

STEIN MART INC
Form 10-Q
June 05, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 3, 2014

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 | 64-0466198 (I.R.S. Employer |
| incorporation or organization) | 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 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 May 23, 2014 was 44,725,623.

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STEIN MART, INC.

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

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

| | May 3, 2014 | February 1, 2014 | May 4, 2013 |
|--|-------------|------------------|-------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 88,311 | \$ 66,854 | \$ 83,946 |
| Inventories | 295,190 | 261,517 | 278,435 |
| Prepaid expenses and other current assets | 25,396 | 28,800 | 18,007 |
| Total current assets | 408,897 | 357,171 | 380,388 |
| Property and equipment, net of accumulated depreciation and amortization of \$157,464, \$152,280 and \$138,167, respectively | 143,610 | 139,673 | 132,335 |
| Other assets | 28,202 | 27,414 | 26,603 |
| Total assets | \$ 580,709 | \$ 524,258 | \$ 539,326 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 178,295 | \$ 131,338 | \$ 165,629 |
| Accrued expenses and other current liabilities | 62,255 | 64,875 | 65,755 |
| Total current liabilities | 240,550 | 196,213 | 231,384 |
| Deferred rent | 31,187 | 26,626 | 24,709 |
| Other liabilities | 36,646 | 37,018 | 33,526 |
| Total liabilities | 308,383 | 259,857 | 289,619 |
| 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; 44,727,231, 44,551,676 and 43,825,455 shares issued and outstanding, respectively | 447 | 446 | 438 |
| Additional paid-in capital | 28,186 | 28,745 | 18,470 |
| Retained earnings | 243,951 | 235,471 | 231,266 |
| Accumulated other comprehensive loss | (258) | (261) | (467) |
| Total shareholders' equity | 272,326 | 264,401 | 249,707 |

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| | | | |
|---|------------|------------|------------|
| Total liabilities and shareholders equity | \$ 580,709 | \$ 524,258 | \$ 539,326 |
|---|------------|------------|------------|

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 May 3, 2014 | 13 Weeks Ended May 4, 2013 |
|--|-------------------------------|-------------------------------|
| Net sales | \$ 328,854 | \$ 321,364 |
| Cost of merchandise sold | 224,528 | 223,419 |
| Gross profit | 104,326 | 97,945 |
| Selling, general and administrative expenses | 81,229 | 73,563 |
| Operating income | 23,097 | 24,382 |
| Interest expense, net | 65 | 61 |
| Income before income taxes | 23,032 | 24,321 |
| Income tax expense | 8,957 | 9,629 |
| Net income | \$ 14,075 | \$ 14,692 |
| Earnings per common share: | | |
| Basic | \$ 0.31 | \$ 0.34 |
| Diluted | \$ 0.31 | \$ 0.33 |
| Weighted-average shares outstanding: | | |
| Basic | 43,829 | 42,814 |
| Diluted | 44,456 | 43,262 |
| Dividends declared per common share | \$ 0.125 | \$ 0.00 |

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

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

(In thousands)

| | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended May 4, 2013 |
|--|-------------------------------|-------------------------------|
| Net income | \$ 14,075 | \$ 14,692 |
| Other comprehensive income, net of tax: | | |
| Amounts reclassified from accumulated other comprehensive income | 3 | 2 |
| Comprehensive income | \$ 14,078 | \$ 14,694 |

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 May 3, 2014 | 13 Weeks Ended May 4, 2013 |
|---|-------------------------------|-------------------------------|
| Cash flows from operating activities: | | |
| Net income | \$ 14,075 | \$ 14,692 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,991 | 6,812 |
| Share-based compensation | 1,369 | 1,362 |
| Store closing charges | (46) | (176) |
| Loss on disposal of property and equipment | 59 | 120 |
| Deferred income taxes | 4,175 | 1,865 |
| Tax benefit (deficiency) from equity issuances | 662 | (389) |
| Excess tax benefits from share-based compensation | (688) | (24) |
| Changes in assets and liabilities: | | |
| Inventories | (33,673) | (35,090) |
| Prepaid expenses and other current assets | (960) | 2,336 |
| Other assets | (788) | 103 |
| Accounts payable | 46,881 | 34,657 |
| Accrued expenses and other current liabilities | (8,107) | 329 |
| Deferred rent and other liabilities | 4,889 | (826) |
| Net cash provided by operating activities | 34,839 | 25,771 |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (9,241) | (7,697) |
| Net cash used in investing activities | (9,241) | (7,697) |
| Cash flows from financing activities: | | |
| Cash dividends paid | (2,240) | |
| Capital lease payments | | (1,391) |
| Excess tax benefits from share-based compensation | 688 | 24 |
| Proceeds from exercise of stock options and other | 52 | 14 |
| Repurchase of common stock | (2,641) | (8) |
| Net cash used in financing activities | (4,141) | (1,361) |
| Net increase in cash and cash equivalents | 21,457 | 16,713 |

