employment agreement was for a one-year term, subject to extension upon mutual consent of Mr. Solari and the Company. The Company and Mr. Solari have agreed to extend the term of Mr. Solari's employment agreement for two years commencing on August 31, 2011 and ending on August 31, 2013. The compensation payable under Mr. Solari's employment agreement generally consists of (i) an annual base salary of \$175,000, subject to annual adjustments, (ii) an annual bonus as determined by the Compensation Committee, and (iii) participation in our employee benefit plans for senior executive officers.

For a description of the process by which the annual base salary adjustments and the cash performance bonuses are determined, please refer to Compensation Discussion and Analysis beginning on page 17 of this proxy statement.

In addition, each of the above-described employment agreements contains severance provisions which provide for certain payments to be made by us to each such named executive officer upon the occurrence of certain events which result in his employment with us being terminated, including upon a fundamental change of us. Included in each employment agreement is a covenant of the employee not to compete with us during the term of his employment and for a period of one year thereafter. For a detailed description of the severance provisions contained in the employment agreements, please refer to Termination of Employment and Change in Control Arrangements beginning on page 39 of this proxy statement.

**Table of Contents****Outstanding Equity Awards at Fiscal Year-End**

Name	Option Awards					Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(1)
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Exercised Options (#)	Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	
Lawrence A. Cohen	100,000			\$ 6.30	12/03/13	33,150(2) 2,787(3)	\$ 263,211 \$ 22,129	100,000(4)	\$ 794,000
Keith N. Johannessen	56,540			\$ 6.30	12/03/13	33,150(2) 1,186(3)	\$ 263,211 \$ 9,417	80,000(4)	\$ 635,200
Ralph A. Beattie						18,360(2) 1,107(3)	\$ 145,778 \$ 8,790	50,000(4)	\$ 397,000
David R. Brickman	41,120			\$ 6.30	12/03/13	7,650(2)	\$ 60,741	30,000(4)	\$ 238,200
Joseph G. Solari						18,500(5)	\$ 146,890		

- (1) Calculated by reference to the closing price for shares of our common stock on the NYSE on December 30, 2011, which was \$7.94.
- (2) Represents shares of restricted stock granted on January 5, 2009 pursuant to the 2007 Stock Incentive Plan, which vest in equal installments of 33%, 33% and 34% on January 5, 2010, January 5, 2011 and January 5, 2012, respectively.
- (3) Represents shares of restricted stock granted on March 1, 2011 pursuant to the 2007 Stock Incentive Plan as a result of the Company's achievement of a performance target under the Company's 2010 Incentive Compensation Plan, which shares vest in equal installments of 33%, 33% and 34% on March 1, 2012, March 1, 2013 and March 1, 2014, respectively.
- (4) Represents shares of restricted stock granted on March 1, 2011 pursuant to the 2007 Stock Incentive Plan, which vest in installments of 33%, 33% and 34% on March 1, 2012, March 1, 2013 and March 1, 2014, respectively, provided the Company satisfies certain Adjusted EBITDAR performance targets with respect to fiscal 2011, fiscal 2012 and fiscal 2013. As the Company achieved the applicable performance target for fiscal 2011, 33,000, 26,400, 16,500, and 9,900 shares with respect to this performance-based award vested and were issued to Messrs. Cohen, Johannessen, Beattie and Brickman, respectively, on March 1, 2012.

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- (5) Represents shares of restricted stock granted on September 1, 2011 pursuant to the 2007 Stock Incentive Plan, which vest in equal installments of 33%, 33% and 34% on September 1, 2012, September 1, 2013 and September 1, 2014, respectively.

**Table of Contents****OPTION EXERCISES AND STOCK VESTED**

The following table presents the amounts each named executive officer received in 2011 upon exercise of options and the value realized upon the vesting of restricted stock awards. The value realized on the exercise of options and vesting of restricted stock does not account for the personal tax liability incurred by our named executive officers.

Name	Option Awards		Stock Awards	
	Number of	Value Realized	Number of	Value Realized
	Shares Acquired		Shares Acquired	
	on	on Exercise (\$)(1)	on Vesting (#)(2)	on Vesting (\$)(3)
	Exercise (#)			
Lawrence A. Cohen(4)	88,000	\$ 636,240	32,175	\$ 226,833.75
Keith N. Johannessen(5)	60,000	\$ 322,200	32,175	\$ 226,833.75
Ralph A. Beattie			12,375	\$ 87,243.75
David R. Brickman(6)	24,000	\$ 179,040	7,425	\$ 52,346.25
Joseph G. Solari				

- (1) The value realized on exercise is based on the difference between the market price of our common stock on the date of exercise, which is calculated based upon the closing price of our common stock on such date, and the exercise price.
- (2) Represents shares of restricted stock which vested on January 5, 2011 pursuant to restricted stock awards granted to our named executive officers on January 5, 2009 pursuant to the 2007 Stock Incentive Plan.
- (3) The value realized on vesting is based on the market price of our common stock, which is calculated based upon the closing price of our common stock on the business day immediately preceding the vesting date.
- (4) Mr. Cohen exercised 88,000 options on March 3, 2011 acquiring the underlying 88,000 shares at an exercise price of \$1.80 and sold such shares at a weighted average market price of \$8.86 on March 3, 2011 pursuant to a previously adopted Rule 10b5-1 trading plan. The options exercised by Mr. Cohen on such date were set to expire on September 21, 2011 if not exercised prior to such date.
- (5) Mr. Johannessen exercised 60,000 options on January 12, 2011 acquiring the underlying 60,000 shares at an exercise price of \$1.80 and sold such shares at a weighted average market price of \$7.15 on January 12, 2011 pursuant to a previously adopted Rule 10b5-1 trading plan. The options exercised by Mr. Johannessen on such date were set to expire on September 21, 2011 if not exercised prior to such date.
- (6) Mr. Brickman exercised 24,000 options on March 7, 2011 acquiring the underlying 24,000 shares at an exercise price of \$1.80 and sold such shares at a weighted average market price of \$9.48 on March 7, 2011 pursuant to a previously adopted Rule 10b5-1 trading plan. The options exercised by Mr. Brickman on such date were set to expire on September 21, 2011 if not exercised prior to such date.

**TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS****Employment Agreements**

As previously discussed, we have entered into an employment agreement with each of our named executive officers, which, among other things, provides for severance benefits to be paid upon an involuntary termination of the named executive officer's employment or the occurrence of certain other events that may affect the named executive officer, with the amounts of such benefits varying based upon such individual's position with us. In addition, each employment agreement contains a non-competition provision. Certain of the employment

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agreements which we have entered into with our named executive officers contain provisions with respect to severance benefits and covenants not to compete which are substantially identical to those contained in an employment agreement which we have entered into with another of our named executive officers. Accordingly, the following discussion is separated into sections, with a separate section for each grouping of our named

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executive officers who have entered into employment agreements with us which contain substantially identical terms with respect to severance benefits and non-competition.

In addition, pursuant to such employment agreements, each named executive officer has agreed that he will not, either during the term of his employment with us or at any time thereafter, divulge, communicate, use to our detriment or for the benefit of another, or make or remove any copies of, our confidential information or proprietary data or information. Such confidentiality obligations do not apply to information which is or becomes generally available to the public other than as a result of disclosure by the named executive officer, is known to him prior to his employment with us from other sources, or is required to be disclosed by law or regulatory or judicial process.

