STEIN MART INC
Form 10-Q
August 31, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 30, 2016

or

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

For the transition period from __________ to __________

Commission file number 0-20052

STEIN MART, INC.

(Exact name of registrant as specified in its charter)

Florida **(State or other jurisdiction of** **incorporation or organization)**	**64-0466198** **(I.R.S. Employer** **Identification Number)**
1200 Riverplace Blvd., Jacksonville, Florida **(Address of principal executive offices)**	**32207** **(Zip Code)**

Registrant s telephone number, including area code: **(904) 346-1500**

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

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

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares outstanding of the Registrant s common stock as of August 29, 2016 was 46,902,126.

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Stein Mart, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except for share and per share data)

	July 30, 2016	January 30, 2016	August 1, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	$ 11,765	$ 11,830	$ 11,620
Inventories	279,691	293,608	277,243
Prepaid expenses and other current assets	20,925	18,586	30,060
Total current assets	312,381	324,024	318,923
Property and equipment, net of accumulated depreciation and amortization of $205,195, $190,952 and $178,654, respectively	169,597	162,954	156,072
Other assets	29,892	29,247	30,323
Total assets	$ 511,870	$ 516,225	$ 505,318
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 98,185	$ 105,569	$ 122,699
Current portion of long-term debt	10,000	10,000	9,167
Accrued expenses and other current liabilities	68,411	71,571	64,661
Total current liabilities	176,596	187,140	196,527
Long-term debt, net of current portion	157,371	180,150	161,033
Deferred rent	42,286	41,146	37,532
Other liabilities	46,149	31,472	36,250
Total liabilities	422,402	439,908	431,342
COMMITMENTS AND CONTINGENCIES			
Shareholders equity:			
Preferred stock - $0.01 par value, 1,000,000 shares authorized; no shares issued or outstanding			
Common stock - $0.01 par value; 100,000,000 shares authorized; 46,848,195, 45,814,583 and 45,702,328 shares issued and outstanding, respectively	468	458	457
Additional paid-in capital	46,547	42,801	40,025
Retained earnings	42,722	33,337	33,918
Accumulated other comprehensive loss	(269)	(279)	(424)

Total shareholders equity	89,468	76,317	73,976
Total liabilities and shareholders equity	$ 511,870	$ 516,225	$ 505,318

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Stein Mart, Inc.

Condensed Consolidated Statements of Income

(Unaudited)

(In thousands, except per share amounts)

	13 Weeks Ended July 30, 2016	13 Weeks Ended August 1, 2015	26 Weeks Ended July 30, 2016	26 Weeks Ended August 1, 2015
Net sales	$ 319,761	$ 311,583	$ 675,473	$ 665,104
Cost of merchandise sold	230,322	222,648	477,142	467,789
Gross profit	89,439	88,935	198,331	197,315
Selling, general and administrative expenses	83,840	81,545	170,314	167,167
Operating income	5,599	7,390	28,017	30,148
Interest expense, net	883	807	1,849	1,493
Income before income taxes	4,716	6,583	26,168	28,655
Income tax expense	1,709	2,489	9,850	10,997
Net income	$ 3,007	$ 4,094	$ 16,318	$ 17,658
Net income per share:				
Basic	$ 0.07	$ 0.09	$ 0.36	$ 0.39
Diluted	$ 0.06	$ 0.09	$ 0.35	$ 0.38
Weighted-average shares outstanding:				
Basic	45,719	44,710	45,657	44,661
Diluted	46,555	45,926	46,415	45,846
Dividends declared per common share	$ 0.075	$ 0.075	$ 0.150	$ 5.150

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Stein Mart, Inc.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)

	13 Weeks Ended July 30, 2016	13 Weeks Ended August 1, 2015	26 Weeks Ended July 30, 2016	26 Weeks Ended August 1, 2015
Net income	$ 3,007	$ 4,094	$ 16,318	$ 17,658
Other comprehensive income, net of tax:				
Amounts reclassified from accumulated other comprehensive income	5	4	10	8
Comprehensive income	$ 3,012	$ 4,098	$ 16,328	$ 17,666

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	26 Weeks Ended July 30, 2016	26 Weeks Ended August 1, 2015
Cash flows from operating activities:		
Net income	$ 16,318	$ 17,658
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,611	14,534
Share-based compensation	3,511	4,012
Store closing charges	37	50
Loss on disposal of property and equipment	10	43
Deferred income taxes	978	(1,781)
Tax (expense) benefit from equity issuances	(196)	3,729
Excess tax benefits from share-based compensation	(471)	(3,754)
Changes in assets and liabilities:		
Inventories	13,917	8,380
Prepaid expenses and other current assets	(2,339)	(10,626)
Other assets	(708)	976
Accounts payable	(7,763)	(7,721)
Accrued expenses and other current liabilities	(1,207)	(6,183)
Other liabilities	14,949	8,051
Net cash provided by operating activities	52,647	27,368
Cash flow from investing activity:		
Net acquisition of property and equipment	(23,939)	(19,786)
Net cash used in investing activity	(23,939)	(19,786)
Cash flows from financing activities:		
Proceeds from borrowings	164,913	409,423
Repayments of debt	(187,713)	(239,223)
Debt issuance costs		(380)
Cash dividends paid	(6,885)	(232,267)
Excess tax benefits from share-based compensation	471	3,754
Proceeds from exercise of stock options and other	1,439	477
Repurchase of common stock	(998)	(3,060)
Net cash used in financing activities	(28,773)	(61,276)

