

LILLY ELI & CO  
Form 4  
November 02, 2006

**FORM 4**

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
LILLY ENDOWMENT INC

2. Issuer Name and Ticker or Trading Symbol  
LILLY ELI & CO [LLY]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)  
2801 NORTH MERIDIAN STREET  
(Street)

3. Date of Earliest Transaction (Month/Day/Year)  
11/01/2006

\_\_\_\_ Director  
\_\_\_\_ Officer (give title below)  
 10% Owner  
\_\_\_\_ Other (specify below)

INDIANAPOLIS, IN 46208-0068  
(City) (State) (Zip)

4. If Amendment, Date Original Filed (Month/Day/Year)

6. Individual or Joint/Group Filing (Check Applicable Line)  
 Form filed by One Reporting Person  
\_\_\_\_ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
1-Common Stock	11/01/2006		S		300	D	\$ 56.29
2-Common Stock	11/01/2006		S		700	D	\$ 56.28
3-Common Stock	11/01/2006		S		600	D	\$ 56.27
4-Common Stock	11/01/2006		S		800	D	\$ 56.26
5-Common Stock	11/01/2006		S		4,300	D	\$ 56.25
	11/01/2006		S		1,600	D	
							141,347,504
							D

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6-Common Stock					\$ 56.24		
7-Common Stock	11/01/2006	S	1,200	D	\$ 56.23	141,346,304	D
8-Common Stock	11/01/2006	S	700	D	\$ 56.19	141,345,604	D
9-Common Stock	11/01/2006	S	600	D	\$ 56.17	141,345,004	D
10-Common Stock	11/01/2006	S	600	D	\$ 56.15	141,344,404	D
11-Common Stock	11/01/2006	S	1,800	D	\$ 56.13	141,342,604	D
12-Common Stock	11/01/2006	S	100	D	\$ 56.12	141,342,504	D
13-Common Stock	11/01/2006	S	1,200	D	\$ 56.11	141,341,304	D
14-Common Stock	11/01/2006	S	600	D	\$ 56.1	141,340,704	D
15-Common Stock	11/01/2006	S	2,000	D	\$ 56.05	141,338,704	D
16-Common Stock	11/01/2006	S	600	D	\$ 56.04	141,338,104	D
17-Common Stock	11/01/2006	S	600	D	\$ 56.03	141,337,504	D
18-Common Stock	11/01/2006	S	1,800	D	\$ 56.02	141,335,704	D
19-Common Stock	11/01/2006	S	2,400	D	\$ 56.01	141,333,304	D
20-Common Stock	11/01/2006	S	4,200	D	\$ 56	141,329,104	D
21-Common Stock	11/01/2006	S	2,300	D	\$ 55.99	141,326,804	D
22-Common Stock	11/01/2006	S	13,700	D	\$ 55.98	141,313,104	D
23-Common Stock	11/01/2006	S	10,800	D	\$ 55.97	141,302,304	D
24-Common Stock	11/01/2006	S	23,400	D	\$ 55.96	141,278,904	D
25-Common Stock	11/01/2006	S	19,400	D	\$ 55.95	141,259,504	D
	11/01/2006	S	7,800	D		141,251,704	D

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26-Common Stock						\$ 55.94		
27-Common Stock	11/01/2006	S	7,800	D	\$ 55.93	141,243,904	D	
28-Common Stock	11/01/2006	S	6,600	D	\$ 55.92	141,237,304	D	
29-Common Stock	11/01/2006	S	10,200	D	\$ 55.91	141,227,104	D	
30-Common Stock	11/01/2006	S	2,800	D	\$ 55.9	141,224,304	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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(9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Beneficially (Instr. 5)
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LILLY ENDOWMENT INC 2801 NORTH MERIDIAN STREET INDIANAPOLIS, IN 46208-0068		X		

## Signatures

by: /s/Diane M. Stenson, Treasurer on behalf of Lilly Endowment, Inc.