***Lawrence A. Cohen***

Termination Not in Conjunction with a Fundamental Change. If we terminate Mr. Cohen's employment because of death or disability or for any reason other than for cause, or if Mr. Cohen voluntarily resigns for good reason, then Mr. Cohen will be entitled to:

receive his base salary plus his annual bonus paid at the rate during the previous 12 months for the balance of the term of his employment agreement, but not less than two years from the date of the notice of termination;

retain all of his stock options that have vested; and

receive payment of all accrued but unpaid or unused vacation, sick pay and expense reimbursement.

A resignation by Mr. Cohen shall be deemed to be a resignation for good reason if the resignation is based on (i) a material diminution in Mr. Cohen's duties, which is not part of an overall diminution for all of our executive officers, or (ii) our material breach of our obligations to Mr. Cohen under his employment agreement or under our stock incentive plan.

A termination of Mr. Cohen's employment by us shall be deemed to be for cause if it is based upon (i) a final, nonappealable conviction of Mr. Cohen for commission of a felony involving moral turpitude, (ii) Mr. Cohen's willful gross misconduct that causes us material economic harm or that brings substantial discredit to our reputation, or (iii) Mr. Cohen's material failure or refusal to perform his duties in accordance with his employment agreement, if Mr. Cohen has failed to cure such failure or refusal to perform within 30 days after we notify him in writing of such failure or refusal to perform.

If the employment of Mr. Cohen is terminated for any other reason, then we are to promptly pay Mr. Cohen his base salary and pro-rated annual bonus up to and through the date of termination as well as all accrued but unpaid or unused vacation, sick pay and expense reimbursement.

Termination in Conjunction with a Fundamental Change. If the Mr. Cohen's employment is terminated in conjunction with a fundamental change of us, Mr. Cohen will be entitled to receive the same severance payments and benefits described above (not in conjunction with a fundamental change), except that Mr. Cohen will be entitled to receive his base salary plus his annual bonus at the rate paid during the previous 12 months for three years from the date of the notice of termination.

Pursuant to his employment agreement, the term fundamental change generally means:

a merger, consolidation, statutory share exchange or sale, lease, exchange or other transfer of all or substantially all of our assets requiring the consent or vote of our stockholders, other than one in which our stockholders have the same proportionate ownership of the surviving corporation immediately after such transaction;

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the approval by our stockholders of any plan or proposal for our liquidation or dissolution;

the cessation of control (by virtue of their not constituting a majority of directors) of the Board of Directors by the individuals who (i) at the date of the employment agreement were directors, or (ii) became directors after such date and whose election or nomination was approved by at least two-thirds of the directors then in office who were directors at such date, or whose election or nomination for election was previously so approved; or

the acquisition of 20% or more of the voting power of our common stock by any person or group who owned less than 15% of the voting power on the date of the employment agreement, or the acquisition of an additional five percent of the voting power by any person or group who owned at least 15% of such voting power on the date of such employment agreement.

**Non-Competition.** Pursuant to his employment agreement, Mr. Cohen has agreed that during the term of his employment with us and for one year thereafter, he will not, directly or indirectly, acquire, develop or operate senior living facilities anywhere in the United States, other than through us and except as otherwise requested by us. Notwithstanding the foregoing, Mr. Cohen's ownership by of a class of securities listed on a stock exchange or traded on the over-the-counter market that represents five percent or less of the number of shares of such class of securities then issued and outstanding is permitted.

***Keith N. Johannessen and Ralph A. Beattie***

**Termination Not in Conjunction with a Fundamental Change.** If we terminate Mr. Johannessen's or Mr. Beattie's employment because of death or disability or for any reason other than for cause, or if Mr. Johannessen or Mr. Beattie voluntarily resigns for good reason, then Mr. Johannessen or Mr. Beattie, as applicable, will be entitled to:

receive his base salary plus his annual bonus paid at the rate during the previous 12 months for the balance of the term of his employment agreement, but not less than two years from the date of the notice of termination;

retain all of his stock options that have vested; and

payment of all accrued but unpaid or unused vacation, sick pay and expense reimbursement.

A resignation by Mr. Johannessen or Mr. Beattie shall not be deemed to be voluntary and shall be deemed to be a resignation for good reason if it is based upon (i) a material diminution in such executive officer's base salary which is not part of an overall diminution for all of our executive officers, or (ii) our material breach of our obligations to such executive officer under their respective employment agreements or under our stock incentive plan.

A termination of Mr. Johannessen's or Mr. Beattie's employment by us shall be deemed to be for cause if it is based upon (i) such executive officer being charged with and then convicted of any misdemeanor or any felony involving personal dishonesty, (ii) disloyalty by such executive officer to us, including but not limited to embezzlement, or (iii) such executive officer's failure or refusal to perform their duties in accordance with their respective employment agreements based on a standard of reasonableness.

If Mr. Johannessen's or Mr. Beattie's employment is terminated for any other reason, then we are to promptly pay Mr. Johannessen or Mr. Beattie, as applicable, his base salary and annual bonus paid in the past 12 months up to and through the date of termination as well as all accrued but unpaid or unused vacation, sick pay and expense reimbursement.

**Termination in Conjunction with a Fundamental Change.** If Mr. Johannessen's or Mr. Beattie's employment is terminated in conjunction with a fundamental change of us, Mr. Johannessen or Mr. Beattie, as applicable, will be entitled to receive the same severance payments and benefits described above (not in





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conjunction with a fundamental change ), except that each will be entitled to receive his base salary plus his annual bonus at the rate paid during the previous 12 months for three years from the date of the notice of termination. Under their employment agreements, the term fundamental change means a merger, consolidation or any sale of all or substantially all of our assets that requires the consent or vote of our stockholders where we are not the survivor or in control.

**Non-Competition.** Pursuant to their employment agreements, Mr. Johannessen and Mr. Beattie each agreed that for one year after termination of their employment and receipt of the last payment pursuant to their employment agreements, they will not, directly or indirectly, commence doing business, in any manner whatsoever, which is in competition with all or any portion of our business in any state in which we then operate, own, asset manage, or are in the process of developing more than two facilities. Notwithstanding the foregoing, Mr. Johannessen s or Mr. Beattie s ownership of a class of securities listed on a stock exchange or traded on the over-the-counter market that represents five percent or less of the number of shares of such class of securities then issued and outstanding is permitted. In addition, pursuant to his employment agreement, if Mr. Johannessen s employment with us is terminated for cause or he voluntarily resigns, he shall not be deemed to violate the foregoing restrictions if he accepts and works within the one year period at a position as an on-site administrator or on-site executive director at a nursing or retirement facility for a salary equal to or less than a comparable position at a comparable facility in the area.

***David R. Brickman***

If we terminate Mr. Brickman s employment because of death or disability or for any reason other than for cause, including a fundamental change, or if Mr. Brickman voluntarily resigns for good reason, then Mr. Brickman will be entitled to:

receive his base salary and annual bonus paid during the past 12 month period for two years from the date of the notice of termination);

retain all of his stock options that have vested; and

payment of all accrued but unpaid or unused vacation, sick pay and expense reimbursement.

A resignation by Mr. Brickman shall not be deemed to be voluntary and shall be deemed to be a resignation for good reason if it is based upon (i) a material diminution in Mr. Brickman s base salary, which is not part of an overall diminution for all of our executive officers, or (ii) our material breach of our obligations to Mr. Brickman under his employment agreement or under our stock incentive plan.

A termination of Mr. Brickman s employment by us shall be deemed to be for cause if it is based upon (i) Mr. Brickman being charged with and then convicted of any misdemeanor or any felony involving personal dishonesty, (ii) disloyalty by Mr. Brickman to us, including, but not limited to, embezzlement, or (iii) Mr. Brickman s failure or refusal to perform his duties in accordance with his employment agreement based on a standard of reasonableness.

