

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 3, 2019

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-20052



**STEIN MART, INC.**

(Exact name of registrant as specified in its charter)

**Florida**

(State or other jurisdiction of  
incorporation or organization)

**64-0466198**

(I.R.S. Employer  
Identification Number)

**1200 Riverplace Blvd., Jacksonville, Florida**

(Address of principal executive offices)

**32207**

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class            | Trading<br>Symbol(s) | Name of each exchange<br>on which registered |
|--------------------------------|----------------------|--|
| Common Stock, \$0.01 par value | SMRT                 | The NASDAQ Global Select Market              |

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

|                         |                                     |                           |                                     |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/>            | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
|                         |                                     | Emerging growth company   | <input type="checkbox"/>            |

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the Registrant's common stock as of August 30, 2019, was 48,217,202.

**Stein Mart, Inc.**  
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## PART I – FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

## Stein Mart, Inc. Consolidated Balance Sheets

(Unaudited)

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

|   | August 3, 2019 | February 2, 2019 | August 4, 2018 |
|---|----------------|------------------|----------------|
| <b>ASSETS</b>   |                |                  |                |
| Current assets:   |                |                  |                |
| Cash and cash equivalents   | \$ 9,481       | \$ 9,049         | \$ 10,030      |
| Inventories   | 238,433        | 255,884          | 240,813        |
| Prepaid expenses and other current assets   | 30,817         | 28,326           | 34,215         |
| Total current assets  | 278,731        | 293,259          | 285,058        |
| Property and equipment, net of accumulated depreciation and amortization of \$263,109, \$251,793 and \$243,500, respectively                      | 110,344        | 119,740          | 134,930        |
| Operating lease assets  | 362,244        | -                | -              |
| Other assets  | 23,910         | 24,108           | 24,970         |
| Total assets  | \$ 775,229     | \$ 437,107       | \$ 444,958     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                |                  |                |
| Current liabilities:  |                |                  |                |
| Accounts payable  | \$ 87,301      | \$ 89,646        | \$ 66,272      |
| Current portion of debt   | -              | -                | 125,253        |
| Current portion of operating lease liabilities  | 80,300         | -                | -              |
| Accrued expenses and other current liabilities  | 75,861         | 77,650           | 73,741         |
| Total current liabilities   | 243,462        | 167,296          | 265,266        |
| Long-term debt, net of current portion  | 137,762        | 153,253          | 49,286         |
| Deferred rent   | -              | 39,708           | 40,814         |
| Noncurrent operating lease liabilities  | 319,150        | -                | -              |
| Other liabilities   | 31,138         | 33,897           | 36,881         |
| Total liabilities   | 731,512        | 394,154          | 392,247        |
| <b>COMMITMENTS AND CONTINGENCIES (Note 9)</b>   |                |                  |                |
| Shareholders' equity:   |                |                  |                |
| Preferred stock - \$0.01 par value, 1,000,000 shares authorized; no shares issued or outstanding  | -              | -                | -              |
| Common stock - \$0.01 par value; 100,000,000 shares authorized; 48,225,585, 47,874,286 and 47,937,786 shares issued and outstanding, respectively | 482            | 479              | 479            |
| Additional paid-in capital  | 61,208         | 60,172           | 57,888         |
| Retained deficit  | (18,194)       | (17,951)         | (5,419)        |
| Accumulated other comprehensive income (loss)   | 221            | 253              | (237)          |
| Total shareholders' equity  | 43,717         | 42,953           | 52,711         |
| Total liabilities and shareholders' equity  | \$ 775,229     | \$ 437,107       | \$ 444,958     |

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

**Stein Mart, Inc.**  
**Consolidated Statements of Operations**  
(Unaudited)  
(In thousands, except per share data)

|  | 13 Weeks Ended<br>August 3, 2019 | 13 Weeks Ended<br>August 4, 2018 | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Net sales                                    | \$ 292,369                       | \$ 310,859                       | \$ 606,526                       | \$ 637,464                       |
| Other revenue                                | 3,963                            | 3,569                            | 9,188                            | 7,951                            |
| Total revenue                                | 296,332                          | 314,428                          | 615,714                          | 645,415                          |
| Cost of merchandise sold                     | 217,703                          | 231,519                          | 444,401                          | 462,140                          |
| Selling, general and administrative expenses | 78,470                           | 80,936                           | 164,606                          | 171,445                          |
| Operating income                             | 159                              | 1,973                            | 6,707                            | 11,830                           |
| Interest expense, net                        | 2,192                            | 2,865                            | 4,718                            | 5,328                            |
| (Loss) income before income taxes            | (2,033)                          | (892)                            | 1,989                            | 6,502                            |
| Income tax expense                           | 52                               | 60                               | 105                              | 120                              |
| Net (loss) income                            | \$ (2,085)                       | \$ (952)                         | \$ 1,884                         | \$ 6,382                         |
| Net (loss) earnings per common share:        |                                  |                                  |                                  |                                  |
| Basic  | \$ (0.04)                        | \$ (0.02)                        | \$ 0.04                          | \$ 0.14                          |
| Diluted                                      | \$ (0.04)                        | \$ (0.02)                        | \$ 0.04                          | \$ 0.14                          |
| Weighted-average shares outstanding:         |                                  |                                  |                                  |                                  |
| Basic  | 47,406                           | 46,669                           | 47,258                           | 46,639                           |
| Diluted                                      | 47,406                           | 46,669                           | 47,581                           | 47,139                           |

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

**Stein Mart, Inc.**  
**Consolidated Statements of Comprehensive (Loss) Income**  
(Unaudited)  
(In thousands)

|   | 13 Weeks Ended<br>August 3, 2019 | 13 Weeks Ended<br>August 4, 2018 | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Net (loss) income   | \$ (2,085)                       | \$ (952)                         | \$ 1,884                         | \$ 6,382                         |
| Other comprehensive income (loss), net of tax:                          |                                  |                                  |                                  |                                  |
| Amounts reclassified from accumulated other comprehensive income (loss) | (16)                             | 5                                | (32)                             | 9                                |
| Comprehensive (loss) income   | <u>\$ (2,101)</u>                | <u>\$ (947)</u>                  | <u>\$ 1,852</u>                  | <u>\$ 6,391</u>                  |

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

**Stein Mart, Inc.**  
**Consolidated Statements of Shareholders' Equity**

(Unaudited)  
(In thousands)

|   | Common Stock |        | Additional<br>Paid-in<br>Capital | Retained<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Shareholders'<br>Equity |
|---|--------------|--------|----------------------------------|---------------------|--|----------------------------------|
|   | Shares       | Amount |                                  |                     |  |                                  |
| <b>Balance on February 2, 2019</b>                      | 47,874       | \$ 479 | \$ 60,172                        | \$ (17,951)         | \$ 253   | \$ 42,953                        |
| Net income  | -            | -      | -                                | 3,969               | -  | 3,969                            |
| Other comprehensive loss, net of tax                    | -            | -      | -                                | -                   | (16)   | (16)                             |
| Reacquired shares, net                                  | (87)         | (1)    | (102)                            | -                   | -  | (103)                            |
| Issuance of restricted stock, net                       | 278          | 3      | (3)                              | -                   | -  | -                                |
| Share-based compensation                                | -            | -      | 730                              | -                   | -  | 730                              |
| Dividends, net of forfeitures                           | -            | -      | -                                | 5                   | -  | 5                                |
| Adjustment for adoption of accounting standard          | -            | -      | -                                | (2,133)             | -  | (2,133)                          |
| <b>Balance on May 4, 2019</b>                           | 48,065       | 481    | 60,797                           | (16,110)            | 237  | 45,405                           |
| Net loss  | -            | -      | -                                | (2,085)             | -  | (2,085)                          |
| Other comprehensive loss, net of tax                    | -            | -      | -                                | -                   | (16)   | (16)                             |
| Common shares issued under employee stock purchase plan | 147          | 1      | 106                              | -                   | -  | 107                              |
| Reacquired shares, net                                  | (12)         | -      | (11)                             | -                   | -  | (11)                             |
| Issuance of restricted stock, net                       | 26           | -      | -                                | -                   | -  | -                                |
| Share-based compensation                                | -            | -      | 316                              | -                   | -  | 316                              |
| Dividends, net of forfeitures                           | -            | -      | -                                | 1                   | -  | 1                                |
| <b>Balance on August 3, 2019</b>                        | 48,226       | \$ 482 | \$ 61,208                        | \$ (18,194)         | \$ 221   | \$ 43,717                        |
| <b>Balance on February 3, 2018</b>                      | 47,978       | \$ 480 | \$ 56,002                        | \$ (11,843)         | \$ (246)   | \$ 44,393                        |
| Net income  | -            | -      | -                                | 7,334               | -  | 7,334                            |
| Other comprehensive income, net of tax                  | -            | -      | -                                | -                   | 4  | 4                                |
| Reacquired shares                                       | (45)         | (1)    | (36)                             | -                   | -  | (37)                             |
| Issuance of restricted stock, net                       | (23)         | -      | -                                | -                   | -  | -                                |
| Share-based compensation                                | -            | -      | 995                              | -                   | -  | 995                              |
| Dividends, net of forfeitures                           | -            | -      | -                                | 8                   | -  | 8                                |
| <b>Balance on May 5, 2018</b>                           | 47,910       | 479    | 56,961                           | (4,501)             | (242)  | 52,697                           |
| Net loss  | -            | -      | -                                | (952)               | -  | (952)                            |
| Other comprehensive income, net of tax                  | -            | -      | -                                | -                   | 5  | 5                                |
| Common shares issued under employee stock purchase plan | 92           | 1      | 89                               | -                   | -  | 90                               |
| Reacquired shares                                       | (3)          | -      | (10)                             | -                   | -  | (10)                             |
| Issuance of restricted stock, net                       | (61)         | (1)    | 1                                | -                   | -  | -                                |
| Share-based compensation                                | -            | -      | 847                              | -                   | -  | 847                              |
| Dividends, net of forfeitures                           | -            | -      | -                                | 34                  | -  | 34                               |
| <b>Balance on August 4, 2018</b>                        | 47,938       | \$ 479 | \$ 57,888                        | \$ (5,419)          | \$ (237)   | \$ 52,711                        |

