CONNECTING WITH
OUR CUSTOMER
Any Way,
Any Time
Stein Mart®
2015 ANNUAL REPORT

# TO OUR SHAREHOLDERS

I want to begin my annual message by first welcoming Dawn Robertson who became our Chief Executive Officer in March. While she has only been with us a short time, the passion, energy and ability to lead our company, that I saw when we started our discussions, have become even more evident to me. Both Dawn and I understand that we have the opportunity to evolve Stein Mart for the better. We both feel that many things at Stein Mart are working well and that it is important that we stay true to the values and culture that have led to our success.

Dawn joined us after we wrapped up 2015, a year in which sales started very strong, but softened in the second half resulting in our first quarterly comp sales decrease in more than three years. Traffic was impacted in part by unseasonable weather which drove a more promotional fourth quarter. Our 2015 earnings reflect the lower second-half sales and resulting higher markdowns.

As we begin 2016, our full focus needs to be on growing our sales – both in our stores and online. Dawn is early in her assessment of our opportunities, but initially sees areas where we can better execute, even where we already do things well. Some of the 2016 sales-driving initiatives include:

*Merchandising* - In Ladies' Boutique, we are expanding our assortment with better brands, career and our Peck & Peck private label. We are continuing to develop Women's Special Sizes. For both men and women, we are focusing on the athleisure trend by adding more performance and relaxed wear. We are redeveloping our Men's business including new tailored clothing brands, growing our key brands and expanding gifts. Lastly, we are refocusing our shoe assortment with more "Boutique", leisure and Men's brands that better coordinate with our apparel.

*Ecommerce* - We are launching a newly designed online store this summer which will have a better look and be easier to shop with enhanced navigation, improved search and a simplified checkout.

*Marketing* - We are taking a fresh look at how to best connect with our customers and drive traffic to attract new customers to our brand. We have engaged consumer focus groups to help guide us. We are testing a change in our media mix and refreshing the look of our print and digital advertising.

These important growth initiatives, along with store unit expansion and our credit card program with improved economics under a new agreement, support that single goal to increase sales. Earnings growth can only be achieved through higher sales from comparable and new stores. I am really looking forward to having Dawn here to lead our great team as we do this.

Jay Stein
Chairman of the Board

I am looking forward to the amazing opportunity of serving as Chief Executive Officer of this successful retail company of Stein Mart. Joining Stein Mart is a privilege and I share Jay's optimism for our bright future.

Jay has been an incredible leader and builder of this business mentoring the entire leadership team and all our associates through all the changes in retail. We look forward to his ongoing guidance and continued inspiration as our Chairman.

I want you to be confident that I celebrate the values and culture of Stein Mart and will stay true to that DNA. We are going to delight our customers with great merchandise in interesting and easy to shop stores, which will make our shareholders proud.

For the important second half of 2016 ahead, we will focus on growth of our existing brands while adding exciting new brands, with our customer always at the center of our thinking. One of the ways Stein Mart differentiates itself is in its uniqueness. As we generate excitement at all our retails touch points – online and in store – this will be an incredible time for Stein Mart.

I appreciate the warm welcome I have received and recognize that we wouldn't be where we are without the contributions made by each and every one of our team. I am confident that our business will grow and increase in value.

Together, we can make Stein Mart an even greater place to shop.

Dawn H. Robertson
Chief Executive Officer

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

**FORM 10-K**

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
**For the fiscal year ended January 30, 2016**

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 0-20052

# STEIN MART, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Florida**<br>(State or other jurisdiction of incorporation or organization) | **64-0466198**<br>(I.R.S. Employer Identification Number) |
| **1200 Riverplace Blvd., Jacksonville, Florida**<br>(Address of principal executive offices) | **32207**<br>(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: | Name of each exchange on which registered: |
|---|---|
| Common Stock $.01 par value | The NASDAQ Global Select Market |

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [X] |
| Non-accelerated filer [ ] | Smaller reporting company [ ] |
| (Do not check if a smaller reporting company) | |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of August 1, 2015 was $317,310,365. For purposes of this response, executive officers and directors are deemed to be affiliates of the registrant and the holdings by non-affiliates was computed as 31,139,388 shares. At March 18, 2016, the Registrant had issued and outstanding an aggregate of 46,375,304 shares of its common stock.

Documents Incorporated By Reference:
Portions of the Registrant's Proxy Statement for its 2016 Annual Meeting of Shareholders are incorporated by reference in Part III.

**STEIN MART, INC.**
**TABLE OF CONTENTS**

This report contains forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to certain risks, uncertainties or assumptions and may be affected by certain factors, including but not limited to the specific factors discussed in Part I, Item 1A under "Risk Factors" and Item 3 under "Legal Proceedings," in Part II, Item 5 under "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities," and Part II, Item 7 under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8. "Financial Statements and Supplemetary Data." Wherever used, the words "plan," "expect," "anticipate," "believe," "estimate" and similar expressions identify forward-looking statements. In addition, except for historical facts, all information provided in Part II, Item 7A, under "Quantitative and Qualitative Disclosures about Market Risk" should be considered 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 of the Company 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 the Company's management and on information currently available to such management. Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to publicly update or revise its forward-looking statements in light of new information, future events or otherwise. 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.


| ITEM NO. | | PAGE |
|---|---|---|
| | **PART I** | |
| 1. | Business | 3 |
| 1A. | Risk Factors | 5 |
| 1B. | Unresolved Staff Comments | 8 |
| 2. | Properties | 9 |
| 3. | Legal Proceedings | 10 |
| 4. | Mine Safety Disclosures | 10 |
| | **PART II** | |
| 5. | Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 10 |
| 6. | Selected Consolidated Financial Data | 12 |
| 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 12 |
| 7A. | Quantitative and Qualitative Disclosures about Market Risk | 18 |
| 8. | Financial Statements and Supplementary Data | 18 |
| 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 18 |
| 9A. | Controls and Procedures | 18 |
| 9B. | Other Information | 19 |
| | **PART III** | |
| 10. | Directors, Executive Officers and Corporate Governance | 19 |
| 11. | Executive Compensation | 19 |
| 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 19 |
| 13. | Certain Relationships and Related Transactions, and Director Independence | 19 |
| 14. | Principal Accounting Fees and Services | 19 |
| | **PART IV** | |
| 15. | Exhibits, Financial Statement Schedules | 20 |
| SIGNATURES | | 21 |

**PART I**

**ITEM 1. BUSINESS**

**OVERVIEW**

Headquartered in Jacksonville, Florida, Stein Mart is a national retailer offering the fashion merchandise, service and presentation of a better department or specialty store. Our focused assortment of merchandise features current season, moderate to better fashion apparel for women and men, as well as accessories, shoes and home fashions, all offered at prices competitive with off-price retail chains. Begun in the early 1900's as a single store in Greenville, Mississippi, we operated 278 stores in 30 states and an internet store as of January 30, 2016. Stein Mart, Inc. became a Florida corporation in 1992. Prior to 1992, Stein Mart, Inc. was incorporated in Mississippi.

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

**KEY STRATEGIC OBJECTIVES**

Our mission is to provide current season, first-quality fashion apparel, shoes, accessories and home fashion merchandise at prices comparable to off-price retail chains in a convenient, attractive, easy-to-shop location. We believe our success and future growth will depend on the consistent execution of the following:

- Having a desirable, current season assortment of designer, brand name, exclusive and proprietary fashion apparel, accessories and home fashion merchandise,
- Sourcing a wide range of key brands and maintaining strong partnerships with the vendors representing those brands,
- Offering everyday low prices on fashion merchandise through buying methodologies and low cost operations,
- Attracting repeat and new customers through marketing and advertising programs,
- Having an attractive store appearance, appealing merchandise presentation and on-demand customer service, similar to a department or specialty store,
- Opening new and maintaining current locations in regional, community and neighborhood shopping centers serving a more affluent customer, and
- Building and growing our e-commerce business.

**TARGET CUSTOMER**

Our target customers are women over 45 years old who are both style conscious and value seeking. She is typically married and college educated. She may be multi-cultural, works at least part-time in a professional position and has above-average household income.

**MERCHANDISING, PURCHASING AND PRICING**

Our fashion assortment is driven primarily by seasonal fashion trends and a focus on name brand and designer merchandise complemented by a select program of private label and proprietary/exclusive merchandise. In 2015, approximately 10% of our sales were from private label or proprietary/exclusive merchandise. We merchandise our stores based on individual store selling characteristics, seasonal buying fluctuations and regional preferences while maintaining mostly consistent assortments from store to store.

Our merchants purchase products from approximately 1,200 vendors. One of our vendors accounted for approximately 5% of our total purchases during 2015. We buy a majority of our merchandise at the same time and from many of the same manufacturers as traditional department/specialty stores although we generally do not require the same level of front and back-end vendor concessions, such as advertising allowances, return privileges and markdown allowances, which are common and significant in the department store industry. As a result, we believe that our buyers are able to negotiate more favorable upfront pricing terms from vendors. We also purchase merchandise opportunistically when we believe a combination of the product and the price makes it a compelling addition to our assortment. In both instances, we pass our savings on to our customers through everyday low pricing targeted to be competitive with off-price retail chains.

Our shoe department inventory is exclusively supplied and owned by DSW, Inc. ("DSW"). DSW's buyers determine each season's fashion footwear assortment. We operate the shoe department and receive a percentage of net revenue in accordance with a supply agreement (the "Supply Agreement"). Commissions from this leased department are included in net sales reported in our consolidated statements of income.

The following table reflects the percentage of our sales by major merchandise category, including shoe department sales, for the fiscal years indicated:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Ladies' and *Boutique* apparel | 46% | 45% | 45% |
| Ladies' accessories | 11% | 11% | 11% |
| Men's | 19% | 19% | 20% |
| Home | 13% | 13% | 13% |
| Shoes | 7% | 7% | 7% |
| Other | 4% | 5% | 4% |
| | 100% | 100% | 100% |

**LOCATIONS, GROWTH STRATEGY AND STORE APPEARANCE**

On January 30, 2016, we operated 278 stores in 30 states and an internet store. Our stores are located in the Northeast, Midwest, Southeast, Texas and the Southwest. We are most fully concentrated in the Southeast and Texas where 186 of our stores are located. Most locations are in neighborhood, community and regional shopping centers frequented by a more affluent customer. Our optimal co-tenants within these shopping centers cater to a similar target customer and include highly-frequented retail formats such as other apparel retailers, higher-end grocers and restaurants. All Stein Mart locations, including the corporate headquarters and distribution centers, are leased.

We selectively seek additional store locations that strengthen our portfolio in current as well as new markets. We utilize regional tenant representative brokers to help us identify potential sites for new or relocated stores. New and relocated store decisions are supported by independent sales forecasts, and approved by a real estate committee made up of senior level executives.

In recent years, our prototypical store is approximately 32,000 gross square feet, down from 35,000 gross square feet primarily due to smaller backrooms resulting from a change in our distribution process. They have a racetrack design, convenient centralized check-out, and individual dressing rooms. We display merchandise in lifestyle groupings of apparel and accessories, which we believe enables the customer to locate desired merchandise in a manner that encourages multiple purchases. We seek to create excitement in our stores through the continual flow of fashion merchandise, targeted sales promotions, store layout, merchandise presentation, and the quality, value and depth of our merchandise assortment.

**E-COMMERCE**

We sell merchandise offerings on www.steinmart.com. The website allows customers to make online purchases of much of the same product offered in our stores along with some online exclusive products. The website also provides information for customers regarding store locations, brands, products and selected sales promotion activity. Visitors to our website may apply for our credit card, sign up to be Preferred Customers, sign up for email notifications, and purchase gift cards. Internet sales in 2015 amounted to approximately 1.7% of our total sales. Internet sales in 2014 were 1% of total sales and less than 1% of our total sales in 2013. The warehousing and distribution for e-commerce is managed by a third-party provider and, in some cases, our vendors.

**CUSTOMER SERVICE**

Our stores offer many services typically found in better department or specialty stores, such as merchandise locator service, a Preferred Customer program, co-branded and private label credit card programs, and electronic gift cards. Each store is staffed with a number of sales associates to provide on-demand customer service. Our stores have their own *Boutique*, generally staffed by specially-recruited consultants. We believe this staffing approach adds credibility and fashion integrity to the department.

**MARKETING**

Our marketing efforts are focused on deepening our relationship with our best customers in order to increase our share of her spending as well as seeking new customers. We engage in periodic market research, including accessing our proprietary customer panel, to identify how best to reach each of these audiences and, in consultation with our outside advertising and direct-marketing agencies, we adjust our marketing focus accordingly.

Our advertising stresses upscale fashion merchandise at discount prices. We utilize a combination of full-color circulars (both inserted in newspapers and mailed directly to homes), direct mail, newspaper run of press advertising, and email to distribute our sales promotion messages. To reach a broader audience, increase brand awareness and drive promotional events, we use both television and radio advertising. We utilize digital media, primarily paid search, comparison shopping engines, affiliate marketing and display advertising to increase brand awareness and drive traffic to our e-commerce site. We also use social networking sites, including Facebook, Twitter and blogs.

Our Preferred Customer Card Program is an important marketing tool. Preferred Customer Card customers receive preview copies of select circulars mailed to their home, members only shopping days, birthday discounts and special email announcements. This program provides useful database information regarding customer preferences, habits and advertising receptivity. All Stein Mart Credit Card holders are members of our Preferred Customer Card program.

**STEIN MART CREDIT CARDS**

Stein Mart has both Co-Branded MasterCard and Private Label Credit Cards available for our customers based on credit approvals. These cards are issued by our business partner, Synchrony Financial, who bears all credit risk. Synchrony Financial provides us certain direct financial benefits based on sales on the card and other factors.

Stein Mart Credit Card holders receive advance notice of sales events and special promotional offers including Extra Savings Events which occur periodically throughout the year and provide incremental savings on purchases made with the Stein Mart Credit Card during these events. Stein Mart Co-Branded Credit Card holders also participate in the credit card rewards program, which provides for an incentive in the form of reward certificates based on their cumulative purchases made on the credit card.

**COMPETITION**

Our primary competitors are department and specialty stores, as well as conventional off-price retail chains. From our customer's perspective, we believe we differentiate ourselves from department stores and specialty stores with our (i) everyday low pricing, (ii) convenient locations in shopping centers, and (iii) assortments that are more selective than department stores and more varied than specialty stores. We believe we differentiate ourselves from typical off-price retail chains by offering (i) primarily current season first-quality merchandise carried by better department or specialty stores, (ii) a stronger merchandising "statement," consistently offering more depth of color and size in individual stock-keeping units, (iii) merchandise presentation and customer service more comparable to upscale retailers and (iv) competitive price levels.

