

STEIN MART INC  
Form 10-Q  
December 04, 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 November 1, 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)**

<b>Florida</b> <b>(State or other jurisdiction</b>	<b>64-0466198</b> <b>(I.R.S. Employer</b>
<b>of incorporation or organization)</b>	<b>Identification Number)</b>
<b>1200 Riverplace Blvd., Jacksonville, Florida</b> <b>(Address of principal executive offices)</b>	<b>32207</b> <b>(Zip Code)</b>
<b>Registrant's telephone number, including area code: (904) 346-1500</b>	

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 21, 2014 was 44,940,342.

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

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

	November 1, 2014	February 1, 2014	November 2, 2013
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 64,882	\$ 66,854	\$ 59,517
Inventories	343,721	261,517	329,691
Prepaid expenses and other current assets	29,840	28,800	25,796
Total current assets	438,443	357,171	415,004
Property and equipment, net of accumulated depreciation and amortization of \$168,557, \$152,280 and \$148,358, respectively	150,646	139,673	140,422
Other assets	31,005	27,414	26,930
Total assets	\$ 620,094	\$ 524,258	\$ 582,356
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 214,635	\$ 131,338	\$ 199,135
Accrued expenses and other current liabilities	63,332	64,875	65,192
Total current liabilities	277,967	196,213	264,327
Deferred rent	32,063	26,626	23,694
Other liabilities	36,211	37,018	37,996
Total liabilities	346,241	259,857	326,017
COMMITMENTS AND CONTINGENCIES (See Note 6)			
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; 44,945,280, 44,551,676 and 44,500,995 shares issued and outstanding, respectively	449	446	445
Additional paid-in capital	32,532	28,745	26,078
Retained earnings	241,125	235,471	230,278
Accumulated other comprehensive loss	(253)	(261)	(462)

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Total shareholders equity	273,853	264,401	256,339
Total liabilities and shareholders equity	\$ 620,094	\$ 524,258	\$ 582,356

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 amounts)

	13 Weeks Ended November 1, 2014	13 Weeks Ended November 2, 2013	39 Weeks Ended November 1, 2014	39 Weeks Ended November 2, 2013
Net sales	\$ 303,667	\$ 290,453	\$ 930,678	\$ 902,786
Cost of merchandise sold	219,106	212,688	657,547	646,760
Gross profit	84,561	77,765	273,131	256,026
Selling, general and administrative expenses	86,277	77,873	248,957	225,909
Operating (loss) income	(1,716)	(108)	24,174	30,117
Interest expense, net	66	69	200	197
(Loss) income before income taxes	(1,782)	(177)	23,974	29,920
Income tax (benefit) expense	(571)	(205)	9,373	11,786
Net (loss) income	\$ (1,211)	\$ 28	\$ 14,601	\$ 18,134
Net (loss) income per share:				
Basic	\$ (0.03)	\$ 0.00	\$ 0.33	\$ 0.41
Diluted	\$ (0.03)	\$ 0.00	\$ 0.32	\$ 0.40
Weighted-average shares outstanding:				
Basic	43,857	43,102	43,833	42,949
Diluted	43,857	43,924	44,664	43,631
Dividends declared per common share	\$ 0.075	\$ 0.05	\$ 0.20	\$ 0.10

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 November 1, 2014	13 Weeks Ended November 2, 2013	39 Weeks Ended November 1, 2014	39 Weeks Ended November 2, 2013
Net (loss) income	\$ (1,211)	\$ 28	\$ 14,601	\$ 18,134
Other comprehensive income, net of tax:				
Change in post-retirement benefit obligations:				
Amounts reclassified from accumulated other comprehensive loss	3	2	8	7
Comprehensive (loss) income	\$ (1,208)	\$ 30	\$ 14,609	\$ 18,141

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)

	39 Weeks Ended November 1, 2014	39 Weeks Ended November 2, 2013
<b>Cash flows from operating activities:</b>		
Net income	\$ 14,601	\$ 18,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,709	20,834
Share-based compensation	5,492	5,248
Store closing charges (benefits)	1,163	(145)
Impairment of property and other assets	96	
Loss on disposals of property and equipment	121	586
Deferred income taxes	1,399	6,740
Tax benefit (deficiency) from equity issuances	756	(68)
Excess tax benefits from share-based compensation	(879)	(610)
Changes in assets and liabilities:		
Inventories	(82,204)	(86,346)
Prepaid expenses and other current assets	(4,278)	(5,542)
Other assets	(3,591)	(224)
Accounts payable	83,446	68,163
Accrued expenses and other current liabilities	(1,729)	(691)
Other liabilities	6,477	(920)
<b>Net cash provided by operating activities</b>	<b>42,579</b>	<b>25,159</b>
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	(34,043)	(30,272)
<b>Net cash used in investing activities</b>	<b>(34,043)</b>	<b>(30,272)</b>
<b>Cash flows from financing activities:</b>		
Cash dividends paid	(8,929)	(4,430)
Capital lease payments		(2,197)
Excess tax benefits from share-based compensation	879	610
Proceeds from exercise of stock options and other	427	3,633
Repurchase of common stock	(2,885)	(219)
<b>Net cash used in financing activities</b>	<b>(10,508)</b>	<b>(2,603)</b>