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| | | |
|--|-----------|-----------|
| Cash and cash equivalents at beginning of year | 66,854 | 67,233 |
| Cash and cash equivalents at end of period | \$ 88,311 | \$ 83,946 |

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. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting primarily of normal and recurring adjustments) considered necessary for a fair statement 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. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in our annual report on Form 10-K for the year ended February 1, 2014.

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

Recent Accounting Pronouncement

In 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. Under ASU No. 2013-11, an entity is required to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. If a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU No. 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We adopted this guidance beginning in the 13 weeks ended May 3, 2014. The application of this guidance did not have an impact on our consolidated financial statements.

In 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which raises the threshold for disposals to qualify as discontinued operations. ASU No. 2014-08 defines a discontinued operation as (1) a component of an entity or group of components that has been disposed of or classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results; or (2) an acquired business that is classified as held for sale on the acquisition date. Under ASU No. 2014-08, additional disclosures are required regarding discontinued operations, as well as material disposals that do not meet the definition of discontinued operations. The application of this guidance is prospective from the date of adoption and applies only to disposals (or new classifications to held for sale) that have not been reported as discontinued operations in previously issued financial statements. We adopted ASU No. 2014-08 for the quarter ended May 3, 2014.

Reclassifications

We have made certain reclassifications in the Condensed Consolidated Balance Sheets related to the difference between the amount charged to rent expense and the rent paid as well as construction allowances and other lease incentives which were presented in Other liabilities and have been reclassified to Deferred rent.

2. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

We have money market fund investments classified as cash equivalents which are Level 1 assets because fair value is based on readily available market prices. The fair value of these assets was \$20.2 million at May 3, 2014, \$56.2 million at February 1, 2014, and \$68.2 million at May 4, 2013.

3. Revolving Credit Agreement

On October 28, 2011, we entered into an amended and restated revolving credit agreement (the Credit Agreement) with Wells Fargo Bank, N.A. The Credit Agreement provides for a \$100 million senior secured revolving credit facility which can be increased to \$150 million. The Credit Agreement matures on February 28, 2017. Borrowings under the Credit Agreement are based on and collateralized by eligible credit card receivables and inventory.

The amount available for direct borrowing was \$93.9 million at May 3, 2014, and is based on 90% of eligible credit card receivables and inventories less reserves, as defined in the Credit Agreement. The amount available for borrowing represents the capped borrowing base of \$100 million reduced by outstanding letters of credit of \$6.1 million. The Credit Agreement contains customary affirmative and negative covenants, including limitations on granting of liens, certain investments, additional indebtedness, prepayments on indebtedness and disposition of inventory. We had no direct borrowings under the Credit Agreement at May 3, 2014.

Table of Contents**4. Shareholders Equity***Stock Repurchase Plan*

During the first quarter of 2014, we repurchased 209,973 shares of our common stock at a total cost of \$2.6 million. Repurchases during the 13 weeks ended May 4, 2013 were immaterial. Stock repurchases were for taxes due on the vesting of employee stock awards and during the first quarter of 2014 included 100,152 shares purchased on the open market under our previously authorized stock repurchase plan. As of May 3, 2014, there are 593,218 shares which can be repurchased pursuant to the Board of Director s current authorization.

5. Earnings Per Share

We calculate earnings per common share (EPS) using the two-class method. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of EPS. Our restricted stock awards in 2013 and prior are considered participating securities because they contain non-forfeitable rights to dividends.