11/02/2006

Signature of Reporting Person

Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

### Remarks:

This is the first of two Forms 4 filed by the Reporting Person on same date, November 2, 2006, representing transactions #1 th

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

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### Total current assets

289,020 331,963 312,381

Property and equipment, net of accumulated depreciation and amortization of \$229,738, \$218,304 and \$205,195, respectively

160,282 165,542 169,597

### Other assets

29,806 30,344 29,892

### Total assets

\$479,108 \$527,849 \$511,870

## LIABILITIES AND SHAREHOLDERS EQUITY

### Current liabilities:

Accounts payable

Signatures

\$87,561 \$114,419 \$98,185

Current portion of long-term debt

5,833 10,000 10,000

Accrued expenses and other current liabilities

69,418 72,772 68,411

Total current liabilities

162,812 197,191 176,596

Long-term debt, net of current portion

164,779 171,792 157,371

Deferred rent

42,293 41,774 42,286

Other liabilities

48,271 46,832 46,149

Total liabilities

418,155 457,589 422,402

## COMMITMENTS AND CONTINGENCIES

Explanation of Responses:

Shareholders' equity:

Preferred stock - \$.01 par value, 1,000,000 shares authorized; no shares issued or outstanding

- - -

Common stock - \$.01 par value; 100,000,000 shares authorized; 47,904,091, 47,018,942 and 46,848,195 shares issued and outstanding, respectively

479 470 468

Additional paid-in capital

53,721 50,241 46,547

Retained earnings

7,040 19,853 42,722

Accumulated other comprehensive loss

(287) (304) (269)

Total shareholders' equity

60,953 70,260 89,468

Total liabilities and shareholders' equity

\$479,108 \$527,849 \$511,870

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

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

(In thousands, except per share data)

	13 Weeks Ended July 29, 2017	13 Weeks Ended July 30, 2016	26 Weeks Ended July 29, 2017	26 Weeks Ended July 30, 2016
Net sales	\$ 311,036	\$ 319,761	\$ 648,371	\$ 675,473
Cost of merchandise sold	246,368	230,322	488,147	477,142
Gross profit	64,668	89,439	160,224	198,331
Selling, general and administrative expenses	86,201	83,840	171,695	170,314
Operating (loss) income	(21,533)	5,599	(11,471)	28,017
Interest expense, net	1,142	883	2,281	1,849
(Loss) income before income taxes	(22,675)	4,716	(13,752)	26,168
Income tax (benefit) expense	(9,682)	1,709	(4,459)	9,850
Net (loss) income	\$ (12,993)	\$ 3,007	\$ (9,293)	\$ 16,318
Net (Loss) earnings per common share:				
Basic	\$ (0.28)	\$ 0.07	\$ (0.20)	\$ 0.36
Diluted	\$ (0.28)	\$ 0.06	\$ (0.20)	\$ 0.35
Weighted-average shares outstanding:				
Basic	46,264	45,719	46,214	45,657
Diluted	46,264	46,555	46,214	46,415
Dividends declared per common share	\$ -	\$ 0.075	\$ 0.075	\$ 0.150



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

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

(In thousands)

	13 Weeks Ended July 29, 2017	13 Weeks Ended July 30, 2016	26 Weeks Ended July 29, 2017	26 Weeks Ended July 30, 2016
Net (loss) income	\$ (12,993)	\$ 3,007	\$ (9,293)	\$ 16,318
Other comprehensive income, net of tax:				
Amounts reclassified from accumulated other comprehensive loss	9	5	17	10
Comprehensive (loss) income	\$ (12,984)	\$ 3,012	\$ (9,276)	\$ 16,328

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

**Table of Contents****Stein Mart, Inc.****Condensed Consolidated Statements of Cash Flows****(Unaudited)**

(In thousands)

	26 Weeks Ended July 29, 2017	26 Weeks Ended July 30, 2016
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (9,293)	\$ 16,318
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,226	15,611
Share-based compensation	3,379	3,511
Store closing charges	172	37
Impairment of property and other assets	640	-
Loss on disposal of property and equipment	236	10
Deferred income taxes	4,199	978
Tax expense from equity issuances	-	(196)
Excess tax benefits from share-based compensation	-	(471)
Changes in assets and liabilities:		
Inventories	44,867	13,917
Prepaid expenses and other current assets	(1,951)	(2,339)
Other assets	(566)	(763)
Accounts payable	(26,800)	(7,763)
Accrued expenses and other current liabilities	(3,757)	(1,207)
Other liabilities	(2,409)	14,949
Net cash provided by operating activities	24,943	52,592
<b>Cash flows from investing activities:</b>		
Net acquisition of property and equipment	(11,761)	(23,939)
Proceeds from cancelled corporate owned life insurance policies	1,445	55
Net cash used in investing activities	(10,316)	(23,884)
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	230,094	164,913
Repayments of debt	(241,295)	(187,713)
Cash dividends paid	(3,563)	(6,885)
Excess tax benefits from share-based compensation	-	471
Proceeds from exercise of stock options	328	1,439
Repurchase of common stock	(218)	(998)