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

**Stein Mart, Inc.**  
**Consolidated Statements of Cash Flows**  
(Unaudited)  
(In thousands)

|  | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 |
|--|----------------------------------|----------------------------------|
| <b>Cash flows from operating activities:</b>   |                                  |                                  |
| Net income   | \$ 1,884                         | \$ 6,382                         |
| Adjustments to reconcile net income to net cash provided by<br>(used in) operating activities: |                                  |                                  |
| Depreciation and amortization  | 14,123                           | 15,824                           |
| Share-based compensation   | 1,046                            | 1,842                            |
| Store closing benefits   | (101)                            | (92)                             |
| Impairment of property and other assets  | 11                               | 689                              |
| Loss on disposal of property and equipment   | 43                               | 102                              |
| Changes in assets and liabilities:   |                                  |                                  |
| Inventories  | 17,451                           | 29,424                           |
| Prepaid expenses and other current assets  | (3,290)                          | (7,595)                          |
| Other assets   | (456)                            | (2,329)                          |
| Accounts payable   | (2,400)                          | (53,528)                         |
| Accrued expenses and other current liabilities   | (2,196)                          | (4,619)                          |
| Operating lease assets and liabilities, net  | (3,092)                          | —                                |
| Other liabilities  | (3,189)                          | (2,984)                          |
| Net cash provided by (used in) operating activities  | <u>19,834</u>                    | <u>(16,884)</u>                  |
| <b>Cash flows from investing activities:</b>   |                                  |                                  |
| Net acquisition of property and equipment  | (3,458)                          | (4,082)                          |
| Proceeds from canceled corporate owned life insurance policies                                 | -                                | 2,514                            |
| Proceeds from insurance claims   | 82                               | 296                              |
| Net cash used in investing activities  | <u>(3,376)</u>                   | <u>(1,272)</u>                   |
| <b>Cash flows from financing activities:</b>   |                                  |                                  |
| Proceeds from borrowings   | 185,288                          | 781,051                          |
| Repayments of debt   | (200,871)                        | (761,923)                        |
| Debt issuance costs  | -                                | (896)                            |
| Cash dividends paid  | (70)                             | (122)                            |
| Capital lease payments   | (366)                            | (367)                            |
| Proceeds from exercise of stock options  | 107                              | 90                               |
| Repurchase of common stock   | (114)                            | (47)                             |
| Net cash (used in) provided by financing activities  | <u>(16,026)</u>                  | <u>17,786</u>                    |
| Net increase (decrease) in cash and cash equivalents   | 432                              | (370)                            |
| Cash and cash equivalents at beginning of year   | 9,049                            | 10,400                           |
| Cash and cash equivalents at end of period   | <u>\$ 9,481</u>                  | <u>\$ 10,030</u>                 |
| <b>Supplemental disclosures of cash flow information:</b>                                      |                                  |                                  |
| Income taxes paid (received)   | \$ 82                            | \$ (295)                         |
| Interest paid  | 4,559                            | 4,976                            |
| Accruals and accounts payable for capital expenditures   | 569                              | 854                              |

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

**Stein Mart, Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**1. Basis of Presentation**

The accompanying 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 annual audited financial statements. In our opinion, all adjustments (consisting primarily of normal and recurring adjustments) considered necessary for a fair presentation have been included. Due to the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. These 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 February 2, 2019, filed with the Securities and Exchange Commission ("SEC") on March 28, 2019.

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

**Recently Adopted Accounting Standards**

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases*, to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. We adopted this ASU and the related amendments as of February 3, 2019.

At transition, we elected the package of practical expedients, which allowed us to carry forward the historical lease classification, to not reassess prior conclusions related to initial direct costs, and to not reassess whether any expired or existing contracts are or contain leases. We did not elect the use of hindsight to determine the term of our leases at transition. We also elected the practical expedient to not separate non-lease components from the lease components to which they relate and instead to combine them and account for them as a single lease component. We made an accounting policy election not to capitalize leases with an initial term of twelve months or less.

Adoption of the new standard had a significant effect on our Consolidated Balance Sheets due to the addition of operating lease assets of \$382.5 million and operating lease liabilities of \$422.7 million, as of February 3, 2019. We also recognized a cumulative effect adjustment that increased retained deficit by \$2.1 million for transition impairments related to previously impaired leased locations. The standard did not have a significant effect on our results of operations or cash flows. Consistent with the optional effective date transition method, the financial information in the Consolidated Balance Sheets prior to the adoption of this new lease accounting guidance has not been adjusted and is therefore not comparable to the current period presented.

See Note 8 "Leases" for additional information.

**Recent Accounting Standards Not Yet Adopted**

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software* (Subtopic 350-40). This update provides additional guidance to ASU No. 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software* (Subtopic 350-40), which was issued in April 2015. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). This ASU is effective for annual reporting periods beginning on or after December 15, 2019, and interim periods within those annual periods with early adoption permitted in any interim period for which financial statements have not yet been issued. We are in the process of evaluating the effect that this ASU will have on our financial condition, results of operations and cash flows.



**Stein Mart, Inc.**  
**Notes to Consolidated Financial Statements - Continued**

**2. Revision of Previously Issued Financial Statements**

During the quarter ended May 4, 2019, we identified a financial statement misstatement related to previous impairment calculations, which resulted in an overstatement of property and equipment, net, and an understatement of retained deficit of \$4.1 million and \$3.7 million as of February 2, 2019 and August 4, 2018, respectively. The error also resulted in an understatement of selling, general and administrative expenses of \$0.2 million and \$0.2 million for the year ended February 2, 2019 and 26 weeks ended August 4, 2018, respectively. Based on an analysis of quantitative and qualitative factors, we determined that the error was not material to our prior interim and annual financial statements. To correct this error, we revised the accompanying Consolidated Balance Sheets as of February 2, 2019 and August 4, 2018 and the Statement of Operations for the 26 weeks ended August 4, 2018.

**3. Revenue Recognition**

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

We offer gift and merchandise return cards to our customers. At the time gift cards are sold, the issuance is recorded as a liability to customers, and no revenue is recognized. At the time merchandise return cards are issued for returned merchandise, the sale is reversed and a liability to customers is recorded. These card liabilities are reduced and sales revenue is recognized when they are redeemed for merchandise. Card liabilities are included in accrued expenses and other current liabilities in the Consolidated Balance Sheets.

Our gift and merchandise return cards may not ultimately be redeemed either in full or partially. We account for this "breakage" of unused amounts as revenue in proportion to the pattern of rights exercised by the customer. Breakage revenue is recorded within other revenue in the Consolidated Statements of Operations. During the 13 weeks ended August 3, 2019 and August 4, 2018, we recognized \$0.2 million and \$0.3 million, respectively, of breakage revenue on unused gift and merchandise return cards. During the 26 weeks ended August 3, 2019 and August 4, 2018, we recognized \$0.8 million and \$0.9 million, respectively, of breakage revenue on unused gift and merchandise return cards.

**Stein Mart Credit Cards**

We offer co-branded and private label credit cards under the Stein Mart brand. These cards are issued by Synchrony Bank ("Synchrony") in accordance with our Amended and Restated Co-Brand and Private Label Credit Card Consumer Program Agreement (the "Agreement"). Synchrony extends credit directly to card holders, provides all servicing for the credit card accounts and bears all risk of credit and fraud losses.