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

| | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended May 4, 2013 |
|--|-------------------------------|-------------------------------|
| Basic Earnings Per Common Share: | | |
| Net income | \$ 14,075 | \$ 14,692 |
| Income allocated to participating securities | 295 | 337 |
| Net income available to common shareholders | \$ 13,780 | \$ 14,355 |
| Basic weighted-average shares outstanding | 43,829 | 42,814 |
| Basic earnings per share | \$ 0.31 | \$ 0.34 |
| Diluted Earnings Per Common Share: | | |
| Net income | \$ 14,075 | \$ 14,692 |
| Income allocated to participating securities | 292 | 334 |
| Net income available to common shareholders | \$ 13,783 | \$ 14,358 |
| Basic weighted-average shares outstanding | 43,829 | 42,814 |
| Incremental shares from share-based compensation plans | 627 | 448 |
| Diluted weighted-average shares outstanding | 44,456 | 43,262 |
| Diluted earnings per share | \$ 0.31 | \$ 0.33 |

Options to acquire shares totaling approximately 0.1 million and 1.0 million shares of common stock that were outstanding during the 13 weeks ended May 3, 2014 and May 4, 2013, 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.

6. Commitments and Contingencies

On July 24, 2013, the Securities and Exchange Commission (the SEC) informed us that it was conducting an investigation of the Company and made a request for voluntary production of documents and information. The request focused on our recent restatement of prior consolidated financial statements and our change in auditors. We are cooperating fully with the SEC in this matter. We are unable to predict what action, if any, might be taken in the future by the SEC as a result of the matters that are the subject of the investigation or what impact the cost of responding to the investigation might have on our consolidated financial condition or results of operations.

In addition, we are involved in various routine legal proceedings incidental to the conduct of our business. Based upon the advice of outside legal counsel, we do not believe that any of these legal proceedings will have a material adverse effect on our consolidated 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, Stein Mart and the Company refer to Stein Mart, Inc. and its wholly-owned subsidiaries.

Forward-Looking Statements

This report contains forward-looking statements 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 Form 10-K for the fiscal year ended February 1, 2014. 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 no guarantees of performance.

Overview

Stein Mart is a national retailer offering the fashion merchandise, service and presentation of a better department or specialty store at prices competitive with 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 2014

Net sales in the first quarter of 2014 were \$328.9 million compared to \$321.4 million in the first quarter of 2013.

Comparable store sales in the first quarter of 2014 increased 2.6 percent compared to the first quarter of 2013.

Net income in the first quarter of 2014 was \$14.1 million or \$0.31 per diluted share compared to net income of \$14.7 million or \$0.33 per diluted share in the first quarter of 2013.

Cash and cash equivalents as of May 3, 2014 was \$88.3 million compared to \$66.9 million as of February 2, 2013 and \$83.9 million as of May 4, 2013.

We had no direct borrowings on our Credit Agreement as of May 3, 2014, February 1, 2014 and May 4, 2013.

Stores

There were 263 stores open as of May 3, 2014 and 262 stores open as of May 4, 2013.

| | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended May 4, 2013 |
|---------------------------------|-------------------------------|-------------------------------|
| Stores at beginning of period | 264 | 263 |
| Stores opened during the period | 1 | |
| Stores closed during the period | (2) | (1) |
| Stores at the end of period | 263 | 262 |

Results of Operations

The following table sets forth each line item of our Condensed Consolidated Statements of Income expressed as a percentage of net sales:

| | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended May 4, 2013 |
|--|-------------------------------|-------------------------------|
| Net sales | 100.0% | 100.0% |
| Cost of merchandise sold | 68.3% | 69.5% |
| Gross profit | 31.7% | 30.5% |
| Selling, general and administrative expenses | 24.7% | 22.9% |
| Income from operations | 7.0% | 7.6% |
| Interest expense, net | 0.0% | 0.0% |
| Income before income taxes | 7.0% | 7.6% |
| Income tax expense | 2.7% | 3.0% |
| Net income | 4.3% | 4.6% |

Table of Contents**Thirteen Weeks Ended May 3, 2014, Compared to the Thirteen Weeks Ended May 4, 2013 (dollar amounts in thousands):****Net Sales**

| | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended May 4, 2013 | Increase |
|-------------------------|-------------------------------|-------------------------------|----------|
| Net sales | \$ 328,854 | \$ 321,364 | \$ 7,490 |
| Sales percent increase: | | | |
| Total net sales | | | 2.3% |
| Comparable store sales | | | 2.6% |

The 2.6% increase in comparable stores sales was driven mostly by an increase in average unit retail prices and average units per transaction, partially offset by a slight decrease in the number of transactions. Comparable store sales reflects stores open throughout the period and prior fiscal year and includes Internet sales. Comparable store sales does not include leased department commissions.

