

STEIN MART INC  
Form 10-Q  
August 31, 2018  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended August 4, 2018**

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  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

Edgar Filing: STEIN MART INC - Form 10-Q

to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the Registrant's common stock as of August 28, 2018, was 47,928,450.

**Table of Contents**

**Stein Mart, Inc.**

**Table of Contents**

	<b>PAGE</b>
<b>PART I</b>	
<b><u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Condensed Consolidated Financial Statements (Unaudited):</u>	
<u>Condensed Consolidated Balance Sheets at August 4, 2018, February 3, 2018 and July 29, 2017</u>	3
<u>Condensed Consolidated Statements of Operations for the 13 and 26 Weeks Ended August 4, 2018 and July 29, 2017</u>	4
<u>Condensed Consolidated Statements of Comprehensive (Loss) Income for the 13 and 26 Weeks Ended August 4, 2018 and July 29, 2017</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the 26 Weeks Ended August 4, 2018 and July 29, 2017</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 4. <u>Controls and Procedures</u>	21
<b>PART II</b>	
<b><u>OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	21
Item 1A. <u>Risk Factors</u>	21
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
Item 3. <u>Defaults upon Senior Securities</u>	21
Item 4. <u>Mine Safety Disclosures</u>	21
Item 5. <u>Other Information</u>	21
Item 6. <u>Exhibits</u>	22
<b><u>SIGNATURES</u></b>	<b>23</b>

**Table of Contents****Stein Mart, Inc.****Condensed Consolidated Balance Sheets****(Unaudited)**

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

	August 4, 2018	As Adjusted February 3, 2018	As Adjusted July 29, 2017
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 10,030	\$ 10,400	\$ 10,577
Inventories	240,813	270,237	246,243
Prepaid expenses and other current assets	34,215	26,620	35,715
Total current assets	285,058	307,257	292,535
Property and equipment, net of accumulated depreciation and amortization of \$243,891, \$231,997 and \$229,738, respectively	138,663	151,128	160,282
Other assets	24,970	24,973	29,806
Total assets	\$ 448,691	\$ 483,358	\$ 482,623
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 66,272	\$ 119,388	\$ 87,561
Current portion of long-term debt	125,253	13,738	5,833
Accrued expenses and other current liabilities	73,741	78,453	72,902
Total current liabilities	265,266	211,579	166,296
Long-term debt, net of current portion	49,286	142,387	164,779
Deferred rent	40,814	40,860	42,293
Other liabilities	36,881	40,214	48,271
Total liabilities	392,247	435,040	421,639
<b>COMMITMENTS AND CONTINGENCIES</b>			
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; 47,937,786, 47,978,275 and 47,904,091 shares issued and outstanding, respectively	479	480	479
Additional paid-in capital	57,888	56,002	53,721
Retained (deficit) earnings	(1,686)	(7,918)	7,071
Accumulated other comprehensive loss	(237)	(246)	(287)
Total shareholders equity	\$ 56,444	\$ 48,318	\$ 60,984
Total liabilities and shareholders equity	\$ 448,691	\$ 483,358	\$ 482,623

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



**Table of Contents****Stein Mart, Inc.****Condensed Consolidated Statements of Operations****(Unaudited)**

(In thousands, except per share data)

	13 Weeks Ended August 4, 2018	As Adjusted 13 Weeks Ended July 29, 2017	26 Weeks Ended August 4, 2018	As Adjusted 26 Weeks Ended July 29, 2017
Net sales	\$ 310,939	\$ 311,036	\$ 637,624	\$ 648,371
Other revenue	3,489	3,498	7,791	7,212
<b>Total revenue</b>	<b>314,428</b>	<b>314,534</b>	<b>645,415</b>	<b>655,583</b>
Cost of merchandise sold	231,520	246,368	462,141	488,147
Selling, general and administrative expenses	81,127	89,699	171,636	178,907
Operating income (loss)	1,781	(21,533)	11,638	(11,471)
Interest expense, net	2,865	1,142	5,328	2,281
(Loss) income before income taxes	(1,084)	(22,675)	6,310	(13,752)
Income tax expense (benefit)	60	(9,682)	120	(4,459)
Net (loss) income	\$ (1,144)	\$ (12,993)	\$ 6,190	\$ (9,293)
Net (loss) earnings per common share:				
Basic	\$ (0.02)	\$ (0.28)	\$ 0.13	\$ (0.20)
Diluted	\$ (0.02)	\$ (0.28)	\$ 0.13	\$ (0.20)
Weighted-average shares outstanding:				
Basic	46,669	46,264	46,639	46,214
Diluted	46,669	46,264	47,139	46,214
Dividends declared per common share	\$ -	\$ -	\$ -	\$ 0.075

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



**Table of Contents****Stein Mart, Inc.****Condensed Consolidated Statements of Comprehensive (Loss) Income****(Unaudited)**

(In thousands)

	13 Weeks Ended August 4, 2018	13 Weeks Ended July 29, 2017	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017
Net (loss) income	\$ (1,144)	\$ (12,993)	\$ 6,190	\$ (9,293)
Other comprehensive income, net of tax:				
Amounts reclassified from accumulated other comprehensive income	5	9	9	17
Comprehensive (loss) income	\$ (1,139)	\$ (12,984)	\$ 6,199	\$ (9,276)

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



Table of Contents

## Stein Mart, Inc.

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	26 Weeks Ended	As Adjusted 26 Weeks Ended
	August 4, 2018	July 29, 2017
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 6,190	\$ (9,293)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	16,215	16,226
Share-based compensation	1,842	3,379
Store closing (benefit) charge	(92)	172
Impairment of property and other assets	488	640
Loss on disposal of property and equipment	104	236
Deferred income taxes	-	4,199
Changes in assets and liabilities:		
Inventories	29,424	44,867
Prepaid expenses and other current assets	(7,595)	(2,657)
Other assets	(2,329)	(566)
Accounts payable	(53,528)	(26,800)
Accrued expenses and other current liabilities	(4,619)	(3,051)
Other liabilities	(2,984)	(2,409)
Net cash (used in) provided by operating activities	(16,884)	24,943
<b>Cash flows from investing activities:</b>		
Net acquisition of property and equipment	(4,082)	(11,761)
Proceeds from cancelled corporate owned life insurance policies	2,514	1,445
Proceeds from insurance claims	296	-
Net cash used in investing activities	(1,272)	(10,316)
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	781,051	230,094
Repayments of debt	(761,923)	(241,295)
Debt issuance costs	(896)	-
Cash dividends paid	(122)	(3,563)
Capital lease payments	(367)	-
Proceeds from exercise of stock options and other	90	328

Edgar Filing: STEIN MART INC - Form 10-Q

Repurchase of common stock	(47)	(218)
Net cash provided by (used in) financing activities	17,786	(14,654)
Net decrease in cash and cash equivalents	(370)	(27)
Cash and cash equivalents at beginning of year	10,400	10,604
Cash and cash equivalents at end of period	\$ 10,030	\$ 10,577

**Supplemental disclosures of cash flow information:**

Income taxes received	\$ (295)	\$ (8,094)
Interest paid	4,976	2,229
Accruals and accounts payable for capital expenditures	854	1,909

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

---

**Table of Contents**

**Stein Mart, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**1. Basis of Presentation**

The accompanying Condensed Consolidated Financial Statements (Unaudited) 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 annual audited 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 Condensed Consolidated Financial Statements (Unaudited) should be read in conjunction with the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended February 3, 2018, filed with the Securities and Exchange Commission ( SEC ) on May 4, 2018.