If Mr. Brickman s employment is terminated for any other reason, then we are to pay Mr. Brickman his base salary up to and through the date of termination as well as all accrued but unpaid or unused vacation, sick pay and expense reimbursement. Pursuant to Mr. Brickman s employment agreement, the term fundamental change means a merger, consolidation or any sale of all or substantially all of our assets that requires the consent or vote of our stockholders where we are not the survivor or in control.

**Non-Competition.** Pursuant to his employment agreement, Mr. Brickman agreed that for one year after termination of his employment and receipt of the last payment pursuant to his employment agreement, he will not, directly or indirectly, commence doing business which is in competition with all or any portion of our business in any state in which we then operate, own, asset manage, or are in the process of developing more than

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two facilities. Mr. Brickman's ownership of a class of securities listed on a stock exchange or traded on the over-the-counter market that represents five percent or less of the number of shares of such class of securities then issued and outstanding shall not constitute a violation of these restrictions.

***Joseph G. Solari***

If we terminate the employment of Mr. Solari because of death or disability or for any reason other than for cause, or if Mr. Solari voluntarily resigns for good reason, then Mr. Solari will be entitled to:

receive his base salary for the balance of the term of the agreement and any earned bonus up to and through the date of termination;

retain all stock awards that have vested; and

payment of all accrued but unpaid or unused vacation, sick pay and expense reimbursement.

A resignation by Mr. Solari shall not be deemed to be voluntary and shall be deemed to be a resignation for good reason if it is based upon (i) a material diminution in Mr. Solari's duties or base salary, which is not part of an overall diminution for all of our executive officers, or (ii) our material breach of our obligations to Mr. Solari under his employment agreement.

A termination of Mr. Solari's employment by us shall be deemed to be for cause if it is based upon (i) Mr. Solari being charged with and then convicted of any misdemeanor or any felony involving personal dishonesty, (ii) disloyalty by Mr. Solari to us, including, but not limited to, embezzlement, or (iii) Mr. Solari's failure or refusal to perform his duties in accordance with his employment agreement.

If the employment of Mr. Solari is terminated for any other reason, then we are to pay Mr. Solari his base salary and earned bonus up to and through the date of termination as well as all accrued but unpaid or unused vacation, sick pay and expense reimbursement.

**Non-Competition.** Pursuant to his employment agreement, Mr. Solari agreed that for a period of one year after any termination of his employment and after receipt of the last payment pursuant to his employment agreement, he will not, directly or indirectly, commence doing business which is in competition with all or any portion of our business in any state in which we then operate, own, or are in the process of developing more than three facilities. Mr. Solari's ownership of a class of securities listed on a stock exchange or traded on the over-the-counter market that represents five percent or less of the number of shares of such class of securities then issued and outstanding shall not constitute a violation of these restrictions.

**The 1997 Stock Incentive Plan**

Although the 1997 Stock Incentive Plan was terminated on May 8, 2007, awards granted under the 1997 Stock Incentive Plan continue to be governed by the terms of the 1997 Stock Incentive Plan. Pursuant to the 1997 Stock Incentive Plan, in the event of a change in control transaction or a potential change in control transaction, unless otherwise expressly provided by the Compensation Committee prior to such transaction:

all outstanding awards, other than performance-based awards, shall become fully exercisable, nonforfeitable, or the restricted period shall terminate, as the case may be, as of the date of the change in control, or on such other date as the Compensation Committee determines prior to the change in control; and

all outstanding options and shares of restricted stock shall be cashed out at the highest price per share paid in any transaction reported on the NYSE or paid or offered in any bona fide transaction related to a change in control or potential change in control during the immediately preceding 60-day period, in each case as determined by the Compensation Committee, effective as of the date of the change in control, or on such other date as the Compensation Committee determines prior to the change in control.



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If an award is so accelerated, the portion of the award which is accelerated is limited to that portion which can be accelerated without causing an excess parachute payment as determined under Section 280G of the Internal Revenue Code, determined by taking into account all of the holder's parachute payments determined under Section 280G of the Internal Revenue Code, all as reasonably determined by the Compensation Committee.

For purposes of the 1997 Stock Incentive Plan, a change in control generally means the first to occur of:

a merger, consolidation, statutory share exchange or sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of our assets that requires the consent or vote of the holders of our common stock, other than where such holders immediately prior to such transaction have the same proportionate ownership of common stock of the surviving corporation immediately after such transaction;

our stockholders approve any plan or proposal for our liquidation or dissolution;

the cessation of control (by virtue of their not constituting a majority of our directors) of our Board of Directors by the individuals who (i) on the effective date of such transaction were our directors or (ii) subsequently become our directors and whose election or nomination by our stockholders was approved by at least two-thirds of our directors then in office who were our directors at the effective date of such transaction or whose election or nomination was previously so approved;

the acquisition of beneficial ownership of 20% or more of the voting power of our outstanding voting securities by any person or group who beneficially owned less than 15% of such voting power on the effective date of such transaction, or the acquisition of beneficial ownership of an additional five percent of such voting power by any person or group who beneficially owned at least 15% of such voting power on the effective date of the transaction; or

in a Title 11 bankruptcy proceeding, the appointment of a trustee or the conversion of a case involving us to a case under Chapter 7. For purposes of the 1997 Stock Incentive Plan, a potential change in control means the first to occur of (i) the approval by our stockholders of an agreement by us, the consummation of which would result in a change in control, or (ii) the acquisition of beneficial ownership, directly or indirectly, by any entity, person or group of five percent or more of the combined voting power of our outstanding securities and the adoption by the Compensation Committee of a resolution to the effect that a potential change in control has occurred for purposes of the 1997 Stock Incentive Plan.

In addition, pursuant to the 1997 Stock Incentive Plan, the unexercised portion of an option to purchase shares of our common stock will terminate on, among other things, the date that the holder ceases to be employed by us, if such cessation is for cause.

**The 2007 Stock Incentive Plan**

Pursuant to the 2007 Stock Incentive Plan, in the event of a change in control transaction or a potential change in control transaction, unless otherwise expressly provided by the Compensation Committee prior to such transaction:

all outstanding awards, other than performance-based awards, shall become fully exercisable, nonforfeitable, or the restricted period shall terminate, as the case may be, as of the date of the change in control, or on such other date as the Compensation Committee determines prior to the change in control; but conditioned upon the occurrence of the change in control; and

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all outstanding options and shares of restricted stock shall be cashed out at the highest price per share paid in any transaction reported on the NYSE or paid or offered in any bona fide transaction related to a

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change in control or a potential change in control during the immediately preceding 60-day period, in each case as determined by the Compensation Committee, effective as of the date of the change in control, or on such other date as the Compensation Committee determines prior to the change in control.

For purposes of the 2007 Stock Incentive Plan, a change in control generally means the first to occur of:

a merger, consolidation, statutory share exchange or sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of our assets that requires the consent or vote of the holders of our common stock, other than where such holders immediately prior to such transaction have the same proportionate ownership of common stock of the surviving corporation immediately after such transaction;

our stockholders approve any plan or proposal for our liquidation or dissolution;

the cessation of control (by virtue of their not constituting a majority of our directors) of our Board of Directors by the individuals who (i) on the effective date of such transaction were our directors or (ii) subsequently become our directors and whose election or nomination by our stockholders was approved by at least two-thirds of our directors then in office who were our directors at the effective date of such transaction or whose election or nomination was previously so approved;

the acquisition of beneficial ownership of 20% or more of the voting power of our outstanding voting securities by any person or group who beneficially owned less than 15% of such voting power on the effective date of such transaction, or the acquisition of beneficial ownership of an additional five percent of such voting power by any person or group who beneficially owned at least 15% of such voting power on the effective date of the transaction; provided, however, there is no change in control for acquisitions where the acquiror is (i) a trustee or other fiduciary holding securities under our employee benefit plan, (i) our wholly-owned subsidiary or a corporation owned, directly or indirectly, by our stockholders in the same proportions as their ownership of our voting securities; or

in a Title 11 bankruptcy proceeding, the appointment of a trustee or the conversion of a case involving us to a case under Chapter 7. For purposes of the 2007 Stock Incentive Plan, a potential change in control mean the first to occur of (i) approval by our stockholders of an agreement by us, the consummation of which would result in a change in control, or (ii) the filing of a Schedule 13G or 13D under the Exchange Act and, within 15 days after such filing, the adoption by the Compensation Committee of a resolution to the effect that a potential change in control has occurred for purposes of the 2007 Stock Incentive Plan.