Net decrease in cash and cash equivalents		(65)		(53,694)
Cash and cash equivalents at beginning of year		11,830		65,314
Cash and cash equivalents at end of period	$	11,765	$	11,620
Supplemental disclosures of cash flow information:				
Income taxes paid	$	11,789	$	8,555
Interest paid		1,807		1,282
Purchases of property and equipment included in accounts payable, accrued expenses and other current liabilities at the end of the period		2,473		4,374

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, all adjustments (consisting primarily of normal and recurring adjustments) considered necessary for a fair presentation have been included. Due to the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended January 30, 2016, filed with the Securities and Exchange Commission (SEC) on April 11, 2016.

As used herein, the terms we, our, us and Stein Mart refer to Stein Mart, Inc. and its wholly-owned subsidiaries.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09 *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This standard makes several modifications to ASC Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU No. 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. We will adopt ASU No. 2019-09 in the first quarter of 2017 and we believe that this adoption will not have a material effect on our financial condition, results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-04, *Liabilities-Extinguishments of Liabilities* (*Subtopic 405-20*): *Recognition of Breakage for Certain Prepaid Stored-Value Products*. The amendments in the ASU are designed to provide guidance and eliminate diversity in practice of accounting for derecognition of prepaid stored-value product liabilities. Typically, a prepaid stored-value product liability is to be derecognized when it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. This is when the likelihood of the product holder exercising its remaining rights becomes remote. This estimate shall be updated at the end of each period. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Earlier application is permitted. We plan to adopt this ASU in the fiscal year 2018, and do not expect the adoption to have a material effect on our financial condition, results of operations or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This update requires organizations to recognize lease assets and lease liabilities on the balance sheet and also disclose key information about leasing arrangements. This ASU is effective for annual reporting periods beginning on or after December 15, 2018, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual period. We are currently evaluating the effect the adoption of this ASU will have on our financial condition, results of operations and cash flows.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 provides a comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU No. 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This update permits the use of either the retrospective or cumulative effect transition method. ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations* was issued by FASB in March 2016 to clarify the principal versus agent considerations within ASU No. 2014-09. ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* was issued by the FASB in April 2016 to clarify how to determine whether goods and services are separately identifiable and thus accounted for as separate performance obligations. ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* was issued by the FASB in May 2016 to clarify certain terms from the aforementioned updates and to add practical expedients for contracts at various stages of completion. This guidance was deferred by ASU No. 2015-14, issued by the FASB in August 2015, and is effective for annual and interim reporting periods beginning after December 15, 2017, with early

Stein Mart, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

adoption permitted for annual and interim reporting periods beginning after December 15, 2016. We have the option to apply the provisions of ASU No. 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of applying this ASU recognized at the date of initial application. While we are still in the process of evaluating the effect, and the method of adoption, that these ASU s may have on our financial statements, we do not currently expect a material effect on our financial condition, results of operations or cash flows.

2. Shareholders Equity

Dividends

During the 26 weeks ended July 30, 2016, we paid two quarterly dividends of $0.075 per common share on April 15, 2016 and July 15, 2016. During the 26 weeks ended August 1, 2015, we paid two quarterly dividends of $0.075 per common share on April 17, 2015 and July 17, 2015.

On February 4, 2015, we announced that our Board of Directors declared a special cash dividend of $5.00 per common share which was paid on February 27, 2015. As a result of the special cash dividend, all outstanding stock options and performance share awards were modified during 2015 so that they retained the same fair value. No incremental compensation expense resulted from these modifications.

Stock Repurchase Plan

During the 13 weeks ended July 30, 2016, we repurchased 7,376 shares of our common stock at a total cost of approximately $0.1 million. During the 13 weeks ended August 1, 2015, we repurchased 8,833 shares of our common stock at a total cost of approximately $0.1 million. During the 26 weeks ended July 30, 2016, we repurchased 150,658 shares of our common stock at a total cost of approximately $1.0 million. During the 26 weeks ended August 1, 2015, we repurchased 198,973 shares of our common stock at a total cost of approximately $3.1 million. Stock repurchases were for tax withholding amounts due on employee stock awards and during the first half