STEIN MART INC
Form 10-Q
December 01, 2016

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 October 29, 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	**64-0466198**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
1200 Riverplace Blvd., Jacksonville, Florida	**32207**
(Address of principal executive offices)	**(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 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, 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
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

The number of shares outstanding of the Registrant s common stock as of November 30, 2016 was 46,897,234.

Stein Mart, Inc.

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Stein Mart, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

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

	October 29, 2016	January 30, 2016	October 31, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	$ 13,968	$ 11,830	$ 14,126
Inventories	383,932	293,608	372,912
Prepaid expenses and other current assets	29,980	18,586	31,614
Total current assets	427,880	324,024	418,652
Property and equipment, net of accumulated depreciation and amortization of $212,689, $190,952 and $185,520, respectively	172,771	162,954	162,907
Other assets	29,831	29,247	30,505
Total assets	$ 630,482	$ 516,225	$ 612,064
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 208,161	$ 105,569	$ 202,176
Current portion of long-term debt	10,000	10,000	10,000
Accrued expenses and other current liabilities	77,076	71,571	68,162
Total current liabilities	295,237	187,140	280,338
Long-term debt, net of current portion	169,681	180,150	181,833
Deferred rent	42,266	41,146	41,163
Other liabilities	45,401	31,472	36,470
Total liabilities	552,585	439,908	539,804
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; 46,919,426, 45,814,583 and 45,675,579 shares issued and outstanding, respectively	469	458	457
Additional paid-in capital	49,497	42,801	41,826
Retained earnings	28,196	33,337	30,397
Accumulated other comprehensive loss	(265)	(279)	(420)
Total shareholders equity	77,897	76,317	72,260

Total liabilities and shareholders equity	$	630,482	$	516,225	$	612,064

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

Stein Mart, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share amounts)

	13 Weeks Ended October 29, 2016	13 Weeks Ended October 31, 2015	39 Weeks Ended October 29, 2016	39 Weeks Ended October 31, 2015
Net sales	$ 299,527	$ 300,665	$ 975,000	$ 965,769
Cost of merchandise sold	226,816	218,497	703,958	686,286
Gross profit	72,711	82,168	271,042	279,483
Selling, general and administrative expenses	89,034	81,464	259,348	248,631
Operating (loss) income	(16,323)	704	11,694	30,852
Interest expense, net	949	891	2,798	2,384
(Loss) income before income taxes	(17,272)	(187)	8,896	28,468
Income tax (benefit) expense	(6,262)	10	3,588	11,007
Net (loss) income	$ (11,010)	$ (197)	$ 5,308	$ 17,461
Net (loss) income per share:				
Basic	$ (0.24)	$ (0.01)	$ 0.12	$ 0.39
Diluted	$ (0.24)	$ (0.01)	$ 0.11	$ 0.37
Weighted-average shares outstanding:				
Basic	45,845	44,791	45,720	44,704
Diluted	45,845	44,791	46,599	45,916
Dividends declared per common share	$ 0.075	$ 0.075	$ 0.225	$ 5.225

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

Stein Mart, Inc.

Condensed Consolidated Statements of Comprehensive (Loss) Income

(Unaudited)

(In thousands)

	13 Weeks Ended October 29, 2016	13 Weeks Ended October 31, 2015	39 Weeks Ended October 29, 2016	39 Weeks Ended October 31, 2015
Net (loss) income	$ (11,010)	$ (197)	$ 5,308	$ 17,461
Other comprehensive income, net of tax:				
Amounts reclassified from accumulated other comprehensive income	4	4	14	12
Comprehensive (loss) income	$ (11,006)	$ (193)	$ 5,322	$ 17,473

