

STEIN MART INC
Form 10-Q
June 07, 2016
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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 April 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 files number 0-20052

STEIN MART, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of

incorporation or organization)

1200 Riverplace Blvd., Jacksonville, Florida

(Address of principal executive offices)

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

64-0466198
(I.R.S. Employer

Identification Number)

32207
(Zip Code)

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

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(§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

Smaller reporting company

(Do not check if a 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 May 27, 2016 was 46,365,471.

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

(Unaudited)

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

	April 30, 2016	January 30, 2016	May 2, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 16,317	\$ 11,830	\$ 17,190
Inventories	316,897	293,608	302,781
Prepaid expenses and other current assets	22,676	18,586	24,586
Total current assets	355,890	324,024	344,557
Property and equipment, net of accumulated depreciation and amortization of \$197,773, \$190,952 and \$173,800, respectively	166,261	162,954	149,254
Other assets	30,141	29,247	31,026
Total assets	\$ 552,292	\$ 516,225	\$ 524,837
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	\$ 152,807	\$ 105,569	\$ 164,092
Current portion of debt	10,000	10,000	6,667
Accrued expenses and other current liabilities	75,385	71,571	67,219
Total current liabilities	238,192	187,140	237,978
Long-term debt	138,960	180,150	145,777
Deferred rent	41,667	41,146	33,654
Other liabilities	45,738	31,472	36,677
Total liabilities	464,557	439,908	454,086
COMMITMENTS AND CONTINGENCIES			
Shareholders equity:			
Preferred stock - \$.01 par value, 1,000,000 shares authorized; no shares issued or outstanding	-	-	-
Common stock - \$.01 par value; 100,000,000 shares authorized; 46,372,908, 45,814,583 and 45,395,851 shares issued and outstanding, respectively	464	458	454
Additional paid-in capital	44,370	42,801	37,476
Retained earnings	43,175	33,337	33,249
Accumulated other comprehensive loss	(274)	(279)	(428)
Total shareholders equity	87,735	76,317	70,751
Total liabilities and shareholders equity	\$ 552,292	\$ 516,225	\$ 524,837

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

Table of Contents**Stein Mart, Inc.****Condensed Consolidated Statements of Income**

(Unaudited)

(In thousands, except per share amounts)

	13 Weeks Ended	13 Weeks Ended
	April 30, 2016	May 2, 2015
Net sales	\$ 355,712	\$ 353,521
Cost of merchandise sold	246,820	245,141
Gross profit	108,892	108,380
Selling, general and administrative expenses	86,474	85,622
Operating income	22,418	22,758
Interest expense, net	966	686
Income before income taxes	21,452	22,072
Income tax expense	8,141	8,508
Net income	\$ 13,311	\$ 13,564
Earnings per common share:		
Basic	\$ 0.29	\$ 0.30
Diluted	\$ 0.29	\$ 0.29
Weighted-average shares outstanding:		
Basic	45,595	44,612
Diluted	46,275	45,766
Dividends declared per common share	\$ 0.075	\$ 5.075

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	13 Weeks Ended
	April 30, 2016	May 2, 2015
Net income	\$ 13,311	\$ 13,564
Other comprehensive income, net of tax:		
Amounts reclassified from accumulated other comprehensive income	5	4
Comprehensive income	\$ 13,316	\$ 13,568

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)

	13 Weeks Ended	13 Weeks Ended
	April 30, 2016	May 2, 2015
Cash flows from operating activities:		
Net income	\$ 13,311	\$ 13,564
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,660	7,223
Share-based compensation	1,590	1,783
Store closing charges	-	51
Loss on disposal of property and equipment	9	1
Deferred income taxes	197	(100)
Tax benefit from equity issuances	(145)	3,722
Excess tax benefits from share-based compensation	(5)	(3,723)
Changes in assets and liabilities:		
Inventories	(23,289)	(17,158)
Prepaid expenses and other current assets	(4,090)	(5,156)
Other assets	(909)	29
Accounts payable	46,501	33,231
Accrued expenses and other current liabilities	4,801	(2,111)
Other liabilities	14,635	3,178
Net cash provided by operating activities	60,266	34,534
Cash flows from investing activity:		
Net acquisition of property and equipment	(11,271)	(7,085)
Net cash used in investing activity	(11,271)	(7,085)
Cash flows from financing activities:		
Proceeds from borrowings	80,855	267,200
Repayments of debt	(122,055)	(114,756)
Debt issuance costs	-	(369)