We receive royalty revenue from Synchrony based on card usage in our stores and at other retailers for the Stein Mart Mastercard. We also receive revenues for new accounts and gain share based on the profitability of the overall program. Credit card revenue is recorded within other revenue in the Consolidated Statements of Operations. These revenues are recorded as they are earned based on the occurrence of the various program activities and represent the majority of other revenue. Subsequent to quarter-end on August 21, 2019, we entered into an amendment to our Agreement with Synchrony whereby Synchrony waived its rights to require us to post cash reserves to cure our failure to satisfy one or more of the quarterly financial covenants specified in the Agreement for periods through October 31, 2020 (the "Exemption Period"). As consideration for Synchrony's entry into this amendment, we agreed to reduce the amount of fees paid to us by Synchrony under the Agreement from September 1, 2019 through the end of the Exemption Period.

Card holders are eligible to participate in the credit card rewards program, which provides for reward certificates. We defer a portion of our revenue for loyalty points earned by customers and recognize the revenue as the certificates earned are used to purchase merchandise by our customers. This revenue is recorded within other revenue in the Consolidated Statements of Operations.

**Stein Mart, Inc.**  
**Notes to Consolidated Financial Statements - Continued**

Certificates may not ultimately be redeemed either in full or partially. We account for this “breakage” of unused amounts as revenue in proportion to the pattern of rights exercised by the customer. Breakage revenue is recorded within other revenue in the Consolidated Statements of Operations. During the 13 weeks ended August 3, 2019 and August 4, 2018, we recognized \$1.9 million and \$0.9 million, respectively, of breakage revenue on unused credit card reward certificates and points. During the 26 weeks ended August 3, 2019 and August 4, 2018, we recognized \$3.8 million and \$2.4 million, respectively, of breakage revenue on unused credit card reward certificates and points.

**Revenue**

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

|                          | 13 Weeks Ended<br>August 3, 2019 | 13 Weeks Ended<br>August 4, 2018 | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 |
|--------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Store sales (1)          | \$ 273,025                       | \$ 292,014                       | \$ 566,314                       | \$ 598,845                       |
| Ecommerce sales (1)      | 13,462                           | 13,017                           | 27,206                           | 25,831                           |
| Licensee commissions (2) | 5,882                            | 5,828                            | 13,006                           | 12,788                           |
| Net sales                | \$ 292,369                       | \$ 310,859                       | \$ 606,526                       | \$ 637,464                       |
| Credit card revenue (3)  | 1,791                            | 2,221                            | 4,355                            | 4,489                            |
| Breakage revenue (4)     | 2,077                            | 1,221                            | 4,615                            | 3,216                            |
| Other                    | 95                               | 127                              | 218                              | 246                              |
| Other revenue            | 3,963                            | 3,569                            | 9,188                            | 7,951                            |
| Total revenue            | \$ 296,332                       | \$ 314,428                       | \$ 615,714                       | \$ 645,415                       |

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

(2) Licensed department commissions are net of any returns.

(3) Credit card revenue earned from Synchrony programs.

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

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

|                           | August 3, 2019 | February 2, 2019 | August 4, 2018 |
|---------------------------|----------------|------------------|----------------|
| Reserve for sales returns | \$ (3,603)     | \$ (3,469)       | \$ (3,756)     |
| Cost of inventory returns | 1,994          | 1,984            | 1,976          |

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

|                                | August 3, 2019 | February 2, 2019 | August 4, 2018 |
|--------------------------------|----------------|------------------|----------------|
| Deferred revenue contracts     | \$ (10,217)    | \$ (11,017)      | \$ (11,817)    |
| Gift card liability            | (9,287)        | (12,246)         | (9,328)        |
| Credit card reward liability   | (5,615)        | (5,583)          | (5,034)        |
| Liability for deferred revenue | \$ (25,119)    | \$ (28,846)      | \$ (26,179)    |

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

|   | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 |
|---|----------------------------------|----------------------------------|
| Beginning balance   | \$ 28,846                        | \$ 29,381                        |
| Current period gift cards sold and loyalty reward points earned | 16,970                           | 16,311                           |
| Net sales from redemptions (1)                                  | (15,282)                         | (15,503)                         |
| Breakage and amortization (2)                                   | (5,415)                          | (4,010)                          |
| Ending balance  | \$ 25,119                        | \$ 26,179                        |

(1) \$6.2 and \$6.4 million in net sales from redemptions were included in the beginning balance of contract liabilities for the 26 weeks ended August 3, 2019 and August 4, 2018, respectively.

(2) \$3.0 million and \$2.7 million in breakage and amortization were included in the beginning balance of contract liabilities for the 26 weeks ended August 3, 2019 and August 4, 2018, respectively.

**Stein Mart, Inc.**  
**Notes to Consolidated Financial Statements - Continued**

**4. Accrued Expenses and Other Current Liabilities**

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

|  | August 3, 2019 | February 2, 2019 | August 4, 2018 |
|--|----------------|------------------|----------------|
| Property taxes                                 | \$ 16,534      | \$ 18,852        | \$ 14,950      |
| Unredeemed gift and merchandise return cards   | 9,287          | 12,246           | 9,328          |
| Compensation and employee benefits             | 7,240          | 9,271            | 8,613          |
| Accrued vacation                               | 4,266          | 4,365            | 7,632          |
| Other  | 38,534         | 32,916           | 33,218         |
| Accrued expenses and other current liabilities | \$ 75,861      | \$ 77,650        | \$ 73,741      |

**5. Shareholders' Equity**

*Dividends*

During the 26 weeks ended August 3, 2019 and August 4, 2018, there were no cash dividends declared.

*Stock Repurchase Plan*

During the 13 weeks ended August 3, 2019 and August 4, 2018, we repurchased 11,886 shares and 3,306 shares, respectively, of our common stock in the open market at a total cost of less than \$0.1 million, respectively. During the 26 weeks ended August 3, 2019 and August 4, 2018, we repurchased 114,429 shares and 48,409 shares, respectively, of our common stock in the open market at a total cost of \$0.1 million and less than \$0.1 million, respectively. Stock repurchases on the open market, under a Board of Directors authorized plan, were for taxes due on the vesting of employee stock awards. As of August 3, 2019, there are 366,889 shares which can be repurchased pursuant to the Board of Directors' current authorization.

**6. Earnings (Loss) per Share**

Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) by the basic weighted-average number of common shares outstanding for the period. Diluted EPS is calculated by also considering the impact of potential common stock equivalents on both net income (loss) and weighted-average number of common shares outstanding. We no longer compute EPS under the two-class method since we do not have any remaining participating securities containing non-forfeitable rights to dividends.

The following table sets forth a reconciliation of basic weighted-average number of common shares to diluted weighted-average number of common shares (in thousands):

|  | 13 Weeks Ended<br>August 3, 2019 | 13 Weeks Ended<br>August 4, 2018 | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Basic weighted-average shares outstanding              | 47,406                           | 46,669                           | 47,258                           | 46,639                           |
| Incremental shares from share-based compensation plans | -                                | -                                | 323                              | 500                              |
| Diluted weighted-average shares outstanding            | 47,406                           | 46,669                           | 47,581                           | 47,139                           |

Diluted weighted-average shares outstanding exclude approximately 2.4 million shares and 2.3 million shares during the 13 weeks ended August 3, 2019 and August 4, 2018, respectively, which are anti-dilutive for the periods presented. Diluted weighted-average shares outstanding exclude approximately 2.6 million shares and 3.0 million shares during the 26 weeks ended August 3, 2019 and August 4, 2018, respectively, which are anti-dilutive for the periods presented. These shares are comprised of a mix of stock options, performance awards and restricted stock units. Stock options excluded were those that had exercise prices greater than the average market price of the common shares such that inclusion would have been anti-dilutive. Restricted stock units and performance shares excluded were shares that were anti-dilutive as calculated using the treasury stock method.

**Stein Mart, Inc.**  
**Notes to Consolidated Financial Statements - Continued**

**7. Debt**

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

|                           | August 3, 2019 | February 2, 2019 | August 4, 2018 |
|---------------------------|----------------|------------------|----------------|
| Revolving credit facility | \$ 103,517     | \$ 119,100       | \$ 112,253     |
| Term loan                 | 35,000         | 35,000           | 50,000         |
| Promissory note           | -              | -                | 13,000         |
| Total debt                | 138,517        | 154,100          | 175,253        |
| Current portion           | -              | -                | (125,253)      |
| Debt issuance costs       | (755)          | (847)            | (714)          |
| Long-term debt            | \$ 137,762     | \$ 153,253       | \$ 49,286      |

*Revolving Credit Facility and Equipment Term Loan*

On February 3, 2015, we entered into a \$250.0 million senior secured revolving credit facility pursuant to a second amended and restated credit agreement (the "Credit Agreement") with Wells Fargo Bank ("Wells Fargo"), with an original maturity of February 2020 (the "Revolving Credit Facility") and a secured \$25.0 million master loan agreement with Wells Fargo Equipment Finance, Inc. (the "Equipment Term Loan") with an original maturity of February 2018. Borrowings under the Revolving Credit Facility were initially used for a special dividend but are subsequently being used for working capital, capital expenditures and other general corporate purposes. During 2015, debt issuance costs of \$0.4 million were associated with the Revolving Credit Facility and the Equipment Term Loan. Debt issuance costs associated with the Credit Agreement were being amortized over its term. We repaid the Equipment Term Loan in full on January 22, 2018, at which time the associated debt issuance costs were fully amortized.