Net cash used in financing activities	(14,654)	(28,773)
Net decrease in cash and cash equivalents	(27)	(65)
Cash and cash equivalents at beginning of year	10,604	11,830
Cash and cash equivalents at end of period	\$ 10,577	\$ 11,765
<b>Supplemental disclosures of cash flow information:</b>		
Income taxes (received) paid	\$ (8,094)	\$ 11,789
Interest paid	2,229	1,807
Accruals and accounts payable for capital expenditures	1,909	2,473

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

**Table of Contents****Stein Mart, Inc.****Notes to Condensed Consolidated Financial Statements****(Unaudited)****1. Basis of Presentation**

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, all adjustments (consisting primarily of normal and recurring adjustments) considered necessary for a fair presentation have been included. Due to the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements included in our Annual Report on Form 10-K/A for the year ended January 28, 2017, filed with the Securities and Exchange Commission ( SEC ) on April 18, 2017.

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

Certain reclassifications have been made in the Condensed Consolidated Statements of Cash Flows during the 26 weeks ended July 30, 2016, to conform to the 2017 presentation.

**Correction of an Immaterial Error**

During the fourth quarter of fiscal 2016, we identified an immaterial prior period error in our lower-of-cost-or-market adjustment for aged inventory. The immaterial error was corrected with a charge during the fourth quarter of fiscal 2016 resulting in an out-of-period increase to Cost of merchandise sold. The effect of this immaterial error on the 13 and 26 weeks ended July 30, 2016 would have been an increase of \$0.2 million to Cost of merchandise sold, a decrease of \$0.1 million in net income and an increase of \$0.5 million to Cost of merchandise sold and a decrease of \$0.3 million in net income, respectively.

**Accrued Expenses and Other Current Liabilities**

The major components of accrued expenses and other current liabilities are as follows (in thousands):

	July 29, 2017	January 28, 2017	July 30, 2016
Compensation and employee benefits	\$ 6,962	\$ 11,016	\$ 7,371
Unredeemed gift and merchandise return cards	9,203	11,954	8,570
Property taxes	14,543	14,274	12,472
Accrued vacation	7,715	7,715	7,306
Other	30,995	27,813	32,692
Accrued expenses and other current liabilities	\$ 69,418	\$ 72,772	\$ 68,411

## Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2016-04, *Liabilities-Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products*. The amendments in the ASU are designed to provide guidance and eliminate diversity in practice of accounting for derecognition of prepaid stored-value product liabilities. Typically, a prepaid stored-value product liability is to be derecognized when it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. This is when the likelihood of the product holder exercising its remaining rights becomes remote. This estimate shall be updated at the end of each period. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Earlier application is permitted. We plan to adopt this ASU in the fiscal year 2018 and do not expect the adoption to have a material effect on our financial condition, results of operations or cash flows as we believe we are in compliance with this ASU.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This update requires organizations to recognize lease assets and lease liabilities on the balance sheet and also disclose key information about leasing arrangements. The main provisions of the new standard include: clarifications to the definitions of a lease, components of leases, and criteria for determining lease classification; requiring virtually all leased assets, including operating leases and related liabilities, to be reflected on the lessee's balance sheet; and expanding and adding to the required disclosures for lessees. This ASU is effective for annual reporting periods beginning on or after December 15, 2018, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual period. We are in the process of evaluating our lease portfolio and identifying what additional data will be needed to comply with the new standard. We have identified a software application suited to track and account for leases under the new standard. We plan to adopt ASU 2016-02 in fiscal year 2019 and are currently evaluating the overall effect the adoption of this ASU will have on our financial condition, results of operations and cash flows, and we currently believe the adoption of this ASU will have a significant effect on our Consolidated Balance Sheets due to the addition of our applicable leased assets and related liabilities.

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**Stein Mart, Inc.**

**Notes to Condensed Consolidated Financial Statements - Continued**

**(Unaudited)**

*Revenue Recognition*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU No. 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied.

We have completed an initial scoping analysis of the effect of the standards to identify the revenue streams that may be affected by this ASU. In our ongoing evaluation of this ASU, we have determined that the new standard will primarily apply to the following areas of our business: point of sale transactions, ecommerce, drop ship, shipping and handling, gift card breakage and loyalty programs. We expect the adoption will not change the timing or amount of revenue recognized as it relates to revenue from point of sale at the registers in our stores, which constitutes approximately 97% of our Net sales revenue. We continue to evaluate other revenue streams, such as ecommerce sales and shipping revenue, and there may be a slight change in the timing of when such revenue is recognized.