**DISTRIBUTION**

Our logistics network ("supply chain") consists of consolidation centers ("CC's") located in the Atlanta, Los Angeles and New Jersey areas, and store distribution centers ("SDC's") located in the Atlanta, Dallas, and Los Angeles areas. Approximately 55% of the vendor shipments are aggregated at the CC's and then shipped to the SDC's with the remaining 45% moving directly from vendors to SDC's. The SDC's receive, check and prepare the merchandise to ensure it is floor ready for our stores. The SDC's are automated and virtually all of our vendors are electronic data interchange ("EDI") capable so we are able to cross-dock a high percentage of our receipts. Store deliveries are made by contract carriers once or twice a week depending on location and store volume. The New Jersey CC is the only facility managed by a third-party logistics provider.

**EMPLOYEES**

As of January 30, 2016, our work force consisted of approximately 11,000 employees (5,700 40-hour equivalent employees). Each of our stores employs an average of 37 persons. The number of employees fluctuates during the year based on the particular selling season.

**SEASONALITY**

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.

**TRADEMARKS**

We own the federally registered trademark Stein Mart®, together with a number of other marks used in conjunction with our private label merchandise program. Management believes that our trademarks are important, but, with the exception of Stein Mart®, not critical to our merchandising strategy.

**AVAILABLE INFORMATION**

Copies of our annual reports on Form 10-K, proxy statements, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those filings are available, free of charge, on our investor relations website at http://ir.steinmart.com (click on "SEC Filings"). Also available free of charge on the investor relations website are the charters for the Audit Committee, Compensation Committee, and Corporate Governance Committee, as well as the Code of Conduct, Corporate Governance Guidelines, Articles of Incorporation and the Conflict Minerals Policy (click on "Charters & Documents"). Paper copies of these items are available free of charge upon request by writing Stein Mart, Inc., 1200 Riverplace Boulevard, Jacksonville, FL 32207, Attention: Investor Relations.

**ITEM 1A. RISK FACTORS**

Our results of operations and financial condition can be adversely affected by numerous risks and uncertainties. In evaluating the Company, the risks and uncertainties described below and the matters described in "Forward-Looking Statements" should be considered carefully. Should any of these risks actually materialize, our business, financial condition, and future prospects could be negatively impacted.

**Our sales and operating results are affected by consumer sensitivity to economic conditions and world events**. The retail apparel business is dependent upon consumer spending and, as a fashion retailer, we rely on the expenditure of discretionary income for most, if not all, of our sales. Economic factors impacting consumer confidence and levels of consumer spending include levels of employment, the housing market, the stock market, prevailing interest rates, tax policies, personal bankruptcies, energy costs and availability and cost of credit. Consumer confidence is also affected by both domestic and international events. Deterioration in the level of consumer spending could have a material adverse effect on our results of operations.

**We face intense competition in the retail industry**. We face intense competition for customers from department stores, specialty stores, regional and national off-price retail chains and internet and mail-order retailers. Many of these competitors are larger and have significantly greater financial and marketing resources than we do. In addition, many department stores and other competitors have become more promotional and have reduced their price points. Certain department stores and certain of our vendors have opened outlet stores which offer merchandise at prices that are competitive with ours. Many of our competitors have significant internet sales. While we maintain an internet site, our internet sales currently comprise approximately 1.7% of our total sales. If we fail to successfully compete, our profitability and results of operations could be adversely affected.

**Unanticipated changes in fashion trends and changing consumer preferences may adversely affect our sales**. Our success depends in part upon our ability to anticipate and respond to changing consumer preferences and fashion trends in a timely manner. Although we attempt to stay abreast of the fashion tastes of our customers and provide merchandise that satisfies customer demand, fashion trends can change rapidly and we may not accurately anticipate shifts in fashion trends and adjust our merchandise mix to appeal to changing consumer tastes in a timely manner. If we misjudge the market for our products or are unsuccessful in responding to changes in fashion trends or in market demand, we could experience insufficient inventory levels and missed opportunities, or excess inventory levels and higher markdowns, either of which could have a material adverse effect on our financial condition and results of operations.

**Our ability to sustain profitable growth is subject to our successfully implementing strategic plans.** The success of our strategic plans is also dependent on the skills, experience, and efforts of our management and other associates and our success with third parties. Additional charges may be required if we are unable to successfully implement our plans or if we adopt new strategies for the future. There is no assurance that we will be able to successfully implement these strategic initiatives or that the implementation of changes will result in the benefits or costs savings at the levels that we anticipate or at all, which may result in an adverse impact on our business and financial results.

**Our advertising, marketing and promotional strategies may be ineffective**. Our profitability and results of operations may be materially affected by the effectiveness and efficiency of our marketing expenditures and our ability to select the right markets and media in which to advertise. In particular, we may not be successful in our efforts to create greater awareness of our stores and promotions, identify the most effective and efficient level of spending in each market and specific media vehicle, or determine the appropriate creative message and media mix for our advertising, marketing and promotional expenditures. While we utilize different types of media, newspapers are an important delivery vehicle for run of press promotional advertising and circular insertions. The newspaper business is under increasing economic pressure, and the demise of certain newspapers would jeopardize an important distribution method for our advertising. As readers shift away from newspapers, our success will depend more on our effective use of other forms of media for our advertising, marketing and promotional strategies. Our planned marketing expenditures may not result in increased revenues.

**We may be unable to raise additional capital, if needed, or to raise capital on favorable terms**. If our existing cash, cash generated from operations and funds available under our revolving credit agreement were insufficient to fund our future operations, including capital expenditures, or repay debt when it becomes due, we may need to raise additional funds through public or private equity or debt financing. If unfavorable capital or credit market conditions exist if and when we were to seek additional financing, we may not be able to raise sufficient capital on favorable terms or on a timely basis, if at all. Failure to obtain capital on acceptable terms when required could have a material adverse effect on our business including an inability to fund new growth and other capital expenditures.

**We may be unable to negotiate acceptable lease terms with current and potential landlords**. Our growth and success depends in part on our ability to renew and enter into new leases for successful stores. There is no assurance that we will be able to re-negotiate leases at similar or satisfactory terms at the end of the lease, and we could be forced to move or exit trade areas if another favorable arrangement cannot be made. There is also no assurance that we will be able to negotiate satisfactory terms on new or replacement stores.

**Under-performing stores can result in charges and expenses.** If individual stores underperform to the point that their future estimated cash flows will not cover our undepreciated fixed asset investment, we take an impairment charge. We also close certain under-performing stores, generally based on the lack of store profitability. Such closures subject us to costs, including lease termination payments and the write-down of leasehold improvements, equipment, furniture, fixtures and inventory. For early terminations, we may incur charges for asset writedowns and remain liable for future lease obligations which could adversely affect our profitability and results of operations.

**Because of our focus on keeping our inventory at the forefront of fashion trends, extreme and/or unseasonable weather conditions could force us to have higher inventory markdowns**. Our business is susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the fall season or cool weather during the spring season could render a portion of our inventory incompatible with those unseasonable conditions. Prolonged unseasonable weather conditions could have a material adverse effect on our business, financial condition and results of operations. In addition, extreme weather conditions over a prolonged period might make it difficult for our customers to travel to our stores, which could have a material adverse effect on our business, financial condition and results of operations.

**A lack of adequate sources of merchandise at acceptable prices may adversely affect our sales**. Our business is dependent to a significant degree upon our ability to purchase fashion and brand name merchandise, and to do so at acceptable wholesale prices. We continuously seek out buying opportunities and compete for these opportunities with other retailers. In the event of a further decrease in retail sales and the resulting pressure on manufacturers, the opportunities to purchase merchandise could become limited by the consolidation or demise of merchandise vendors. Our ability to obtain merchandise may also depend on manufacturers' ability to obtain vendor financing through banks and factoring companies. To the extent they are unable to secure sufficient credit, they may not be able to sell to us at acceptable terms. Although we do not depend on any single vendor or group of vendors and believe we can successfully compete in seeking out new vendors, the loss of key vendors could make it difficult for us to acquire sufficient quantities and an appropriate mix of merchandise, and to do so at acceptable prices which could have a material adverse effect on our results of operations.

**Increases in the price of merchandise could increase our costs which could negatively impact our margins**. The raw materials used to manufacture our goods are subject to availability constraints and price volatility caused by high demand for fabrics, supply conditions, government regulations, and other unpredictable factors. Our procurement of goods and services is subject to the effects of price increases which we may or may not be able to pass through to our customers. Additionally, procurement of our merchandise is subject to increases in demand for, or the price of, raw materials, services and labor. All of these factors may affect our ability to access suitable merchandise on acceptable terms, are beyond our control and could negatively impact our results of operations.

**We are dependent on certain key personnel and our ability to attract and retain qualified employees and increases in the cost of employee compensation and benefits could impact our financial results and cash flows**. Our business is dependent on attracting and retaining quality employees. Many of our employees are in entry level or part-time positions with historically high rates of turnover. We also face challenges in recruiting and retaining talent in other areas, including management, accounting and information technology for reasons such as talent availability in our geographic areas and otherwise. Our ability to meet our labor needs while controlling our labor costs, including hourly wages and costs of providing retirement, health and other employee benefits, and hiring and training new employees is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation, changing demographics, health and other insurance costs, including health care legislation.

**The seasonality of our business and fluctuations in sales and operating results could cause volatility in the price of our common stock**. Our business is seasonal with our highest sales occurring in the first and fourth quarters, which include the spring and holiday seasons. Our annual operating results depend significantly upon sales generated during these quarters, and any factor that negatively impacts these selling seasons could have a material adverse effect on our results of operations for the entire year. Comparable store sales and quarterly operating results have fluctuated in the past and are expected to continue to fluctuate in the future. Our stock price is influenced by these financial fluctuations, as well as other factors, including economic conditions, timing of promotional events, actions of competitors, inventory management, changes in fashion trends and unseasonable weather conditions.

**If we experience any business interruptions or disruptions in the distribution process, our profitability could be materially impacted.** We may not anticipate, respond adequately to or control all of the challenges of operating our distribution operations. In the event that the orderly receipt and distribution of merchandise is disrupted, including by labor disputes at ports of entry, impeding the timeliness or fulfillment quality of the products being distributed, or any of our distribution centers becomes inaccessible, or is otherwise not fully usable, it would have a material adverse effect on our ability to distribute our products, which in turn would have a material adverse effect on our sales, profitability, financial condition and operating performance.

**We are subject to risks associated with importing merchandise from other countries.** Much of the fashion and brand name merchandise we acquire, either directly or through vendors, is sourced from various foreign countries. Political or financial instability, terrorism, trade restrictions, tariffs, currency exchange rates, raw material shortages, disruptions, strikes, work stoppages and other factors beyond our control could affect the availability of our merchandise inventory. Additionally, while our internal policies require our vendors and the third parties from whom they source merchandise to comply with all applicable laws and regulations, we do not have the ability to control our vendors, their manufacturers or their employment and business practices. The failure of our vendors and their suppliers to comply with applicable laws, or the use of labor practices which deviate from those which generally are considered ethical in the United States, could affect the availability and price of merchandise, damage our reputation or otherwise have a material adverse effect on our sales, profitability, financial condition and operating performance.

**Failure of information technology could disrupt operations and harm our business**. The operation of our business and the effective execution of our merchandising and distribution strategies as well as our financial reporting processes are dependent in large measure on the effectiveness of our information technology systems as well as those of external service providers. The reliability and capacity of these technology systems are critical and any disruptions may have a material adverse impact on our business.

**Unauthorized disclosure of sensitive or confidential customer or employee information could severely damage our reputation, expose us to risks of litigation and liability, disrupt our operations and harm our business**. As part of our normal course of business, we collect, process and retain sensitive and confidential customer and employee information and we process customer credit card and check information. In addition, we accept and transmit credit card applications through our retail locations. We also rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential information. The systems we utilize for credit card transactions, as well as the technology utilized in such transactions, are determined and controlled by the credit card industry. Breaches of security measures at major retailers have resulted in the theft and dissemination of the confidential information of millions of customers throughout the United States. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by us or our service providers, could severely damage our reputation, expose us to risks of litigation and liability, disrupt our operations and harm our business and results of operations.

**We rely on a single supplier for shoes sold by our shoe department and disruptions with that supplier could materially affect our reputation, operations or financial results.** We have an agreement with DSW to be the exclusive supplier of shoes sold in our shoe departments. We rely on DSW to determine the quantity and mix of shoes to be sold, the prices at which such items are to be sold and the fulfillment and continuing supply of inventory. If DSW was unable to provide us with sufficient amounts of inventory or inventory that meets the fashion preferences of our customers or if DSW was unable to continue being our supplier of shoes, we may attract fewer customers and experience a loss in net sales, which could materially affect our reputation, operations or financial results.

**A single third-party provider created, operates and maintains our e-commerce website operations, and disruptions with the provider or in the services it provides to us could adversely affect our reputation, operations or financial results.** We have contracted with a single third party to create, operate and host our e-commerce website and provide related order fulfillment and customer service. We rely on that party's operational, privacy and security procedures and controls to operate and host our e-commerce business. Failure by such third party to adequately service these aspects of our e-commerce business could result in a prolonged disruption that affects our customers' ability to utilize our website or receive product in a timely manner. As a result, we may lose customer sales and/or experience increased costs, which could affect our reputation, operations or financial results. In addition, the e-commerce operations also involve other risks that could have an impact on our results of operations including but not limited to diversion of sales from our physical stores, liability for online content, credit card fraud and risks related to the failure of the computer systems that operate the website and its related support systems, any of which could have an adverse effect on our business.

**Acts or threats of terrorism, violence or unfavorable political conditions could harm our business**. Acts of terrorism or war may disrupt commerce and undermine consumer confidence, which could negatively impact our sales by causing consumer spending to decline. Also, an act of terrorism or war, or the threat thereof, could negatively impact our business by interfering with our ability to obtain merchandise from vendors. Inability to obtain merchandise from our vendors or substitute suppliers at similar costs in a timely manner could have a material adverse effect on our operating results and financial condition.