On February 19, 2018, we entered into Amendment No. 1 (the "Credit Agreement Amendment") to the Credit Agreement with Wells Fargo. The Credit Agreement Amendment provided for, among other things, an Accommodation Period (as defined in the Credit Agreement Amendment) during which we were not required to meet the Fixed Charge Coverage Ratio (as defined in the Credit Agreement). This change permitted us to borrow the full amount of the then applicable borrowing base until we delivered our financial statements for the Measurement Period (as defined in the Credit Agreement) ended February 28, 2018. Pursuant to the Credit Agreement Amendment, a Cash Dominion Event (as defined in the Credit Agreement Amendment) occurred as of the effective date of the Credit Agreement Amendment and at all times thereafter. Because of the Cash Dominion Event, all of our cash receipts were swept daily to repay outstanding borrowings under the Credit Agreement and the amount outstanding under the Credit Agreement was classified as a short-term obligation. As noted below, the Third Credit Agreement Amendment removed the Cash Dominion Event effective September 18, 2018.

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

On September 18, 2018, we entered into Amendment No. 3 (the "Third Credit Agreement Amendment") to the Credit Agreement with Wells Fargo. The Third Credit Agreement Amendment provided for, among other things, the following: (1) the increase of Aggregate Tranche A Revolving Loan Commitments (as defined in the Second Credit Agreement Amendment) from \$225.0 million to \$240.0 million; (2) an extension of the maturity date of the Revolving Credit Facility to the earlier of (a) the maturity date of the Term Loan Agreement (as defined below) or (b) September 18, 2023; and (3) the elimination of Cash Dominion Event status and a change in Cash Dominion to be triggered only in the event of (a) the occurrence and continuance of any Event of Default or (b) Excess Availability of less than (A) 10.0% of the loan cap at any time or (B) 12.5% of the loan cap for three consecutive business days. During 2018, debt issuance costs of less than \$0.1 million were associated with the Third Credit Agreement Amendment and are being amortized over its term. Debt issuance costs of \$0.1 million remaining under the initial Credit Agreement are being amortized over the new term of the Third Credit Agreement Amendment. The elimination of cash dominion status changed the debt classification from a short-term to long-term obligation.

**Stein Mart, Inc.**  
**Notes to Consolidated Financial Statements - Continued**

On February 26, 2019, we entered into Amendment No. 4 (the "Fourth Credit Agreement Amendment") to the Credit Agreement with Wells Fargo. The Fourth Credit Agreement Amendment provided for, among other things, a modification to the definition of "Capital Expenditures" and "Permitted Indebtedness" as defined in the Fourth Credit Agreement Amendment.

The total amount available for borrowings under the Credit Agreement is the lesser of \$240.0 million or 100 percent of eligible credit card receivables and the net recovery percentage of eligible inventories less reserves. On August 3, 2019, in addition to outstanding borrowings under the Credit Agreement, we had \$8.0 million of outstanding letters of credit and our Excess Availability (as defined in the Credit Agreement) was \$61.9 million.

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

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

The weighted average interest rate for the amount outstanding under the Credit Agreement was 3.87 percent as of August 3, 2019.

*Term Loan*

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

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

On September 18, 2018, we entered into Amendment No. 2 (the "Second Term Loan Amendment") to the Term Loan with Gordon Brothers Finance Company. The Second Term Loan Amendment provided for, among other things, the following: (1) the reduction of the maximum amount of the Term Loan to \$35.0 million; (2) an extension of the maturity date of the Term Loan Agreement to the earlier of (a) the termination date specified in the Revolving Credit Facility (as defined in the Third Credit Agreement Amendment), and (b) September 18, 2023; (3) the reduction of the non-default interest rate applicable to the Term Loan under the Term Loan Agreement to a fluctuating rate of interest equal to three-month LIBOR (with a floor of 1.5%) plus 8.25% per annum; and (4) the elimination of Cash Dominion Event status and a change in Cash Dominion to be triggered only in the event of (a) the occurrence and continuance of any Event of Default or (b) Excess Availability of less than (A) 10.0% of the Revolving Loan Cap at any time or (B) 12.5% of the Revolving Loan Cap for three consecutive Business Days. During 2018, debt issuance costs of approximately \$0.3 million were associated with the Term Loan and are being amortized over its term. The elimination of cash dominion status changed the debt classification from a short-term to long-term obligation.

On February 26, 2019, we entered into Amendment No. 3 (the "Third Term Loan Amendment") to the Term Loan Agreement. The Third Term Loan Amendment provided for, among other things, a modification to the definition of "Capital Expenditures" and "Permitted Indebtedness" as defined in the Third Term Loan Amendment.

**Stein Mart, Inc.**  
**Notes to Consolidated Financial Statements - Continued**

The Term Loan Agreement contains customary representations and warranties, events of default, and affirmative and negative covenants, which include the retention of the existing minimum 1.0 to 1.0 consolidated fixed charge coverage ratio under the Credit Agreement during periods where Revolving Excess Availability (as defined in the Term Loan Agreement) is less than the greater of \$20.0 million or 10.0 percent of Combined Loan Cap (as defined in the Term Loan Agreement) for four consecutive business days or during the occurrence of an Event of Default (as defined in the Term Loan Agreement).

The Term Loan is secured by a second lien security interest (subordinate only to the liens securing the Credit Agreement) on all assets securing the Credit Agreement (which consist of substantially all of our personal property), except furniture, fixtures and equipment and intellectual property, upon which the Term Loan lenders have a first lien security interest. If at any time prior to the first anniversary date of the Term Loan, the Revolving Excess Availability is less than \$20.0 million, if requested by the Term Loan Agent, the Term Loan will also be secured by a first lien on leasehold interests in real property with an aggregate value of not less than \$10.0 million, and the Credit Agreement will be secured by a second lien on such leasehold interests.

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

The Term Loan Agent and Wells Fargo have entered into an Intercreditor Agreement dated as of March 14, 2018 (the "Intercreditor Agreement"), acknowledged by us under the Term Loan and the Credit Agreement. The Intercreditor Agreement was also amended on September 18, 2018 to incorporate the amendment to the Revolving Credit Facility and the Term Loan Agreement.

The weighted average interest rate for the amount outstanding under the Term Loan was 10.57 percent as of August 3, 2019.

*Promissory Note*

We believe we can borrow, on a short-term basis and subject to the formal agreement of the lender, amounts up to the cash surrender value of the life insurance policies related to our executive deferred compensation plans to provide additional liquidity if needed. At August 3, 2019, the cash surrender value of our life insurance policies was \$15.5 million.

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

The Promissory Note had a fixed interest rate of 3.58 percent per annum and an original maturity date of April 1, 2018. On March 7, 2018, we executed an amendment to the Promissory Note under which the Trustee extended the maturity date of the note from April 1, 2018, to July 1, 2018 (the "Maturity Date"). The amendment did not alter the short-term nature of the Promissory Note. The Promissory Note could be prepaid in whole or in part at any time. All unpaid principal and accrued interest on the Promissory Note would have become due and payable on the Maturity Date. The Trustee could offset payments due under the Promissory Note against amounts we would otherwise be entitled to withdraw from the Trust under the terms of the Trust Agreement. On June 29, 2018, we repaid the outstanding balance of the second promissory note.

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

**Stein Mart, Inc.**  
**Notes to Consolidated Financial Statements - Continued**

The following table sets forth the aggregate maturities of our long-term debt at August 3, 2019, for the following fiscal years (in thousands):

|              |           |                |
|--------------|-----------|----------------|
| 2020         | \$        | -              |
| 2021         |           | -              |
| 2022         |           | -              |
| 2023         |           | 138,517        |
| 2024         |           | -              |
| Thereafter   |           | -              |
| <b>Total</b> | <b>\$</b> | <b>138,517</b> |

**8. Leases**

We lease all our retail store locations, support facilities and certain equipment under operating leases. Our store leases have varying terms and are generally for 10 years with options to extend the lease term for two or more 5-year periods. Annual store rent is generally comprised of a fixed minimum amount plus an insignificant contingent amount based on a percentage of sales in excess of specified levels. Most store leases also require additional payments covering real estate taxes, common area costs and insurance. Certain lease agreements contain rent holidays, and/or rent escalation clauses. Except for contingent rent, we recognize rent expense on a straight-line basis over the lease term. Contingent rent, determined based on a percentage of sales in excess of specified levels, is recognized as rent expense when achievement of the specified sales that triggers the contingent rent is probable. Construction allowances and other such lease incentives are recorded on the Consolidated Balance Sheets and are amortized on a straight-line basis as a reduction of rent expense. The lease agreements do not contain any material residual value guarantees or material restrictive covenants. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement or modification date in determining the present value of lease payments.