This guidance was deferred by ASU No. 2015-14, issued by the FASB in August 2015, and is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual and interim reporting periods beginning after December 15, 2016. We are currently evaluating the effect the adoption of these ASUs may have on our financial condition, results of operations or cash flows and will adopt these ASUs, including all related new disclosures, beginning in the first quarter of fiscal 2018.

**2. Shareholders Equity**

*Dividends*

During the 26 weeks ended July 29, 2017, we paid a quarterly dividend of \$0.075 per common share on April 14, 2017. During the 26 weeks ended July 30, 2016, we paid two quarterly dividends of \$0.075 per common share on April 15, 2016 and July 15, 2016.

*Stock Repurchase Plan*

During the 13 weeks ended July 29, 2017, we repurchased 6,733 shares of our common stock at a total cost of less than \$0.1 million. During the 13 weeks ended July 30, 2016, we repurchased 7,376 shares of our common stock at a total cost of approximately \$0.1 million. During the 26 weeks ended July 29, 2017, we repurchased 63,486 shares of our common stock at a total cost of approximately \$0.2 million. During the 26 weeks ended July 30, 2016, we

repurchased 150,658 shares of our common stock at a total cost of approximately \$1.0 million. Stock repurchases were for tax withholding amounts due on employee stock awards and during the first half of 2017 and 2016 included no shares purchased on the open market under our previously authorized stock repurchase plan. As of July 29, 2017, there are 433,044 shares that can be repurchased pursuant to the Board of Directors' current authorization.

### **3. Earnings per Share**

Our restricted stock awards granted in 2013 and prior contain non-forfeitable rights to dividends and, as such, are considered participating securities. Participating securities are to be included in the calculation of earnings per share under the two-class method. In applying the two-class method, income is allocated to both common stock shares and participating securities based on their respective weighted-average shares outstanding for the period.



Table of Contents**Stein Mart, Inc.****Notes to Condensed Consolidated Financial Statements - Continued****(Unaudited)**

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

	13 Weeks Ended July 29, 2017	13 Weeks Ended July 30, 2016	26 Weeks Ended July 29, 2017	26 Weeks Ended July 30, 2016
<b>Basic:</b>				
Net (loss) income	\$ (12,993)	\$ 3,007	\$ (9,293)	\$ 16,318
Income allocated to participating securities	-	5	2	36
Net (loss) income available to common shareholders	\$ (12,993)	\$ 3,002	\$ (9,295)	\$ 16,282
Basic weighted-average shares outstanding	46,264	45,719	46,214	45,657
Basic (loss) earnings per common share	\$ (0.28)	\$ 0.07	\$ (0.20)	\$ 0.36
<b>Diluted:</b>				
Net (loss) income	\$ (12,993)	\$ 3,007	\$ (9,293)	\$ 16,318
Income allocated to diluted participating securities	-	5	2	35
Net (loss) income available to common shareholders	\$ (12,993)	\$ 3,002	\$ (9,295)	\$ 16,283
Basic weighted-average shares outstanding	46,264	45,719	46,214	45,657
Incremental shares from share-based compensation plans	-	836	-	758
Diluted weighted-average shares outstanding	46,264	46,555	46,214	46,415
Diluted (loss) earnings per common share	\$ (0.28)	\$ 0.06	\$ (0.20)	\$ 0.35

Options to acquire shares totaling approximately 4.4 million and 2.5 million shares of common stock that were outstanding during the 13 weeks ended July 29, 2017 and July 30, 2016, respectively, were not included in the computation of diluted earnings per common share. Options excluded were those that had exercise prices greater than

the average market price of the common shares such that inclusion would have been anti-dilutive. Options to acquire shares totaling approximately 3.9 million and 1.9 million shares of common stock that were outstanding during the 26 weeks ended July 29, 2017 and July 30, 2016, respectively, were not included in the computation of diluted earnings per common share. Options excluded were those that had exercise prices greater than the average market price of the common shares such that inclusion would have been anti-dilutive.

#### **4. Commitments and Contingencies**

We are involved in various routine legal proceedings incidental to the conduct of our business. During the 13 weeks ended July 29, 2017 we did not accrue for any actual or anticipated legal settlements. During the 13 weeks ended July 30, 2016, we accrued \$0.4 million for actual and anticipated legal settlements. During the 26 weeks ended July 29, 2017 we did not accrue for any actual or anticipated legal settlements. During the 26 weeks ended July 30, 2016, we accrued \$1.8 million for actual and anticipated legal settlements. While some of these matters could be material to our results of operations or cash flows for any particular 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.