**Failure to comply with legal and regulatory requirements may adversely impact our business and results of operations.** Our business is subject to many legal and regulatory requirements, including, among others, employment, trade, healthcare, tax, securities and privacy laws and regulations. Our policies, procedures and internal controls are designed to help us comply with all applicable laws; however, the current high level of regulatory changes across many different areas and jurisdictions has led, and may continue to lead, to substantial new regulations and disclosure obligations. Additional legal or regulatory requirements or more stringent interpretations of applicable requirements could increase the complexity of the regulatory environment in which we operate and the cost of compliance. Failure to comply with the various laws and regulations, as well as changes in laws and regulations, could have an adverse impact on our reputation, operations or financial results.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**
**Stores**

The following table summarizes our store count activity during the last three fiscal years:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Stores at beginning of year | 270 | 264 | 263 |
| Stores opened during the year | 10 | 9 | 4 |
| Stores closed during the year | (2) | (3) | (3) |
| Stores at end of year | 278 | 270 | 264 |

As of January 30, 2016, our stores operated in the following 30 states:

| State | Number of Stores | State | Number of Stores |
|---|---|---|---|
| Alabama | 8 | Missouri | 3 |
| Arizona | 11 | Nevada | 5 |
| Arkansas | 2 | New Jersey | 5 |
| California | 26 | New Mexico | 1 |
| Colorado | 3 | New York | 4 |
| Florida | 43 | North Carolina | 20 |
| Georgia | 14 | Ohio | 8 |
| Illinois | 4 | Oklahoma | 4 |
| Indiana | 7 | Pennsylvania | 4 |
| Kansas | 2 | South Carolina | 12 |
| Kentucky | 2 | Tennessee | 12 |
| Louisiana | 8 | Texas | 44 |
| Massachusetts | 1 | Utah | 1 |
| Michigan | 2 | Virginia | 15 |
| Mississippi | 6 | Wisconsin | 1 |

We lease all of our store locations, generally for 10 years with options to extend the lease term for two or more 5-year periods. We have the right to terminate some of these leases before the expiration date under specified circumstances and some with specified termination payments. Most of our leases provide for fixed minimum rents, as well as contingent amounts based on a percentage of sales in excess of specified levels.

As of January 30, 2016, we leased the following additional facilities:

| Facility | Location | Square Feet |
|---|---|---|
| Distribution | Lithia Springs, Georgia | 342,000 |
| Distribution Centers: | Ontario, California | 91,000 |
| | Grand Prairie, Texas | 99,000 |

We also lease our 109,000 square foot corporate headquarters in Jacksonville, Florida.

As of January 30, 2016, the current terms of our 278 stores (assuming we exercise all lease renewal options) were as follows:

| Years Lease Term Expire | Number of Leases Expiring |
|---|---|
| 2016 | 1 |
| 2017-2020 | 11 |
| 2021-2025 | 52 |
| 2026-2030 | 72 |
| 2031 and later | 142 |

## ITEM 3. LEGAL PROCEEDINGS

We are involved in various routine legal proceedings incidental to the conduct of our business. Management, based upon the advice of outside legal counsel, does not believe that these routine legal proceedings will have a material adverse effect on our financial condition, results of operations or cash flows. Also see Note 9 of the Notes to the Consolidated Financial Statements.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

### Market Price and Related Matters

Our common stock trades on The NASDAQ Global Select Market ("NASDAQ") under the trading symbol "SMRT". On March 18, 2016, there were 826 shareholders of record. The following table sets forth the high and low sales prices of our common stock per NASDAQ and our quarterly cash dividends per common share for each quarter in the years ended January 30, 2016 and January 31, 2015:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | High | Low | Dividend | High | Low | Dividend |
| First Quarter | $16.65 | $11.62 | $5.075 | $14.78 | $11.53 | $0.050 |
| Second Quarter | 12.20 | 9.77 | 0.075 | 14.36 | 11.56 | 0.075 |
| Third Quarter | 11.48 | 8.45 | 0.075 | 13.91 | 11.25 | 0.075 |
| Fourth Quarter | 9.15 | 6.07 | 0.075 | 15.45 | 12.85 | 0.075 |

### Dividends

In 2015, we paid a special dividend of $5 per common share on February 27, 2015 and a quarterly dividend of $0.075 per common share on April 17, 2015, July 17, 2015, October 16, 2015 and January 15, 2016. In 2014, we paid a quarterly dividend of $0.05 per common share on April 18, 2014 and $0.075 per common share on July 18, 2014, October 17, 2014 and January 16, 2015.

On March 15, 2016, the Company announced that its Board of Directors declared a quarterly dividend of $0.075 per common share which will be paid on April 15, 2016 to shareholders of record on April 1, 2016.

### Issuer Purchases of Equity Securities

The following table provides information regarding repurchases of our common stock during the quarter ended January 30, 2016:

ISSUER PURCHASES OF EQUITY SECURITIES

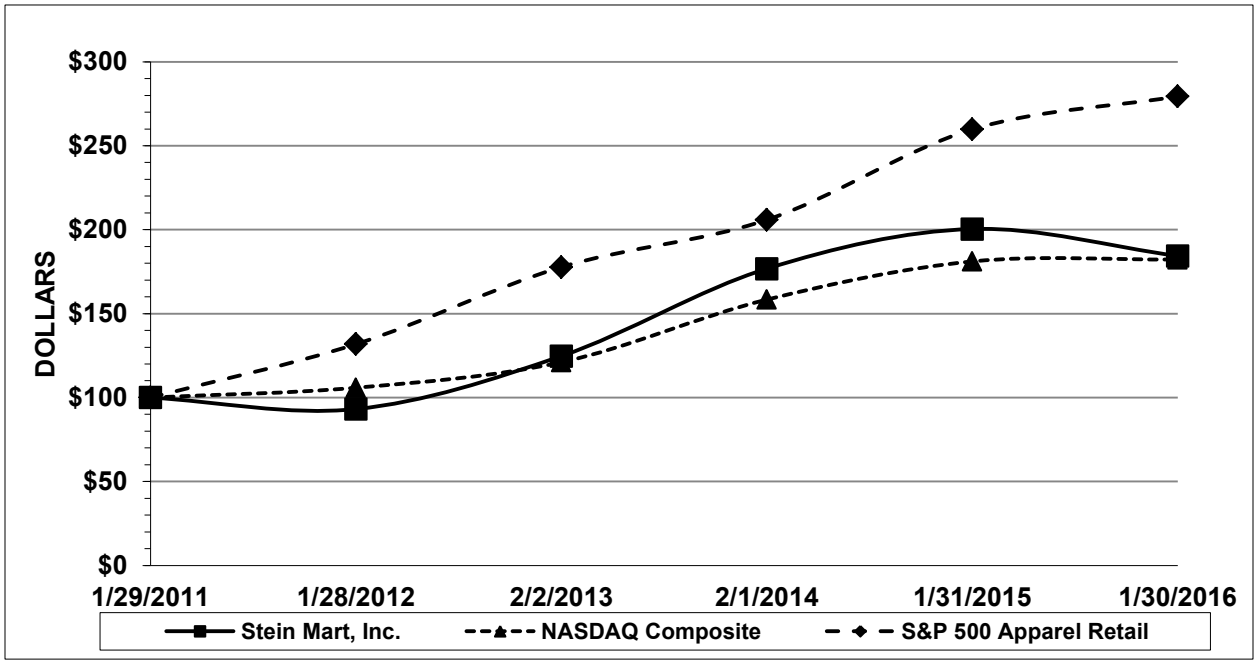
| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs (1) | Maximum number of shares that may yet be purchased under the plans or programs (1) (2) |
|---|---|---|---|---|
| November 1, 2015 - November 28, 2015 | 593 | 7.37 | 593 | 268,702 |
| November 29, 2015 - January 2, 2016 | 1,517 | 7.55 | 1,517 | 767,185 |
| January 3, 2016 - January 30, 2016 | 46,311 | 7.36 | 46,311 | 720,874 |
| Total | 48,421 | $7.36 | 48,421 | 720,874 |

(1) Our Open Market Repurchase Program is conducted pursuant to authorizations made from time to time by our Board of Directors. For the quarter ended January 30, 2016, all shares purchased related to withholding taxes due on the vesting of employee stock awards.

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

**Performance Graph**

The following graph compares the cumulative five-year shareholder return on our common stock with the cumulative total return to the NASDAQ Composite Index and the S&P 500 Apparel Retail Index. The comparison assumes $100 was invested at the beginning of the five year period in Stein Mart, Inc. stock and in each of the indices shown and assumes reinvestment of any dividends.




| | 1/29/2011 | 1/28/2012 | 2/2/2013 | 2/1/2014 | 1/31/2015 | 1/30/2016 |
|---|---|---|---|---|---|---|
| Stein Mart, Inc. | $100.0 | $93.2 | $124.7 | $176.8 | $200.4 | $184.4 |
| NASDAQ Composite | 100.0 | 105.9 | 121.1 | 158.4 | 181.1 | 182.3 |
| S&P 500 Apparel Retail | 100.0 | 131.8 | 177.8 | 205.9 | 259.8 | 279.4 |

* * * * *

*The stock performance graph should not be deemed filed or incorporated by reference into any other filings made by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the stock performance graph by reference in another filing.*

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA** (Dollars in Thousands, Except Per Share and Per Square Foot Data)

**Consolidated Statement of Operations Data:**

| | 2015 | 2014 | 2013 | 2012 (1) | 2011 |
|---|---|---|---|---|---|
| Net sales | $1,359,901 | $1,317,677 | $1,263,571 | $1,232,366 | $1,177,951 |
| Cost of merchandise sold | 974,614 | 930,941 | 896,218 | 889,736 | 858,335 |
| Gross profit | 385,287 | 386,736 | 367,353 | 342,630 | 319,616 |
| Selling, general and administrative expenses | 343,724 | 342,027 | 326,520 | 306,407 | 287,184 |
| Operating income | 41,563 | 44,709 | 40,833 | 36,223 | 32,432 |
| Interest expense, net | 3,283 | 266 | 265 | 225 | 286 |
| Income before income taxes | 38,280 | 44,443 | 40,568 | 35,998 | 32,146 |
| Income tax expense | 14,569 | 17,537 | 15,013 | 10,971 | 12,215 |
| Net income | $ 23,711 | $ 26,906 | $ 25,555 | $ 25,027 | $ 19,931 |
| Basic income per share | $ 0.52 | $ 0.60 | $ 0.58 | $ 0.57 | $ 0.45 |
| Diluted income per share | $ 0.51 | $ 0.59 | $ 0.57 | $ 0.57 | $ 0.44 |
| Cash dividends paid per share | $ 5.30 | $ 0.275 | $ 0.15 | $ 1.00 | $ - |
| **Consolidated Operating Data:** | | | | | |
| Stores open at end of period | 278 | 270 | 264 | 263 | 262 |
| Sales per store including gross shoe department (1)(2)(4) | $ 5,215 | $ 5,217 | $ 5,085 | $ 4,949 | $ 4,793 |
| Sales per store including net shoe department (2)(3)(4) | $ 4,900 | $ 4,911 | $ 4,783 | $ 4,652 | $ 4,500 |
| Sales per square foot including gross shoe department (1)(2)(4 | $ 177 | $ 177 | $ 173 | $ 167 | $ 161 |
| Comparable store net sales increase (decrease) (4) | 1.0% | 3.3% | 3.7% | 2.7% | (1.1)% |
| **Consolidated Balance Sheet Data:** | | | | | |
| Working capital | $ 136,884 | $ 171,140 | $ 160,958 | $ 136,352 | $ 172,898 |
| Total assets | 516,225 | 549,827 | 524,258 | 491,709 | 479,583 |
| Long-term debt | 180,150 | - | - | - | - |
| Capital lease obligations/long-term | - | - | - | - | 1,480 |
| Total shareholders' equity | 76,317 | 284,938 | 264,401 | 234,034 | 249,671 |

(1) 2012 is a 53-week year; all others are 52-week years. Sales per store and sales per square foot for 2012 have been adjusted to exclude the 53rd week.

(2) These sales per store and sales per square foot amounts include gross shoe department sales, which are reported net in our net sales. Sales per store is calculated by dividing (a) total sales including shoe department gross sales for stores open at the end of the year, excluding stores open for less than 12-months by (b) the number of stores open at the end of such period, exclusive of stores open for less than 12 months. Sales per square foot includes shoe department gross sales and selling space and excludes administrative, receiving and storage areas. Internet sales are excluded from the calculation.

(3) These sales per store amounts include shoe department commissions, which are included in our net sales. Sales per store is calculated by dividing (a) total sales including shoe department net sales for stores open at the end of the year, excluding stores open for less than 12-months by (b) the number of stores open at the end of such period, exclusive of stores open for less than 12 months. Internet sales are excluded from the calculation.

(4) Comparable store sales information for a period reflects stores open throughout that period and for the same 52-week period in the prior year and internet sales, except for the year 2012. Comparable store net sales increase for 2012 compares sales for the 52 weeks ended January 26, 2013 to the 52 weeks ended January 28, 2012. Comparable store sales does not include leased department commissions.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with our audited Consolidated Financial Statements and notes thereto included elsewhere in this Form 10-K. The following discussion and analysis contains forward-looking statements which involve risks and uncertainties, and our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the table of contents.

**Overview**

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

**2015 Highlights**

Comparable store sales for 2015 increased 1.0% compared to 2014 and total sales increased 3.2%. Net income for 2015 was $23.7 million or $0.51 per diluted share compared to $26.9 million or $0.59 per diluted share for 2014.

Cash and cash equivalents at year-end 2015 was $11.8 million compared to $65.3 million at year-end 2014. Our 2015 balance sheet reflects our increased investment in inventories, capital expenditures of $44.4 million, payment of a special dividend at $5.00 per share and

four quarterly dividends at $0.075 per share totaling $239.1 million during 2015.

On February 3, 2015, we entered into a $250 million second amended and restated credit agreement with Wells Fargo Bank (the "New Credit Agreement") and a $25 million master loan agreement with Wells Fargo Equipment Finance, Inc. (the "Equipment Term Loan" and, together with the New Credit Agreement, the "Credit Facilities"). The Credit Facilities replaced the Company's former $100 million senior secured revolving credit facility.

On February 27, 2015 the Company paid a special cash dividend of $5.00 per common share. The payment made in connection with this dividend was approximately $226 million, and was funded by existing cash and initial borrowings of $185 million on our $275 million Credit Facilities.

Direct borrowings on our Credit Facilities were $190.2 million at year end 2015. We had no direct borrowings on our revolving credit agreement as of January 31, 2015.

**2016 Outlook**
For 2016, we expect sales increases to leverage against our efficient expense structure to continue driving earnings, particularly as we add stores.

We expect the following factors to influence our business in 2016:

- Current 2016 plans are to open at least 12 new stores, relocate two stores and close one store, for an increase of at least 11 net new stores.
- New stores should increase sales an estimated 4% above our comparable store sales increases for the year.
- The gross profit rate is expected to be 50 basis points higher than 2015.
- Selling, general and administrative expenses ("SG&A") are expected to be approximately $370 million with the increase primarily due to new stores, higher incentive compensation and planned payroll increases.
- Interest expense is estimated to be about the same as in 2015.
- The effective tax rate for the year is estimated to be approximately 38.5%.
- Capital expenditures for 2016 are expected to be approximately $43 million, or $33 million net of tenant improvement allowances.