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

**Revenue Recognition**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*( ASU No. 2014-09 ). This update provides a single 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 requires 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. We adopted this ASU on February 4, 2018, for all revenue contracts with our customers using the full retrospective approach and increased retained earnings as of January 28, 2017, by less than \$0.1 million as we now recognize Ecommerce sales when orders are delivered to the carrier and no longer reserve for orders in transit. Prior to the adoption of ASU No. 2014-09, our sales return liability was recorded as a net liability on the Condensed Consolidated Balance Sheets (Unaudited). We now recognize a gross return liability for the sales amounts expected to be refunded to customers and a corresponding asset for the recoverable cost of the merchandise expected to be returned by customers in other current assets and other current liabilities on the Condensed Consolidated Balance Sheets (Unaudited). Other changes relate primarily to the presentation of revenue. Revenue associated with our credit card program and breakage revenue has been retrospectively reclassified to present the revenue in other revenues, rather than as an offset to selling, general and administrative expenses on the Condensed Consolidated Statements of Income (Unaudited) for all periods presented.

Revenue from sales of our merchandise is recognized at the time of sale net of any returns, discounts and percentage-off coupons. Our Ecommerce operation records revenue as orders are fulfilled and provided to a carrier for delivery. Shipping and handling fees charged to customers are also included in total net sales with corresponding costs recorded as cost of goods sold as they are considered a fulfillment cost. Future merchandise returns are estimated based on historical experience. Sales tax collected from customers is not recognized as revenue and is included in accrued expenses and other current liabilities on the Condensed Consolidated Balance Sheets (Unaudited) until paid. Our shoe department and vintage luxury handbag department inventories are each owned by separate single suppliers under supply agreements. Our commissions from the sales in these areas are included in net

sales on the Condensed Consolidated Statements of Operations (Unaudited).

We offer gift and merchandise return cards to our customers. Some cards are electronic and none have expiration dates. At the time gift cards are sold, the issuance is recorded as a liability to customers, and no revenue is recognized. At the time merchandise return cards are issued for returned merchandise, the sale is reversed and a liability to customers is recorded. These card liabilities are reduced and sales revenue recognized when they are redeemed for merchandise. Card liabilities are included in accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheets (Unaudited).

Our gift and merchandise return cards may not ultimately be redeemed either in full or partially. We account for this breakage of unused amounts as revenue in proportion to the pattern of rights exercised by the customer. With the adoption of ASU No. 2014-09, breakage revenue is recorded within other revenue in the Condensed Consolidated Statements of Operations (Unaudited). During the 13 weeks ended August 4, 2018 and July 29, 2017, we recognized \$0.3 million and \$0.2 million, respectively, of breakage revenue on unused gift and merchandise return cards. During the 26 weeks ended August 4, 2018 and July 29, 2017, we recognized \$0.9 million and \$0.6 million, respectively, of breakage revenue on unused gift and merchandise return cards.

### **Credit Card**

We offer co-branded and private label credit cards under the Stein Mart brand. These cards are issued by Synchrony Bank ( Synchrony ). Synchrony extends credit directly to card holders, provides all servicing for the credit card accounts and bears all risk of credit and fraud losses.

We receive royalty revenue from Synchrony based on card usage in our stores and at other retailers for the Stein Mart Mastercard. We also receive revenues for new accounts and gain share based on the profitability of the overall program. Credit card revenue is

**Table of Contents****Stein Mart, Inc.****Notes to Condensed Consolidated Financial Statements - Continued****(Unaudited)**

recorded within other revenue in the Condensed Consolidated Statements of Operations (Unaudited). These revenues are recorded as they are earned based on the occurrence of the various program activities and represent the majority of other revenue.

Once a card is activated, the card holders are eligible to participate in the credit card rewards program, which provides for an incentive to card holders in the form of reward points for which certificates are issued in \$10 increments, which is equivalent to 1,000 points. Points are valued at the stand-alone selling price of the certificates issued. We defer a portion of our revenue for loyalty points earned by customers using the co-branded and private label cards and recognize the revenue as the certificates earned are used to purchase merchandise by our customers. This revenue is recorded within other revenue in the Condensed Consolidated Statements of Operations (Unaudited). Stein Mart card holders also receive special promotional offers and advance notice of in-store sales events.

**Adjustments to Previously Reported Financial Statements**

The following tables set forth the adjustments made to our financial statements for the adoption of ASU No. 2014-09 (in thousands):

*Condensed Consolidated Balance Sheets*

	As Reported	February 3, 2018 Adjustment	As Adjusted
Prepaid expenses and other current assets	\$ 24,194	\$ 2,426	\$ 26,620
Accrued expenses and other current liabilities	76,058	2,395	78,453
Retained deficit	(7,949)	31	(7,918)

	As Reported	July 29, 2017 Adjustment	As Adjusted
Prepaid expenses and other current assets	\$ 32,200	\$ 3,515	\$ 35,715
Accrued expenses and other current liabilities	69,418	3,484	72,902
Retained earnings	7,040	31	7,071

*Condensed Consolidated Statements of Operations*

	13 Weeks Ended July 29, 2017		
	As Reported	Adjustment	As Adjusted

Edgar Filing: STEIN MART INC - Form 10-Q

Other revenue	\$	-	\$	3,498	\$	3,498
Selling, general and administrative expenses		86,201		3,498		89,699

26 Weeks Ended July 29, 2017

As Reported                      Adjustment                      As Adjusted

Other revenue	\$	-	\$	7,212	\$	7,212
Selling, general and administrative expenses		171,695		7,212		178,907

*Condensed Consolidated Statements of Cash Flows*

26 Weeks Ended July 29, 2017

As Reported                      Adjustment                      As Adjusted

Prepaid expenses and other current assets	\$	(1,951)	\$	(706)	\$	(2,657)
Accrued expenses and other current liabilities		(3,757)		706		(3,051)

**Table of Contents****Stein Mart, Inc.****Notes to Condensed Consolidated Financial Statements - Continued****(Unaudited)****Revenue**

The following table sets forth our revenue by type of contract (in thousands):

	13 Weeks Ended August 4, 2018	13 Weeks Ended July 29, 2017	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017
Store sales (1)	\$ 292,094	\$ 297,785	\$ 599,005	\$ 619,956
Ecommerce sales (1)	13,017	7,893	25,831	16,491
Licensee commissions (2)	5,828	5,358	12,788	11,924
Net sales	\$ 310,939	\$ 311,036	\$ 637,624	\$ 648,371
Credit card revenue (3)	2,221	2,698	4,489	5,366
Breakage revenue (4)	1,221	781	3,216	1,776
Other	47	19	86	70
Other revenue	3,489	3,498	7,791	7,212
Total revenue	\$ 314,428	\$ 314,534	\$ 645,415	\$ 655,583

(1) Store and Ecommerce sales are net of any returns, discounts and percentage-off coupons.

(2) Licensee commissions are leased department commissions received net of any returns.

(3) Credit card revenue earned from Synchrony programs.

(4) Breakage revenue earned on unused gift and merchandise return cards and unused certificates and loyalty reward points.