Gross Profit

| | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended May 4, 2013 | Increase |
|-------------------------|-------------------------------|-------------------------------|----------|
| Gross profit | \$ 104,326 | \$ 97,945 | \$ 6,381 |
| Percentage of net sales | 31.7% | 30.5% | 1.2% |

Gross profit as a percent of sales increased primarily due to an approximate \$3.0 million impact of the fourth quarter fiscal 2013 change in accounting estimate for buying and distribution costs allocated to inventories as well as higher markup, partially offset by higher markdowns due to inclement weather and higher occupancy costs due to new stores.

Selling, General and Administrative Expenses (SG&A)

| | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended May 4, 2013 | Increase |
|--|-------------------------------|-------------------------------|----------|
| Selling, general and administrative expenses | \$ 81,229 | \$ 73,563 | \$ 7,666 |
| Percentage of net sales | 24.7% | 22.9% | 1.8% |

For the 13 weeks ended May 3, 2014, SG&A expenses increased primarily due to an approximate \$4.1 million impact of the fourth quarter fiscal 2013 change in accounting estimate for buying and distribution costs allocated to inventories as well as higher advertising expenses, higher healthcare costs and higher store selling expenses. These increases were partially offset by higher credit card program income. Advertising expenses increased in the first quarter of 2014 primarily due to increased expense for additional television advertising to support our more extensive April dress event and higher first quarter sales. Store selling expenses are higher due to planned payroll increases and new and relocated stores.

Income Taxes

| | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended May 4, 2013 | Decrease |
|--------------------|-------------------------------|-------------------------------|----------|
| Income tax expense | \$ 8,957 | \$ 9,629 | \$ (672) |
| Effective tax rate | 38.9% | 39.6% | (0.7)% |

Liquidity and Capital Resources

Our primary source of liquidity is the sale of merchandise inventories. Capital requirements and working capital needs are funded through a combination of internally generated funds, available cash, credit terms from vendors and our Credit Agreement. Working capital is used to support store inventories and capital investments for system improvements, new store openings and to maintain existing stores. Historically, our working capital needs are lowest in the first quarter and highest at the end of the third quarter and beginning of the fourth quarter as we build inventories for the holiday selling season. As of May 3, 2014, we had cash and cash equivalents of \$88.3 million and no direct borrowings under our Credit Agreement.

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Net cash provided by operating activities was \$34.8 million for the first quarter of fiscal 2014 compared to net cash provided by operating activities of \$25.8 million for the first quarter of fiscal 2013. Cash provided by operating activities increased due primarily to \$13.6 million less cash used for inventories and to reduce accounts payable and \$2.3 million more cash provided by net income plus non-cash charges, partially offset by \$6.9 million more cash used by other operating activities primarily related to timing of incentive compensation payments.

Net cash used in investing activities is entirely for capital expenditures and was \$9.2 million for the first quarter of fiscal 2014 compared to \$7.7 million for the first quarter of fiscal 2013. Capital expenditures were higher for the first quarter of fiscal 2014 primarily due to more new and relocated stores.

Capital expenditures for 2014 are now expected to be approximately \$43 million, an increase from our original estimate of \$38 million. Approximately \$2.5 million of the \$5 million increase is for information technology enhancements, as we are accelerating certain expenditures and increasing others to enhance point-of-sale credit card capabilities. The remaining \$2.5 million is for the reconfiguration of our corporate office space in connection with the finalization of a 10-year extension of our lease. We are receiving lease incentives and reduced rent as part of the extension of our lease, which will reduce our annual rental costs.

Net cash used in financing activities was \$4.1 million for the first quarter of fiscal 2014 compared to cash used in financing activities of \$1.4 million for the first quarter of fiscal 2013. During the first quarter of fiscal 2014, we paid cash dividends of \$2.2 million and repurchased shares of common stock for \$2.6 million. During the first quarter of fiscal 2013, we had payments on capital leases of \$1.4 million. We currently do not have any assets under capital leases.

On April 24, 2014, we announced that the Board of Directors had increased the quarterly dividend from \$0.05 to \$0.075 per share. The next quarterly dividend is payable on July 18, 2014 to shareholders of record as of the close of business on July 3, 2014.

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 1, 2014. We have made no significant change in our critical accounting policies since February 1, 2014.

Recent Accounting Pronouncement

In 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. Under ASU No. 2013-11, an entity is required to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. If a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU No. 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We adopted this guidance beginning in the 13 weeks ended May 3, 2014. The application of this guidance did not have an impact on our consolidated financial statements.