In addition, pursuant to the 2007 Stock Incentive Plan, the unexercised portion of an option to purchase shares of our common stock will terminate on, among other things, the date that the holder ceases to be employed by us, if such cessation is for cause.

*Restricted Stock Award Agreements.*

When Messrs. Cohen, Johannessen, Beattie and Brickman were awarded shares of restricted stock under the 2007 Stock Incentive Plan on January 5, 2009 and again on January 5, 2012, each of them entered into a restricted stock award agreements with us. In addition, when Mr. Solari was awarded shares of restricted stock under the 2007 Stock Incentive Plan on September 1, 2011, he entered into a restricted stock award agreement with us. Each of these restricted stock award agreement generally provides that, if, before the vesting date for the restricted shares (to the extent not previously vested), the individual's employment with us is terminated for any reason, the restricted shares that have not previously vested shall, automatically and without notice, terminate and be permanently forfeited as of such date.

In addition, when Messrs. Cohen, Johannessen, Beattie and Brickman were awarded shares of performance-based restricted stock under the 2007 Stock Incentive Plan on March 1, 2011, each of them entered into a

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performance award agreement with us. Each performance award agreement provides that (1) all rights of the holder to any unvested performance shares will automatically terminate and be permanently forfeited on the date the holder ceases to be employed by the Company for any reason, except due to death or disability, and (2) all rights of the holder to the specified percentage of performance shares that do not vest as a result of the Company's failure to achieve the applicable performance measures will automatically terminated and be permanently forfeited. With respect to performance shares that have not been forfeited pursuant to the previous sentence, any vesting restrictions that have not previously lapsed will lapse and all such performance shares will vest on the earlier of the holder's death, the holder's disability, or a change in control.

**Potential Realizable Value of Equity Awards Upon a Change in Control Without Termination**

Under the 1997 Stock Incentive Plan and the 2007 Stock Incentive Plan, in the event of a change in control or a potential change in control the vesting of outstanding awards may be accelerated regardless of whether the employment of the holder of such an award is terminated in connection therewith. The following table provides quantitative disclosure of the potential realizable value of outstanding awards granted to our named executive officers pursuant to the 1997 Stock Incentive Plan and 2007 Stock Incentive Plan, assuming that:

an event which constituted a change in control under the 1997 Stock Incentive Plan and 2007 Stock Incentive, each as described above, was consummated on December 30, 2011, the last business day of fiscal year 2011, and the Compensation Committee has not determined that it is effective as of any other date;

the Compensation Committee has not adopted a resolution to the effect that a potential change in control has occurred for purposes of the 1997 Stock Incentive Plan and 2007 Stock Incentive Plan;

the Compensation Committee has not expressly provided that the acceleration and cash-out provisions of the 1997 Stock Incentive Plan and 2007 Stock Incentive Plan, each as described above, are not applicable to such change in control prior to its consummation; and

the portion of any award which is accelerated and cashed-out pursuant to the 1997 Stock Incentive Plan and the 2007 Stock Incentive Plan is not limited by Section 280G of the Internal Revenue Code.

	<b>Potential Realizable Value(1)</b>
Lawrence A. Cohen	\$ 711,359.78
Keith N. Johannessen	\$ 574,969.44
Ralph A. Beattie	\$ 241,034.58
David R. Brickman	\$ 187,132.30
Joseph G. Solari	\$ 146,890.00

- (1) Calculated in accordance with SEC rules by reference to the closing price for our common stock on the NYSE on December 30, 2011, which was \$7.94. Assuming that the Compensation Committee, in accordance with the 1997 Stock Incentive Plan and the 2007 Stock Incentive Plan, determined that the highest price per share for our common stock paid in any transaction reported on the NYSE or paid or offered in any bona fide transaction related to a change in control or potential change in control, during the 60-day period immediately preceding December 30, 2011 was \$8.13, which was the highest price per share for our common stock on the NYSE on November 3, 2011, the amounts payable to Messrs. Cohen, Johannessen, Beattie, Brickman and Solari would be \$743,457.81, \$597,251.88, \$246,802.41, \$197,809.35, and \$150,405.00, respectively.

**Payments Upon Termination Without a Fundamental Change or Change in Control.**

The following table provides quantitative disclosure of the estimated payments and benefits that would be provided to our named executive officers assuming that:



each named executive officer's employment with us was terminated on December 30, 2011, the last business day of our fiscal 2011;

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the base salary and annual bonus earned by each named executive officer for his services to us through December 30, 2011 has been fully paid to such named executive officer;

such termination was not in connection with an event which constituted a change in control under the 1997 Stock Incentive Plan and the 2007 Stock Incentive Plan or a fundamental change under any named executive officer's employment agreement; and

to the extent not otherwise terminated in connection with the named executive officer's termination, each of our named executive officers exercised any previously unexercised options awarded pursuant to the 1997 Stock Incentive Plan and sold the underlying shares at the closing price for shares of our common stock on the NYSE on December 30, 2011, the last business day of our fiscal 2011, which was \$7.94.

	Cash Severance Payment (\$)	Exercise of Outstanding Options (\$)(1)	Total Termination Benefits (\$)
<b>Lawrence A. Cohen</b>			
Termination by us because of Mr. Cohen's disability or death or for any reason other than for cause, or termination by Mr. Cohen for good reason (2)	\$ 2,065,222.00	\$ 164,000.00	\$ 2,229,222.00
Termination for cause	0	0	0
<b>Keith N. Johannessen</b>			
Termination by us because of Mr. Johannessen's disability or death or for any reason other than for cause, or termination by Mr. Johannessen for good reason (3)	\$ 1,155,962.00	\$ 92,725.60	\$ 1,248,687.60
Termination for cause	0	0	0
<b>Ralph A. Beattie</b>			
Termination by us because of Mr. Beattie's disability or death or for any reason other than for cause, or termination by Mr. Beattie for good reason (4)	\$ 1,105,737.00	0	\$ 1,105,737.00
Termination for cause (5)	\$ 54,945.00	0	\$ 54,945.00
<b>David R. Brickman</b>			
Termination by us because of Mr. Brickman's disability or death or for any reason other than for cause, or termination by Mr. Brickman for good reason (6)	\$ 651,364.00	\$ 67,436.80	\$ 718,800.80
Termination for cause (7)	\$ 31,364.00	0	\$ 31,364.00
<b>Joseph G. Solari</b>			
Termination by us because of Mr. Solari's disability or death or for any reason other than for cause, or termination by Mr. Solari for good reason (8)	\$ 182,989.00	0	\$ 182,989.00
Termination for cause (9)	\$ 6,239.00	0	\$ 6,239.00

- (1) Calculated in accordance with SEC rules by reference to the closing price for our common stock on the NYSE on December 30, 2011, which was \$7.94. Assuming that the Compensation Committee, in accordance with the 1997 Stock Incentive Plan and the 2007 Stock Incentive Plan, determined that the highest price per share for our common stock paid in any transaction reported on the NYSE or paid or offered in any bona fide transaction related to a change in control or potential change in control, during the 60-day period immediately preceding December 30, 2011 was \$8.13, which was the highest price per share for our common stock on the NYSE on November 3, 2011, the amounts payable to Messrs. Cohen,

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Johannessen, Beattie, Brickman and Solari with respect to the exercise of outstanding options would be \$182,000.00, \$102,902.80, \$0, \$74,838.40, and \$0, respectively.