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Cash dividends paid	(3,443)	(228,825)
Excess tax benefits from share-based compensation	5	3,723
Proceeds from exercise of stock options	1,073	63
Repurchase of common stock	(943)	(2,609)
Net cash used in financing activities	(44,508)	(75,573)
Net increase (decrease) in cash and cash equivalents	4,487	(48,124)
Cash and cash equivalents at beginning of year	11,830	65,314
Cash and cash equivalents at end of period	\$ 16,317	\$ 17,190

Supplemental disclosures of cash flow information:

Income taxes paid	\$ 2,072	\$ -
Interest paid	936	557
Accruals and accounts payable for capital expenditures	3,853	2,904

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

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Stein Mart, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(Dollars in tables in thousands, except per share amounts)

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 FASB issued 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 are currently evaluating the effect the adoption of this ASU will have on our financial condition, results of operations or cash flows.

In February 2016, the FASB issued ASU 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 or cash flows.

In 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 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 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 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 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. We are currently evaluating which transition approach to use and assessing the effect the adoption of this ASU may have on our financial condition, results of operations or cash flows.

2. Shareholders Equity

Dividends

During the first quarter of 2016, we paid a quarterly dividend of \$0.075 per common share on April 14, 2016.

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 retain the same fair value. No incremental compensation expense resulted from these modifications. In the first quarter of 2015, we also paid a quarterly dividend of \$0.075 per common share on April 17, 2015

Table of Contents**Stein Mart, Inc.****Notes to Condensed Consolidated Financial Statements**

(Unaudited)

(Dollars in tables in thousands, except per share amounts)

Stock Repurchase Plan

During the 13 weeks ended April 30, 2016, we repurchased 143,282 shares of our common stock at a total cost of approximately \$0.9 million. During the 13 weeks ended May 2, 2015, we repurchased 190,140 shares of our common stock at a total cost of approximately \$3.0 million. Stock repurchases were for tax withholding amounts due on employee stock awards and during the first quarter of 2016 and 2015 included no shares purchased on the open market under our previously authorized stock repurchase plan. As of April 30, 2016, there are 577,592 shares that can be repurchased pursuant to the Board of Director's current authorization.

3. Earnings per Share

The following table presents the calculation of basic and diluted earnings per share (shares in thousands):

	13 Weeks Ended	
	April 30, 2016	13 Weeks Ended May 2, 2015
Basic:		
Net income	\$ 13,311	\$ 13,564
Income allocated to participating securities	34	144
Net income available to common shareholders	\$ 13,277	\$ 13,420
Basic weighted-average shares outstanding	45,595	44,612
Basic earnings per common share	\$ 0.29	\$ 0.30
Diluted:		
Net income	\$ 13,311	\$ 13,564
Income allocated to diluted participating securities	34	195
Net income available to common shareholders	\$ 13,277	\$ 13,369
Basic weighted-average shares outstanding	45,595	44,612

Incremental shares from share-based compensation plans	680	1,154
Diluted weighted-average shares outstanding	46,275	45,766
Diluted earnings per common share	\$ 0.29	\$ 0.29

Options to acquire shares totaling approximately 1.3 million and 28 thousand shares of common stock that were outstanding during the 13 weeks ended April 30, 2016 and May 2, 2015, respectively, were not included in the computation of diluted earnings per common share. 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.

4. Commitments and Contingencies

We are involved in various routine legal proceedings incidental to the conduct of our business. During the 13 weeks ended April 30, 2016 and May 2, 2015, we accrued \$1.4 million and \$0.1 million, respectively, for actual and anticipated legal settlements. Management does not believe that any of these legal proceedings will have a material adverse effect on our financial condition, results of operations or cash flows.

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Stein Mart Inc.

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 January 30, 2016. 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 January 30, 2016, filed with the Securities and Exchange Commission (SEC) on April 11, 2016.

Overview

We are a national retailer offering the fashion merchandise, service and presentation of a better department or specialty store at prices comparable to off-price retail chains. Our focused assortment of merchandise features current-season moderate to better fashion apparel for women and men, as well as accessories, shoes and home fashions.

Financial Overview for the First Quarter of 2016

Net sales in the first quarter of 2016 were \$355.7 million compared to \$353.5 million in the first quarter of 2015. Comparable store sales in the first quarter of 2016 decreased 3.4 percent compared to the first quarter of 2015.