In 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which raises the threshold for disposals to qualify as discontinued operations. ASU

No. 2014-08 defines a discontinued operation as (1) a component of an entity or group of components that has been disposed of or classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results; or (2) an acquired business that is classified as held for sale on the acquisition date. Under ASU No. 2014-08, additional disclosures are required regarding discontinued operations, as well as material disposals that do not meet the definition of discontinued operations. The application of this guidance is prospective from the date of adoption and applies only to disposals (or new classifications to held for sale) that have not been reported as discontinued operations in previously issued financial statements. We adopted ASU No. 2014-08 for the quarter ended May 3, 2014.

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 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 operations will be influenced by general economic conditions, including rising food, fuel and energy prices, 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 by such factors in the future.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding our exposure to certain market risk, see "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A of our annual report on Form 10-K for the year ended February 1, 2014. There were no material changes to our market risk during the quarter ended May 3, 2014.

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 not effective as of the end of the period covered by this report due to the material weakness identified in our internal control over financial reporting described below.

As previously disclosed in our 2013 10-K, we identified a material weakness in the design and effectiveness in the operation of our controls that are intended to ensure that access to our retail management system and the related inventory data files was adequately restricted. As a result of this material weakness, a reasonable possibility exists that a material misstatement in inventory in our annual or interim financial statements could occur and not be prevented or detected on a timely basis.

We are taking steps to remediate this material weakness, including implementing new policies and procedures to enhance oversight of our system access controls, implementation of an access controls governance software program, improved periodic access reviews, and timely communication of employee changes.

We believe the remediation measures will strengthen our internal control over financial reporting and remediate the material weaknesses identified. However, as we are still assessing the design and operating effectiveness of these measures, the identified material weaknesses have not been fully remediated as of May 3, 2014. We will continue to monitor the effectiveness of these remediation measures and will make any changes and take such other actions that we deem appropriate.

We assessed the material weakness' impact to the consolidated financial statements to ensure they were prepared in accordance with GAAP and present fairly the consolidated financial position, financial results of operation and cash flows as of and for the three months ended May 3, 2014. Based on these additional procedures and assessment, we concluded that the consolidated financial statements included in this Form 10-Q present fairly, in all material aspects, our financial position, results of operations and cash flows for the periods presented.

Changes in Internal Control Over Financial Reporting

Except as described above in regards to the remediation process described above, 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

On July 24, 2013, the SEC informed us that it was conducting an investigation of the Company and made a request for voluntary production of documents and information. The request focused on our recent restatement of prior consolidated financial statements and our change in auditors. We are cooperating fully with the SEC in this matter. We are unable to predict what action, if any, might be taken in the future by the SEC as a result of the matters that are the subject of the investigation or what impact the cost of responding to the investigation might have on our consolidated financial condition or results of operations.

In addition, we are involved in various routine legal proceedings incidental to the conduct of our business. Based upon the advice of outside legal counsel, we do not believe that any of these legal proceedings will have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no significant changes in our risk factors from those described in our annual report on Form 10-K for the year ended February 1, 2014.

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The following table provides information regarding repurchases of our common stock during the quarter ended May 3, 2014:

| Period | ISSUER PURCHASES OF EQUITY SECURITIES | | | Maximum number of shares that may yet be purchased under the plans or programs (1) |
|----------------------------------|---------------------------------------|------------------------------|--|--|
| | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs (1) | |
| February 2, 2014 - March 1, 2014 | 107,118 | \$ 12.39 | 107,118 | 696,073 |
| March 2, 2014 - April 5, 2014 | 1,694 | 13.78 | 1,694 | 694,379 |
| April 6, 2014 - May 3, 2014 | 101,161 | 12.76 | 101,161 | 593,218 |
| Total | 209,973 | \$ 12.58 | 209,973 | 593,218 |

(1) Our Open Market Repurchase Program is conducted pursuant to authorizations made from time to time by our Board of Directors.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

- 10.1 Third Amendment to Amended and Restated Supply Agreement dated September 10, 2013 by and between DSW Leased Business Division LLC aka Affiliated Business Group and Stein Mart Inc.
- 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)

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- 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 May 3, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, 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: June 5, 2014

By: /s/ Jay Stein

Jay Stein

Chairman of the Board and Chief Executive Officer

/s/ Gregory W. Kleffner

Gregory W. Kleffner

Executive Vice President and Chief Financial Officer