- (2) Represents base salary and annual bonus paid at the rate during the previous 12 months for two years from December 30, 2011.
- (3) Represents base salary and annual bonus paid during the previous 12 months for two years from December 30, 2011.
- (4) Represents base salary and annual bonus paid during the previous 12 months for two years from December 30, 2011 and accrued vacation pay of \$54,945 as of December 30, 2011.
- (5) Represents accrued vacation pay as of December 30, 2011.
- (6) Represents base salary and annual bonus paid during the previous 12 months for two years from December 30, 2011 and accrued vacation pay of \$31,364 as of December 30, 2011.
- (7) Represents accrued vacation pay as of December 30, 2011.
- (8) Represents base salary and annual bonus paid during the previous 12 months for two years from December 30, 2011 and accrued vacation pay of \$6,239 as of December 30, 2011.
- (9) Represents accrued vacation pay as of December 30, 2011.

**Payments Upon Termination in Connection with a Fundamental Change and Change in Control.**

The following table provides quantitative disclosure of the estimated payments and benefits that would be provided to our named executive officers assuming that:

each named executive officer's employment with us was terminated on December 30, 2011, the last business day of our fiscal 2011;

the base salary and annual bonus earned by each named executive officer for his services to us through December 30, 2011 has been fully paid to such named executive officer;

such termination was in connection with an event which constituted a change in control under the 1997 Stock Incentive Plan and the 2007 Stock Incentive Plan and a fundamental change under each named executive officer's employment agreement, which was consummated on December 30, 2011, the last business day of our fiscal 2011, and the Compensation Committee has not determined that it is effective as of any other date;

the Compensation Committee has not adopted a resolution to the effect that a potential change in control has occurred for purposes of the 1997 Stock Incentive Plan and the 2007 Stock Incentive Plan;

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the Compensation Committee has not expressly provided that the acceleration and cash-out provisions of the 1997 Stock Incentive Plan and the 2007 Stock Incentive Plan, as described above, are not applicable to such event prior to its consummation; and

the portion of any award which is accelerated and cashed-out pursuant to the 1997 Stock Incentive Plan and the 2007 Stock Incentive Plan is not limited by Section 280G of the Internal Revenue Code.

	<b>Cash Severance Payment (\$)</b>	<b>Acceleration and Cash-Out of Equity Awards \$(1)</b>	<b>Total Termination Benefits (\$)</b>
Lawrence A. Cohen	\$ 3,097,833.00(2)	\$ 711,359.78	\$ 3,809,192.78
Keith N. Johannessen	\$ 1,733,943.00(3)	\$ 574,969.44	\$ 2,308,912.44
Ralph A. Beattie	\$ 1,631,133.00(4)	\$ 241,034.58	\$ 1,872,167.58
David R. Brickman	\$ 961,364.00(5)	\$ 187,132.30	\$ 1,148,496.30
Joseph G. Solari	\$ 182,989.00(6)	\$ 146,890.00	\$ 329,879.00

- (1) Calculated in accordance with SEC rules by reference to the closing price for our common stock on the NYSE on December 30, 2011, which was \$7.94. Assuming that the Compensation Committee, in

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accordance with the 1997 Stock Incentive Plan and the 2007 Stock Incentive Plan, determined that the highest price per share for our common stock paid in any transaction reported on the NYSE or paid or offered in any bona fide transaction related to a change in control or potential change in control, during the 60-day period immediately preceding December 30, 2011 was \$8.13, which was the highest price per share for our common stock on the NYSE on November 3, 2011, the amounts payable to Messrs. Cohen, Johannessen, Beattie, Brickman and Solari with respect to the acceleration and cash-out of equity awards would be \$743,457.81, \$597,251.88, \$246,802.41, \$197,809.35, and \$150,405.00, respectively.

- (2) Represents base salary and annual bonus paid at the rate during the previous 12 months for three years from December 30, 2011.
- (3) Represents base salary and annual bonus paid during the previous 12 months for three years from December 30, 2011.
- (4) Represents base salary and annual bonus paid during the previous 12 months for three years from December 30, 2011 and accrued vacation pay of \$54,945 as of December 30, 2011.
- (5) Represents base salary and annual bonus for two years from December 30, 2011 and accrued vacation pay of \$31,364 as of December 30, 2011.
- (6) Represents base salary for one year from December 30, 2011 and accrued vacation pay of \$6,239 as of December 30, 2011.

**DIRECTOR COMPENSATION**

Name	Fees Earned or Paid in Cash \$(1)	Stock Awards \$(2)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Philip A. Brooks	\$ 42,500	\$ 108,840(3)			\$ 151,340
Lawrence A. Cohen(4)					
Craig F. Hartberg	\$ 55,000	\$ 108,840(3)			\$ 163,840
E. Rodney Hornbake	\$ 20,000	\$ 163,260(5)			\$ 183,260
Keith N. Johannessen(4)					
Jill M. Krueger	\$ 45,500	\$ 108,840(3)			\$ 154,340
Ronald A. Malone	\$ 47,500	\$ 108,840(3)			\$ 156,340
Peter L. Martin	\$ 49,710				\$ 49,710
James A. Moore	\$ 64,500	\$ 108,840(3)			\$ 173,340
Michael W. Reid	\$ 47,000	\$ 136,050(6)			\$ 183,050

During 2011, we did not maintain any pension or deferred compensation arrangements for our directors.

- (1) Represents (i) the annual retainer of \$15,000, payable annually, and (ii) compensation for attendance at all Board of Directors and committee meetings in 2011.
- (2) Amounts reflect the aggregate grant date fair value of the equity award computed in accordance with ASC 718.

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- (3) Represents 12,000 shares of restricted stock issued pursuant to the 2007 Stock Incentive Plan on May 25, 2011, which vest in installments of 3,000 shares, 3,000 shares and 6,000 shares on May 25, 2012, May 25, 2013 and May 25, 2014, respectively.
  
- (4) Messrs. Cohen and Johannessen did not receive any compensation for their service as directors during 2011. Please refer to the Summary Compensation Table above for the compensation received by Messrs. Cohen and Johannessen for their services as executive officers of the Company during 2011.
  
- (5) Represents 18,000 shares of restricted stock issued pursuant to the 2007 Stock Incentive Plan on May 25, 2011, which vest in installments of 6,000 shares, 6,000 shares and 6,000 shares on May 25, 2012, May 25, 2013 and May 25, 2014, respectively.

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(6) Represents 15,000 shares of restricted stock issued pursuant to the 2007 Stock Incentive Plan on May 25, 2011, which vest in installments of 3,000 shares, 6,000 shares and 6,000 shares on May 25, 2012, May 25, 2013 and May 25, 2014, respectively.

### **Narrative Discussion of Director Compensation Table Information**

The following is a narrative discussion of the material factors which we believe are necessary to understand the information disclosed in the foregoing Director Compensation Table.