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**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/A for the fiscal year ended January 28, 2017, filed with the Securities and Exchange Commission (SEC) on April 18, 2017. 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/A for the year ended January 28, 2017, filed with the SEC on April 18, 2017.

**Overview**

We are a national specialty and off-price retailer offering designer and name-brand fashion apparel, home décor, accessories and shoes at everyday low prices. We currently operate 292 stores across 31 states.

**Financial Overview for the 13 and 26 weeks ended July 29, 2017**

Net sales were \$311.0 million for the 13 weeks ended July 29, 2017 compared to \$319.8 million for the 13 weeks ended July 30, 2016, and \$648.4 million for the 26 weeks ended July 29, 2017 compared to \$675.5 million for the 26 weeks ended July 30, 2016.

Comparable store sales for the 13 weeks ended July 29, 2017 decreased 5.0 percent compared to the 13 weeks ended July 30, 2016, and for the 26 weeks ended July 29, 2017 decreased 6.4 percent compared to the 26 weeks ended July 30, 2016.

Net loss for the 13 weeks ended July 29, 2017 was \$13.0 million, or \$0.28 per diluted share, compared to net income of \$3.0 million, or \$0.06 per diluted share, during the 13 weeks ended July 30, 2016.

Net loss for the 26 weeks ended July 29, 2017 was \$9.3 million, or \$0.20 per diluted share, compared to net income of \$16.3 million, or \$0.35 per diluted share, during the 26 weeks ended July 30, 2016.

We had \$170.6 million, \$181.8 million and \$167.4 million of direct borrowings on our Credit Facilities as of July 29, 2017, January 28, 2017 and July 30, 2016, respectively.

**Stores**

The following table sets forth the stores activity for the 13 and 26 weeks ended July 29, 2017 and July 30, 2016:

	13 Weeks Ended July 29, 2017	13 Weeks Ended July 30, 2016	16 Weeks Ended July 29, 2017	16 Weeks Ended July 30, 2016
Stores at beginning of period	292	283	290	278
Stores opened during the period	-	-	5	5
Stores closed during the period	-	-	(3)	-
Stores at the end of period	292	283	292	283

**Table of Contents****Results of Operations**

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

	13 Weeks Ended July 29, 2017	13 Weeks Ended July 30, 2016	26 Weeks Ended July 29, 2017	26 Weeks Ended July 30, 2016
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of merchandise sold	79.2%	72.0%	75.3%	70.6%
Gross profit	20.8%	28.0%	24.7%	29.4%
Selling, general and administrative expenses	27.7%	26.2%	26.5%	25.2%
Operating (loss) income	-6.9%	1.8%	-1.8%	4.2%
Interest expense, net	0.4%	0.3%	0.4%	0.3%
(Loss) income before income taxes	-7.3%	1.5%	-2.1%	3.9%
Income tax (benefit) expense	-3.1%	0.5%	-0.7%	1.5%
Net (loss) income	-4.2%	0.9%	-1.4%	2.4%

(1) Table may not foot, due to rounding.

**13 and 26 Weeks Ended July 29, 2017, Compared to the 13 and 26 Weeks Ended July 30, 2016 (tables presented in thousands):**

**Net Sales**

	13 Weeks Ended July 29, 2017	13 Weeks Ended July 30, 2016	(Decrease)	26 Weeks Ended July 29, 2017	26 Weeks Ended July 30, 2016	(Decrease)
Net sales	\$ 311,036	\$ 319,761	\$ (8,725)	\$ 648,371	\$ 675,473	\$ (27,102)
Sales percent change:						
Total net sales			(2.7)%			(4.0)%
Comparable store sales			(5.0)%			(6.4)%

The 5.0 percent and 6.4 percent decreases in comparable stores sales for the 13 and 26 weeks ended July 29, 2017, respectively, were both driven by decreases in the number of transactions, which was driven by lower traffic. Also contributing to the decrease were slightly lower average unit retail prices, driven by higher markdowns. Units per transaction were flat. Comparable store sales reflect stores open throughout the period and prior fiscal year and include ecommerce sales. Ecommerce sales were up 41.3 percent and contributed approximately 0.8 percent increase

to the comparable store sales for the 13 weeks ended July 29, 2017 and were up 39.8 percent and contributed approximately 0.7 percent increase to comparable store sales for the 26 weeks ended July 29, 2017. Comparable store sales do not include shoe department commissions.