Net decrease in cash and cash equivalents	(1,972)	(7,716)
Cash and cash equivalents at beginning of year	66,854	67,233
Cash and cash equivalents at end of period	\$ 64,882	\$ 59,517

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 Pronouncements**

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 in the first quarter of 2014. The application of this guidance did not have an impact on our consolidated financial statements or disclosures.

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 in the first quarter of 2014. The application of this guidance did not have an impact on our consolidated financial statements or disclosures.

In 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption prohibited. We are currently evaluating the impact this ASU will have on our consolidated financial statements.

## **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 \$50.2 million at November 1, 2014, \$56.2 million at February 1, 2014, and \$45.2 million at November 2, 2013.

## **3. Revolving Credit Agreement**

We have an amended and restated revolving credit agreement (the *Credit Agreement* ) dated October 28, 2011. 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 secured by eligible credit card receivables and inventory.

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The amount available for direct borrowing was \$93.4 million at November 1, 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 \$6.6 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. The Credit Agreement permits the payment of dividends if we are not in default and payment conditions are satisfied. We had no direct borrowings under the Credit Agreement at November 1, 2014, February 1, 2014 and November 2, 2013.

**4. Shareholders Equity***Stock Repurchase Plan*

During the 39 weeks ended November 1, 2014, we repurchased 228,553 shares of our common stock at a total cost of \$2.9 million. During the 39 weeks ended November 2, 2013, we repurchased 18,927 shares of our common stock at a total cost of \$0.2 million. Stock repurchases were for taxes due on the vesting of employee stock awards and, during the 39 weeks ended November 1, 2014, included 103,352 shares purchased on the open market under our previously authorized stock repurchase plan. As of November 1, 2014, there are 574,638 shares which can be repurchased pursuant to the Board of Directors' 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 November 1, 2014	13 Weeks Ended November 2, 2013	39 Weeks Ended November 1, 2014	39 Weeks Ended November 2, 2013
<b>Basic (Loss) Earnings Per Common Share:</b>				
Net (loss) income	\$ (1,211)	\$ 28	\$ 14,601	\$ 18,134
Income allocated to participating securities			268	479
Net (loss) income available to common shareholders	\$ (1,211)	\$ 28	\$ 14,333	\$ 17,655
Basic weighted-average shares outstanding	43,857	43,102	43,833	42,949
Basic (loss) earnings per share	\$ (0.03)	\$ 0.00	\$ 0.33	\$ 0.41

<b>Diluted (Loss) Earnings Per Common Share:</b>								
Net (loss) income	\$	(1,211)	\$	28	\$	14,601	\$	18,134
Income allocated to participating securities				1		266		474
Net (loss) income available to common shareholders	\$	(1,211)	\$	27	\$	14,335	\$	17,660
Basic weighted-average shares outstanding		43,857		43,102		43,833		42,949
Incremental shares from share-based compensation plans				822		831		682
Diluted weighted-average shares outstanding		43,857		43,924		44,664		43,631
Diluted (loss) earnings per share	\$	(0.03)	\$	0.00	\$	0.32	\$	0.40

Due to the Company's net loss position for the third quarter of 2014, 0.8 million weighted average unvested restricted shares (participating securities) and 1.0 million weighted average common stock equivalents (non-participating securities) were not considered in the calculation of net loss available to common shareholders used for both basic and diluted EPS for the quarter. In addition, options to acquire shares totaling approximately 0.4 million and 11 thousand shares of common stock that were outstanding during the third quarters of 2014 and 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. For the first 9 months of 2014 and 2013, options to acquire shares of approximately 0.3 million shares of common stock, were not included in the computation of diluted earnings per share for the aforementioned reasons.

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**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 is focused on our 2013 restatement of prior 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 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 13 and 39 weeks ended November 1, 2014**

Net sales were \$303.7 million for the 13 weeks ended November 1, 2014, an increase from \$290.5 million for the 13 weeks ended November 2, 2013, and \$930.7 million for the 39 weeks ended November 1, 2014, an increase from \$902.8 million for the 39 weeks ended November 2, 2013.

Comparable store sales for the 13 weeks ended November 1, 2014 increased 3.1 percent compared to the 13 weeks ended November 2, 2013, and for the 39 weeks ended November 1, 2014 increased 2.3 percent compared to the 39 weeks ended November 2, 2013.