In addition to the operating lease assets presented on the Consolidated Balance Sheets, assets under finance leases of \$3.0 million are included in property and equipment, net on the Consolidated Balance Sheets as of August 3, 2019. The remaining finance lease obligation is split between accrued expenses and other current liabilities for the short-term portion and other liabilities for the long-term portion on the Consolidated Balance Sheets.

The following table summarizes our classification of lease cost (in thousands):

|                                      | Statement of Operations Location             | 13 Weeks Ended   | 26 Weeks Ended   |
|--------------------------------------|--|------------------|------------------|
|                                      |  | August 3, 2019   | August 3, 2019   |
| Operating lease cost (1)             | Selling, general and administrative expenses | \$ 24,149        | \$ 47,676        |
| Finance lease cost:                  |  |                  |                  |
| Amortization of finance lease assets | Selling, general and administrative expenses | 160              | 312              |
| Interest on lease liabilities        | Interest expense, net                        | 17               | 33               |
| Variable lease cost                  | Selling, general and administrative expenses | 9,330            | 19,260           |
| <b>Net lease cost</b>                |  | <b>\$ 33,656</b> | <b>\$ 67,281</b> |

(1) Includes lease costs for short-term leases, which are immaterial.

**Stein Mart, Inc.**  
**Notes to Consolidated Financial Statements - Continued**

As of August 3, 2019, the following table summarizes the maturity of the company's lease liabilities (in thousands):

|                                    | Operating<br>Leases | Finance<br>Leases | Total      |
|------------------------------------|---------------------|-------------------|------------|
| Remainder of 2019                  | \$ 50,047           | \$ 487            | \$ 50,534  |
| 2020                               | 96,054              | 855               | 96,909     |
| 2021                               | 85,561              | 282               | 85,843     |
| 2022                               | 70,371              | 281               | 70,652     |
| 2023                               | 55,309              | 151               | 55,460     |
| After 2023                         | 107,324             | 1                 | 107,325    |
| Total lease payments               | 464,666             | 2,057             | 466,723    |
| Less: Interest                     | (65,216)            | (182)             | (65,398)   |
| Present value of lease liabilities | \$ 399,450          | \$ 1,875          | \$ 401,325 |

The following table summarizes our lease term and discount rate:

|  | August 3, 2019 |
|--|----------------|
| Weighted-average remaining lease term (years): |                |
| Operating leases                               | 5.7 years      |
| Finance leases                                 | 2.7 years      |
| Weighted-average discount rate:                |                |
| Operating leases                               | 5.4%           |
| Finance leases                                 | 6.4%           |

The following table summarizes the other information related to our lease liabilities (in thousands):

|   | 13 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 3, 2019 |
|---|----------------------------------|----------------------------------|
| Cash paid for amounts included in the measurement of lease liabilities: |                                  |                                  |
| Operating cash flows from operating leases                              | \$ 25,480                        | \$ 50,697                        |
| Operating cash flows from finance leases                                | 17                               | 33                               |
| Financing cash flows from finance leases                                | 199                              | 367                              |

As of February 2, 2019, in accordance with ASC 840, *Leases*, the aggregate minimum non-cancelable lease payments under operating leases were as follows (in thousands):

|   | Operating<br>Leases | Finance<br>Leases |
|---|---------------------|-------------------|
| 2019                                    | \$ 101,139          | \$ 738            |
| 2020                                    | 93,190              | 574               |
| 2021                                    | 82,324              | 1                 |
| 2022                                    | 66,820              | -                 |
| 2023                                    | 50,697              | -                 |
| Thereafter                              | 102,550             | -                 |
| Total minimum lease payments            | \$ 496,720          | 1,313             |
| Amount representing interest            |                     | (67)              |
| Present value of minimum lease payments |                     | 1,246             |
| Less: current portion                   |                     | (685)             |
| Long-term capital lease obligations     |                     | \$ 561            |



**Stein Mart, Inc.**  
**Notes to Consolidated Financial Statements - Continued**

**9. Commitments and Contingencies**

We are involved in various routine legal proceedings incidental to the conduct of our business. While some of these matters could be material to our results of operations or cash flows for any period if an unfavorable outcome results, we do not believe that the ultimate resolution of currently pending legal proceedings, either individually or in the aggregate, will have a material adverse effect on our overall financial condition. During both the 13 and 26 weeks ended August 3, 2019 and August 4, 2018, we did not accrue for any actual or anticipated loss contingencies.

**10. Income Taxes**

The provision for income taxes is based on a current estimate of the annual effective tax rate adjusted to reflect the impact of discrete items. Our effective income tax rate may fluctuate from quarter to quarter as a result of a variety of factors, including changes in our assessment of certain tax contingencies, valuation allowances, changes in tax law, outcomes of administrative audits, the impact of discrete items, and the mix of earnings. Our income tax expense for both the 13 and 26 weeks ended August 3, 2019, reflects our estimated taxable income for the year. The effective tax rate will be close to zero percent for all of 2019.

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

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

### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are subject to certain risks, uncertainties or assumptions and may be affected by certain factors including, but not limited to, the matters discussed in "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended February 2, 2019, filed with the Securities and Exchange Commission ("SEC") on March 28, 2019. Wherever used, the words "plan," "expect," "anticipate," "believe," "estimate" and similar expressions identify forward-looking statements. Should one or more of these risks, uncertainties or other factors materialize, or should underlying assumptions prove incorrect, actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements are based on beliefs and assumptions of our management and on information currently available to such management. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to publicly update or revise our forward-looking statements in light of new information or future events. Undue reliance should not be placed on such forward-looking statements, which are based on current expectations. Forward-looking statements are not guarantees of performance.

The following discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended February 2, 2019, filed with the SEC on March 28, 2019.

### Overview

We are a national specialty off-price retailer offering designer and name-brand fashion apparel, home décor, accessories and shoes at everyday discount prices. We currently operate 283 stores across 30 states.

### Financial Overview for the 13 and 26 weeks Ended August 3, 2019

- Net sales were \$292.4 million for the 13 weeks ended August 3, 2019, compared to \$310.9 million for the 13 weeks ended August 4, 2018, and \$606.5 million for the 26 weeks ended August 3, 2019, compared to \$637.5 million for the 26 weeks ended August 4, 2018.
- Comparable sales for the 13 weeks ended August 3, 2019, decreased 3.6 percent compared to the 13 weeks ended August 4, 2018, and for the 26 weeks ended August 3, 2019, decreased 2.6 percent compared to the 26 weeks ended August 4, 2018.
- Net loss for the 13 weeks ended August 3, 2019 was \$2.1 million, or \$0.04 per share, compared to net loss of \$1.0 million, or \$0.02 per share, during the 13 weeks ended August 4, 2018.
- Net income for the 26 weeks ended August 3, 2019 was \$1.9 million, or \$0.04 per diluted share, compared to net income of \$6.4 million, or \$0.14 per diluted share, during the 26 weeks ended August 4, 2018.
- We had \$138.5 million, \$154.1 million and \$175.3 million of direct borrowings from our credit facilities as of August 3, 2019, February 2, 2019, and August 4, 2018, respectively.

### Stores

The following table sets forth the stores activity for the 13 and 26 weeks ended August 3, 2019 and August 4, 2018:

|                                 | 13 Weeks Ended<br>August 3, 2019 | 13 Weeks Ended<br>August 4, 2018 | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 |
|---------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Stores at beginning of period   | 283                              | 289                              | 287                              | 293                              |
| Stores closed during the period | -                                | -                                | (4)                              | (4)                              |
| Stores at the end of period     | 283                              | 289                              | 283                              | 289                              |

### Inventories

Inventory levels were \$238.4 million as of August 3, 2019, compared to \$255.9 million as of February 2, 2019 and \$240.8 million as of August 4, 2018. Total inventories decreased due to fewer stores and lower average inventories per store at the end of the second quarter of 2019 versus 2018, partially offset by planned acceleration of receipts for categories that were trending, as well as amounts to support our recently launched Kids department.