The following table sets forth the gross up of the sales return reserve (in thousands):

	August 4, 2018	February 3, 2018	July 29, 2017
Reserve for sales returns	\$ (3,756)	\$ (4,094)	\$ (4,810)

Edgar Filing: STEIN MART INC - Form 10-Q

Cost of inventory returns 1,976 2,426 3,515

The following table sets forth the contract liabilities and their relationship to revenue (in thousands):

	August 4, 2018	February 3, 2018	July 29, 2017
Deferred revenue contracts	(11,817)	(12,512)	(13,306)
Gift card liability	(9,328)	(12,180)	(9,223)
Credit card reward liability	(5,034)	(4,689)	(3,263)
Liability for deferred revenue	\$ (26,179)	\$ (29,381)	\$ (25,792)

Contract liabilities include consideration received for gift card and loyalty related performance obligations which have not been satisfied as of the dates presented above.

The following table sets forth a rollforward of the amounts included in contract liabilities for the periods presented (in thousands):

	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017
Beginning balance	\$ 29,381	\$ 29,412
Current period gift cards sold and loyalty reward points earned	16,311	14,158
Net sales from redemptions (1)	(15,503)	(15,210)
Breakage and amortization (2)	(4,010)	(2,568)
Ending balance	\$ 26,179	\$ 25,792

- (1) \$1.9 million and \$1.8 million in net sales from redemptions were included in the beginning balance of contract liabilities for the 13 weeks ended August 4, 2018 and July 29, 2017, respectively. \$6.4 million in net sales from redemptions were included in the beginning balance of contract liabilities for the 26 weeks ended August 4, 2018 and July 29, 2017, respectively.
- (2) \$0.4 million in breakage and amortization were included in the beginning balance of contract liabilities for the 13 weeks ended August 4, 2018 and July 29, 2017, respectively. \$2.7 million and \$1.7 million in breakage and amortization were included in the beginning balance of contract liabilities for the 26 weeks ended August 4, 2018 and July 29, 2017, respectively.



**Table of Contents****Stein Mart, Inc.****Notes to Condensed Consolidated Financial Statements - Continued****(Unaudited)****Accrued Expenses and Other Current Liabilities**

The following table sets forth the major components of accrued expenses and other current liabilities (in thousands):

	August 4, 2018	February 3, 2018	July 29, 2017
Property taxes	\$ 14,950	\$ 17,451	\$ 14,543
Unredeemed gift and merchandise return cards	9,288	12,150	9,203
Compensation and employee benefits	8,613	7,732	6,962
Accrued vacation	7,632	7,632	7,715
Other	33,258	33,488	34,479
Accrued expenses and other current liabilities	\$ 73,741	\$ 78,453	\$ 72,902

**Recent Accounting Pronouncements**

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. The main provisions of the new standard include: clarifications to the definitions of a lease, components of leases and criteria for determining lease classification; requiring virtually all leased assets, including operating leases and related liabilities, to be reflected on the lessee's balance sheet; and expanding and adding to the required disclosures for lessees. 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. This guidance was additionally updated by ASU No. 2018-11 in July 2018. This update, among other things, added a transition option for lessees. Under the transition option, entities can choose to continue to apply the legacy guidance and make only annual disclosures for the comparative periods or, for those who elect the transition option, can recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption rather than the earliest period presented. The optional practical expedient allows lessees to combine non-lease and associated lease components if certain criteria are met. We are in the process of evaluating our lease portfolio and integrating the portfolio into our software application that will track and account for leases under the new standard. We plan to adopt these ASUs in fiscal 2019 and are currently evaluating the transition approach and the overall effect the adoption of this ASU will have on our financial condition, results of operations and cash flows. We currently believe the adoption of this ASU will have a significant effect on our Consolidated Balance Sheets due to the addition of our applicable leased assets and related liabilities. We do not believe the adoption of this ASU will have a significant effect on our results of operations as the lease expense under the new standard will approximate our rent expense as it is currently being recorded.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*. This update provides additional guidance to ASU No. 2015-05, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*, which was issued in April 2015. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for

capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). This ASU is effective for annual reporting periods beginning on or after December 15, 2019, and interim periods within those annual periods. We are in the process of evaluating the effect that this ASU will have on our financial condition, results of operations and cash flows.

## **2. Shareholders Equity**

### *Dividends*

During the 26 weeks ended August 4, 2018, there were no cash dividends declared. We paid \$0.1 million in accrued dividends on restricted shares that vested during the period. During the 26 weeks ended July 29, 2017, we paid one quarterly cash dividend of \$0.075 per common share on April 14, 2017.

### *Stock Repurchase Plan*

During the 13 weeks ended August 4, 2018, we repurchased 3,306 shares of our common stock at a total cost of less than \$0.1 million. During the 13 weeks ended July 29, 2017, we repurchased 6,733 shares of our common stock at a total cost of less than \$0.1 million. During the 26 weeks ended August 4, 2018, we repurchased 48,409 shares of our common stock at a total cost of less than \$0.1 million. During the 26 weeks ended July 29, 2017, we repurchased 63,486 shares of our common stock at a total cost of approximately \$0.2 million. Stock repurchases were for tax withholding amounts due on employee stock awards and during 2018 and 2017, included no shares purchased on the open market under our previously authorized stock repurchase plan. As of August 4, 2018, there are 366,889 shares that can be repurchased pursuant to the Board of Directors' current authorization.

## **3. Earnings per Share**

Our restricted stock awards granted in 2013 contain non-forfeitable rights to dividends and, as such, are considered participating securities. Participating securities are to be included in the calculation of earnings per share under the two-class method. In applying the two-class method, income is allocated to both common shares and participating securities based on their respective weighted-average shares outstanding for the period.

Table of Contents

## Stein Mart, Inc.

## Notes to Condensed Consolidated Financial Statements - Continued

(Unaudited)

The following table sets forth the calculation of basic and diluted (loss) earnings per common share (in thousands, except per share data):

	13 Weeks Ended	13 Weeks Ended	26 Weeks Ended	26 Weeks Ended
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
<b>Basic:</b>				
Net (loss) income	\$ (1,144)	\$ (12,993)	\$ 6,190	\$ (9,293)
Income allocated to participating securities	-	-	1	2
Net (loss) income available to common shareholders	\$ (1,144)	\$ (12,993)	\$ 6,189	\$ (9,295)
Basic weighted-average shares outstanding	46,669	46,264	46,639	46,214
Basic (loss) earnings per common share	\$ (0.02)	\$ (0.28)	\$ 0.13	\$ (0.20)
<b>Diluted:</b>				
Net (loss) income	\$ (1,144)	\$ (12,993)	\$ 6,190	\$ (9,293)
Income allocated to diluted participating securities	-	-	1	2
Net (loss) income available to common shareholders	\$ (1,144)	\$ (12,993)	\$ 6,189	\$ (9,295)
Basic weighted-average shares outstanding	46,669	46,264	46,639	46,214
Incremental shares from share-based compensation plans	-	-	500	-
Diluted weighted-average shares outstanding	46,669	46,264	47,139	46,214

Diluted (loss) earnings per common share	\$	(0.02)	\$	(0.28)	\$	0.13	\$	(0.20)
--	----	--------	----	--------	----	------	----	--------

Diluted weighted-average shares outstanding exclude approximately 2.3 million and 4.4 million shares during the 13 weeks ended August 4, 2018 and July 29, 2017, respectively, which are anti-dilutive for the periods presented. Diluted weighted-average shares outstanding exclude approximately 3.0 million and 3.9 million shares during the 26 weeks ended August 4, 2018 and July 29, 2017, respectively, which are anti-dilutive for the periods presented. These shares are comprised of a mix of stock options, performance awards and restricted stock. Stock options excluded were those that had exercise prices greater than the average market price of the common shares such that inclusion would have been anti-dilutive. Restricted stock and performance shares excluded were shares that were anti-dilutive as calculated using the treasury stock method.