**Gross Profit**

	13 Weeks Ended		26 Weeks Ended		26 Weeks Ended	
	July 29,	July 30,	(Decrease)	July 29,	July 30,	(Decrease)
	2017	2016		2017	2016	
Gross profit	\$ 64,668	\$ 89,439	\$ (24,771)	\$ 160,224	\$ 198,331	\$ (38,107)
Percentage of net sales	20.8%	28.0%	(7.2)%	24.7%	29.4%	(4.7)%

The Gross profit decreases for the 13 and 26 weeks ended July 29, 2017 were both primarily due to higher markdowns taken to manage our inventories and furthered by higher occupancy cost that negatively leveraged on lower sales.

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

	13 Weeks Ended			26 Weeks Ended		
	July 29, 2017	July 30, 2016	Increase	July 29, 2017	July 30, 2016	Increase
Selling, general and administrative expenses	\$ 86,201	\$ 83,840	\$ 2,361	\$ 171,695	\$ 170,314	\$ 1,381
Percentage of net sales	27.7%	26.2%	1.5%	26.5%	25.2%	1.3%

The SG&A increases for the 13 and 26 weeks ended July 29, 2017 were both primarily the result of higher operating expenses from new stores that were mostly offset by operating savings and lower expense for legal settlements.

**Interest Expense, net**

	13 Weeks Ended			26 Weeks Ended		
	July 29, 2017	July 30, 2016	Increase	July 29, 2017	July 30, 2016	Increase
Interest expense, net	\$ 1,142	\$ 883	\$ 259	\$ 2,281	\$ 1,849	\$ 432
Percentage of net sales	0.4%	0.3%	0.1%	0.4%	0.3%	0.1%

The increase in interest expense was due to increases in the London Interbank Offer Rate, which raised our overall interest rates.

**Income Taxes**

	13 Weeks Ended			26 Weeks Ended		
	July 29, 2017	July 30, 2016	(Decrease) Increase	July 29, 2017	July 30, 2016	(Decrease) Increase
Income tax (benefit) expense	\$ (9,682)	\$ 1,709	\$ (11,391)	\$ (4,459)	\$ 9,850	\$ (14,309)
Effective tax rate	42.7%	36.2%	6.5%	32.4%	37.6%	(5.2)%

Our effective tax rate represents the applicable combined federal and state statutory rates reduced by the federal benefit of state taxes deductible on federal returns, adjusted for the impact of permanent differences. For the 2017 periods, our pre-tax losses caused our taxes to be a benefit. This causes our net favorable permanent items to decrease the Effective tax rate. Additionally, the decrease in the Effective tax rate for the 26 weeks ended July 29, 2017 was primarily driven by the adoption of ASU 2016-09, which resulted in \$1.2 million income tax expense which offset our current Income tax benefit. This amount was previously carried within equity on the Condensed Consolidated Balance Sheets. Excluding the effect of recent adoption of ASU 2016-09, our effective tax rate for the 26 weeks ended July 29, 2017, would have been 41 percent. The increase in the effective tax rate for the 13 weeks ended July 29, 2017 was primarily driven by the Net loss of \$13 million for the 13 weeks ended July 29, 2017 compared to the Net Income of \$3.7 million for the 13 weeks ended April 29, 2017.





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**Table of Contents****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 and our \$250 million senior secured revolving credit facility pursuant to a second amended and restated credit agreement with Wells Fargo Bank (the *Credit Agreement* ). We also have a secured \$25 million master loan agreement with Wells Fargo Equipment Finance, Inc. (the *Equipment Term Loan* and, together with the *Credit Agreement*, the *Credit Facilities* ). Working capital is used to support store inventories and capital investments for system improvements, fund new store openings, maintain existing stores, make debt service payments and repurchase shares of our common stock. Historically, our investments in working capital are lowest in August and September, after our heavy spring selling season, and in February after the holiday selling season. Investments in working capital are highest in April, October and November as we begin procuring and paying for merchandise to support our heavy spring and holiday seasons. We believe that our cash flows from operations and our available cash and cash equivalents are sufficient to cover our liquidity requirements over the next 12 months.

On May 17, 2017, we announced that we have suspended our quarterly cash dividend and significantly reduced our planned capital expenditures (see below under *Cash Flows* ). Planned capital expenditures for fiscal 2017 are approximately \$24.1 million, or \$20.9 million net of tenant improvements. Capital expenditures were \$42.4 million, or \$36.1 million net of tenant improvements, in fiscal 2016.