The gross profit rates increased approximately 1% for the 13 and 39 weeks ended November 1, 2014 as compared to the corresponding period in 2013. The increase is primarily due to the impact of the fourth quarter fiscal 2013 change in accounting estimate for buying and distribution costs allocated to inventories.

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Selling, general and administrative (SG&A) expenses were \$86.3 million for the 13 weeks ended November 1, 2014, an increase from \$77.9 million for the 13 weeks ended November 2, 2013, and \$249.0 million for the 39 weeks ended November 1, 2014, an increase from \$225.9 million for the 39 weeks ended November 2, 2013. The increase is primarily due the impact of the fourth quarter fiscal 2013 change in accounting estimate for buying and distribution costs allocated to inventories as well as higher professional fees related to the SEC investigation.

Net loss was \$1.2 million or \$0.03 loss per diluted share for the 13 weeks ended November 1, 2014, compared to net income of \$28 thousand or \$0.00 per diluted share for the 13 weeks ended November 2, 2013.

Net income was \$14.6 million or \$0.32 per diluted share for the 39 weeks ended November 1, 2014 compared to net income of \$18.1 million or \$0.40 per diluted share for the 39 weeks ended November 2, 2013.

Cash and cash equivalents as of November 1, 2014 was \$64.9 million compared to \$66.9 million as of February 1, 2014 and \$59.5 million as of November 2, 2013.

We had no direct borrowings on our revolving credit agreement as of November 1, 2014, February 1, 2014 and November 2, 2013.

**Table of Contents****Stores**

The following table summarizes store counts for the 13 and 39 weeks ended November 1, 2014 and November 2, 2013.

	13 Weeks Ended November 1, 2014	13 Weeks Ended November 2, 2013	39 Weeks Ended November 1, 2014	39 Weeks Ended November 2, 2013
Stores at beginning of period	265	262	264	263
Stores opened during the period	4	4	7	4
Stores closed during the period	(1)	(2)	(3)	(3)
Stores at the end of period	268	264	268	264

**Results of Operations**

The following table sets forth the Condensed Consolidated Statements of Operations expressed as a percentage of our net sales:

	13 Weeks Ended November 1, 2014	13 Weeks Ended November 2, 2013	39 Weeks Ended November 1, 2014	39 Weeks Ended November 2, 2013
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of merchandise sold	72.2%	73.2%	70.7%	71.6%
Gross profit	27.8%	26.8%	29.3%	28.4%
Selling, general and administrative expenses	28.4%	26.9%	26.7%	25.1%
(Loss) income from operations	(0.6)%	(0.1)%	2.6%	3.3%
Interest expense, net	0.0%	0.0%	0.0%	0.0%
(Loss) income before income taxes	(0.6)%	(0.1)%	2.6%	3.3%
Income tax (benefit) expense	(0.2)%	(0.1)%	1.0%	1.3%
Net (loss) income	(0.4)%	0.0%	1.6%	2.0%

**Thirteen and Thirty-Nine Weeks Ended November 1, 2014, Compared to the Thirteen and Thirty-Nine Weeks Ended November 2, 2013 (dollar amounts in thousands):**

**Net Sales**

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	13 Weeks Ended November 1, 2014	13 Weeks Ended November 2, 2013	Increase	39 Weeks Ended November 1, 2014	39 Weeks Ended November 2, 2013	Increase
Net sales	\$ 303,667	\$ 290,453	\$ 13,214	\$ 930,678	\$ 902,786	\$ 27,892
Sales percent increase:						
Total net sales			4.5%			3.1%
Comparable store sales			3.1%			2.3%

The increase in comparable store sales for the 13 and 39 weeks ended November 1, 2014 was driven by increases in average unit retail prices and average units per transaction, partially offset by a decrease in the number of transactions. Comparable store sales reflects stores open throughout the period and prior fiscal year and includes internet sales. Internet sales contributed approximately 0.8% to the comparable store sales increase for both the 13 and 39 weeks ended November 1, 2014. Comparable store sales does not include leased department commissions.

**Gross Profit**

	13 Weeks Ended November 1, 2014	13 Weeks Ended November 2, 2013	Increase	39 Weeks Ended November 1, 2014	39 Weeks Ended November 2, 2013	Increase
Gross profit	\$ 84,561	\$ 77,765	\$ 6,796	\$ 273,131	\$ 256,026	\$ 17,105
Percentage of net sales	27.8%	26.8%	1.0%	29.3%	28.4%	0.9%

For the 13 and 39 weeks ended November 1, 2014, the gross profit rates increased primarily due to an approximate \$2.4 million and \$9.6 million impact of the fourth quarter fiscal 2013 change in accounting estimate for buying and distribution costs allocated to inventories, respectively, as well as higher markup. These were somewhat offset by higher markdowns and higher occupancy costs, principally due to new stores. The higher occupancy costs include preopening costs.