#### 4. Debt

The following table sets forth our debt (in thousands):

	August 4, 2018	February 3, 2018	July 29, 2017
Revolving credit facility	\$ 112,253	\$ 142,387	\$ 164,800
Term loan	50,000	-	-
Promissory note	13,000	13,738	-
Equipment term loan	-	-	5,833
<b>Total debt</b>	<b>175,253</b>	<b>156,125</b>	<b>170,633</b>
Current portion	(125,253)	(13,738)	(5,833)
Debt issuance costs	(714)	-	(21)
<b>Long-term debt</b>	<b>\$ 49,286</b>	<b>\$ 142,387</b>	<b>\$ 164,779</b>

#### *Revolving Credit Facility and Equipment Term Loan*

On February 3, 2015, we entered into a \$250.0 million senior secured revolving credit facility pursuant to a second amended and restated credit agreement (the *Credit Agreement*) with Wells Fargo Bank ( *Wells Fargo* ) that will mature in February 2020 (the *Revolving Credit Facility* ) and a secured \$25.0 million master loan agreement with Wells Fargo Equipment Finance, Inc. (the *Equipment Term Loan* ) with an original maturity in February 2018. Borrowings under the *Revolving Credit Facility* were initially used for a special dividend but are subsequently being used for working capital, capital expenditures and other general corporate purposes. During 2015, debt issuance costs of \$0.4 million were associated with the *Revolving Credit Facility* and the *Equipment Term Loan*. Debt issuance costs associated with the

---

**Table of Contents**

**Stein Mart, Inc.**

**Notes to Condensed Consolidated Financial Statements - Continued**

**(Unaudited)**

Revolving Credit Facility are being amortized over its respective term. We repaid the Equipment Term Loan in full on January 22, 2018, at which time the associated debt issuance costs were fully amortized.

On February 19, 2018, we entered into Amendment No. 1 (the Credit Agreement Amendment ) to the Credit Agreement with Wells Fargo. The Credit Agreement Amendment provides for, among other things, an Accommodation Period (as defined in the Credit Agreement Amendment) during which we were not required to meet the Fixed Charge Coverage Ratio (as defined in the Credit Agreement). This change permitted us to borrow the full amount of the then applicable borrowing base until we delivered our financial statements for the Measurement Period (as defined in the Credit Agreement) ended February 28, 2018. Pursuant to the Credit Agreement Amendment, a Cash Dominion Event (as defined in the Credit Agreement Amendment) has occurred as of the effective date of the Credit Agreement Amendment and at all times thereafter.

As a result of the Cash Dominion Event, all of our cash receipts are swept daily to repay outstanding borrowings under the Credit Agreement. We manage our cash on a daily basis and borrow against the Credit Agreement based on our daily cash disbursement needs. As long as we remain within the terms of the Credit Agreement, the bank is obligated to allow us to draw up to our borrowing availability. The Credit Agreement matures in February 2020; however, as a result of the Cash Dominion Event, the amount outstanding under the Credit Agreement has been classified as a short-term obligation.

On March 14, 2018, we entered into Amendment No. 2 (the Second Credit Agreement Amendment ) to the Credit Agreement with Wells Fargo. The Second Credit Agreement Amendment provides for, among other things, the following: (1) the \$25.0 million Tranche A-1 Revolving Loans (as defined in the Second Credit Agreement Amendment) shall have been repaid in full with the proceeds of the Term Loan (as defined below); (2) the entry into the Intercreditor Agreement (as defined below); and (3) certain other modifications and updates to coordinate the Revolving Credit Facility with the Term Loan.

The total amount available for borrowings under the Credit Agreement is the lesser of \$225.0 million or 100 percent of eligible credit card receivables and the net recovery percentage of inventories less reserves. On August 4, 2018, in addition to outstanding borrowings under the Credit Agreement, we had \$7.9 million of outstanding letters of credit and our unused availability under the Credit Agreement was \$43.3 million.

The Credit Agreement contains customary representations and warranties, affirmative and negative covenants (including the requirement of a 1.0 to 1.0 consolidated Fixed Charge Coverage Ratio upon the occurrence and during the continuance of any Covenant Compliance Event, as defined in the Credit Agreement), and events of default for facilities of this type and is cross-collateralized and cross-defaulted. Collateral for the Revolving Credit Facility and the Equipment Term Loan consists of substantially all of our personal property. Wells Fargo has a first lien on all collateral other than equipment. Wells Fargo Equipment Finance had a first lien on equipment through January 22, 2018, when we repaid the Equipment Term Loan in full.

Borrowings under the Credit Agreement are either Base Rate Loans or London Interbank Offered Rate ( LIBOR ) loans. LIBOR Loans bear interest equal to the adjusted LIBOR plus the applicable margin (125 to 175 basis points) depending on the quarterly average excess availability. Base Rate Loans bear interest equal to the highest of (a) the Federal Funds Rate plus 0.50 percent, (b) the adjusted LIBOR plus 1.00 percent, or (c) the Wells Fargo prime rate, plus the Applicable Margin (25 to 75 basis points).

The weighted average interest rate for the amount outstanding under the Credit Agreement was 4.00 percent as of August 4, 2018.

*Promissory Note*

On February 2, 2018, we executed a promissory note under which we borrowed approximately \$13.7 million (the Promissory Note ) from SunTrust Bank (the Trustee ) in its capacity as the trustee under a trust agreement (the Trust Agreement ) dated September 1, 1999. The trust established by the Trust Agreement (the Trust ) holds certain whole life insurance policies related to our executive deferred compensation plans. The Trustee obtained loans from the insurance policies held in the Trust in an amount not less than the amount of the Promissory Note. The Promissory Note is a short-term obligation and the proceeds were used to pay down borrowings under the existing Credit Agreement which provided additional availability under that agreement.

The Promissory Note had a fixed interest rate of 3.58 percent per annum and an original maturity date of April 1, 2018. On March 7, 2018, we executed an amendment to the Promissory Note under which the Trustee extended the maturity date of the note from April 1, 2018, to July 1, 2018 (the Maturity Date ). The amendment did not alter the short-term nature of the Promissory Note. The Promissory Note could be prepaid in whole or in part at any time. All unpaid principal and accrued interest on the Promissory Note would have become due and payable on the

---

**Table of Contents**

**Stein Mart, Inc.**

**Notes to Condensed Consolidated Financial Statements - Continued**

**(Unaudited)**

Maturity Date. The Trustee could offset payments due under the Promissory Note against amounts we would otherwise be entitled to withdraw from the Trust under the terms of the Trust Agreement. On June 29, 2018, we repaid the outstanding balance of the Promissory Note.

On July 31, 2018, we executed a second promissory note from SunTrust Bank for \$13.0 million which carries a fixed interest rate of 3.58 percent per annum and an original maturity date of September 10, 2018. This note is under the same terms as the Promissory Note executed on February 2, 2018.