As of July 29, 2017, we had cash and cash equivalents of \$10.6 million and \$170.6 million in borrowings under our *Credit Facilities*. The total amount available for borrowings and letters of credit under our *Credit Agreement* is the lesser of \$250 million or 100% of eligible credit card receivables and the net recovery percentage value of inventories less reserves. At July 29, 2017, in addition to outstanding borrowings under the *Credit Agreement*, we had \$8.8 million of outstanding letters of credit.

Our Excess Availability (as defined in the *Credit Agreement*) was \$49.5 million on July 29, 2017. If our Excess Availability is less than the greater of \$20.0 million or 10% of our total availability for four consecutive business days, we are required to meet a minimum fixed charge coverage ratio. We would not have met that minimum ratio as of July 29, 2017. As a result, our ability to borrow the last \$20.3 million of our availability at July 29, 2017 for more than three consecutive business days was restricted, with \$29.2 million available for use without restriction as of July 29, 2017. Excess Availability was at a seasonal low in the third week of August but moved higher later in the month. In September, borrowing availability is projected to range from \$50.0 to \$150.0 million through the end of the year. These projections are dependent on assumptions and estimates. If actual results differ substantially then availability and liquidity could be materially different.

Our business is dependent upon the ability to purchase merchandise at competitive terms through relationships with our vendors and their factors. A significant change in vendor and factor support could limit our ability to acquire desired merchandise at competitive prices or terms in the future. Additionally, if we experience declining operating performance or liquidity challenges, vendors and their factors may seek protections against non-payment, such as accelerated payment terms. This could have an adverse effect on our operating cash flow and liquidity.

**Table of Contents****Cash Flows**

Cash provided by (used in):	26 Weeks Ended July 29, 2017	26 Weeks Ended July 30, 2016	(Decrease) Increase
Operating activities	\$ 24,943	\$ 52,592	\$ (27,649)
Investing activities	(10,316)	(23,884)	13,568
Financing activities	(14,654)	(28,773)	14,119
Net decrease in cash and cash equivalents	\$ (27)	\$ (65)	\$ 38

Net cash provided by operating activities was \$24.9 million for the 26 weeks ended July 29, 2017 compared to net cash provided by operating activities of \$52.6 million for the 26 weeks ended July 30, 2016. The decrease in cash provided by operating activities was mainly due to a Net loss during the 26 weeks ended July 29, 2017 compared to the 26 weeks ended July 30, 2016. Also contributing to the decrease was a one-time cash inflow during the 2016 period relating to the Synchrony Financial signing bonus we received with the new agreement entered into in February of 2016 for co-branded and private label credit cards. This is offset by an \$8.1 million inflow for Income taxes received, net.

Net cash used in investing activities was primarily for capital expenditures and was \$10.3 million for the 26 weeks ended July 29, 2017 compared to \$23.9 million for the 26 weeks ended July 30, 2016. The decrease in capital expenditures was primarily due to lower investment in technologies, fewer remodels to existing stores and fewer tenant improvements for fiscal 2017.

Net cash used in financing activities was \$14.7 million during the 26 weeks ended July 29, 2017 compared to cash used in financing activities of \$28.8 million during the 26 weeks ended July 30, 2016. During the 26 weeks ended July 29, 2017, we had net repayments of debt of \$11.2 million. We also paid cash dividends of \$3.6 million. In addition, we repurchased 63,486 shares of common stock for \$0.2 million. During the 26 weeks ended July 30, 2016, we had net repayments of debt of \$22.8 million. We also paid cash dividends of \$6.9 million. In addition, we repurchased 150,658 shares of common stock for \$1.0 million. See Note 2 Shareholders' Equity of the Notes to Condensed Consolidated Financial Statements for further discussion.

On May 17, 2017, we announced we have decided to suspend our quarterly cash dividend and significantly reduce our planned capital expenditures. Suspending the \$0.075 quarterly dividend is expected to save approximately \$14.0 million in cash annually, approximately \$11.0 million in cash during fiscal 2017. We currently intend to use the related annual cash savings to repay indebtedness, maximize free cash flow and improve our financial position. Any future determination to declare and pay dividends will be made at the discretion of our Board of Directors, after taking into account our future earnings, cash flows, financial condition, capital requirements and other factors that the Board may deem relevant.

**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/A for the year ended January 28, 2017, and filed with the SEC on April 18, 2017. We have made no significant change in our critical accounting policies and estimates since January 28, 2017.