**2013 Change in Accounting Estimate**
During the fourth quarter of 2013, we refined our estimation of the buying and distribution costs allocated to inventories. This change lowered the percentage of expenses allocated to inventory purchases. The decrease in the allocation of costs to inventories resulted in a $5.0 million pretax non-cash charge ($3.1 million after-tax or $0.07 per diluted share), comprised of a $15.0 million increase in SG&A and a $10.0 million increase in gross profit.

**Results of Operations**
The following table sets forth each line item of the Consolidated Statements of Income expressed as a percentage of net sales:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Net sales | 100.0% | 100.0% | 100.0% |
| Cost of merchandise sold | 71.7% | 70.7% | 70.9% |
| Gross profit | 28.3% | 29.3% | 29.1% |
| Selling, general and administrative expenses | 25.3% | 26.0% | 25.9% |
| Operating income | 3.0% | 3.3% | 3.2% |
| Interest expense, net | 0.2% | 0.0% | 0.0% |
| Income before income taxes | 2.8% | 3.3% | 3.2% |
| Income tax expense | 1.1% | 1.3% | 1.2% |
| Net income | 1.7% | 2.0% | 2.0% |

## 2015 Compared to 2014

**Net Sales.** The following table provides net sales for fiscal 2015 compared to fiscal 2014 (dollar amounts in thousands):

| | 2015 | 2014 | Increase |
|---|---|---|---|
| Net sales | $1,359,901 | $1,317,677 | $ 42,224 |
| Sales percent increase: | | | |
| Total net sales | | | 3.2% |
| Comparable store sales | | | 1.0% |

The increase in comparable store sales was driven by increases in average units per transaction and average unit retail prices, partially offset by a decrease in the number of transactions. Comparable store sales reflects stores open throughout the period and prior fiscal year and includes internet sales. Internet sales contributed approximately 0.7% to the comparable store sales. Comparable store sales does not include leased department commissions.

**Gross Profit.** The following table compares gross profit for fiscal 2015 to fiscal 2014 (dollar amounts in thousands):

| | 2015 | 2014 | Decrease |
|---|---|---|---|
| Gross profit | $ 385,287 | $ 386,736 | $ (1,449) |
| Percentage of net sales | 28.3% | 29.3% | (1.0)% |

The gross profit rate decreased primarily due to higher markdowns incurred during the fourth quarter, which included markdowns on remaining fall seasonal inventories which were at higher levels at the end of this year compared to last year, due to lower than planned sales.

**Selling, General and Administrative Expenses.** The following table compares SG&A for fiscal 2015 to fiscal 2014 (dollar amounts in thousands):

| | 2015 | 2014 | Increase/ (Decrease) |
|---|---|---|---|
| Selling, general and administrative expenses | $ 343,724 | $ 342,027 | $ 1,697 |
| Percentage of net sales | 25.3% | 26.0% | (0.7)% |

SG&A increased $1.7 million primarily as the result of higher store selling expenses of $4.2 million due to new stores and planned payroll increases, $2.0 million of lower costs capitalized to inventory, $1.2 million of higher advertising expenses, and $1.1 million of higher ecommerce related expenses. These increases were offset by $4.4 million of lower corporate compensation and benefits, $4.0 million of lower expenses associated with the SEC investigation as well as higher credit card program income.

**Interest Expense.** The following table compares interest expense for fiscal 2015 to fiscal 2014 (dollar amounts in thousands):

| | 2015 | 2014 | Increase |
|---|---|---|---|
| Interest expense | $ 3,283 | $ 266 | $ 3,017 |
| Percentage of net sales | 0.2% | 0.0% | 0.2% |

Interest expense increased due to borrowings in 2015 on our Credit Facilities. Borrowings under the Credit Facilities were initially used to fund part of the $5 per share special dividend.

**Income Taxes.** The following table compares income tax expense for fiscal 2015 to fiscal 2014 (dollar amounts in thousands):

| | 2015 | 2014 | Decrease |
|---|---|---|---|
| Income tax expense | $ 14,569 | $ 17,537 | $ (2,968) |
| Effective tax rate ("ETR") | 38.1% | 39.5% | (1.4)% |

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. The effective rate is impacted by changes in law, location of new stores, level of earnings, and the resolution of tax positions with various taxing authorities.

## 2014 Compared to 2013

**Net Sales.** The following table provides net sales for fiscal 2014 compared to fiscal 2013 (dollar amounts in thousands):

| | 2014 | 2013 | Increase |
|---|---|---|---|
| Net sales | $1,317,677 | $1,263,571 | $ 54,106 |
| Sales percent increase: | | | |
| Total net sales | | | 4.3% |
| Comparable store sales | | | 3.3% |

The increase in comparable store sales was driven by increases in average units per transaction and average unit retail prices, partially offset by a decrease in the number of transactions. Comparable store sales reflects stores open throughout the period and prior fiscal year and includes internet sales. Internet sales contributed approximately 0.7% to the comparable store sales. Comparable store sales does not include leased department commissions.

**Gross Profit.** The following table compares gross profit for fiscal 2014 to fiscal 2013 (dollar amounts in thousands):

| | 2014 | 2013 | Increase |
|---|---|---|---|
| Gross profit | $ 386,736 | $ 367,353 | $ 19,383 |
| Percentage of net sales | 29.3% | 29.1% | 0.2% |

The gross profit rates increased primarily due to an approximate $5.0 million impact of the fourth quarter fiscal 2013 change in accounting estimate for buying and distribution costs allocated to inventories as well as higher markup. These were somewhat offset by higher occupancy costs, principally due to new stores and lower e-commerce margins which include third party fulfillment costs. The higher occupancy costs include preopening costs.

**Selling, General and Administrative Expenses.** The following table compares SG&A for fiscal 2014 to fiscal 2013 (dollar amounts in thousands):

| | 2014 | 2013 | Increase |
|---|---|---|---|
| Selling, general and administrative expenses | $ 342,027 | $ 326,520 | $ 15,507 |
| Percentage of net sales | 26.0% | 25.9% | 0.1% |

SG&A increased $15.5 million primarily as the result of higher store selling expenses of $5.0 million due to new stores and planned payroll increases, $4.3 million in higher healthcare costs due to unfavorable claims experience this year compared to favorable claims experience last year, $2.5 million of higher advertising expenses and $2.1 million of higher expenses associated with the SEC investigation. These increases were somewhat offset by lower earnings-based incentive compensation and higher credit card program income.

**Income Taxes.** The following table compares income tax expense for fiscal 2014 to fiscal 2013 (dollar amounts in thousands):

| | 2014 | 2013 | Increase |
|---|---|---|---|
| Income tax expense | $ 17,537 | $ 15,013 | $ 2,524 |
| Effective tax rate ("ETR") | 39.5% | 37.0% | 2.5% |

The effective tax rate for 2014 was negatively impacted by permanent differences which relate primarily to non-recurring non-deductible expenses. The effective tax rate for 2013 reflects a benefit for a change in our state tax effective rate.

**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 Credit Facilities. See Note 4 of the Consolidated Financial Statements for further discussion of these facilities. Working capital is used to support store inventories and capital investments for system improvements, new store openings and to maintain existing stores. 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. As of January 30, 2016, we had cash and cash equivalents of $11.8 million and $190.2 million in borrowings under our Credit Facilities. As of January 31, 2015, we had cash and cash equivalents of $65.3 million and no borrowings. Our cash and cash equivalents decreased materially due to use of such cash to fund a portion of the $5.00 per share special dividend paid in February 2015 and as a result we are now more reliant upon debt to fund our working capital needs.

The following table presents cash flows data for fiscal 2015, fiscal 2014 and fiscal 2013 (dollar amounts in thousands):

| Cash provided by (used in): | 2015 | 2014 | 2013 |
|---|---|---|---|
| Operating activities | $ 38,412 | $ 52,431 | $ 40,066 |
| Investing activities | $ (44,365) | $ (40,342) | $ (36,266) |
| Financing activities | $ (47,531) | $ (13,629) | $ (4,179) |

*Cash provided by operating activities*
Net cash provided by operating activities was $38.4 million for fiscal 2015 compared to net cash provided by operating activities of $52.4 million for fiscal 2014. The decrease in cash provided by operating activities for 2015 as compared to 2014 was primarily due to lower net income adjusted for other non-cash charges and additional investments in inventory and changes in accounts payable. These decreases were partially offset by changes in prepaid and accrued expenses, with the latter driven by higher accruals for income taxes.

*Cash used in investing activities*
Net cash used in investing activities included $44.4 million for capital expenditures. Capital expenditures in 2015 include approximately $22 million for opening and remodeling stores, including upgrades to fitting rooms, lighting, flooring and fixtures. The remaining capital amounts are primarily for systems improvements. Capital expenditures in 2014 and 2013 include approximately $14 million and $13 million, respectively, for systems improvements, with the largest portion for our new merchandise information system. The remaining capital amounts in 2014 and 2013 are for opening and remodeling stores.

We expect to invest approximately $43 million in capital expenditures in 2016 with $10 million for continuing information systems upgrades, $11.8 million for store remodels and $17.4 million for new and relocated stores. Each new store requires capital expenditures of approximately $0.5 million for fixtures and equipment, $0.7 million for leasehold improvements, $0.2 million for pre-opening expenses (excluding rent during the pre-opening term) and average $1 million for initial inventory investment (or $0.4 million net of accounts payable). Leasehold improvements generally are either paid for by the landlord or are reimbursed by the landlord through tenant improvement allowances and recognized as a reduction of rent on a straight-line basis over the lease term. Rent during the pre-opening term generally ranges from insignificant to $0.2 million with higher amounts attributable to situations where we have property access during the period we are managing construction.

*Cash used in financing activities*
Net cash used in financing activities was $47.5 million for fiscal 2015 compared to cash used in financing activities of $13.6 million for fiscal 2014. During 2015, we had proceeds from borrowings of $673.3 million and repayments of debt for $483.1 million. Borrowings under the Credit Facilities were initially used to pay a $5 per share special dividend. We paid cash dividends of $239.1 million during 2015. See Note 8 of the Notes to the Consolidated Financial Statements for further discussion. In addition, we repurchased shares of common stock for $3.6 million, received proceeds from the exercise of stock options of $1.3 million and received excess tax benefits from share-based compensation of $3.9 million. During 2014, we paid cash dividends of $12.3 million, repurchased shares of common stock for $4.1 million, received proceeds from the exercise of stock options of $0.9 million and received excess tax benefits from share-based compensation of $1.9 million.

We had no capital leases in 2015 or 2014. Capital lease payments were $2.2 million for 2013.

**Impact of Inflation**
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.

**Contractual Obligations**
The following table sets forth our contractual obligations at January 30, 2016 (dollar amounts in thousands):

| | Total | Less than 1 Year | 1 – 2 Years | 3 – 5 Years | After 5 Years |
|---|---|---|---|---|---|
| Operating leases | $ 492,502 | $ 93,094 | $ 82,385 | $ 177,724 | $ 139,299 |
| Debt | 190,233 | 10,000 | 10,833 | - | 169,400 |
| Total | $ 682,735 | $ 103,094 | $ 93,218 | $ 177,724 | $ 308,699 |

Other long-term liabilities on the balance sheet include the liability for deferred compensation, deferred taxes, postretirement benefit liability and other long-term liabilities. These items do not have specific due dates, so they are excluded from the preceding table. Our merchandise purchase orders are cancelable, and are therefore not included in the preceding table.

**Off-Balance Sheet Arrangements**

We have outstanding standby letters of credit totaling $6.4 million securing certain insurance programs at January 30, 2016. If specified conditions were to occur under these arrangements, we would be required to satisfy the obligations in cash. Due to the nature of these arrangements and based on historical experience, we do not expect to make any payments; therefore, the letters of credit are excluded from the preceding table. There are no other off-balance sheet arrangements that could affect our financial condition.

**Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, expenses and related disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience and other relevant factors, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. While we believe that the historical experience and other factors considered provide a meaningful basis for the accounting policies applied in the preparation of the consolidated financial statements, we cannot guarantee that our estimates and assumptions will be accurate, which could require adjustments of these estimates in future periods. A summary of the more significant accounting policies follows.

***Retail Inventory Method and Inventory Valuation.*** Inventories are valued using the lower of cost or market value, determined by the retail inventory method. Under the retail inventory method ("RIM"), the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of inventories. RIM is an averaging method that is widely used in the retail industry. The use of the retail inventory method results in valuing inventories at lower of cost or market as permanent markdowns are currently taken as a reduction of the retail value of inventories. Inherent in the RIM calculation are certain significant management judgments and estimates including, among others, merchandise markon, markup, markdowns and shrinkage, which significantly affect the ending inventory valuation at cost as well as the corresponding charge to cost of goods sold. In addition, failure to take appropriate permanent markdowns currently can result in an overstatement of inventory.

We perform physical inventory counts at all stores once per year, in either the summer or January. Included in the carrying value of merchandise inventories between physical counts is a reserve for estimated shrinkage. That estimate is based on historical physical inventory results. The difference between actual and estimated shrinkage may cause fluctuations in quarterly results, but was not significant in 2015 and 2014.

***Vendor Allowances.*** We receive allowances from some of our vendors primarily related to markdown reimbursement, damaged/defective merchandise and vendor compliance issues. Vendor allowances are recorded when earned. Allowances received from vendors related to profitability of inventory recently sold are reflected as reductions to cost of merchandise sold in the later of the period that the merchandise markdown is incurred or the allowance is negotiated. Allowances received from vendors related to damaged/defective inventory are reflected as reductions to the cost of merchandise as it is received. Allowances received due to vendors' failure to comply with our policies (primarily violations of shipping and merchandise preparation requirements) are reflected as a reduction of the cost of the merchandise when identified during the receiving process. Although it is unlikely that there will be a significant reduction in historical levels of vendor support, if a reduction were to occur, we could experience higher cost of merchandise sold.

***Impairment of Long-Lived Assets.*** Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors used in the review include management's plans for future operations, recent operating results and projected cash flows. For long-lived assets held for use, an impairment loss is recognized if the sum of the future undiscounted cash flows from the use of the assets is less than the carrying value of the assets (net of deferred rent credits). The amount of the impairment charge is the excess of the carrying value of the asset over its fair value. Impairment reviews are performed for individual stores during the fourth quarter, or more frequently should circumstances change. A significant decrease in cash flows could result in an increase in asset impairment charges. During 2015, 2014 and 2013, we recorded $2.0 million, $1.5 million and $2.2 million, respectively, in asset impairment charges.