*Term Loan*

On March 14, 2018, we entered into a Term Loan Credit Agreement with Gordon Brothers Finance Company, as administrative agent (in such capacity, the Term Loan Agent ), and Gordon Brothers Finance Company, LLC, as lender (the Term Loan Agreement ). The Term Loan Agreement provided for a term loan in the amount of \$50.0 million (the Term Loan ) and paid in full the existing \$25.0 million Tranche A-1 Revolving Loan (as defined in the Credit Agreement) under the Credit Agreement. Debt issuance costs associated with the Term Loan were capitalized in the amount of \$0.9 million and will be amortized over the term of the Term Loan. The net proceeds of \$49.1 million from the Term Loan were used to permanently pay off the Tranche A-1 Revolving Loan (as defined in the Credit Agreement) and to pay down the Credit Agreement. After utilizing proceeds from the Term Loan Agreement for repayment of amounts outstanding under the existing Tranche A-1 Revolving Loans, the Term Loan resulted in an increase in our Excess Availability of approximately \$25.0 million under the Credit Agreement.

The Term Loan will mature on the earlier of (1) the termination date specified in our Credit Agreement, as such date may be extended with the consent of the Term Loan Agent or in accordance with the Intercreditor Agreement (defined below), and (2) March 14, 2020.

The Term Loan Agreement contains customary representations and warranties, affirmative and negative covenants including the retention of the existing minimum 1.0 to 1.0 consolidated fixed charge coverage ratio under the Credit Agreement, which limits borrowing availability if not met during periods where Revolving Excess Availability (as defined in the Term Loan Agreement) is less than the greater of \$20.0 million or 10.0 percent of Combined Loan Cap (as defined in the Term Loan Agreement) for four consecutive business days, and events of default for a facility of this type. The Term Loan is secured by a second lien security interest (subordinate only to the liens securing the Credit Agreement) on all assets securing the Credit Agreement (which consist of substantially all of our personal property), except furniture, fixtures and equipment and intellectual property, upon which the Term Loan lenders will have a first lien security interest. If at any time prior to the first anniversary date of the Term Loan, the Revolving Excess Availability is less than \$20.0 million, if requested by the Term Loan Agent, the Term Loan will also be secured by a first lien on leasehold interests in real property with an aggregate value of not less than \$10.0 million, and the Credit Agreement will be secured by a second lien on such leasehold interests.

The Term Loan is subject to certain mandatory prepayments if an Event of Default (as defined in the Term Loan Agreement) exists. If no such Event of Default exists, proceeds of the Term Loan priority collateral are to be applied

to amounts outstanding under the Credit Agreement.

The Term Loan Agent and Wells Fargo have entered into an Intercreditor Agreement dated as of March 14, 2018 (the Intercreditor Agreement ), acknowledged by us under the Term Loan and the Credit Agreement.

The non-default interest rate applicable to the Term Loan under the Term Loan Agreement is a fluctuating rate of interest equal to three-month LIBOR (with a floor of 1.5 percent) plus 8.5 percent per annum.

The weighted average interest rate for the amount outstanding under the Term Loan was 10.84 percent as of August 4, 2018.



**Table of Contents****Stein Mart, Inc.****Notes to Condensed Consolidated Financial Statements - Continued****(Unaudited)**

The following table sets forth the aggregate maturities of our long-term debt at August 4, 2018, for the following fiscal years (in thousands):

2019	\$ -
2020	50,000
2021	-
2022	-
2023	-
Thereafter	-
<b>Total</b>	<b>\$ 50,000</b>

**5. Commitments and Contingencies**

We are involved in various routine legal proceedings incidental to the conduct of our business. During both the 13 and 26 weeks ended August 4, 2018 and July 29, 2017, we did not accrue for any actual or anticipated loss contingencies. While some of these matters could be material to our results of operations or cash flows for any particular period if an unfavorable outcome results, we do not believe that the ultimate resolution of currently pending legal proceedings, either individually or in the aggregate, will have a material adverse effect on our overall financial condition.

**6. Income Taxes**

Our income tax expense for the 13 and 26 weeks ended August 4, 2018, reflects our net operating loss carryforward position along with the valuation allowance established against deferred tax assets during the fourth quarter of 2017. The first half of 2018 expense represents certain state income tax expense. We expect the effective tax rate to be close to zero percent for all of 2018.

---

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

**Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are subject to certain risks, uncertainties or assumptions and may be affected by certain factors including, but not limited to, the matters discussed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended February 3, 2018, filed with the Securities and Exchange Commission (SEC) on May 4, 2018. Wherever used, the words plan, expect, anticipate, believe, estimate and similar expressions identify forward-looking statements. Should one or more of these risks, uncertainties or other factors materialize, or should underlying assumptions prove incorrect, actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements are based on beliefs and assumptions of our management and on information currently available to such management. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to publicly update or revise our forward-looking statements in light of new information or future events. Undue reliance should not be placed on such forward-looking statements, which are based on current expectations. Forward-looking statements are not guarantees of performance.

The following discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended February 3, 2018, filed with the SEC on May 4, 2018.

**Overview**

We are a national specialty off-price retailer offering designer and name-brand fashion apparel, home décor, accessories and shoes at everyday discount prices. Stein Mart provides real value that customers love every day both in stores and online. We currently operate 289 stores across 30 states.

**Financial Overview for the 13 and 26 Weeks Ended August 4, 2018**

Net sales were \$310.9 million for the 13 weeks ended August 4, 2018, compared to \$311.0 million for the 13 weeks ended July 29, 2017, and \$637.6 million for the 26 weeks ended August 4, 2018, compared to \$648.4 million for the 26 weeks ended July 29, 2017.

Comparable sales for the 13 weeks ended August 4, 2018, increased 0.7 percent compared to the 13 weeks ended July 29, 2017, and for the 26 weeks ended August 4, 2018 were flat compared to the 26 weeks ended July 29, 2017.

Net loss for the 13 weeks ended August 4, 2018 was \$1.1 million, or \$0.02 per diluted share, compared to net loss of \$13.0 million, or \$0.28 per diluted share, during the 13 weeks ended July 29, 2017.

Net income for the 26 weeks ended August 4, 2018 was \$6.2 million, or \$0.13 per diluted share, compared to net loss of \$9.3 million, or \$0.20 per diluted share, during the 26 weeks ended July 29, 2017.

We had \$175.3 million, \$156.1 million and \$170.6 million of borrowings on our credit facilities as of August 4, 2018, February 3, 2018, and July 29, 2017, respectively.

**Stores**

The following table sets forth the stores activity for the 13 and 26 weeks ended August 4, 2018 and July 29, 2017:

	13 Weeks Ended August 4, 2018	13 Weeks Ended July 29, 2017	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017
Stores at beginning of period	289	292	293	290
Stores opened during the period	-	-	-	5
Stores closed during the period	-	-	(4)	(3)
Stores at the end of period	289	292	289	292

### **Inventories**

Inventory levels were \$240.8 million as of August 4, 2018, compared to \$270.2 million as of February 3, 2018, and \$246.2 million as of July 29, 2017. Average inventories per store as of August 4, 2018 decreased 5.0 percent from July 29, 2017. We have intentionally operated with lower inventory levels during 2018, mainly by planning to turn faster and leaving a percentage of receipt dollars open to spend closer to actual delivery dates.