#### *Cash Compensation*

For their services to us from the 2010 Annual Meeting of Stockholders until the 2011 Annual Meeting of Stockholders, our non-employee directors each received an annual retainer of \$15,000, which was paid on May 25, 2011, the date of the 2011 Annual Meeting of Stockholders. Additionally, during 2011, our non-employee directors each received \$1,500 for each meeting of the Board of Directors and \$1,500 for each committee meeting attended and were reimbursed for their expenses in attending such meetings; *provided*, that our independent Chairman received \$2,000 for each meeting of the Board of Directors and the Chairpersons of each committee received \$2,000 for each meeting of the committees for which they served as Chairperson. Messrs. Cohen and Johannessen did not receive any compensation for serving as members of the Board of Directors during 2011. In 2012, our non-employee directors will generally be entitled to the same cash compensation to which each was entitled during 2011.

#### *Equity Compensation*

On May 25, 2011, the Compensation Committee issued (1) Messrs. Brooks, Hartberg, Moore and Malone and Ms. Krueger 12,000 shares of restricted stock pursuant to the 2007 Stock Incentive Plan, which vest in three installments of 3,000 shares, 3,000 shares and 6,000 shares on May 25, 2012, May 25, 2013 and May 25, 2014, respectively, (2) Dr. E. Rodney Hornbake 18,000 shares of restricted stock pursuant to the 2007 Stock Incentive Plan, which vest in three installments of 6,000 shares, 6,000 shares and 6,000 shares on May 25, 2012, May 25, 2013 and May 25, 2014, respectively, and (3) Mr. Reid 15,000 shares of restricted stock pursuant to the 2007 Stock Incentive Plan, which vest in three installments of 3,000 shares, 6,000 shares and 6,000 shares on May 25, 2012, May 25, 2013 and May 25, 2014, respectively. Messrs. Cohen and Johannessen were not granted any restricted shares for serving as members of the Board of Directors during 2011.

### **Compensation Committee Interlocks and Insider Participation**

No member of the Compensation Committee is or has been one of our officers or employees or has or had any relationship requiring disclosure pursuant to SEC rules. In addition, during 2011, none of our executive officers served as:

a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on the Compensation Committee;

a director of another entity, one of whose executive officers served on the Compensation Committee; or

a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served as one of our directors.

### **Risk-Related Compensation Policies and Practices**

As part of its oversight of the Company's executive and non-executive compensation programs, the Compensation Committee considers the impact of the Company's compensation programs, and the incentives created by the compensation awards that it administers, on the Company's risk profile. In addition, the Company

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reviews all of its compensation policies and procedures, including the incentives that they create and factors that may reduce the likelihood of excessive risk taking, to determine whether they present a significant risk to the Company. Based on this review, the Company has concluded that its compensation policies and procedures are not reasonably likely to have a material adverse effect on the Company.

**Report of the Audit Committee**

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed the audited financial statements in the Annual Report on Form 10-K with management, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Audit Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards. The Audit Committee also discussed with the independent auditors matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol.1.AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The Company's independent auditors also provided to the Audit Committee the written disclosures required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and the Audit Committee discussed with the independent auditors their independence and the compatibility of non-audit services with such independence.

The Audit Committee discussed with the independent auditors the overall scope and plans for their respective audits. The Audit Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The Audit Committee held 4 meetings during fiscal year 2011.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors (and the Board of Directors has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2011 for filing with the SEC. The Audit Committee has also appointed, subject to stockholder ratification, Ernst & Young LLP as the Company's independent auditors.

Audit Committee

CRAIG F. HARTBERG, CHAIRMAN

JILL M. KRUEGER

MICHAEL W. REID



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**CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS**

**Policy of the Board of Directors**

The Board has adopted a statement of policy with respect to transactions involving us and related persons (generally our senior officers, directors, nominees for director, stockholders owning five percent or greater of our outstanding stock, immediate family members of any of the foregoing, or any entity which is owned or controlled by any of the foregoing persons or an entity in which any of the foregoing persons has a substantial ownership interest or control). The policy generally covers any related person transaction involving amounts greater than \$25,000 in which a related person has a direct or indirect material interest.

Under the policy, each related person transaction must be entered into on terms that are comparable to those that could be obtained as a result of arm's length dealings with an unrelated third party and must be approved by the Audit Committee. Pursuant to the policy, at the first regularly scheduled meeting of the Audit Committee each calendar year, members of our management will recommend related person transactions to be entered into by us for that year, including the proposed aggregate value of any such transaction. After review, the Audit Committee will approve or disapprove each such related person transaction. No member of the Audit Committee will participate in any discussion or approval of a related person transaction for which he or she is a related person, except that such member will provide all material information concerning the related person transaction. At each subsequently scheduled meeting of the Audit Committee, members of our management will update the Audit Committee as to any material change with respect to each approved related person transaction.

In the event that our management recommends any further related person transactions subsequent to the first meeting of the Audit Committee in a particular calendar year, such transactions may be presented to the Audit Committee for approval or disapproval, or preliminarily entered into by members of our management subject to ratification by the Audit Committee. However, if the Audit Committee ultimately declines to ratify any such related person transaction, our management will make all reasonable efforts to cancel or annul the transaction.

**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Based on a review of reports filed by our directors, executive officers and beneficial holders of 10% or more of shares of our common stock, and upon representations from those persons, we believe that all SEC stock ownership reports required to be filed by those reporting persons during 2011 were timely made.

**Table of Contents****PROPOSAL TO RATIFY APPOINTMENT OF INDEPENDENT AUDITORS****(PROPOSAL 2)**

The Audit Committee has appointed Ernst & Young LLP, independent auditors, to be our principal independent auditors and to audit our consolidated financial statements. Ernst & Young has served as our independent registered public accounting firm since October 3, 2006, when it replaced KPMG LLP, and has reported on our consolidated financial statements. KPMG had served as our independent registered public accounting firm since June 21, 2005. We had previously engaged Ernst & Young as our independent registered public accounting firm in connection with our initial public offering in 1997 until their dismissal on June 21, 2005.

Representatives of the firm of Ernst & Young are expected to be present at the Annual Meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

The Audit Committee has the responsibility for the selection of our independent auditors. Although stockholder ratification is not required for the selection of Ernst & Young, and although such ratification will not obligate us to continue the services of such firm, the Board of Directors is submitting the selection for ratification with a view towards soliciting our stockholders' opinion thereon, which may be taken into consideration in future deliberations. If the appointment is not ratified, the Audit Committee must then determine whether to appoint other auditors before the end of the current fiscal year and, in such case, our stockholders' opinions would be taken into consideration.

**The Board of Directors unanimously recommends a vote FOR the ratification of Ernst & Young as our independent auditors.**

**FEEES PAID TO INDEPENDENT AUDITORS**

The aggregate fees billed by Ernst & Young for fiscal years 2011 and 2010 were as follows:

**Ernst & Young:**

Services Rendered	Fees	
	2011	2010
Audit fees(1)	\$ 784,500	\$ 799,500
Audit-Related fees(2)	60,000	60,000
Tax fees(3)	15,000	15,000
All other fees		
<b>Total</b>	<b>\$ 859,500</b>	<b>\$ 874,500</b>

- (1) Includes professional services for the audit of our annual financial statements, reviews of the financial statements included in our Form 10-Q filings, services that are normally provided in connection with statutory and regulatory filings or engagements.
- (2) Includes fees associated with assurance and related services that are reasonably related to the performance of the audit or review of our financial statements. This category includes fees related to consulting services.
- (3) Includes fees associated with tax compliance, tax advice and tax planning.

The Audit Committee has considered whether the provision of the above services other than audit services is compatible with maintaining Ernst & Young's independence and has concluded that it is.