***Store Closing Costs.*** We record costs associated with store closing activities when they are incurred, generally the cease-use date. Lease termination costs are recorded net of estimated sublease income that could reasonably be obtained for the properties. In the event we are not successful in subleasing closed store locations, additional store closing costs may be recorded. During 2015, we recorded a nominal amount of store closing costs, net of impairments. During 2014 and 2013, we recorded $1.0 million and $0.1 million, respectively, in store closing charges, net of impairments.

***Insurance Reserves.*** We use a combination of insurance and self-insurance for various risks including workers' compensation, general liability and associate-related health care benefits. We are responsible for paying the claims that are less than the insured limits. The reserves recorded for these claims are actuarially estimated based on claims filed and claims incurred but not reported. These reserve estimates are adjusted based upon actual claims filed and settled. The estimated accruals for these reserves could be significantly affected if future claims differ from historical trends and other actuarial assumptions. As of January 30, 2016 and January 31, 2015, insurance reserves of $18.2 million and $16.4 million, respectively, were included in Accrued expenses and other current liabilities and

Other liabilities in the accompanying Consolidated Balance Sheets. Historically, our actuarial estimates have not been materially different from actual results.

***Income Tax Reserves.*** We record liabilities for uncertain tax positions related to federal and state income taxes. These liabilities reflect our best estimate of our ultimate income tax liability based on the tax code, regulations, and pronouncements of the jurisdictions in which we do business. Estimating our ultimate tax liability involves significant judgments regarding the application of complex tax regulations across many jurisdictions. If actual results differ from estimated results, our effective tax rate and tax balances could be affected. As such, these estimates may require adjustment in the future as additional facts become known or as circumstances change.

For a complete listing of our significant accounting policies, see Note 1 of the Notes to Consolidated Financial Statements.

**Recent Accounting Pronouncements**
Recently issued accounting pronouncements are discussed in Note 1 of the Notes to the Consolidated Financial Statements.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**
We are exposed to interest rate risk primarily through borrowings under our $275 million Credit Facilities, which are at variable rates. Outstanding balances under the Credit Facilities bear interest at a variable rate based on Wells Fargo's base rate or LIBOR plus 1.00% (2.00% for the Equipment Term loan). We had weighted average borrowings of $154.4 million during fiscal 2015. Based on the average amount outstanding, a 100 basis point change in interest rates would result in an approximate $1.56 million annual change to interest expense.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**
The consolidated financial statements and the Report of Independent Registered Certified Public Accounting Firm thereon are filed pursuant to this Item 8 and are included in this report beginning on page F-1.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**
None

**ITEM 9A. Controls and Procedures**
**(a) Evaluation of Disclosure 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 January 30, 2016 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 as appropriate to allow timely decisions regarding required disclosure.

**(b) Management's Report on Internal Control Over Financial Reporting**
Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is designed 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of January 30, 2016 using the criteria set forth in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that our internal control over financial reporting was effective as of January 30, 2016.

The effectiveness of the Company's internal control over financial reporting as of January 30, 2016 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included on page F-1.

**Changes in Internal Control Over Financial Reporting**
There were no changes in the Company's 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, the Company's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**
None

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**
The information required by this item is incorporated herein by reference to the disclosure found in the Proxy Statement for our June 21, 2016 Annual Meeting of Shareholders.

We have adopted a code of conduct applicable to all of our officers, directors and employees, including the principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. The text of this code of conduct may be found on our investor relations website at http://ir.steinmart.com (click on "Charters & Documents"). We intend to post notice of any waiver from, or amendment to, any provision of our code of conduct on our website.

**ITEM 11. EXECUTIVE COMPENSATION**
The information required by this item is incorporated herein by reference to the disclosure found in the Proxy Statement for our June 21, 2016 Annual Meeting of Shareholders.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**
The information required by this item is incorporated herein by reference to the disclosure found in the Proxy Statement for our June 21, 2016 Annual Meeting of Shareholders.

**Equity Compensation Plan Information**
The following table presents information about our common stock that may be issued under equity-based compensation plans as of January 30, 2016:

| Plan Category | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (in thousands) | (b) Weighted-average exercise price of outstanding options, warrants and rights ($)(1) | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a)) (in thousands) |
|---|---|---|---|
| Equity compensation plans approved by shareholders | 2,363 | $ 5.48 | 3,221 |
| Equity compensation plans not approved by shareholders | - | - | - |
| Total | 2,363 | $ 5.48 | 3,221 |

(1) The weighted average exercise price does not take into account 1.3 million shares issuable related to restricted stock and performance share awards which have no exercise price.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**
The information required by this item is incorporated herein by reference to the disclosure found in the Proxy Statement for our June 21, 2016 Annual Meeting of Shareholders.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**
The information required by this item is incorporated herein by reference to the disclosure found in the Proxy Statement for our June 21, 2016 Annual Meeting of Shareholders.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) The following financial statements and exhibits are filed as part of this report or are incorporated herein as indicated.

1. List of Financial Statements


| | Page |
|---|---|
| Report of Independent Registered Public Accounting Firm | F–1 |
| Report of Independent Registered Public Accounting Firm | F–2 |
| Consolidated Balance Sheets | F–3 |
| Consolidated Statements of Income | F–4 |
| Consolidated Statements of Comprehensive Income | F–5 |
| Consolidated Statements of Shareholders' Equity | F–6 |
| Consolidated Statements of Cash Flows | F–7 |
| Notes to Consolidated Financial Statements | F–8 |


2. List of Financial Statement Schedules

All schedules are omitted because they are not applicable or the required information is presented in the financial statements or notes thereto.

3. List of Exhibits

See "Exhibit Index", which is incorporated herein by reference.

In reviewing the agreements included as exhibits to this report, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company, its subsidiaries or other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. We acknowledge that, notwithstanding the inclusion of the foregoing cautionary statements, we are responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading. Additional information about the Company may be found elsewhere in this report and the Company's other public files, which are available without charge through the SEC's website at http://www.sec.gov.

Unless otherwise indicated below, the Commission file number to the exhibit is No. 0-20052.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STEIN MART, INC.

Date: April 11, 2016

By: /s/ Dawn H. Robertson
**Dawn H. Robertson**
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on the 11th day of April, 2016.

/s/ Jay Stein
**Jay Stein**
Chairman of the Board

/s/ Susan Falk
**Susan Falk**
Director

/s/ John H. Williams, Jr.
**John H. Williams, Jr.**
Vice Chairman of the Board

/s/ Linda M. Farthing
**Linda M. Farthing**
Director

/s/ Dawn H. Robertson
**Dawn H. Robertson**
Chief Executive Officer and Director

/s/ Lisa Galanti
**Lisa Galanti**
Director

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

/s/ Mitchell W. Legler
**Mitchell W. Legler**
Director

/s/ Brently G. Baxter
**Brently G. Baxter**
Senior Vice President and Controller

/s/ Richard L. Sisisky
**Richard L. Sisisky**
Director

/s/ Irwin Cohen
**Irwin Cohen**
Director

/s/ Burton M. Tansky
**Burton M. Tansky**
Director

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders
Stein Mart, Inc.:

We have audited Stein Mart, Inc.'s internal control over financial reporting as of January 30, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Stein Mart's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A(b), Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Stein Mart, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 30, 2016, based on *Internal Control – Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Stein Mart, Inc. and subsidiaries as of January 30, 2016 and January 31, 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended January 30, 2016, and our report dated April 11, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

April 11, 2016
Jacksonville, Florida
Certified Public Accountants

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Stein Mart, Inc.:

We have audited the accompanying consolidated balance sheets of Stein Mart, Inc. and subsidiaries as of January 30, 2016 and January 31, 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended January 30, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stein Mart, Inc. and subsidiaries as of January 30, 2016 and January 31, 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended January 30, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stein Mart's internal control over financial reporting as of January 30, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 11, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

April 11, 2016
Jacksonville, Florida
Certified Public Accountants

# Stein Mart, Inc.
# Consolidated Balance Sheets

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

| | January 30, 2016 | January 31, 2015 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 11,830 | $ 65,314 |
| Inventories | 293,608 | 285,623 |
| Prepaid expenses and other current assets | 18,586 | 19,340 |
| Total current assets | 324,024 | 370,277 |
| Property and equipment, net | 162,954 | 148,782 |
| Other assets | 29,247 | 30,768 |
| Total assets | $ 516,225 | $ 549,827 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 105,569 | $ 129,924 |
| Current portion of debt | 10,000 | - |
| Accrued expenses and other current liabilities | 71,571 | 69,213 |
| Total current liabilities | 187,140 | 199,137 |
| Long-term debt | 180,150 | - |
| Deferred rent | 41,146 | 31,284 |
| Other liabilities | 31,472 | 34,468 |
| Total liabilities | 439,908 | 264,889 |
| COMMITMENTS AND CONTINGENCIES (Notes 5 and 9) | | |
| 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; 45,814,583 and 44,918,649 shares issued and outstanding, respectively | 458 | 449 |
| Additional paid-in capital | 42,801 | 34,875 |
| Retained earnings | 33,337 | 250,046 |
| Accumulated other comprehensive loss | (279) | (432) |
| Total shareholders' equity | 76,317 | 284,938 |
| Total liabilities and shareholders' equity | $ 516,225 | $ 549,827 |

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

# Stein Mart, Inc.
# Consolidated Statements of Income

(In thousands, except for per share amounts)

| | Year Ended January 30, 2016 | Year Ended January 31, 2015 | Year Ended February 1, 2014 |
|---|---|---|---|
| Net sales | $ 1,359,901 | $ 1,317,677 | $ 1,263,571 |
| Cost of merchandise sold | 974,614 | 930,941 | 896,218 |
| Gross profit | 385,287 | 386,736 | 367,353 |
| Selling, general and administrative expenses | 343,724 | 342,027 | 326,520 |
| Operating income | 41,563 | 44,709 | 40,833 |
| Interest expense, net | 3,283 | 266 | 265 |
| Income before income taxes | 38,280 | 44,443 | 40,568 |
| Income tax expense | 14,569 | 17,537 | 15,013 |
| Net income | $ 23,711 | $ 26,906 | $ 25,555 |
| | | | |
| Net income per share: | | | |
| Basic | $ 0.52 | $ 0.60 | $ 0.58 |
| Diluted | $ 0.51 | $ 0.59 | $ 0.57 |
| | | | |
| Weighted-average shares outstanding: | | | |
| Basic | 44,754 | 43,850 | 43,053 |
| Diluted | 45,953 | 44,749 | 43,778 |

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

# Stein Mart, Inc.
# Consolidated Statements of Comprehensive Income
(In thousands)

| | Year Ended January 30, 2016 | Year Ended January 31, 2015 | Year Ended February 1, 2014 |
|---|---|---|---|
| Net income | $ 23,711 | $ 26,906 | $ 25,555 |
| Other comprehensive income, net of tax: | | | |
| Change in post-retirement benefit obligations (See Note 7): | | | |
| Other comprehensive income (loss) before reclassifications | 137 | (181) | 199 |
| Amounts reclassified from accumulated other comprehensive income | 16 | 10 | 9 |
| Comprehensive income | $ 23,864 | $ 26,735 | $ 25,763 |

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

# Stein Mart, Inc.
# Consolidated Statements of Shareholders' Equity
(In thousands)

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balance at February 2, 2013** | 43,808 | $ 438 | $ 17,491 | $216,574 | $ (469) | $ 234,034 |
| Net income | | | | 25,555 | | 25,555 |
| Other comprehensive income, net of tax | | | | | 208 | 208 |
| Common shares issued under stock option plan | 450 | 5 | 3,958 | | | 3,963 |
| Tax withholding payment related to the net share settlement of equity awards | | | (23) | | | (23) |
| Common shares issued under employee stock purchase plan | 83 | 1 | 692 | | | 693 |
| Reacquired shares | (88) | (1) | (1,090) | | | (1,091) |
| Issuance of restricted stock, net | 299 | 3 | (3) | | | - |
| Share-based compensation | | | 7,291 | | | 7,291 |
| Tax benefit from equity issuances | | | 429 | | | 429 |
| Cash dividends paid ($0.15 per share) | | | | (6,658) | | (6,658) |
| **Balance at February 1, 2014** | 44,552 | $ 446 | $ 28,745 | $235,471 | $ (261) | $ 264,401 |
| Net income | | | | 26,906 | | 26,906 |
| Other comprehensive income, net of tax | | | | | (171) | (171) |
| Common shares issued under stock option plan | 27 | - | 116 | | | 116 |
| Tax withholding payment related to the net share settlement of equity awards | | | (8) | | | (8) |
| Common shares issued under employee stock purchase plan | 65 | - | 760 | | | 760 |
| Reacquired shares | (320) | (3) | (4,141) | | | (4,144) |
| Issuance of restricted stock, net | 595 | 6 | (6) | | | - |
| Share-based compensation | | | 7,596 | | | 7,596 |
| Tax benefit from equity issuances | | | 1,813 | | | 1,813 |
| Cash dividends paid ($0.275 per share) | | | | (12,295) | | (12,295) |
| Cash dividends payable | | | | (36) | | (36) |
| **Balance at January 31, 2015** | 44,919 | $ 449 | $ 34,875 | $250,046 | $ (432) | $ 284,938 |
| Net income | | | | 23,711 | | 23,711 |
| Other comprehensive income, net of tax | | | | | 153 | 153 |
| Common shares issued under stock option plan | 164 | 2 | 569 | | | 571 |
| Common shares issued under employee stock purchase plan | 112 | 1 | 767 | | | 768 |
| Reacquired shares | (262) | (3) | (3,563) | | | (3,566) |
| Issuance of restricted stock, net | 882 | 9 | (9) | | | - |
| Share-based compensation | | | 6,516 | | | 6,516 |
| Tax benefit from equity issuances | | | 3,646 | | | 3,646 |
| Cash dividends paid ($5.30 per share) | | | | (239,089) | | (239,089) |
| Cash dividends payable | | | | (1,331) | | (1,331) |
| **Balance at January 30, 2016** | 45,815 | $ 458 | $ 42,801 | $ 33,337 | $ (279) | $ 76,317 |