**Table of Contents****Results of Operations**

The following table sets forth each line item of our Condensed Consolidated Statements of Operations (Unaudited) expressed as a percentage of net sales (1):

	13 Weeks Ended August 4, 2018	As Adjusted 13 Weeks Ended July 29, 2017	26 Weeks Ended August 4, 2018	As Adjusted 26 Weeks Ended July 29, 2017
Net sales	100.0%	100.0%	100.0%	100.0%
Other revenue	1.1%	1.1%	1.2%	1.1%
Total revenue	101.1%	101.1%	101.2%	101.1%
Cost of merchandise sold	74.5%	79.2%	72.5%	75.3%
Selling, general and administrative expenses	26.1%	28.8%	26.9%	27.6%
Operating income (loss)	0.6%	-6.9%	1.8%	-1.8%
Interest expense, net	0.9%	0.4%	0.8%	0.4%
(Loss) income before income taxes	-0.4%	-7.3%	1.0%	-2.1%
Income tax expense (benefit)	0.0%	-3.1%	0.0%	-0.7%
Net (loss) income	-0.4%	-4.2%	1.0%	-1.4%

(1) Table may not foot due to rounding.

**Important Information Regarding Non-GAAP Financial Measures**

We report our financial results in accordance with accounting principles generally accepted in the United States of America ( GAAP ). However, we believe that certain non-GAAP financial measures provide users of our financial information with additional useful information in evaluating operating performance. Non-GAAP financial measures should be viewed as supplementing, and not as an alternative or substitute for, financial results prepared in accordance with GAAP. Items excluded from or included in non-GAAP financial measures may be significant and should be considered in assessing our financial condition and performance. The methods we used to calculate these non-GAAP financial measures may differ significantly from methods used by other companies to compute similar measures. As a result, the non-GAAP financial measures presented herein may not be comparable to similar measures provided by other companies.

We believe that providing calculations of changes in comparable sales, both including and excluding sales from leased departments, assists in evaluating our ability to generate sales growth, whether through owned businesses or departments leased to third parties. The following table sets forth these calculations.

Edgar Filing: STEIN MART INC - Form 10-Q

	13 Weeks Ended	13 Weeks Ended	26 Weeks Ended	26 Weeks Ended
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Decrease in comparable sales excluding sales from leased departments(1)	(0.4) %	(5.0) %	(1.1) %	(6.4) %
Effect of growth in comparable sales of leased departments(2)	1.1 %	0.4 %	1.1 %	0.5 %
Increase (decrease) in comparable sales including sales from leased departments	0.7 %	(4.6) %	0.0 %	(5.9) %

- (1) Represents the period-to-period percentage change in net sales from stores open throughout the period presented and the same period in the prior year and all online sales of steinmart.com, excluding commissions from departments leased to third parties.
- (2) Represents the effect of including the full sales amounts for departments leased to third parties throughout the period presented and the same period in the prior year on the calculation of comparable sales. We lease our shoe and vintage handbag departments to third parties and receive a commission from these third parties based on a percentage of their sales. In our financial statements prepared in conformity with GAAP, we include commissions (rather than sales of the departments licensed to third parties) in our net sales. We do not include the commission amounts from leased department sales in our comparable sales calculation.

**Table of Contents****13 and 26 Weeks Ended August 4, 2018, Compared to the 13 and 26 Weeks Ended July 29, 2017 (tables presented in thousands):****Net Sales**

	13 Weeks Ended August 4, 2018	3 Weeks Ended July 29, 2017	(Decrease)/ Increase	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017	(Decrease)/ Increase
Net sales	\$ 310,939	\$ 311,036	\$ (97)	\$ 637,624	\$ 648,371	\$ (10,747)
Sales percent change:						
Total net sales			0.0%			(1.7)%
Comparable store sales including sales from leased departments			0.7%			0.0%

Net sales for the 13 weeks ended August 4, 2018 were flat compared to the 13 weeks ended July 29, 2017. The 0.7 percent increase in comparable sales on an owned plus licensed basis for the 13 weeks ended August 4, 2018, was primarily driven by higher regular-priced selling compared to last year's higher clearance selling. Higher regular-priced selling for the 13 weeks ended August 4, 2018 increased the average unit retail price, which was partially offset by lowered units per transaction and number of transactions, primarily due to the lower clearance selling. Comparable sales reflect stores open throughout the period and prior fiscal year and include Ecommerce. Ecommerce sales were up 128.2 percent in the 13 weeks ended August 4, 2018, which include online orders shipped from our stores, and contributed approximately a 180 basis point increase to comparable sales in the same period. Comparable sales on an owned plus licensed basis for the 26 weeks ended August 4, 2018 were flat compared to the 26 weeks ended July 29, 2017. The 1.7 percent decrease in net sales is due to closing unproductive stores. Ecommerce sales were up 105.6 percent and contributed approximately a 160 basis point increase to comparable sales for the 26 weeks ended August 4, 2018.

**Other Revenue**

	13 Weeks Ended August 4, 2018	13 Weeks Ended July 29, 2017	(Decrease)/ Increase	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017	Increase
Other revenue	\$ 3,489	\$ 3,498	\$ (9)	\$ 7,791	\$ 7,212	\$ 579
Percentage of net sales	1.1%	1.1%	0.0%	1.2%	1.1%	0.1%

Other revenue for the 13 weeks ended August 4, 2018 was flat compared to the 13 weeks ended July 29, 2017. The increase in other revenue for the 26 weeks ended August 4, 2018, is the result of higher penetration from our growing credit card program.

**Gross Profit**

Gross profit is determined as follows:

	13 Weeks Ended August 4, 2018	13 Weeks Ended July 29, 2017	(Decrease)/ Increase	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017	(Decrease)/ Increase
Net sales	\$ 310,939	\$ 311,036	\$ (97)	\$ 637,624	\$ 648,371	\$ (10,747)
Cost of merchandise sold	231,520	246,368	(14,848)	462,141	488,147	(26,006)
Gross profit	\$ 79,419	\$ 64,668	\$ 14,751	\$ 175,483	\$ 160,224	\$ 15,259
Percentage of net sales	25.5%	20.8%	4.7%	27.5%	24.7%	2.8%

The gross profit rate increase for the 13 and 26 weeks ended August 4, 2018, was primarily due to a higher merchandise margin rate. The higher merchandise margin rate was driven by lower markdowns, partially offset by higher Ecommerce fulfillment and shipping costs which were higher due to an increase in online orders.

**Table of Contents****Selling, General and Administrative Expenses ( SG&A )**

	13 Weeks Ended			26 Weeks Ended		
	13 Weeks Ended August 4, 2018	13 Weeks Ended July 29, 2017	Decrease	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017	Decrease
Selling, general and administrative expenses	\$ 81,127	\$ 89,699	\$ (8,572)	\$ 171,636	\$ 178,907	\$ (7,271)
Percentage of net sales	26.1%	28.8%	(2.7)%	26.9%	27.6%	(0.7)%

The SG&A decrease for the 13 weeks ended August 4, 2018, was primarily the result of cost savings initiatives, including closing underperforming stores. The SG&A decrease for the 26 weeks ended August 4, 2018, was primarily the result of cost savings, including closing underperforming stores, partially offset by increased Ecommerce expenses of \$2.8 million. Ecommerce expenses were higher to support the additional sales volume.

**Interest Expense, Net**

	13 Weeks Ended			26 Weeks Ended		
	13 Weeks Ended August 4, 2018	13 Weeks Ended July 29, 2017	Increase	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017	Increase
Interest expense, net	\$ 2,865	\$ 1,142	\$ 1,723	\$ 5,328	\$ 2,281	\$ 3,047
Percentage of net sales	0.9%	0.4%	0.5%	0.8%	0.4%	0.4%

The increase in interest expense for the 13 and 26 weeks ended August 4, 2018, is due to higher borrowing levels and higher interest rates, primarily on our new Term Loan (as defined in Note 4 Debt to the Notes to Condensed Consolidated Financial Statements (Unaudited)).