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The Audit Committee has the sole authority to appoint or replace the independent auditor and is directly responsible for the compensation and oversight of the work of the independent auditor. The Audit Committee is responsible for the engagement of the independent auditor to provide permissible non-audit services, which require pre-approval by the Audit Committee (other than with respect to *de minimis* exceptions described in the rules of the NYSE or the SEC that are approved by the Audit Committee). The Audit Committee ensures that approval of non-audit services by the independent auditor are disclosed to investors in periodic reports filed with the SEC.

**Table of Contents****ADVISORY VOTE ON EXECUTIVE COMPENSATION****(PROPOSAL 3)**

At our last Annual Meeting of Stockholders on May 25, 2011, pursuant to Section 14A of the Exchange Act, the Company submitted a proposal seeking non-binding advisory votes from our stockholders to approve the compensation paid to our named executive officers (an Advisory Vote on Compensation ) and to recommend the frequency on which the Company would hold future Advisory Votes on Compensation. At the 2011 Annual Meeting, our stockholders supported an annual Advisory Vote on Compensation, and our Board has determined that it will submit such vote to our stockholders every year at our annual meeting. As a result, we will submit an Advisory Vote on Compensation to our stockholders at each annual meeting until we are required to submit to our stockholders another proposal on the frequency of such vote within the next five years.

As described in the Compensation Discussion and Analysis section of this proxy statement (see pages 17 through 49), the following key objectives are the cornerstone of our executive compensation program.

employ, retain and reward executives who are capable of leading us to the achievement of our business objectives, which include maximizing the value of our operations, generating cash flow, preserving a strong financial position, increasing our geographic concentration, maximizing our competitive strengths in each of our markets, capitalizing on long-term growth opportunities, and most importantly, enhancing stockholder value;

a significant amount of total compensation should be in the form of short-term and long-term incentive awards to align compensation with our financial and operational performance goals as well as individual performance goals; and

incentive awards should be tied to and vary with our financial and operational performance, as well individual performance.

We believe these objectives collectively link compensation to overall Company performance and directly link compensation to the objectives set forth in the Company's 2011 Business Plan that was approved by our Board of Directors. These objectives help to ensure that the interests of our named executive officers are closely aligned with the interests of our stockholders. We believe that Capital Senior has successfully achieved these objectives as demonstrated by the Company's strong financial results during 2011, which exceeded the Company's business plan despite a challenging economic environment. The following table highlights the year-over-year comparison of some of the key financial metrics that we use in evaluating the Company's performance for purposes of making compensation decisions.

<b>Performance Measures</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>	<b>% Increase</b>
Adjusted CFFO	\$25.1 million (or \$0.93 per share)	\$17.1 million (or \$0.64 per share)	46.55%
Adjusted EBITDAR	\$92.3 million	\$68.6 million	34.58%
Adjusted Net Income	\$6.9 million (or \$0.25 per share)	\$4.7 million (or \$0.17 per share)	47.58%
Revenue	\$263.5 million	\$211.9 million	24.34%

The above table utilizes non-GAAP financial measures such as adjusted CFFO, adjusted EBITDAR and adjusted net income. These non-GAAP measures are used by many research analysts and investors to evaluate the performance and valuations of companies in our industry. Please refer to Appendix A to this proxy statement for important information concerning such non-GAAP financial measures, including a reconciliation of such measures to GAAP.

For fiscal 2011, we believe our compensation programs, which are designed to reward our named executive officers for the achievement of short-term and long-term strategic and operational goals and the achievement of

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increased stockholder value, delivered payments commensurate with Capital Senior's strong financial performance. Below are the highlights of our executive compensation program for 2011:

*Emphasis on Pay for Performance.* Our fiscal 2011 performance, including our performance relative to our peers, along with the individual performance of our eligible named executive officers, served as key factors in determining compensation for 2011, including as follows:

      CFFO per share and adjusted EBITDAR were the key metrics for our eligible named executive officers' annual cash incentive awards related to corporate goals during 2011. These metrics provide for a balanced approach to measuring annual company performance. In addition, these measures are used by many research analysts and investors to evaluate the performance and valuations of companies in our industry. Our eligible named executive officers were also eligible to receive an annual cash incentive award based upon the aggregate transaction value of the Company's acquired senior housing communities during 2011. We believe our named executive officers should be rewarded for their efforts in helping the Company complete such strategic acquisitions, which we expect will help generate a meaningful increase in the Company's CFFO and earnings.

      For 2011, we linked a significant portion of the total compensation opportunity available to each of our eligible named executive officers to the achievement of certain corporate and individual goals bearing a direct relationship to the accomplishment of our business plan. As reflected in the Summary Compensation Table above, approximately 67%, 69% and 63% of the total compensation opportunity awarded to our Chief Executive Officer, President and Chief Operating Officer, and Executive Vice President and Chief Financial Officer, respectively, in 2011 was subject to the achievement of performance targets under our Incentive Compensation Plan for 2011 or under the long-term performance-based equity awards discussed below.

*Periodic Grants of Long-Term Equity Awards.* Another way that we try to link pay and performance is through periodically granting time-based and performance-based equity awards to our named executive officers. In March 2011, we granted 100,000, 80,000, 50,000 and 30,000 shares of performance-based restricted stock to our Chief Executive Officer, President and Chief Operating Officer, Executive Vice President and Chief Financial Officer and Vice President, General Counsel and Secretary, respectively. The periodic vesting of these awards are subject to the Company's achievement of certain performance targets over a three-year period, which is primarily designed to encourage our named executive officers to focus on the long-term performance of the Company. If a performance target is not met, then the shares subject to such performance target are forfeited.

*Establishment of Recoupment Policy (or Clawback) for Incentive Compensation.* As part of the Incentive Compensation Plan for 2011, the Compensation Committee adopted a recoupment policy for incentive compensation.

*Stockholder-Friendly Pay Practices.* We do not use many common pay practices that are considered to be unfriendly to stockholders, such as extensive perquisites, and our named executive officers are only eligible to participate in certain benefit plans generally available to all of our employees. Further, our executive compensation arrangements do not contain excess parachute payment tax gross-up provisions nor guaranteed salary increases or non-performance-based bonuses.

*Independent of Compensation Committee.* The Compensation Committee is composed solely of outside, independent directors who satisfy the independence requirements of the NYSE. In addition, each year the Compensation Committee typically reviews information compiled by independent third parties and has previously engaged an independent executive compensation consulting firm to conduct a formal review of the Company's compensation arrangements.

The vote on this resolution is not intended to address any specific element of compensation; rather, the vote relates to the compensation of our named executive officers, as described in this proxy statement in accordance with the compensation disclosure rules of the SEC. The vote is advisory, which means that the vote is not binding



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on the Company, our Board of Directors or the Compensation Committee of the Board of Directors. The SEC rules adopted in response to the matters pertaining to executive compensation in the Dodd-Frank Act did not specify a voting standard for this proposal. As a result, pursuant to our bylaws, assuming the presence of a quorum, the affirmative vote of the holders of at least a majority of the outstanding shares of our common stock represented in person or by proxy at the Annual Meeting and entitled to vote is required to approve, on an advisory basis this Proposal 3.

Accordingly, we ask our stockholders to vote on the following resolution at the Annual Meeting:

**RESOLVED**, that the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby **APPROVED**.

**The Board of Directors unanimously recommends a vote FOR the approval of the compensation of our named executive officers, as disclosed in this proxy statement.**



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**OTHER BUSINESS**

**(PROPOSAL 4)**

The Board of Directors knows of no other business to be brought before the Annual Meeting. If, however, any other business should properly come before the Annual Meeting, the persons named in the accompanying proxy will vote the proxy in their discretion as they may deem appropriate, unless directed by the proxy to do otherwise.