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

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

| | Year Ended January 30, 2016 | Year Ended January 31, 2015 | Year Ended February 1, 2014 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | $ 23,711 | $ 26,906 | $ 25,555 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 29,873 | 29,116 | 27,752 |
| Share-based compensation | 6,516 | 7,596 | 7,291 |
| Store closing charges (benefits) | 7 | 25 | (50) |
| Impairment of property and other assets | 2,008 | 1,480 | 2,210 |
| Loss on disposal of property and equipment | 167 | 319 | 701 |
| Deferred income taxes | (5,121) | 1,201 | (666) |
| Tax benefit from equity issuances | 3,646 | 1,813 | 429 |
| Excess tax benefits from share-based compensation | (3,932) | (1,942) | (1,134) |
| Changes in assets and liabilities: | | | |
| Inventories | (7,985) | (24,106) | (18,172) |
| Prepaid expenses and other current assets | 806 | 5,096 | (4,182) |
| Other assets | 2,045 | (3,114) | (708) |
| Accounts payable | (24,438) | (1,237) | 189 |
| Accrued expenses and other current liabilities | (316) | 4,307 | (1,465) |
| Other liabilities | 11,425 | 4,971 | 2,316 |
| Net cash provided by operating activities | 38,412 | 52,431 | 40,066 |
| **Cash flows from investing activities:** | | | |
| Net acquisition of property and equipment | (44,365) | (40,231) | (36,266) |
| Change in cash surrender value of life insurance | - | (111) | - |
| Net cash used in investing activities | (44,365) | (40,342) | (36,266) |
| **Cash flows from financing activities:** | | | |
| Proceeds from borrowings | 673,312 | - | - |
| Repayments of debt | (483,079) | - | - |
| Debt issurance costs | (380) | - | - |
| Cash dividends paid | (239,089) | (12,295) | (6,658) |
| Capital lease payments | - | - | (2,197) |
| Excess tax benefits from share-based compensation | 3,932 | 1,942 | 1,134 |
| Proceeds from exercise of stock options and other | 1,339 | 868 | 4,633 |
| Repurchase of common stock | (3,566) | (4,144) | (1,091) |
| Net cash used in financing activities | (47,531) | (13,629) | (4,179) |
| Net decrease in cash and cash equivalents | (53,484) | (1,540) | (379) |
| Cash and cash equivalents at beginning of year | 65,314 | 66,854 | 67,233 |
| Cash and cash equivalents at end of year | $ 11,830 | $ 65,314 | $ 66,854 |
| **Supplemental disclosures of cash flow information:** | | | |
| Income taxes paid | $ 13,116 | $ 10,556 | $ 17,167 |
| Interest paid | 3,033 | 345 | 273 |
| Accruals and accounts payable for capital expenditures | 4,148 | 2,293 | 2,500 |

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

**1. Summary of Significant Accounting Policies and Other Information**

As of January 30, 2016 we operated a chain of 278 retail stores in 30 states and an internet store that offers the fashion merchandise, service and presentation of a better department or specialty store at prices competitive with off-price retail chains.

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

**Consolidation.** The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company accounts have been eliminated in consolidation.

**Fiscal Year End.** Our fiscal year ends on the Saturday closest to January 31. Fiscal years 2015, 2014 and 2013 ended on January 30, 2016, January 31, 2015, and February 1, 2014, respectively. Fiscal 2015, 2014 and 2013 included 52 weeks. References to years in the Consolidated Financial Statements relate to fiscal years rather than calendar years.

**Use of Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents.** Included in cash and cash equivalents are cash on hand in the stores, deposits with banks and amounts due from credit card transactions with settlement terms of five days or less. Credit and debit card receivables included within cash were $9.1 million at January 30, 2016 and January 31, 2015. We have historically had money market fund investments classified as cash equivalents, which are Level 1 assets because fair value is based on readily available market prices. The fair value of these assets was $53.7 million at January 31, 2015. We did not have money market fund investments at January 30, 2016.

**Retail Inventory Method and Inventory Valuation.** Inventories are valued using the lower of cost or market value, determined by the retail inventory method. Under the retail inventory method ("RIM"), the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of inventories. RIM is an averaging method that is widely used in the retail industry. The use of the retail inventory method results in valuing inventories at lower of cost or market as permanent markdowns are currently taken as a reduction of the retail value of inventories. Inherent in the RIM calculation are certain significant management judgments and estimates including, among others, merchandise markon, markup, markdowns and shrinkage, which significantly affect the ending inventory valuation at cost as well as the corresponding charge to cost of goods sold. In addition, failure to take appropriate permanent markdowns currently can result in an overstatement of inventory.

We perform physical inventory counts at all stores once per year, in either the summer or January. Included in the carrying value of merchandise inventories between physical counts is a reserve for estimated shrinkage. That estimate is based on historical physical inventory results. The difference between actual and estimated shrinkage may cause fluctuations in quarterly results but was not significant in 2015 and 2014.

**Vendor Allowances.** We receive allowances from some of our vendors primarily related to markdown reimbursement, damaged/defective merchandise and vendor compliance issues. Vendor allowances are recorded when earned in accordance with Accounting Standards Codification ("ASC") Topic 605-50, *Revenue Recognition, Customer Payments and Incentives*. Allowances received from vendors related to profitability of inventory recently sold are reflected as reductions to cost of merchandise sold in the later of the period that the merchandise markdown is incurred or the allowance is negotiated. Allowances received from vendors related to damaged/defective inventory are reflected as reductions to the cost of merchandise as it is received. Allowances received due to compliance issues (primarily violations of shipping and merchandise preparation requirements) are reflected as a reduction to the cost of the merchandise when identified during the receiving process.

**Property and Equipment.** Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over estimated useful lives of 3-10 years for fixtures, equipment and software and 5-10 years for leasehold improvements. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the term of the lease. We capitalize costs associated with the acquisition or development of software for internal use. We only capitalize subsequent additions, modifications or upgrades to internal-use software to the extent that such changes increase functionality. We expense software maintenance and training costs as incurred.

**Impairment of Long-Lived Assets.** We follow the guidance in ASC Topic 360, *Property, Plant and Equipment*, which requires impairment losses to be recorded on long-lived assets used in operations whenever events or changes in circumstances indicate that the net carrying amounts may not be recoverable. For long-lived assets held for use, an impairment loss is recognized if the sum of the future undiscounted cash flows from the use of the assets is less than the carrying value of the assets. The amount of the impairment is the excess of the carrying value of the asset over its fair value. Impairment reviews are performed for individual stores during the fourth quarter, or more frequently should circumstances change. Factors used in the review include management's plans for future operations, recent operating results and projected cash flows. See Note 2 for further discussion.

**Fair Value Measurements.** We follow the guidance of ASC Topic 820, *Fair Value Measurements and Disclosures,* which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance also establishes the following three-level hierarchy based upon the transparency of inputs to the valuation of an asset or liability on the measurement date:

Level 1: Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities traded in active markets.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs that reflect assumptions about what market participants would use in pricing assets or liabilities based on the best information available.

Assets and liabilities measured at fair value on a recurring basis include cash and cash equivalents. Assets and liabilities measured on a non-recurring basis include store related assets as used in our impairment calculations. See Note 2 for further discussion.

As the Company's primary debt obligations are variable rate, there are no significant differences between the estimated fair value (Level 2 measurements) and the carrying value of the Company's debt obligations at January 30, 2016. The Company did not have outstanding debt at January 31, 2015.

**Store Closing Costs.** We follow the guidance in ASC Topic 420, *Exit or Disposal Cost Obligations,* to record store closing costs. ASC Topic 420 requires the recognition of costs associated with exit or disposal activities when they are incurred, generally the cease-use date. Lease termination costs are recorded net of estimated sublease income that could reasonably be obtained for the properties.

**Accounts Payable.** Accounts payable represents amounts owed to third parties at the end of the period. Accounts payable includes book cash overdrafts in excess of cash balances in such accounts of approximately $7.5 million and $26.0 million at January 30, 2016 and January 31, 2015, respectively. The Company includes the change in book cash overdrafts in operating cash flows.

**Insurance Reserves.** We use a combination of insurance and self-insurance for various risks including workers' compensation, general liability and associate-related health care benefits, a portion of which is paid by the covered employees. We are responsible for paying the claims that are less than the insured limits. The reserves recorded for these claims are estimated actuarially, based on claims filed and claims incurred but not reported. These reserve estimates are adjusted based upon actual claims filed and settled.

**Store Pre-Opening Costs.** Costs incurred prior to the date that new stores open are expensed as incurred. These include payroll for store set-up, advertising and pre-opening rent.

**Comprehensive Income.** Comprehensive income consists of two components, net income and other comprehensive income. Other comprehensive income refers to gains and losses that, under generally accepted accounting principles, are recorded as an element of shareholders' equity but are excluded from net income. Accumulated other comprehensive loss in 2015 and 2014, includes changes in postretirement benefits. See Note 7 for further discussion.

**Revenue Recognition.** Revenue from sales of our merchandise is recognized at the time of sale, net of any returns, discounts and percentage-off coupons. The Company's e-commerce operation records revenue at the estimated customer receipt date. Shipping and handling fees charged to customers are also included in total net sales with corresponding costs recorded as cost of goods sold. 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 until paid. Shoe department inventory is owned by a single supplier under a supply agreement. Our percentage of net revenue per the supply agreement is included in Net sales in the Consolidated Statements of Income.

We offer electronic gift cards and electronic merchandise return cards to our customers. These cards do not have expiration dates. No revenue is recognized at the time gift cards are sold; rather, the issuance is recorded as a liability to customers. At the time merchandise return cards are issued for returned merchandise, the sale is reversed and the issuance is recorded as a liability to customers. These card liabilities are reduced and sales revenue is recognized when cards are redeemed for merchandise. Card liabilities are included within Accrued expenses and other current liabilities in the Consolidated Balance Sheets.

In 2015, 2014 and 2013, we recognized $1.4 million, $1.1 million and $1.0 million, respectively, of breakage income on unused gift and merchandise return cards. Breakage income is recognized when the likelihood of the card being redeemed by the customer is remote and we have determined that there is no legal obligation to remit card balances to relevant jurisdictions. We follow the Redemption Recognition Method to account for breakage of unused cards where breakage is recognized as cards are redeemed for the purchase of merchandise based upon a historical breakage rate over an estimated redemption period. Breakage income is recorded within selling, general and administrative expenses ("SG&A") in the Consolidated Statements of Income.

**Co-Brand and Private Label Credit Card Programs.** We offer a co-branded credit card and a private label credit card under the Stein Mart brand. These cards are issued by a third-party bank, Synchrony Bank ("Synchrony"), formerly GE Capital Retail Bank. Synchrony extends credit directly to cardholders and provides all servicing for the credit card accounts and bears all credit and fraud losses. Once a card is activated, the co-branded credit card customers are eligible to participate in the credit card rewards program, which provides for an incentive to cardholders in the form of reward certificates upon the cumulative purchase of an established amount. Stein Mart cardholders also receive special promotional offers and advance notice of in-store sales events. In 2015, 2014 and 2013, we recognized $5.6 million, $4.8 million and $2.9 million, respectively, of income from these programs which are recorded within SG&A in the Consolidated Statements of Income. See Note 13 for further discussion.

**Operating Leases.** We lease all of our retail stores under operating leases. 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 and record the difference between the amount charged to expense and the rent paid as a deferred rent liability. 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 as a deferred rent liability and are amortized on a straight-line basis as a reduction of rent expense.

**Advertising Expense.** Advertising costs are expensed as incurred. Advertising expenses of $57.5 million, $56.3 million and $54.0 million are reflected in SG&A in the Consolidated Statements of Income for 2015, 2014 and 2013, respectively.

**Income Taxes.** We follow the guidance in ASC Topic 740, *Income Taxes*, which requires recognition of deferred tax assets and liabilities for the expected future income tax consequences of events that have been included in the Consolidated Financial Statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred income tax assets will not be realized. See Note 6 for further discussion.

**Share-Based Compensation.** We follow the guidance in ASC Topic 718, *Stock Compensation*, to record share-based compensation. Pursuant to the guidance, we recognize expense in the financial statements for the fair values of all share-based payments to employees over the employees' requisite service periods.

**Earnings Per Share ("EPS").** We follow the guidance of ASC Topic 260, *Earnings Per Share*, which clarifies that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of net income per share, or EPS, under the two-class method. Our restricted stock awards in 2013 and prior are considered "participating securities" because they contain non-forfeitable rights to dividends. Under the two-class method, EPS is computed by dividing earnings allocated to common shareholders by the weighted-average number of common shares outstanding for the period. In applying the two-class method, earnings are allocated to both common stock shares and participating securities based on their respective weighted-average shares outstanding for the period.

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Basic EPS:** | | | |
| Net income | $ 23,711 | $ 26,906 | $ 25,555 |
| Income allocated to participating securities | 368 | 511 | 677 |
| Net income available to common shareholders | $ 23,343 | $ 26,395 | $ 24,878 |
| Basic weighted-average shares outstanding | 44,754 | 43,850 | 43,053 |
| Basic EPS: | $ 0.52 | $ 0.60 | $ 0.58 |
| | | | |
| **Diluted EPS:** | | | |
| Net income | $ 23,711 | $ 26,906 | $ 25,555 |
| Income allocated to participating securities | 414 | 506 | 670 |
| Net income available to common shareholders | $ 23,297 | $ 26,400 | $ 24,885 |
| Basic weighted-average shares outstanding | 44,754 | 43,850 | 43,053 |
| Incremental shares from share-based compensation plans | 1,199 | 899 | 725 |
| Diluted weighted-average shares outstanding | 45,953 | 44,749 | 43,778 |
| Diluted EPS: | $ 0.51 | $ 0.59 | $ 0.57 |

Options to acquire shares and performance share awards totaling approximately 0.3 million, 0.1 million and 0.2 million shares of common stock that were outstanding during 2015, 2014 and 2013, respectively, were not included in the computation of diluted EPS as they had exercise prices greater than the average market price of the common shares. Inclusion of these shares would have been anti-dilutive.

**Consolidated Statements of Income Classifications.** Cost of merchandise sold includes merchandise costs, net of vendor discounts and allowances; freight; inventory shrinkage; store occupancy costs (including rent, common area maintenance, real estate taxes, utilities and maintenance); payroll, benefits and travel costs directly associated with buying inventory; and costs related to the consolidation centers and distribution warehouses.

SG&A includes store operating expenses, such as payroll and benefit costs, advertising, store supplies, depreciation and other direct selling costs, and costs associated with our corporate functions.

**Change in Accounting Estimate**
During the fourth quarter of 2013, we refined our estimation of the buying and distribution costs allocated to inventories. This change lowered the percentage of expenses allocated to inventory purchases. The decrease in inventories resulted in a $5.0 million pretax non-cash charge ($3.1 million after-tax or $0.07 per diluted share), comprised of a $15.0 million increase in SG&A and a $10.0 million increase in gross profit.