**Income Taxes**

	13 Weeks Ended			26 Weeks Ended		
	13 Weeks Ended August 4, 2018	13 Weeks Ended July 29, 2017	Increase/ (Decrease)	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017	Increase/ (Decrease)
Income tax expense (benefit)	\$ 60	\$ (9,682)	\$ 9,742	\$ 120	\$ (4,459)	\$ 4,579
Effective tax rate	(5.5)%	42.7%	(48.2)%	1.9%	32.4%	(30.5)%

Our effective tax rate represents the applicable combined federal and state statutory rates reduced by the federal benefit of state taxes deductible on federal returns, adjusted for the effect of permanent differences. The decrease in the effective tax rate for the 13 and 26 weeks ended August 4, 2018, was primarily driven by our net operating loss carryforward position and our valuation allowance against all net deferred tax assets established during the fourth quarter of 2017. We expect that our effective tax rate will remain near zero percent for the rest of fiscal 2018.

**Liquidity and Capital Resources**



Capital requirements and working capital needs are funded through a combination of internally generated funds, available cash, credit terms from vendors, our \$225.0 million senior secured revolving credit facility pursuant to a second amended and restated credit agreement with Wells Fargo Bank ( Credit Agreement ) and our \$50.0 million Term Loan (as discussed below).

On February 19, 2018, we entered into Amendment No. 1 (the Credit Agreement Amendment ) to the Credit Agreement. The Credit Agreement Amendment provided for, among other things, an Accommodation Period (as defined in the Credit Agreement Amendment) during which we were not required to meet the Fixed Charge Coverage Ratio (as defined in the Credit Agreement). This change permitted us to borrow the full amount of the then applicable borrowing base until we delivered our financial statements for the Measurement Period (as defined in the Credit Agreement) ended February 28, 2018. Pursuant to the Credit Agreement Amendment, a Cash Dominion Event (as defined in the Credit Agreement Amendment) occurred as of the effective date of the Credit Agreement Amendment and at all times thereafter. The Credit Agreement Amendment also changed the frequency of our delivery of Borrowing Base Certificates (as defined in the Credit Agreement) from monthly to weekly.

As a result of the Cash Dominion Event, all of our cash receipts are swept daily to repay borrowings under the Credit Agreement. We manage our cash on a daily basis and borrow against the Credit Agreement based on our daily cash disbursement needs. As long as we remain within the terms of the Credit Agreement, the bank is obligated to allow us to draw up to our borrowing availability. The Credit Agreement

---

**Table of Contents**

matures in February 2020; however, as a result of the Cash Dominion Event, the amount outstanding under the Credit Agreement is classified as a short-term obligation on the Condensed Consolidated Balance Sheets (Unaudited).

On March 14, 2018, we entered into the Term Loan Agreement (as defined in Note 4 Debt in the Notes to Condensed Consolidated Financial Statements (Unaudited)), which provided for a term loan in the amount of \$50.0 million. At the same time, we entered into Amendment No. 2 (the Second Credit Agreement Amendment) to the Credit Agreement with Wells Fargo. The Second Credit Agreement Amendment provided for, among other things, the following: (1) the permanent repayment in full of \$25.0 million of Tranche A-1 Revolving Loans (as defined in the Second Credit Agreement Amendment) with the proceeds of the Term Loan (as defined below), thereby reducing the maximum amount of the revolving credit facility under the Credit Agreement to \$225.0 million; (2) the entry into the Intercreditor Agreement between Wells Fargo Bank and Gordon Brothers Finance Company, LLC (as defined in Note 4 Debt in the Notes to Condensed Consolidated Financial Statements (Unaudited)); and (3) certain other modifications and updates to coordinate the Credit Agreement with the Term Loan. The net proceeds of \$49.1 million from the Term Loan were used to permanently pay off the \$25.0 million Tranche A-1 Revolving Loan Commitment (as defined in Note 4 Debt in the Notes to Condensed Consolidated Financial Statements (Unaudited)) and to pay down the outstanding Tranche A-1 Revolving Loans (as defined in the Credit Agreement). After utilizing proceeds from the Term Loan Agreement for repayment of amounts outstanding under the Credit Agreement, the Term Loan increased our total borrowing availability under the combination of the Credit Agreement and Term Loan to \$275 million and increased our Excess Availability by approximately \$25.0 million. See Note 4 Debt of the Notes to Condensed Consolidated Financial Statements (Unaudited) for further discussion.

On February 2, 2018, we executed a short-term promissory note under which we borrowed approximately \$13.7 million (the Promissory Note) from SunTrust Bank in its capacity as trustee under a trust agreement dated September 1, 1999. The proceeds from the Promissory Note were used to pay down borrowings under the Credit Agreement to provide additional availability under the Credit Agreement to assist us during our February low working capital period following the holiday selling season. In March 2018, we extended the due date of the Promissory Note to July 1, 2018. On June 29, 2018, we repaid the outstanding balance of the Promissory Note. On July 31, 2018, we borrowed \$13.0 million under a new promissory note from SunTrust Bank. The proceeds were used to provide additional availability as we begin to purchase inventory for the second half of 2018. See Note 4 Debt of the Notes to Condensed Consolidated Financial Statements (Unaudited) for further discussion.

Cash flows from operations are driven by sales as well as the credit terms available to us from our vendors and their factors. Our sales generate cash almost immediately and are affected by customer traffic to our stores and the desirability of our merchandise for those customers. Customer traffic is in turn affected by our marketing and advertising, general economic and business conditions, and weather. Changes in these factors could have a material effect on our ability to generate sales and thus cash inflows to operate our business.

Our cash outflows can be materially affected by changes in credit terms and availability from our vendors and their factors. During the first quarter of 2018, our vendors and factors constricted our credit terms and limits significantly. This was a reaction to our 2017 third-quarter results, as well as concern about the general retail environment at the time, which included multiple bankruptcies and restructurings by other retailers in the same business. This constriction caused us to make payments to our vendors and factors more quickly than in prior periods thus increasing our debt levels during that period. The added availability from the Term Loan Agreement was a key part of our ability to fund the accelerated payments. During this time, we successfully managed our vendor and factor relationships to maintain the flow of our merchandise during the key early spring selling period. Throughout all periods, we made our payments to vendors and their factors on a timely basis in accordance with our negotiated terms.

When we announced our fourth quarter results and outlook for spring 2018 in March our terms with the vendors and their factors began to be less constricted. At that same time, we also announced our Term Loan Agreement. We have non-disclosure agreements with the major factors, credit insurers and several of our largest vendors which allow us to communicate our operating results and cash flows to them on a regular basis. Additionally, we made presentations to larger groups of our vendors just after our fourth quarter results were announced, in March 2018. We continue to communicate our operating results and cash flows to our large vendors and factors with whom we have non-disclosure agreements in place. These steps have contributed to the positive movement in their credit arrangements.

Our working capital fluctuates with seasonal variations which affect our borrowings and availability. Our availability is highest just after our strong seasonal spring and holiday selling seasons and is lowest just before those seasons as we build inventory levels. Working capital is also used to support capital investments for maintenance of our existing stores, system improvements and new store openings. We have reduced our capital investments to enhance our cash flows. These reduced levels of investment can be sustained for the foreseeable future as prior to this our store base and systems have been well maintained. Positive operating results and cash flows will help us preserve satisfactory credit terms and allow us to operate within the borrowing availability under our Credit Agreement and Term Loan Agreement. Based on our current expectations regarding our operating results we consider our resources adequate to satisfy our cash needs for at least the next 12 months.