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

	13 Weeks Ended November 1, 2014	13 Weeks Ended November 2, 2013	Increase	39 Weeks Ended November 1, 2014	39 Weeks Ended November 2, 2013	Increase
Selling, general and administrative expenses	\$ 86,277	\$ 77,873	\$ 8,404	\$ 248,957	\$ 225,909	\$ 23,048
Percentage of net sales	28.4%	26.9%	1.5%	26.7%	25.1%	1.6%

For the 13 weeks ended November 1, 2014, SG&A expenses increased primarily due to an approximate \$3.8 million impact of the fourth quarter fiscal 2013 change in accounting estimate for buying and distribution costs allocated to inventories, \$1.2 million in increased professional fees related to the SEC investigation, \$1.0 million higher store closing charges and higher store payroll and selling expenses. These increases were partially offset by \$2.0 million lower earnings-based incentive compensation expense and higher credit card program income. Store selling expenses are higher due to planned payroll increases and new stores.

For the 39 weeks ended November 1, 2014, SG&A expenses increased primarily due to an approximate \$11.0 million impact of the fourth quarter fiscal 2013 change in accounting estimate for buying and distribution costs allocated to inventories, \$3.2 million in higher healthcare claims costs, \$2.1 million in higher advertising expenses, higher store selling expenses and \$2.4 million higher professional fees related to the SEC investigation. These increases were somewhat offset by \$4.0 million lower earnings-based incentive compensation expense and higher credit card program income. Store selling expenses are higher due to planned payroll increases and new stores.

**Income Taxes**

	13 Weeks Ended November 1, 2014	13 Weeks Ended November 2, 2013	(Decrease)/ Increase	39 Weeks Ended November 1, 2014	39 Weeks Ended November 2, 2013	Decrease
Income tax (benefit) expense	\$ (571)	\$ (205)	\$ (366)	\$ 9,373	\$ 11,786	\$ (2,413)
Effective tax rate	(32.0)%	(115.8)%	83.8%	39.1%	39.4%	(0.3)%

**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 amended and restated revolving credit agreement ( 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 after our heavy spring selling in March and April and holiday selling in late December and early January. They are highest as we begin paying for our heavy spring, fall, and holiday receipts in late February, October and at the end of November, respectively. As of November 1, 2014, we had cash and cash equivalents of \$64.9 million and no direct borrowings under our Credit Agreement.

Net cash provided by operating activities was \$42.6 million for the 39 weeks ended November 1, 2014 compared to net cash provided by operating activities of \$25.2 million for the 39 weeks ended November 2, 2013. Cash provided

by operating activities increased primarily due to \$22.7 million less cash used to reduce accounts payable and other liabilities, offset by \$6.3 million less cash provided by net income and other non-cash charges.

Net cash used in investing activities is for capital expenditures and was \$34.0 million for the 39 weeks ended November 1, 2014 compared to \$30.3 million for the 39 weeks ended November 2, 2013. Capital expenditures were higher for the 39 weeks ended November 1, 2014 primarily due to more new and relocated stores.

Net cash used in financing activities was \$10.5 million for the 39 weeks ended November 1, 2014 compared to cash used in financing activities of \$2.6 million for the 39 weeks ended November 2, 2013. During the 39 weeks ended November 1, 2014, we paid cash dividends of \$8.9 million and repurchased shares of common stock for \$2.9 million. During the 39 weeks ended November 2, 2013, we had cash dividends paid of \$4.4 million, payments on capital leases of \$2.2 million and receipts from stock option exercises of \$3.6 million.

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**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 Pronouncements**

Recently issued accounting pronouncements are discussed in Note 1 to the unaudited Condensed Consolidated Financial Statements.

**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 operations 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 by inflation in the future.

**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 November 1, 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 November 1, 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 condensed consolidated financial statements to ensure they were prepared in accordance with GAAP and present fairly the consolidated financial position, results of operation and cash flows as of and for the 39 weeks ended November 1, 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 consolidated 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, 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.

**Table of Contents****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 2013 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.

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

The following table provides information regarding repurchases of our common stock during the quarter ended November 1, 2014:

**ISSUER PURCHASES OF EQUITY SECURITIES**

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)
August 3, 2014 - August 30, 2014	1,423	\$ 12.94	1,423	579,274
August 31, 2014 - October 4, 2014	1,411	\$ 11.87	1,411	577,863
October 5, 2014 - November 1, 2014	3,225	\$ 13.29	3,225	574,638
Total	6,059	\$ 12.88	6,059	574,638

(1) Our Open Market Repurchase Program is conducted pursuant to authorizations made from time to time by our Board of Directors. The shares reported in this table are covered by a June 14, 2011 Board authorization to repurchase 2.5 million shares of common stock which does not have an expiration date.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

- 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 November 1, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive (Loss) 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: December 4, 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