**GENERAL**

The cost of any solicitation of proxies by mail will be borne exclusively by us. Arrangements may be made with brokerage firms and other custodians, nominees and fiduciaries for the forwarding of material to and solicitation of proxies from the beneficial owners of shares of our common stock held of record by such persons, and we will reimburse such brokerage firms, custodians, nominees and fiduciaries for reasonable out of pocket expenses incurred by them in connection therewith. Brokerage houses and other custodians, nominees and fiduciaries, in connection with shares of our common stock registered in their names, will be requested to forward solicitation material to the beneficial owners of such shares and to secure their voting instructions. We have retained Georgeson to assist in soliciting proxies for the Annual Meeting for a fee of \$7,500. The cost of such solicitation will be borne exclusively by us.

By Order of the Board of Directors

James A. Moore

Lawrence A. Cohen

Chairman of the Board

Chief Executive Officer

April 18, 2012

Dallas, Texas

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**Appendix A**

**Certain Information With Respect to Non-GAAP Financial Measures Used in This Proxy Statement**

In the attached proxy statement, the Company utilizes non-GAAP financial measures such as adjusted EBITDAR, adjusted CFFO, adjusted CFFO per share, adjusted net income and adjusted net income per share. These non-GAAP financial measures are used by management to evaluate financial performance and resource allocation for its facilities and for the Company as a whole. These measures are commonly used as an analytical indicator within the senior housing industry, and also serve as a measure of leverage capacity and debt service ability. The Company has provided this information in order to enhance investors overall understanding of the Company's financial performance and prospects as well as its incentive compensation for its eligible named executive officers. In addition, because the Company has historically provided this type of information to the investment community, the Company believes that including this information provides consistency in its financial reporting.

These non-GAAP financial measures should not be considered as measures of financial performance under generally accepted accounting principles, and items excluded from them are significant components in understanding and assessing financial performance. These measures should not be considered in isolation or as an alternative to net income, cash flows generated by operating, investing, or financing activities, earnings per share or other financial statement data presented in the Company's consolidated financial statements as an indicator of financial performance or liquidity. Because these measures are not measurements determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, these measures as presented may not be comparable to other similarly titled measures of other companies. Reconciliation of this information to the most comparable GAAP measures is included on the following page.

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**Table of Contents****CAPITAL SENIOR LIVING CORPORATION****NON-GAAP RECONCILIATIONS**

	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Adjusted EBITDAR</b>		
Net income from operations	\$ 17,911	\$ 18,515
Depreciation and amortization expense	18,299	14,030
Stock-based compensation expense	1,497	919
Facility lease expense	52,233	34,253
Provision for bad debts	287	174
Casualty losses	711	260
Transaction costs	1,390	451
<b>Adjusted EBITDAR</b>	<b>\$ 92,328</b>	<b>\$ 68,602</b>
<b>Adjusted net income and net income per share</b>		
Net income	\$ 3,025	\$ 4,254
Casualty losses, net of tax	448	164
Transaction costs, net of tax	876	284
Resident lease amortization, net of tax	2,636	389
Loss(Gain) on disposition of assets, net of tax	(108)	
Gain on settlement of debt, net of tax		(431)
<b>Adjusted net income</b>	<b>\$ 6,877</b>	<b>\$ 4,660</b>
<b>Adjusted net income per share</b>	<b>\$ 0.25</b>	<b>\$ 0.17</b>
Diluted shares outstanding	27,062	26,687
<b>Adjusted CFFO and Adjusted CFFO per share</b>		
Net cash provided by operating activities	\$ 14,084	\$ 15,550
Changes in operating assets and liabilities	6,513	5,996
Recurring capital expenditures	(2,964)	(2,331)
Casualty losses, net of tax	448	164
Transaction costs, net of tax	876	284
Tax impact of Spring Meadows Transaction	6,142	
Tax impact from amended returns		(2,536)
<b>Adjusted CFFO</b>	<b>\$ 25,099</b>	<b>\$ 17,127</b>
<b>Adjusted CFFO per share</b>	<b>\$ 0.93</b>	<b>\$ 0.64</b>

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**YOUR VOTE IS IMPORTANT. PLEASE VOTE TODAY.**

To vote by mail, mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.

**CAPITAL SENIOR  
LIVING CORPORATION**

20346

q **FOLD AND DETACH HERE** q

**The Board of Directors recommends a vote FOR Proposals 1, 2, 3 and 4**

Please mark your votes as **X** indicated in this example

		<b>FOR</b>	<b>AGAINST</b>	<b>ABSTAIN</b>
<p>1. Proposal to elect as directors of the Company the following persons to hold office until the annual meeting of stockholders of the Company to be held in 2015 or until their respective successors are duly qualified and elected.</p>	<p><b>WITHHELD AUTHORITY to vote for all nominees listed to the contrary</b></p>	<p><b>FOR all nominees listed to left (except as marked to the contrary)</b></p>	<p>..</p>	<p>..</p>
<p>Nominees:</p> <p>01 Keith N. Johannessen</p> <p>02 Jill M. Krueger</p> <p>03 Michael W. Reid</p>	<p>..</p> <p>..</p>	<p>..</p> <p>..</p>	<p>..</p> <p>..</p>	<p>..</p> <p>..</p>
<p>2. Proposal to ratify the Audit Committee's appointment of Ernst &amp; Young LLP, independent accountants, as the Company's independent auditors.</p>		<p>..</p>	<p>..</p>	<p>..</p>
<p>3. Proposal to approve the Company's executive compensation.</p>		<p>..</p>	<p>..</p>	<p>..</p>
<p>4. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting.</p>		<p>..</p>	<p>..</p>	<p>..</p>

**(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the FOR all nominees listed to left box and write that**

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nominee's name in the space provided below.)

This proxy will be voted as directed herein by the undersigned stockholder. If no direction is made, this proxy will be voted as indicated below:

FOR the election of each of the nominees for director (Proposal 1) and FOR Proposals 2, 3 and 4

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY PROMPTLY USING THE ENCLOSED ENVELOPE.

Mark Here for ..

Address Change

or Comments

SEE REVERSE

NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

Signature

Signature

Date \_\_\_\_\_, 2012

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***You can now access your Capital Senior Living Corporation account online.***

Access your Capital Senior Living Corporation account online via Investor ServiceDirect® (ISD).

The transfer agent for Capital Senior Living Corporation now makes it easy and convenient to get current information on your shareholder account.

View account status	View payment history for dividends
View certificate history	Make address changes
View book-entry information	Obtain a duplicate 1099 tax form

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q **FOLD AND DETACH HERE** q

**CAPITAL SENIOR LIVING CORPORATION**

**14160 Dallas Parkway, Suite 300**

**Dallas, Texas 75254**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints Lawrence A. Cohen and Ralph A. Beattie, and each of them, as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and vote, as designated hereon, all of the shares of the common stock of Capital Senior Living Corporation (the Company), held of record by the undersigned on March 26, 2012, at the Annual Meeting of Stockholders of the Company to be held on May 23, 2012 and any postponement(s) or adjournment(s) thereof.

**IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. STOCKHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING AND WISH THEIR STOCK TO BE VOTED ARE URGED TO DATE, SIGN AND RETURN THE**

**ACCOMPANYING PROXY IN THE ENCLOSED SELF-ADDRESSED ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.**

**Address Change/Comments**  
**(Mark the corresponding box on the reverse side)**

SHAREOWNER SERVICES  
P.O. BOX 3550  
SOUTH HACKENSACK, NJ 07606-9250

20346

**(Continued and to be marked, dated and signed, on the other side)**