## Results of Operations

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

|  | 13 Weeks Ended<br>August 3, 2019 | 13 Weeks Ended<br>August 4, 2018 | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Net sales                                    | 100.0%                           | 100.0%                           | 100.0%                           | 100.0%                           |
| Other revenue                                | 1.4%                             | 1.1%                             | 1.5%                             | 1.2%                             |
| Total revenue                                | 101.4%                           | 101.1%                           | 101.5%                           | 101.2%                           |
| Cost of merchandise sold                     | 74.5%                            | 74.5%                            | 73.3%                            | 72.5%                            |
| Selling, general and administrative expenses | 26.8%                            | 26.0%                            | 27.1%                            | 26.9%                            |
| Operating income                             | 0.1%                             | 0.6%                             | 1.1%                             | 1.8%                             |
| Interest expense, net                        | 0.8%                             | 0.9%                             | 0.8%                             | 0.8%                             |
| (Loss) income before income taxes            | (0.7)%                           | (0.3)%                           | 0.3%                             | 1.0%                             |
| Income tax expense                           | 0.0%                             | 0.0%                             | 0.0%                             | 0.0%                             |
| Net (loss) income                            | (0.7)%                           | (0.3)%                           | 0.3%                             | 1.0%                             |

(1) Table may not foot due to rounding.

### Stein Mart Credit Cards

Stein Mart has both co-branded MasterCard and Private Label Credit Cards available for our customers based on credit approvals in accordance with our Amended and Restated Co-Brand and Private Label Credit Card Consumer Program Agreement (the "Agreement"). These cards are issued by our business partner, Synchrony Bank ("Synchrony"), who bears all credit risk associated with the cards. Synchrony provides us certain direct financial benefits based on sales on the cards and other factors. Subsequent to quarter-end on August 21, 2019, we entered into an amendment to our Agreement with Synchrony whereby Synchrony waived its rights to require us to post cash reserves to cure our failure to satisfy one or more of the quarterly financial covenants specified in the Agreement for periods through October 31, 2020 (the "Exemption Period"). As consideration for Synchrony's entry into this amendment, we agreed to reduce the amount of fees paid to us by Synchrony under the Agreement from September 1, 2019 through the end of the Exemption Period. We expect the average reduction in monthly fees receivable will be approximately \$0.1 million. The Company has obtained waivers for its failure to satisfy these covenants in the past and would not have expected to satisfy these covenants for at least the next five fiscal quarters had they not been exempted.

### Important Information Regarding Non-GAAP Financial Measures

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

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

|   | 13 Weeks Ended<br>August 3, 2019 | 13 Weeks Ended<br>August 4, 2018 | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Decrease in comparable sales excluding sales from leased departments (1)        | (4.4)%                           | (0.4)%                           | (3.4)%                           | (1.1)%                           |
| Effect of growth in comparable sales of leased departments (2)                  | 0.8%                             | 1.1%                             | 0.8%                             | 1.1%                             |
| Increase (decrease) in comparable sales including sales from leased departments | (3.6)%                           | 0.7%                             | (2.6)%                           | 0.0%                             |

(1) Represents the period-to-period percentage change in net sales from stores open throughout the period presented and the same period in the prior year and all online sales of steinmart.com, excluding commissions from departments licensed to third parties.

(2) Represents the impact of including the full sales amounts for departments licensed to third parties throughout the period presented and the same period in the prior year on the calculation of comparable sales. We license our shoe and vintage handbag departments to third parties and receive a commission from these third parties based on a percentage of their sales. In our financial statements prepared in conformity with GAAP, we include commissions (rather than sales of the departments licensed to third parties) in our net sales. We do not include the commission amounts from licensed department sales in our comparable sales calculation.

**13 and 26 Weeks Ended August 3, 2019, Compared to the 13 and 26 Weeks Ended August 4, 2018 (tables presented in thousands):  
Net Sales**

|  | 13 Weeks Ended<br>August 3, 2019 | 13 Weeks Ended<br>August 4, 2018 | Variance    | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 | Variance    |
|--|----------------------------------|----------------------------------|-------------|----------------------------------|----------------------------------|-------------|
| Net sales  | \$ 292,369                       | \$ 310,859                       | \$ (18,490) | \$ 606,526                       | \$ 637,464                       | \$ (30,938) |
| Sales percent change:  |                                  |                                  |             |                                  |                                  |             |
| Total net sales  |                                  |                                  | (5.9)%      |                                  |                                  | (4.9)%      |
| Comparable store sales including sales from leased departments |                                  |                                  | (3.6)%      |                                  |                                  | (2.6)%      |

The 5.9 percent decrease in net sales reflects lower comparable store sales, including the shift of a 12-Hour Sale event from the second quarter to the first, and fewer stores for the 13 weeks ended August 3, 2019, compared to the 13 weeks ended August 4, 2018. The 3.6 percent decrease in comparable store sales on an owned plus licensed basis for the 13 weeks ended August 3, 2019, was primarily driven by a decrease in the number of transactions driven by lower store traffic and lower units per transaction, somewhat offset by higher average unit retail dollars. Comparable store sales reflect stores open throughout the period and prior fiscal year and include Ecommerce. Ecommerce sales were approximately 6.1 percent of net sales. Ecommerce sales increased 7.2 percent, including online orders shipped from our stores, and positively affected our total comparable store sales by 40 basis points for the 13 weeks ended August 3, 2019. The 4.9 percent decrease in net sales reflects lower comparable store sales and fewer stores for the 26 weeks ended August 3, 2019, compared to the 26 weeks ended August 4, 2018. The 2.6 percent decrease in comparable store sales on an owned plus licensed basis for the 26 weeks ended August 3, 2019, was primarily driven by a decrease in the number of transactions driven by lower store traffic. Ecommerce sales were approximately 5.8 percent of net sales. Ecommerce sales increased 10.6 percent, including online orders shipped from our stores, and positively affected our total comparable store sales by 40 basis points for the 26 weeks ended August 3, 2019.

**Other Revenue**

|                         | 13 Weeks Ended<br>August 3, 2019 | 13 Weeks Ended<br>August 4, 2018 | Variance | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 | Variance |
|-------------------------|----------------------------------|----------------------------------|----------|----------------------------------|----------------------------------|----------|
| Other revenue           | \$ 3,963                         | \$ 3,569                         | \$ 394   | \$ 9,188                         | \$ 7,951                         | \$ 1,237 |
| Percentage of net sales | 1.4%                             | 1.1%                             | 0.3%     | 1.5%                             | 1.2%                             | 0.3%     |

The increase in other revenue for the 13 and 26 weeks ended August 3, 2019, is the result of higher penetration from our growing credit card program, which has increased royalty, breakage and bounty income, partially offset by higher accrual of customer loyalty points.

## Gross Profit

Gross profit is determined as follows:

|                          | 13 Weeks Ended<br>August 3, 2019 | 13 Weeks Ended<br>August 4, 2018 | Variance    | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 | Variance    |
|--------------------------|----------------------------------|----------------------------------|-------------|----------------------------------|----------------------------------|-------------|
| Net sales                | \$ 292,369                       | \$ 310,859                       | \$ (18,490) | \$ 606,526                       | \$ 637,464                       | \$ (30,938) |
| Cost of merchandise sold | 217,703                          | 231,519                          | (13,816)    | 444,401                          | 462,140                          | (17,739)    |
| Gross profit             | \$ 74,666                        | \$ 79,340                        | \$ (4,674)  | \$ 162,125                       | \$ 175,324                       | \$ (13,199) |
| Percentage of net sales  | 25.5%                            | 25.5%                            | 0.0%        | 26.7%                            | 27.5%                            | (0.8)%      |

The gross profit rate for the 13 weeks ended August 3, 2019 was flat compared to the 13 weeks ended August 4, 2018. The decrease in gross profit rate for the 26 weeks ended August 3, 2019 reflects higher markdowns as a percentage of sales, as well as the deleverage of occupancy costs on lower sales. Markdowns were higher as a percent of sales primarily due to a planned accelerated markdown cadence.

## Selling, General and Administrative Expenses (“SG&A”)

|  | 13 Weeks Ended<br>August 3, 2019 | 13 Weeks Ended<br>August 4, 2018 | Variance   | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 | Variance   |
|--|----------------------------------|----------------------------------|------------|----------------------------------|----------------------------------|------------|
| Selling, general and administrative expenses | \$ 78,470                        | \$ 80,936                        | \$ (2,466) | \$ 164,606                       | \$ 171,445                       | \$ (6,839) |
| Percentage of net sales                      | 26.8%                            | 26.0%                            | 0.8%       | 27.1%                            | 26.9%                            | 0.2%       |

The decrease in SG&A for the 13 and 26 weeks ended August 3, 2019, is primarily the result of lower store-related expenses, including the impact of closed stores.