**Recent Accounting Pronouncements**

Recently issued accounting pronouncements are discussed in Note 1 Basis of Presentation of the Notes to Condensed Consolidated Financial Statements.

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**Seasonality and Inflation**

Our business is seasonal. Sales and profitability are historically higher in the first and fourth quarters of the fiscal year, which include the spring and holiday seasons. Therefore, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

Although we expect that our operations will be influenced by general economic conditions, we do not believe that inflation has had a material effect on our results of operations. However, there can be no assurance that our business will not be affected by inflation in the future.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For information regarding our exposure to certain market risks, see Quantitative and Qualitative Disclosures about Market Risk in Part II, Item 7A of our Annual Report on Form 10-K/A for the year ended January 28, 2017. There were no material changes to our market risk during the quarter ended July 29, 2017.

**ITEM 4. CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act ), as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report due to the material weakness identified in our internal control over financial reporting described below.

As previously disclosed in our 2016 Annual Report on Form 10-K/A, we identified a material weakness in the design and effectiveness in the operation of our controls that are intended to ensure that the data used in a report used by management to review the lower-of-cost-or-market adjustment for our aged inventory was complete and accurate. As a result of this material weakness, a reasonable possibility exists that a material misstatement in inventory in our annual or interim financial statements could occur and not be prevented or detected on a timely basis.

We have taken steps to remediate this material weakness, including implementing new policies and procedures to enhance our risk assessment process to effectively design and implement control activities that verify the completeness and accuracy of data in reports that support management review controls. We have also re-performed procedures over our key reports, including retesting the completeness and accuracy of these key reports.

We believe that these remediation measures have strengthened our internal control over financial reporting. As we are still assessing the design and operating effectiveness of our internal controls and procedures, the identified material weakness has not been fully remediated as of July 29, 2017. We will continue to monitor the effectiveness of our internal control over financial reporting and confirm that the material weakness has been remediated through our annual assessment of internal control over financial reporting for the fiscal year ending February 3, 2018.

In September 2015, we settled an administrative proceeding instituted by the SEC in which the SEC ordered us to cease and desist from committing, or causing, any violations and any future violations of the periodic reporting, books and records, and internal control provisions of the Securities Exchange Act of 1934, as amended. The existence of the

above-referenced material weakness, and the failure to discover and disclose such material weakness in periodic reports filed prior to the Annual Report on Form 10-K/A for the year ended January 28, 2017, means that we have not been in compliance with the cease and desist order.

We assessed the effect of the material weakness on these Condensed Consolidated Financial Statements to ensure they were prepared in accordance with GAAP and present fairly the consolidated financial position, financial results of operation and cash flows as of and for the six months ended July 29, 2017. Based on these additional procedures and assessment, we concluded that the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented.

Except as described above in regards to the remediation process, there were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

See the discussion of legal proceedings in Note 4 – Commitments and Contingencies of the Notes to Condensed 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**

There have been no material changes in our risk factors from those described in our Annual Report on Form 10-K/A for the year ended January 28, 2017.

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

The following table provides information regarding repurchases of our common stock during the quarter ended July 29, 2017:

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)
April 30, 2017 - May 27, 2017	3,540	\$ 2.24	3,540	436,237
May 28, 2017 - July 1, 2017	3,007	1.58	3,007	433,230
July 2, 2017 - July 29, 2017	186	1.35	186	433,044
Total	6,733	\$ 1.92	6,733	433,044

(1) All stock repurchases were for tax withholding amounts due on employee stock awards. No shares were purchased on the open market pursuant to our open market repurchase program. Our open market repurchase program is conducted pursuant to authorizations made from time to time by our Board of Directors, including the most recent authorization of an additional 500,000 shares by the Board of Directors on November 30, 2015.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

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**ITEM 6. EXHIBITS**

- 10.1 Amended Employment Agreement between Stein Mart, Inc. and D. Hunt Hawkins, dated August 1, 2017 incorporated by reference to the Registrant's Current Report on Form 8-K filed on August 2, 2017.
- 10.2 Amended Employment Agreement between Stein Mart, Inc. and Gregory W. Kleffner, dated August 1, 2017 incorporated by reference to the Registrant's Current Report on Form 8-K filed on August 2, 2017.
- 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 July 29, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements



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**SIGNATURES**

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

STEIN MART, INC.

Date: September 1, 2017

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

/s/ Gregory W. Kleffner  
**Gregory W. Kleffner**  
Executive Vice President and Chief Financial Officer