**Recent Accounting Pronouncements**
In 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU No. 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. This guidance was deferred by ASU No. 2015-14, issued by the FASB in August 2015, and is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual and interim reporting periods beginning after December 15, 2016. We have the option to apply the provisions of ASU No. 2014-09 either retrospectively to each prior reporting period presented or with the cumulative effect of applying this ASU recognized at the date of initial application. We are currently evaluating the impact the adoption of this ASU will have on the our consolidated financial statements.

In 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40)*. ASU No. 2014-15 requires management to perform interim and annual assessments on whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year of the date the financial statements are issued and to provide related disclosures, if required. ASU No. 2014-15 applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The adoption of ASU No. 2014-15 is not expected to have a material effect on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 states that entities that have historically presented debt issuance costs as an asset, related to a recognized debt liability, will be required to present those costs as a direct deduction from the carrying amount of that debt liability. This presentation will result in debt issuance cost being presented the same way debt discounts have historically been handled. ASU No. 2015-03 does not change the recognition, measurement, or subsequent measurement guidance for debt issuance costs. This guidance is effective for annual reporting periods beginning after December 15, 2016, and interim periods within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. We adopted this new guidance in 2016. This new guidance reduced total assets and total long-term debt on our consolidated balance sheets by amounts classified as deferred debt issuance costs.

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles – Goodwill and Other – Internal Use Software (Subtopic 350-40)*. The pronouncement was issued to provide guidance concerning accounting for fees in a cloud computing arrangement. The pronouncement is effective for reporting periods beginning after December 15, 2015. The adoption of ASU 2015-05 is not expected to have a significant impact on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes – Balance Sheet Classification of Deferred Taxes (Subtopic 740)*. The pronouncement was issued to simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this update. The pronouncement is effective for reporting periods beginning after December 15, 2016. Early application is permitted as of the beginning of an interim or annual period. We adopted ASU 2015-7 in the fourth quarter of 2015. The adoption of this ASU was applied retrospectively to the periods presented in the Consolidated Financial Statements. As a result of the adoption, we reclassified approximately $3.1 million of federal current deferred tax assets (in prepaid expenses and other current assets) to noncurrent deferred tax liabilities (in other liabilities) in the 2014 Consolidated Balance Sheet, resulting in a net decrease in total assets and total liabilities. Additionally, we reclassified the remaining $0.2 million of current state deferred tax assets to noncurrent assets. The retrospective adoption of this ASU is also reflected in the deferred tax section of Note 6. The adoption of ASU 2015-17 is not expected to have any additional impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This update requires organizations to recognize lease assets and lease liabilities on the balance sheet and also disclose key information about leasing arrangements. This ASU is effective for annual reporting periods beginning on or after December 15, 2018, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual period. We are currently evaluating the impact the adoption of this ASU will have on our consolidated financial statements.

**2. Property and Equipment, Net**

Property and equipment, net consists of the following:

| | January 30, 2016 | January 31, 2015 |
|---|---|---|
| Fixtures, equipment and software | $ 233,124 | $ 215,662 |
| Leasehold improvements | 120,782 | 99,766 |
| | 353,906 | 315,428 |
| Accumulated depreciation and amortization | (190,952) | (166,646) |
| Property and equipment, net | $ 162,954 | $ 148,782 |

During 2015, 2014 and 2013, we recorded asset impairment charges in SG&A of $2.0 million, $1.5 million and $2.2 million, respectively, to reduce the carrying value of fixtures, equipment and leasehold improvements held for use and certain other assets in under-performing or closing stores to their respective estimated fair value. The 2013 impairment charges also included write-off of certain information technology assets that were replaced.

Store assets are considered Level 3 assets in the fair value hierarchy as the inputs for calculating the fair value of these assets are based on the best information available, including prices for similar assets.

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

The major components of accrued expenses and other current liabilities are as follows:

| | January 30, 2016 | January 31, 2015 |
|---|---|---|
| Compensation and employee benefits | $ 11,600 | $ 12,519 |
| Unredeemed gift and merchandise return cards | 11,310 | 10,614 |
| Property taxes | 12,286 | 12,805 |
| Accrued vacation | 7,306 | 7,241 |
| Other | 29,069 | 26,034 |
| Accrued expenses and other current liabilities | $ 71,571 | $ 69,213 |

**4. Debt**

On February 3, 2015, we entered into a $250 million senior secured revolving credit facility pursuant to a second amended and restated credit agreement with Wells Fargo Bank (the "Credit Agreement") that will mature in February 2020 and 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") that will mature in February 2018. The Credit Facilities replace the Company's former $100 million senior secured revolving credit facility which was set to mature on February 28, 2017. Borrowings under the Credit Facilities were initially used for a special dividend, but subsequently may be used for working capital, capital expenditures and other general corporate purposes. During 2015, debt issuance costs associated with the Credit Facilities were capitalized in the amount of $0.4 million and will be amortized over their respective terms.

Long-term debt consisted of the following at January 30, 2016:

| | |
|---|---|
| Revolving credit facility | $ 169,400 |
| Equipment term loan | 20,833 |
| Total debt | 190,233 |
| Current maturities | (10,000) |
| Debt issuance costs | (83) |
| Long-term debt | $ 180,150 |

The aggregate maturities of long-term debt subsequent to January 30, 2016 for the following fiscal years:

| | |
|---|---|
| 2016 | $ 10,000 |
| 2017 | 10,833 |
| 2018 | - |
| 2019 | - |
| 2020 | - |
| Thereafter | 169,400 |
| Total | $ 190,233 |

The total amount available for borrowings under the Credit Agreement is the lesser of $250 million or 100% of eligible credit card receivables and the Net Recovery Percentage of inventories less reserves. At January 30, 2016, in addition to outstanding borrowings under the Credit Agreement, the Company had $6.4 million of outstanding letters of credit. Our unused availability under the Credit Agreement was $74.2 million at January 30, 2016.

The Credit Facilities contain customary representations and warranties, affirmative and negative covenants (including, in the Credit Agreement, the requirement of a 1 to 1 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 are cross-collateralized and cross-defaulted. Collateral for the Credit Facilities consists of substantially all of our personal property. Wells Fargo Bank has a first lien on all collateral other than equipment and Wells Fargo Equipment Finance has a first lien on equipment. At January 30, 2016, we were in compliance with all debt covenants.

Borrowings under the Credit Agreement shall be either Base Rate Loans or LIBO Rate Loans. LIBO Rate Loans bear interest equal to the Adjusted LIBO Rate 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%, (b) the Adjusted LIBO Rate plus 1.00%, or (c) the Wells Fargo "prime rate," plus the Applicable Margin (25 to 75 basis points).

Borrowings under the Equipment Term Loan bear interest at the LIBO Rate plus 2%.

The weighted average interest rate for amounts outstanding under the Credit Agreement and Equipment Term Loan were 1.98% and 2.43%, respectively, as of January 30, 2016.

**5. Leases**

We lease all of our retail stores, support facilities and certain equipment under operating leases. Our store leases 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 a 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.

Rent expense is as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Minimum rentals | $ 86,572 | $ 79,054 | $ 73,594 |
| Contingent rentals | 373 | 877 | 1,013 |
| Rent expense | $ 86,945 | $ 79,931 | $ 74,607 |

At January 30, 2016, future contractual minimum lease payments under operating leases are:

| | |
|---|---|
| 2016 | $ 93,094 |
| 2017 | 82,385 |
| 2018 | 69,506 |
| 2019 | 59,266 |
| 2020 | 48,952 |
| Thereafter | 139,299 |
| Total | $ 492,502 |

**6. Income Taxes**

Temporary differences, which give rise to deferred tax assets and liabilities, are as follows:

| | January 30, 2016 | January 31, 2015 |
|---|---|---|
| Deferred income tax assets: | | |
| Employee benefit expense | $ 13,427 | $ 13,648 |
| Inventory | 912 | - |
| Deferred rents | 15,636 | 11,888 |
| Net operating loss carryforwards in certain states | 163 | 177 |
| Other | 4,844 | 5,679 |
| Total deferred income tax assets | $ 34,982 | $ 31,392 |
| Deferred income tax liabilities: | | |
| Property and equipment | $ (35,038) | $ (33,681) |
| Inventory | - | (2,652) |
| Other | (1,331) | (1,281) |
| Total deferred income tax liabilities | (36,369) | (37,614) |
| Net deferred income tax liabilities | $ (1,387) | $ (6,222) |

As of January 30, 2016, we had net operating losses ("NOL") carryforwards for state income tax purposes of $1.9 million that will begin to expire in 2023.

Deferred tax assets (liabilities) are reflected on the Consolidated Balance Sheets as follows:

| | January 30, 2016 | January 31, 2015 |
|---|---|---|
| Non-current deferred tax assets (included in other assets) | $ 408 | $ 129 |
| Non-current deferred tax liabilities (included in other liabilities) | (1,795) | (6,351) |
| Net deferred tax liability | $ (1,387) | $ (6,222) |

The components of income tax expense (benefit) are as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 18,298 | $ 15,475 | $ 14,466 |
| State | 1,392 | 861 | 1,213 |
| | 19,690 | 16,336 | 15,679 |
| Deferred: | | | |
| Federal | (4,820) | 499 | (597) |
| State | (301) | 702 | (69) |
| | (5,121) | 1,201 | (666) |
| Income tax expense | $ 14,569 | $ 17,537 | $ 15,013 |

During 2015, 2014 and 2013, we realized tax benefits of $3.6 million, $1.8 million and $0.4 million, respectively, related to share-based compensation plans that were recorded to additional paid-in-capital. Income tax expense differs from the amount of income tax determined by applying the statutory U.S. corporate tax rate to pre-tax amounts due to the following items:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Federal tax at the statutory rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal benefit | 3.7% | 3.8% | 2.8% |
| Permanent differences and other | (0.6)% | 0.7% | (0.8)% |
| Effective tax rate | 38.1% | 39.5% | 37.0% |

The effective tax rate ("ETR") 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.

The following is a reconciliation of the change in the amount of unrecognized tax benefits:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Beginning balance | $ 341 | $ 468 | $ 631 |
| Decreases due to: | | | |
| Settlements | (99) | - | - |
| Lapse of statutes of limitations | - | (127) | (163) |
| Ending balance | $ 242 | $ 341 | $ 468 |

As of January 30, 2016, there were no unrecognized tax benefits ("UTBs") that, if recognized, would affect the ETR. We recognize interest and penalties related to UTBs in income tax expense. During 2015, 2014, and 2013, the amount of interest and penalties related to UTBs was insignificant. The total amount of accrued interest and accrued penalties related to UTBs as of January 30, 2016, January 31, 2015 and February 1, 2014 was also insignificant. UTB's decreased in 2015, 2014 and 2013 due to settlements and lapse of statues of limitations.

We are currently open to audit under the statute of limitations by the Internal Revenue Service for the tax years 2013 and 2014. The Company's state tax returns are open to audit under statutes of limitations for the tax years 2010 through 2014.

**7. Employee Benefit Plans**

We have a defined contribution retirement plan (a 401(k) plan) covering employees who are at least 21 years of age, have completed at least one year of service and who work at least 1,000 hours annually. Under the profit sharing portion of the plan, we can make discretionary contributions which vest at a rate of 20% per year after two years of service. During 2015, 2014 and 2013, we matched 50% of an employee's voluntary pre-tax contributions up to a maximum of 4% of an employee's compensation. Our matching portion vests in accordance with the plan's vesting schedule. Our contributions to the retirement plan, net of forfeitures, were $1.8 million for both 2015 and 2014 and $1.5 million for 2013, and are included in SG&A.

We have an executive deferral plan providing officers, key executives and director-level employees with the opportunity to defer receipt of salary, bonus and other compensation. The plan allows for us to make discretionary contributions. During 2015 and 2014, we matched contributions up to 10% of salary and bonuses deferred at a rate of 75% for officers and key executives and a rate of 37.5% for directors. During 2013, we matched contributions up to 10% of salary and bonuses deferred at a rate of 100% for officers and key executives and a rate of 50% for directors.

Matching contributions and related investment earnings for the executive deferral plan vest at 20% per year in each of years four through eight, at which time a participant is fully vested. The executive deferral plan liability was $13.4 million and $13.6 million at January 30, 2016 and January 31, 2015, respectively, and is included in other liabilities in the Consolidated Balance Sheets. In 2015, forfeitures exceeded expense for this plan, resulting in $0.1 million of income. The expense for this plan, net of forfeitures, was $0.1 million and $0.6 million in 2014 and 2013, respectively.

We provide an executive split-dollar life insurance benefit which provides officers, key executives and director-level employees with pre-retirement life insurance benefits based upon three to five times the current annual compensation. The discount rate used to determine the benefit obligation was 4.15% and 3.45% as of January 30, 2016 and January 31, 2015, respectively.

The post-retirement benefit obligations included in other liabilities in the Consolidated Balance Sheets were $1.7 million and $1.8 million for 2015 and 2014, respectively.

The net periodic post-retirement benefit costs for 2015, 2014 and 2013 were insignificant.

Amounts included in accumulated other comprehensive income (loss) consisted of:

| | January 30, 2016 | January 31, 2015 | February 1, 2014 |
|---|---|---|---|
| Total net actuarial gain (loss) | $ 68 | $ (118) | $ (79) |

In connection with the executive deferral and executive split-dollar life insurance plans, whole life insurance contracts were purchased on the related participants. At January 30, 2016 and January 31, 2015, the cash surrender value of these policies was $18.5 million and is included in other assets in the Consolidated Balance Sheets.

We have a noncontributory executive retiree medical plan wherein eligible retired executives may continue their pre-retirement medical, dental and vision benefits through age 65. The postretirement benefit liability was $0.8 million at January 30, 2016 and $0.7 million at January 31, 2015. Accumulated other comprehensive loss on the Consolidated Balance Sheets includes income of $0.1 million and loss of $0.2 million for this plan at January 30, 2016 and January 31, 2015, respectively. The expense recorded in net income for 2015, 2014 and 2013 was insignificant.

**8. Shareholders' Equity**

***Dividend***

In 2015, we paid a special cash dividend of $5.00 per common share on February 27, 2015 and four quarterly dividends of $0.075 per common share on April 17, 2015, July 17, 2015, October 16, 2015, and January 15, 2016. In 2014, we paid a quarterly dividend of $0.05 per common share on April 18, 2014 and a quarterly dividend of $0.075 per common share on July 18, 2014, October 17, 2014 and January 16, 2015. In 2013, we paid a quarterly dividend of $0.05 per common share on July 19, 2013, October 18, 2013 and January 17, 2014.