## Interest Expense, Net

|                         | 13 Weeks Ended<br>August 3, 2019 | 13 Weeks Ended<br>August 4, 2018 | Variance | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 | Variance |
|-------------------------|----------------------------------|----------------------------------|----------|----------------------------------|----------------------------------|----------|
| Interest expense, net   | \$ 2,192                         | \$ 2,865                         | \$ (673) | \$ 4,718                         | \$ 5,328                         | \$ (610) |
| Percentage of net sales | 0.8%                             | 0.9%                             | (0.2)%   | 0.8%                             | 0.8%                             | 0.0%     |

Interest expense decreased by \$0.7 million and \$0.6 million, respectively, for the 13 and 26 weeks ended August 3, 2019, compared to the 13 and 26 weeks ended August 4, 2018. The decrease in interest expense is primarily due to lower average debt amounts compared to last year.

## Income Taxes

|                    | 13 Weeks Ended<br>August 3, 2019 | 13 Weeks Ended<br>August 4, 2018 | Variance | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 | Variance |
|--------------------|----------------------------------|----------------------------------|----------|----------------------------------|----------------------------------|----------|
| Income tax expense | \$ 52                            | \$ 60                            | \$ (8)   | \$ 105                           | \$ 120                           | \$ (15)  |
| Effective tax rate | (2.6)%                           | (6.7)%                           | 4.1%     | 5.3%                             | 1.8%                             | 3.5%     |

The small amount of income tax for the 13 and 26 weeks ended August 3, 2019, reflects our estimated taxable income for the year.

## Liquidity and Capital Resources

Capital requirements and working capital needs are funded through a combination of internally generated funds, available cash, credit terms from vendors, our \$240.0 million senior secured revolving credit facility pursuant to a second amended and restated credit agreement with Wells Fargo Bank and our \$35.0 million Term Loan (as discussed below).

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

On February 3, 2015, we entered into a \$250.0 million senior secured revolving credit facility pursuant to a second amended and restated credit agreement (the "Credit Agreement") with Wells Fargo Bank ("Wells Fargo") with an original maturity of February 2020 (the "Revolving Credit Facility") and a secured \$25.0 million master loan agreement with Wells Fargo Equipment Finance, Inc. (the "Equipment Term Loan") with an original maturity of February 2018. Borrowings under the Revolving Credit Facility were initially used for a special dividend but are subsequently being used for working capital, capital expenditures and other general corporate purposes. During 2015, debt issuance costs of \$0.4 million were associated with the Revolving Credit Facility and the Equipment Term Loan. Debt issuance costs associated with the Credit Agreement were being amortized over its term. We repaid the Equipment Term Loan in full on January 22, 2018, at which time the associated debt issuance costs were fully amortized.

On February 19, 2018, we entered into Amendment No. 1 (the "Credit Agreement Amendment") to the Credit Agreement with Wells Fargo. The Credit Agreement Amendment provided for, among other things, an Accommodation Period (as defined in the Credit Agreement Amendment) during which we were not required to meet the Fixed Charge Coverage Ratio (as defined in the Credit Agreement). This change permitted us to borrow the full amount of the then applicable borrowing base until we delivered our financial statements for the Measurement Period (as defined in the Credit Agreement) ended February 28, 2018. Pursuant to the Credit Agreement Amendment, a Cash Dominion Event (as defined in the Credit Agreement Amendment) occurred as of the effective date of the Credit Agreement Amendment and at all times thereafter. Because of the Cash Dominion Event, all of our cash receipts were swept daily to repay outstanding borrowings under the Credit Agreement and the amount outstanding under the Credit Agreement was classified as a short-term obligation. As noted below, the Third Credit Agreement Amendment removed the Cash Dominion Event effective September 18, 2018.

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

On September 18, 2018, we entered into Amendment No. 3 (the "Third Credit Agreement Amendment") to the Credit Agreement with Wells Fargo. The Third Credit Agreement Amendment provided for, among other things, the following: (1) the increase of Aggregate Tranche A Revolving Loan Commitments (as defined in the Second Credit Agreement Amendment) from \$225.0 million to \$240.0 million; (2) an extension of the maturity date of the Revolving Credit Facility to the earlier of (a) the maturity date of the Term Loan Agreement (as defined below) or (b) September 18, 2023; and (3) the elimination of Cash Dominion Event status and a change in Cash Dominion to be triggered only in the event of (a) the occurrence and continuance of any Event of Default or (b) Excess Availability of less than (A) 10.0% of the loan cap at any time or (B) 12.5% of the loan cap for three consecutive business days. During 2018, debt issuance costs of less than \$0.1 million were associated with the Third Credit Agreement Amendment and are being amortized over its respective term. Debt issuance costs of \$0.1 million remaining under the initial Credit Agreement will also be amortized over the new term of the Third Credit Agreement Amendment. The elimination of cash dominion status changed the debt classification from a short-term to long-term obligation.

On February 26, 2019, we entered into Amendment No. 4 (the "Fourth Credit Agreement Amendment") to the Credit Agreement with Wells Fargo. The Fourth Credit Agreement Amendment provided for, among other things, a modification to the definition of "Capital Expenditures" and "Permitted Indebtedness" as defined in the Fourth Credit Agreement Amendment.

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

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

The weighted average interest rate for the amount outstanding under the Credit Agreement was 3.87 percent as of August 3, 2019.

#### *Term Loan*

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

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

On September 18, 2018, we entered into Amendment No. 2 (the "Second Term Loan Amendment") to the Term Loan with Gordon Brothers Finance Company. The Second Term Loan Amendment provided for, among other things, the following: (1) the reduction of the maximum amount of the Term Loan to \$35.0 million; (2) an extension of the maturity date of the Term Loan Agreement to the earlier of (a) the termination date specified in the Revolving Credit Facility (as defined in the Third Credit Agreement Amendment), and (b) September 18, 2023; (3) the reduction of the non-default interest rate applicable to the Term Loan under the Term Loan Agreement to a fluctuating rate of interest equal to three-month LIBOR (with a floor of 1.5%) plus 8.25% per annum; and (4) the elimination of Cash Dominion Event status and a change in Cash Dominion to be triggered only in the event of (a) the occurrence and continuance of any Event of Default or (b) Excess Availability of less than (A) 10.0% of the Revolving Loan Cap at any time or (B) 12.5% of the Revolving Loan Cap for three consecutive Business Days. During 2018, debt issuance costs of approximately \$0.3 million were associated with the Term Loan and are being amortized over its term. The elimination of cash dominion status changed the debt classification from a short-term to long-term obligation.

On February 26, 2019, we entered into Amendment No. 3 (the "Third Term Loan Amendment") to the Term Loan Agreement. The Third Term Loan Amendment provided for, among other things, a modification to the definition of "Capital Expenditures" and "Permitted Indebtedness" as defined in the Third Term Loan Amendment.

The Term Loan Agreement contains customary representations and warranties, events of default, and affirmative and negative covenants, which include the retention of the existing minimum 1.0 to 1.0 consolidated fixed charge coverage ratio under the Credit Agreement during periods where Revolving Excess Availability (as defined in the Term Loan Agreement) is less than the greater of \$20.0 million or 10.0 percent of Combined Loan Cap (as defined in the Term Loan Agreement) for four consecutive business days during the occurrence of an Event of Default (as defined in the Term Loan Agreement). The Term Loan is secured by a second lien security interest (subordinate only to the liens securing the Credit Agreement) on all assets securing the Credit Agreement (which consist of substantially all of our personal property), except furniture, fixtures and equipment and intellectual property, upon which the Term Loan lenders have a first lien security interest.

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

The Term Loan Agent and Wells Fargo have entered into an Intercreditor Agreement dated as of March 14, 2018 (the "Intercreditor Agreement"), acknowledged by us under the Term Loan and the Credit Agreement. The Intercreditor Agreement was also amended on September 18, 2018 to incorporate the amendment to the Revolving Credit Facility and the Term Loan Agreement.

The weighted average interest rate for the amount outstanding under the Term Loan was 10.57 percent as of August 3, 2019.

*Promissory Note*

We believe we can borrow, on a short-term basis and subject to the formal agreement of the lender, amounts up to the cash surrender value of the life insurance policies related to our executive deferred compensation plans to provide additional liquidity if needed. At August 3, 2019, the cash surrender value of our life insurance policies was \$15.5 million.

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

The Promissory Note had a fixed interest rate of 3.58 percent per annum and an original maturity date of April 1, 2018. On March 7, 2018, we executed an amendment to the Promissory Note under which the Trustee extended the maturity date of the note from April 1, 2018, to July 1, 2018 (the "Maturity Date"). The amendment did not alter the short-term nature of the Promissory Note. The Promissory Note could be prepaid in whole or in part at any time. All unpaid principal and accrued interest on the Promissory Note would have become due and payable on the Maturity Date. The Trustee could offset payments due under the Promissory Note against amounts we would otherwise be entitled to withdraw from the Trust under the terms of the Trust Agreement. On June 29, 2018, we repaid the outstanding balance of the Promissory Note.