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

Stein Mart, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	39 Weeks Ended October 29, 2016	39 Weeks Ended October 31, 2015
Cash flows from operating activities:		
Net income	$ 5,308	$ 17,461
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,636	22,050
Share-based compensation	6,306	5,773
Store closing charges	25	7
Impairment of property and other assets	277	
Loss on disposal of property and equipment	14	53
Deferred income taxes	520	(769)
Tax (expense) benefit from equity issuances	(187)	3,836
Excess tax benefits from share-based compensation	(31)	(3,875)
Changes in assets and liabilities:		
Inventories	(90,324)	(87,289)
Prepaid expenses and other current assets	(11,581)	(12,221)
Other assets	(585)	603
Accounts payable	102,469	71,617
Accrued expenses and other current liabilities	6,812	(2,177)
Other liabilities	14,764	11,226
Net cash provided by operating activities	57,423	26,295
Cash flow from investing activity:		
Net acquisition of property and equipment	(35,026)	(34,470)
Net cash used in investing activity	(35,026)	(34,470)
Cash flows from financing activities:		
Proceeds from borrowings	292,183	533,334
Repayments of debt	(302,683)	(341,501)
Debt issuance costs		(380)
Cash dividends paid	(10,378)	(235,691)
Excess tax benefits from share-based compensation	31	3,875
Proceeds from exercise of stock options and other	1,715	562
Repurchase of common stock	(1,127)	(3,212)
Net cash used in financing activities	(20,259)	(43,013)

Net increase (decrease) in cash and cash equivalents		2,138		(51,188)
Cash and cash equivalents at beginning of year		11,830		65,314
Cash and cash equivalents at end of period	$	13,968	$	14,126
Supplemental disclosures of cash flow information:				
Income taxes paid	$	11,818	$	12,304
Interest paid		2,715		2,130
Purchases of property and equipment included in accounts payable, accrued expenses and other current liabilities at the end of the period		2,866		4,051

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

Stein Mart, Inc.

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.

Certain reclassifications have been made in the 2015 Condensed Consolidated Statement of Cash Flows to conform to classifications used in 2016.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-15 *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this ASU introduce clarifications to the presentation of certain cash receipts and cash payments in the statement of cash flows. The primary updates include additions and clarifications of the classification of cash flows related to certain debt repayment activities, contingent consideration payments related to business combinations, proceeds from insurance policies, distributions from equity method investees and cash flows related to securitized receivables. This update is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption of this ASU is permitted, including in interim periods. The ASU requires retrospective application to all prior periods presented upon adoption. Adoption of ASU No. 2016-15 was completed in the current period and did not affect our cash flows as we were already in compliance with the ASU.

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 overall effect the adoption of this ASU will have on our financial condition, results of operations and cash flows, but we currently believe the adoption of this ASU will have a significant effect on our Consolidated Balance Sheets.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and subsequent clarifications. ASU No. 2014-09 will replace almost all existing revenue recognition guidance, including industry-specific guidance, upon its effective date. The standard s core principle is for a company to recognize revenue when it transfers goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled. A company may also need to use more judgment and make more estimates when recognizing revenue, which could result in additional disclosures. ASU 2014-09 also provides guidance for transactions that were not addressed comprehensively in previous guidance, such as the recognition of breakage income from the sale of gift cards. The standard permits the use of either the retrospective or cumulative effect transition method. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 (our fiscal year 2018). Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We plan to adopt this ASU in the fiscal year 2018 and utilize a cumulative effect of applying this ASU recognized at the date of initial application. While we are still in the process of evaluating the effect 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 39 weeks ended October 29, 2016, we paid three quarterly dividends of $0.075 per common share on April 15, 2016, July 15, 2016 and October 14, 2016. During the 39 weeks ended October 31, 2015, we paid three quarterly dividends of $0.075 per common share on April 17, 2015, July 17, 2015 and October 16, 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 October 29, 2016, we repurchased 15,999 shares of our common stock at a total cost of approximately $0.1 million. During the 13 weeks ended October 31, 2015, we repurchased 14,842 shares of our common stock at a total cost of approximately $0.1 million. During the 39 weeks ended October 29, 2016, we repurchased 166,657 shares of our common stock at a total cost of approximately $1.1 million. During the 39 weeks ended October 31, 2015, we repurchased 213,815 shares of our common stock at a total cost of approximately $3.2 million. Stock repurchases were for tax withholding amounts due on employee stock awards and during the first 39 weeks of 2016 and 2015 included no shares purchased on the open market under our previously authorized stock repurchase plan. As of October 29, 2016, there are 554,217 shares that can be repurchased pursuant to the Board of Director s current authorization.

3. Earnings per Share

Our restricted stock awards granted in 2013 and prior 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 stock shares and participating securities based on their respective weighted-average shares outstanding for the period.

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

	13 Weeks Ended October 29, 2016	13 Weeks Ended October 31, 2015	39 Weeks Ended October 29, 2016	39 Weeks Ended October 31, 2015
Basic (Loss) Earnings Per Common Share:				