**Table of Contents**

In January 2018, we announced that we hired PJ Solomon to help us evaluate strategic and capital alternatives. We hired Alvarez & Marsal as advisors in 2017 to assist in evaluating our forecasting and strategic communications with our vendors and their factors. Alvarez & Marsal also advised us on cost savings and cash flow initiatives and assisted with evaluating capital alternatives which resulted in the Term Loan Agreement. It is possible that additional strategic alternatives will arise from these efforts.

As of August 4, 2018, we had cash and cash equivalents of \$10.0 million and \$112.3 million in borrowings under our Credit Agreement, \$50.0 million in borrowings under the Term Loan and \$13.0 million in borrowings under the Promissory Note, for a total of \$175.3 million in outstanding borrowings. As of February 3, 2018, we had cash and cash equivalents of \$10.4, and borrowings under our credit facilities of \$142.4 million and \$13.7 million in borrowings under the Promissory Note, for a total of \$156.1 million in outstanding borrowings. As of July 29, 2017, we had cash and cash equivalents of \$10.6 million and borrowings under our credit facilities were \$170.6 million. The total amount available for borrowings and letters of credit under our Credit Agreement is the lesser of \$225.0 million or 100 percent of eligible credit card receivables and the net recovery percentage value of inventories less reserves. On August 4, 2018, in addition to outstanding borrowings under the Credit Agreement, Term Loan and Promissory Note, we had \$7.9 million of outstanding letters of credit. Our Excess Availability (as defined in the Credit Agreement) was \$43.3 million on August 4, 2018.

**Cash Flows**

	26 Weeks Ended		26 Weeks Ended	
Cash (used in) provided by :	August 4, 2018	July 29, 2017	Change	
Operating activities	\$ (16,884)	\$ 24,943	\$ (41,827)	
Investing activities	(1,272)	(10,316)	9,044	
Financing activities	17,786	(14,654)	32,440	
Net decrease in cash and cash equivalents	\$ (370)	\$ (27)	\$ (343)	

Net cash used in operating activities was \$16.9 million for the 26 weeks ended August 4, 2018, compared to net cash provided by operating activities of \$24.9 million for the 26 weeks ended July 29, 2017. The decrease in cash provided by operating activities was mainly due to the acceleration of vendor payments during the 26 weeks ended August 4, 2018, which significantly reduced our accounts payable balance compared to the 26 weeks ended July 29, 2017. Also contributing to the decrease was a smaller decrease in inventory this year due to improved management of our beginning inventory levels and an increase in prepaid rent due to the timing of the end of the second quarter this year.

Net cash used in investing activities was primarily from capital expenditures offset by proceeds from canceled corporate-owned life insurance policies and was \$1.3 million for the 26 weeks ended August 4, 2018, compared to net cash used of \$10.3 million for the 26 weeks ended July 29, 2017, primarily for capital expenditures. The decrease in capital expenditures was primarily due to lower investment in technologies, fewer remodels to existing stores and fewer tenant improvements during the 26 weeks ended August 4, 2018. We expect lower capital expenditures to continue through the end of fiscal 2018.

Net cash provided by financing activities was \$17.8 million during the 26 weeks ended August 4, 2018, compared to cash used in financing activities of \$14.7 million during the 26 weeks ended July 29, 2017. During the 26 weeks

ended August 4, 2018, we had net proceeds of debt of \$19.1 million, primarily used to pay vendors due to accelerated payment terms mostly in the first quarter. The increase in borrowings and repayments is a result of the cash dominion discussed above. We paid debt issuance costs of \$0.9 million, cash dividends of \$0.1 and capital lease payments of \$0.4 million. In addition, we repurchased 48,409 shares of common stock for less than \$0.1 million. During the 26 weeks ended July 29, 2017, we had net repayments of debt of \$11.2 million. We also paid cash dividends of \$3.6 million. We did not pay any debt issuance costs or capital lease payments. In addition, we repurchased 63,486 shares of common stock for \$0.2 million. See Note 2 Shareholders Equity of the Notes to Condensed Consolidated Financial Statements (Unaudited) for further discussion.

### **Critical Accounting Policies and Estimates**

We discuss our critical accounting policies and estimates in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the year ended February 3, 2018 and filed with the SEC on May 4, 2018. We have made no significant changes in our critical accounting policies and estimates since February 3, 2018.

### **Recent Accounting Pronouncements**

Recently issued accounting pronouncements are discussed in Note 1 Basis of Presentation of the Notes to Condensed Consolidated Financial Statements (Unaudited).

## **Table of Contents**

### **Seasonality and Inflation**

Our business is seasonal. Sales and profitability are historically higher in the first and fourth quarters of the fiscal year, which include the spring and holiday seasons. Therefore, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

Although we expect that our income will be influenced by general economic conditions, we do not believe that inflation has had a material effect on our results of operations. However, there can be no assurance that our business will not be affected materially by inflation in the future.

### **ITEM 4. CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act ), as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of August 4, 2018, to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

See the discussion of legal proceedings in Note 5 Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements (Unaudited) included in Item 1 of Part I of this Quarterly Report, which is incorporated by reference into this Item 1 of Part II.

### **ITEM 1A. RISK FACTORS**

There have been no material changes in our risk factors from those described in our Annual Report on Form 10-K for the year ended February 3, 2018.

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

The following table sets forth information regarding repurchases of our common stock during the quarter ended August 4, 2018:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (1)	Maximum number of shares that may yet be purchased under the plans or programs (1)
May 6, 2018 - June 2, 2018	1,273	\$ 2.75	1,273	368,922
June 3, 2018 - July 7, 2018	1,378	2.59	1,378	367,544
July 8, 2018 - August 4, 2018	655	2.20	655	366,889
Total	3,306	\$ 2.57	3,306	366,889

(1) All stock repurchases were for tax withholding amounts due on employee stock awards. No shares were purchased on the open market pursuant to our open market repurchase program. Our open market repurchase program is conducted pursuant to authorizations made from time to time by our Board of Directors, including the most recent authorization of an additional 500,000 shares by the Board of Directors on November 24, 2015 and announced on November 30, 2015.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

Not applicable.

**Table of Contents**

**ITEM 6. EXHIBITS**

- 10.1 Promissory Note dated July 31, 2018, by and among Stein Mart, Inc. as borrower and SunTrust Bank, as Trustee, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 2, 2018
- 31.1+ Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a)
- 31.2+ Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a)
- 32.1+ Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
- 32.2+ Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
- 101 Interactive data files from Stein Mart, Inc.'s Quarterly Report on Form 10-Q for the quarter ended August 4, 2018, formatted in XBRL (extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets (Unaudited), (ii) the Condensed Consolidated Statements of Operations (Unaudited), (iii) the Condensed Consolidated Statements of Comprehensive (Loss) Income (Unaudited), (iv) the Condensed Consolidated Statements of Cash Flows (Unaudited), and (v) the Notes to Condensed Consolidated Financial Statements (Unaudited)
  
- + Filed herewith.



Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

STEIN MART, INC.

Date: August 31, 2018

By: /s/ D. Hunt Hawkins  
**D. Hunt Hawkins**  
Chief Executive Officer

/s/ Gregory W. Kleffner  
**Gregory W. Kleffner**  
Executive Vice President and Chief Financial Officer