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

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

Our cash outflows can be materially affected by changes in credit terms and availability from our vendors and their factors. During the first quarter of 2018, our vendors and factors constricted our credit terms and limits significantly. This was a reaction to our 2017 third-quarter results, as well as concern about the general retail environment at the time, which included multiple bankruptcies and restructurings by other retailers in the same business. This constriction caused us to make payments to our vendors and factors more quickly than in prior periods, thus increasing our debt levels during that period. The added availability from the Term Loan Agreement was a key part of our ability to fund the accelerated payments. We have non-disclosure agreements with the major factors, credit insurers and several of our largest vendors that allow us to communicate our operating results and cash flows to them on a regular basis. During 2018, we made periodic presentations to our key vendors and factors and we continue to communicate our operating results and cash flows to them. These steps have contributed to the positive movement in their credit arrangements with us, which has continued through the second quarter of 2019.

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

Based on our current expectations regarding our operating results, we consider our resources adequate to satisfy our cash needs for at least the next 12 months.



As of August 3, 2019, we had cash and cash equivalents of \$9.5 million and \$103.5 million in borrowings under our Credit Agreement and \$35.0 million in borrowings under the Term Loan, for a total of \$137.8 million in outstanding borrowings, net of \$0.8 million in unamortized debt issuance costs. As of February 2, 2019, we had cash and cash equivalents of \$9.0 million and \$119.1 million in borrowings under our Credit Agreement and \$35.0 million in borrowings under the Term Loan, for a total of \$153.3 million in outstanding borrowings, net of \$0.8 million in unamortized debt issuance costs. As of August 4, 2018, we had cash and cash equivalents of \$10.0 million and \$112.3 million in borrowings under our Credit Agreement, \$50.0 million in borrowings under the Term Loan and \$13.0 million in borrowings under the Promissory Note, for a total of \$174.5 million in outstanding borrowings, net of \$0.7 million in unamortized debt issuance costs. The total amount available for borrowings and letters of credit under our Credit Agreement is the lesser of \$240.0 million or 100 percent of eligible credit card receivables and the net recovery percentage value of inventories less reserves. On August 3, 2019, in addition to outstanding borrowings under the Credit Agreement and Term Loan, we had \$8.0 million of outstanding letters of credit. Our Excess Availability (as defined in the Credit Agreement) was \$61.9 million on August 3, 2019. As of August 3, 2019, we had \$15.5 million available to borrow, on a short-term basis and subject to the formal agreement of the lender, which would be collateralized by life insurance policies.

#### Cash Flows

|  | 26 Weeks Ended<br>August 3, 2019 | 26 Weeks Ended<br>August 4, 2018 | Change    |
|--|----------------------------------|----------------------------------|-----------|
| Cash provided by (used in):                          |                                  |                                  |           |
| Operating activities                                 | \$ 19,834                        | \$ (16,884)                      | \$ 36,718 |
| Investing activities                                 | (3,376)                          | (1,272)                          | (2,104)   |
| Financing activities                                 | (16,026)                         | 17,786                           | (33,812)  |
| Net increase (decrease) in cash and cash equivalents | \$ 432                           | \$ (370)                         | \$ 802    |

Net cash provided by operating activities was \$19.8 million for the 26 weeks ended August 3, 2019, compared to net cash used in operating activities of \$16.9 million for the 26 weeks ended August 4, 2018. The increase in cash provided by operating activities was primarily due to improved credit terms from vendors and factors since the second quarter of 2018. Our decreased inventory purchases over last year also affected operating cash flows.

Net cash used in investing activities was \$3.4 million for the 26 weeks ended August 3, 2019, compared to net cash used in investing activities of \$1.3 million for the 26 weeks ended August 4, 2018. The change is primarily due to last year's proceeds from cancelled corporate-owned life insurance policies.

Net cash used in financing activities was \$16.0 million during the 26 weeks ended August 3, 2019, compared to cash provided by financing activities of \$17.8 million during the 26 weeks ended August 4, 2018. During the 26 weeks ended August 3, 2019, we had net repayments of debt of \$15.6 million. During the 26 weeks ended August 4, 2018, we had net proceeds of debt of \$19.1 million, primarily used to pay vendors due to accelerated payment terms mostly in the first half. The increase in borrowings and repayments was a result of the cash dominion discussed above.

#### 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 2, 2019 and filed with the SEC on March 28, 2019. Except for the adoption of the lease accounting standard (Topic 842), we have made no significant changes in our critical accounting policies and estimates since February 2, 2019.

#### Recent Accounting Pronouncements

Recently issued accounting pronouncements are discussed in Note 1 "Basis of Presentation" of the Notes to 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 income will be influenced by general economic conditions, we do not believe that inflation has had a material effect on our results of operations. However, there can be no assurance that our business will not be affected materially by inflation in the future.

**ITEM 4. CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of August 3, 2019, to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

See the discussion of legal proceedings in Note 9 “Commitments and Contingencies” of the Notes to Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report, which is incorporated by reference into this Item 1 of Part II.

### ITEM 1A. RISK FACTORS

Other than noted below, there have been no material changes in our risk factors from those described in our Annual Report on Form 10-K for the year ended February 2, 2019.

***We recently received a notice from Nasdaq advising us that we do not meet the continued listing standards of The Nasdaq Global Market. If we are unable to maintain a listing on a national securities exchange, it could negatively impact the price and liquidity of our common stock, which could impair the value of your investment.***

Our common stock is currently listed on The Nasdaq Global Market. In order to maintain that listing, we must satisfy minimum financial and other listing requirements. On July 8, 2019, the Nasdaq Listing Qualifications Department notified us that we did not meet the \$1.00 minimum bid price for the last 30 consecutive business days as required by Rule 5450(a)(1). In accordance with Rule 5810(c)(3)(A), we have 180 calendar days, or until January 6, 2020, to regain compliance with the bid price requirement. If we are unable to comply with the bid price requirement during the applicable grace period, an additional 180 days may be granted to regain compliance if we (i) meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for The Nasdaq Global Market (except for the bid price requirement) and (ii) provide written notice of our intention to cure the deficiency during the second 180-day compliance period.

Although no determination regarding our response has been made at this time, we intend to take any reasonable actions to resolve our noncompliance with the minimum bid price requirement as may be necessary. However, there can be no assurance that we will be able to regain compliance with the minimum bid price requirement or will otherwise be in compliance with other Nasdaq listing criteria.

The delisting of our common stock from The Nasdaq Global Market could adversely affect the market liquidity of our common stock and could result in other negative implications, including the potential loss of confidence by suppliers, customers and employees, and fewer business development opportunities. Any such developments could impair the value of your investment.

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

The following table sets forth information regarding repurchases of our common stock during the quarter ended August 3, 2019:

#### 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) (2) |
|-------------------------------|----------------------------------|------------------------------|--|--|
| May 5, 2019 – June 1, 2019    | 1,264                            | \$ 0.92                      | -  | 366,889  |
| June 2, 2019 – July 6, 2019   | 9,450                            | 0.92                         | -  | 366,889  |
| July 7, 2019 – August 3, 2019 | 1,172                            | 0.73                         | -  | 366,889  |
| Total                         | 11,886                           | \$ 0.90                      | -  | 366,889  |

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

(2) On November 30, 2015, the Board of Directors announced that it had authorized the repurchase of 500,000 shares of our common stock in addition to amounts previously authorized.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

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 August 3, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive (Loss) Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements
- \* Management contract or compensatory plan or arrangements.
- + Filed herewith.

**SIGNATURES**

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

Date: September 9, 2019

STEIN MART, INC.

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

/s/ James B. Brown  
**James B. Brown**  
Executive Vice President and Chief Financial Officer

**Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a)**

I, D. Hunt Hawkins, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Stein Mart, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: September 9, 2019

/s/ D. Hunt Hawkins

**D. Hunt Hawkins**

Chief Executive Officer

**Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a)**

I, James B. Brown, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Stein Mart, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: September 9, 2019

/s/ James B. Brown

**James B. Brown**

Executive Vice President and Chief Financial Officer



**Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350**

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended August 3, 2019, of Stein Mart, Inc. (the "Form 10-Q"), I, D. Hunt Hawkins, Chief Executive Officer of Stein Mart, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Stein Mart, Inc.

Date: September 9, 2019

/s/ D. Hunt Hawkins

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**D. Hunt Hawkins**  
Chief Executive Officer

**Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350**

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended August 3, 2019, of Stein Mart, Inc. (the "Form 10-Q"), I, James B. Brown, Executive Vice President and Chief Financial Officer of Stein Mart, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Stein Mart, Inc.

Date: September 9, 2019

/s/ James B. Brown

**James B. Brown**

Executive Vice President and Chief Financial Officer