***Stock Repurchase Plan***

During 2015, 2014 and 2013, we repurchased 262,219 shares, 320,081 shares and 87,742 shares of our common stock in the open market at a total cost of $3.6 million, $4.1 million and $1.1 million, respectively. Stock repurchases on the open market, under a Board of Directors authorized plan, for taxes due on the vesting of employee stock awards during 2015, 2014 and 2013 included 262,219 shares, 216,729 shares and 87,742 shares, respectively. As of January 30, 2016, there are 720,874 shares which can be repurchased pursuant to the Board of Directors' current authorization.

***Employee Stock Purchase Plan***

We have an Employee Stock Purchase Plan (the "Stock Purchase Plan") whereby all employees who complete six months of employment and who work on a full-time basis or are regularly scheduled to work more than 20 hours per week are eligible to participate in the Stock Purchase Plan. Participants in the Stock Purchase Plan may purchase shares of the Company's common stock at 85% of the lower of the fair market value of the Company's stock determined at either the beginning or the end of each semi-annual option period. Shares eligible under the Stock Purchase Plan, which is effective for the years 1997 through 2016, are limited to 2.9 million shares in the aggregate, with no more than 200,000 shares being made available in each calendar year, excluding carryover from previous years. In 2015, 2014 and 2013, the participants acquired 111,806 shares, 64,839 shares and 82,705 shares of common stock at weighted-average per share prices of $6.87, $11.72 and $8.38, respectively. The fair value of Stock Purchase Plan shares was estimated using the Black-Scholes call option value method with the following weighted-average assumptions for 2015: expected volatility of 30.8%, expected dividend yield of 2.5%, a risk-free interest rate of 0.1%, a present-value discount factor of 1.0% and an expected term of six months. Share-based compensation expense for the Stock Purchase Plan was $0.3 million, $0.2 million and $0.2 million in 2015, 2014 and 2013, respectively. We had 389,150 shares authorized and available for grant under the Stock Purchase Plan at January 30, 2016.

***Omnibus Plan***

Our Omnibus Plan provides that shares of common stock may be granted to certain Key Employees, Non-Employee Directors, and Advisor Participants, as defined, through non-qualified stock options, incentive stock options, stock appreciation rights, performance awards, restricted stock, or any other award made under the terms of the plan. The Board of Directors, or a committee to which it delegates authority, determines the exercise price and all other terms of all grants. The shares will be issued from authorized and unissued shares of our common stock. Expired and forfeited awards become available for re-issuance. Vesting and exercise are contingent on continued employment.

The following table presents the number of awards authorized and available for grant under the Omnibus Plan at January 30, 2016 (shares in thousands):

| | Shares |
|---|---|
| Total awards authorized | 10,500 |
| Awards available for grant | 2,832 |

***Stock Options***

In accordance with the Omnibus Plan, the exercise price of an option cannot be less than the fair value on the grant date. In general, for awards granted prior to 2014, one-third of the awards vest on each of the third, fourth and fifth anniversary dates of grant. Awards granted subsequent to 2013 generally vest monthly in equal amounts over a five-year period. The awards expire seven to ten years after the date of grant.

A summary of stock option information for the year ended January 30, 2016 is as follows (shares in thousands):

| | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 31, 2015 | 877 | $ 7.50 | | |
| Granted | 25 | 9.71 | | |
| Exercised | (167) | 3.61 | | |
| Cancelled or forfeited | (39) | 8.44 | | |
| Special cash dividend adjustment | 378 | N/A | | |
| Outstanding at January 30, 2016 | 1,074 | $ 5.48 | 4.7 years | $ 2,227 |
| Exercisable stock options at January 30, 2016 | 977 | $ 5.14 | 4.6 years | $ 2,227 |

The aggregate intrinsic value in the table above represents the excess of our closing stock price on January 30, 2016 ($7.36 per share) over the exercise price, multiplied by the applicable number of in-the-money options. This amount changes based on the fair market value of our common stock. There were 925,932 in-the-money options outstanding and exercisable at January 30, 2016.

As of January 30, 2016, there was $0.2 million of unrecognized compensation cost related to stock options which is expected to be recognized over a weighted-average period of 1.2 years using the mid-point method. The weighted-average grant-date fair value of options granted was $2.50, $4.57 and $7.39 during 2015, 2014, and 2013, respectively. The total intrinsic value of stock options exercised was $0.9 million, $0.3 million and $2.3 million during 2015, 2014 and 2013, respectively. The total tax benefit realized from the exercise of stock options was $0.2 million, $0.1 million and $0.5 during 2015, 2014 and 2013, respectively.

The fair value of each stock option granted during 2015, 2014 and 2013 was estimated at the date of grant using the Black-Scholes options pricing model with the following weighted-average assumptions:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Expected term | 4.9 years | 4.4-5.3 years | 5.2 years |
| Risk-free interest rate | 1.3% | 1.5% to 1.8% | 1.8% |
| Volatility | 38.5% | 43.6%-52.9% | 64.4% |
| Dividend yield | 3.1% | 2.2%-2.5% | 1.4% |

The expected volatility is based on the historical volatility of our stock price over assumed expected terms. The risk-free interest rate is estimated from yields of U.S. Treasury instruments of varying maturities with terms consistent with the expected terms of the options. The expected term of an option is calculated from a lattice model using historical employee exercise data.

In February 2015, as a result of paying a special cash dividend, all outstanding stock options were modified to decrease the exercise price and increase the number of options in order to maintain the original grant fair value. No incremental stock compensation expense resulted from the modification.

***Restricted Stock and Performance Share Awards***

We have issued restricted stock and performance share awards to eligible Key Employees, Non-Employee Directors, and Advisor Participants, as defined in the Omnibus Plan. All restricted stock awards have restriction periods tied primarily to employment, and all performance share awards have vesting tied to market-based performance and service. Shares awarded under the Omnibus Plan entitle the shareholder to all rights of common stock ownership except that the shares may not be sold, transferred, pledged, exchanged or otherwise disposed of during the restriction period. Vesting for most awards is based on the service period and vesting generally occurs between three and five years following the date of grant. Unvested shares are forfeited upon termination of employment. The total value of share-based compensation expense for restricted stock is based on the closing price of our common stock on the date of grant. The fair value of the market-based performance share awards was determined using a Monte-Carlo simulation model. Performance share awards provide the right to receive a share award at the end of a specified period in which a performance goal based on total shareholder return has been established.

The following table summarizes non-vested stock activity for the year ended January 30, 2016, respectively (shares in thousands):

| | Restricted Stock Awards | | Performance Share Awards | |
|---|---|---|---|---|
| | Shares | Weighted-Average Grant Date Fair Value | Shares | Weighted-Average Grant Date Fair Value |
| Non-vested at January 31, 2015 | 738 | $ 11.59 | 540 | $ 15.28 |
| Granted | 378 | 10.54 | 486 | 14.34 |
| Vested | (280) | 10.75 | (469) | 10.17 |
| Cancelled or forfeited | (139) | 11.59 | (199) | 11.75 |
| Special cash dividend adjustment | - | N/A | 234 | N/A |
| Non-vested at January 30, 2016 | 697 | $ 11.36 | 592 | $ 12.58 |
| Total unrecognized compensation cost | $ 4,642 | | $ 4,323 | |
| Weighted-average expected life remaining | 1.1 years | | 0.9 years | |

The total fair value of restricted stock vested was $3.0 million, $2.9 million and $2.8 million 2015, 2014, and 2013, respectively. The total fair value of performance awards vested was $4.8 million and $8.6 during 2015 and 2014, respectively. There were no performance awards vested in 2013.

In February 2015, as a result of paying a special cash dividend, all outstanding performance share awards were modified to increase the number of shares in order to maintain the original grant fair value. No incremental stock compensation expense resulted from the modification. The restricted stock awards did not require modification because they participated in the special cash dividend.

***Share-Based Compensation Expense***

For the years ended January 30, 2016, January 31, 2015 and February 1, 2014, share-based compensation expense was recorded as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Cost of merchandise sold | $ 2,118 | $ 2,765 | $ 2,548 |
| Selling, general and administrative expenses | 4,398 | 4,831 | 4,743 |
| Total share-based compensation expense | $ 6,516 | $ 7,596 | $ 7,291 |

The total tax benefit recognized in the Consolidated Statements of Income related to share-based compensation expense was $2.5 million, $2.9 million and $2.8 million for 2015, 2014 and 2013, respectively.

**9. Commitments and Contingencies**

In a September 2015 administrative proceeding, the SEC found that we had violated the reporting, books and records, and internal controls provisions of the Securities Exchange Act of 1934 during the 2012 restatement period and ordered us to cease and desist from committing or causing any violations and any future violations of such SEC rules. We agreed to a settlement with the SEC without admitting or denying the findings of the SEC and also agreed to pay a civil monetary penalty of $0.8 million. We previously established an accrual for the potential settlement of this matter, which did not require significant adjustment following the settlement. We recognized $0.1 million and $4.1 million of legal and other expenses for this matter during 2015 and 2014, respectively, net of expected insurance recoveries. The SEC did not allege fraud by us and did not bring charges against any individual. In connection with the settlement, the SEC considered remedial acts undertaken by us, including enhancement of our internal controls, retention of additional accounting personnel, and our cooperation with the SEC staff during the course of the investigation.

We are involved in various routine legal proceedings incidental to the conduct of our business. Management, based upon the advice of outside legal counsel, does not believe that any of these legal proceedings will have a material adverse effect on our financial condition, results of operations or cash flows.

**10. Store Closing Charges**

We close under-performing stores in the normal course of business. We closed two stores in 2015 and three stores in 2014 and 2013, incurring lease termination and severance costs. Lease termination costs are net of estimated sublease income that could reasonably be obtained for the properties. During 2015, we recorded a nominal amount of store closing costs, net of impairments. During 2014 and 2013, we recorded net store closing costs of $1.0 million and $0.1 million, respectively, for store closing charges. Store closing charges are included in SG&A in the Consolidated Statements of Income.

The following tables show the activity in the store closing reserve:

| | Lease-Related | Severance and Other | Total |
|---|---|---|---|
| Balance at February 2, 2013 | $ 2,093 | $ 38 | $ 2,131 |
| Charges | (56) | 161 | 105 |
| Payments | (2,002) | (130) | (2,132) |
| Balance at February 1, 2014 | 35 | 69 | 104 |
| Charges | 1,385 | 47 | 1,432 |
| Payments | (1,365) | (64) | (1,429) |
| Balance at January 31, 2015 | 55 | 52 | 107 |
| Charges | 1 | 6 | 7 |
| Payments | (56) | (58) | (114) |
| Balance at January 30, 2016 | $ - | $ - | $ - |

There is no store closing reserve at January 30, 2016. The store closing reserve at January 31, 2015 and February 1, 2014 is included in accrued expenses and other current liabilities.

**11. Quarterly Results of Operations (Unaudited)**

| | Year Ended January 30, 2016 | | | |
|---|---|---|---|---|
| | 13 Weeks Ended May 2, 2015 | 13 Weeks Ended August 1, 2015 | 13 Weeks Ended October 31, 2015 | 13 Weeks Ended January 30, 2016 |
| Net sales | $ 353,521 | $ 311,583 | $ 300,665 | $ 394,132 |
| Gross profit | 108,380 | 88,935 | 82,168 | 105,804 |
| Net income (loss) | 13,564 | 4,094 | (197) | 6,250 |
| Basic net income (loss) per share | $ 0.30 | $ 0.09 | $ (0.01) | $ 0.14 |
| Diluted net income (loss) per share | $ 0.29 | $ 0.09 | $ (0.01) | $ 0.13 |
| Weighted-average shares outstanding: | | | | |
| Basic | 44,612 | 44,710 | 44,791 | 44,905 |
| Diluted | 45,766 | 45,926 | 44,791 | 46,061 |

| | Year Ended January 31, 2015 | | | |
|---|---|---|---|---|
| | 13 Weeks Ended May 3, 2014 | 13 Weeks Ended August 2, 2014 | 13 Weeks Ended November 1, 2014 | 13 Weeks Ended January 31, 2015 |
| Net sales | $ 328,854 | $ 298,157 | $ 303,667 | $ 386,999 |
| Gross profit | 104,326 | 84,244 | 84,561 | 113,605 |
| Net income (loss) | 14,075 | 1,737 | (1,211) | 12,305 |
| Basic net income (loss) per share | $ 0.31 | $ 0.04 | $ (0.03) | $ 0.28 |
| Diluted net income (loss) per share | $ 0.31 | $ 0.04 | $ (0.03) | $ 0.27 |
| Weighted-average shares outstanding: | | | | |
| Basic | 43,829 | 43,814 | 43,857 | 43,898 |
| Diluted | 44,456 | 44,704 | 43,857 | 45,004 |

The sum of the quarterly net income per share amounts may not equal the annual amount because income per share is calculated independently for each quarter.

**12. Related Party Transactions**

One of our directors is the majority shareholder of the legal firm that is the Company's general counsel. Legal fees associated with these services were $0.2 million in 2015, 2014 and 2013. In addition, the director also participated in our 2015, 2014 and 2013 Incentive Plans related to his role as general counsel to the Company.

We leased three locations in 2014 and 2013 from a company for which one of our former directors is Chairman and Chief Executive Officer. This former director did not stand for reelection at the June 2014 annual meeting. We paid approximately $0.3 million in base rent through June 2014 and $0.8 million in 2013.

One of our directors, as a private investor, indirectly owned a minority interest through September 5, 2014 in the entity which operates a secure location for and maintains certain of our data processing equipment. On September 5, 2014 the entity was sold and the director and his family no longer own indirect interests. Expenses through September 5, 2014 associated with this service were $0.3 million and $0.4 million in 2014 and 2013, respectively. We entered this facility prior to our director's investment.

Our Chairman had a personal interest in a NetJets aircraft. Effective June 2, 2014, a subsidiary of the Company purchased an undivided 3.125% interest in a NetJets aircraft, and our Chairman contributed his personal NetJets contract to our subsidiary, which the subsidiary utilized as trade-in credit with NetJets in the amount of $0.1 million. We reimbursed the Chairman for the value of his NetJets contract.

**13. Subsequent Event**

On February 24, 2016, we entered into an Amended and Restated Co-Brand and Private Label Credit Card Consumer Program Agreement (the "Agreement") with Synchrony Bank ("Synchrony") effective February 1, 2016, running through January 2026. The Agreement amends the Co-Brand and Private Label Credit Card Consumer Program (the "Program") Agreement dated October 3, 2011 (the "Prior Agreement"), which was set to expire in September 2018. After 2026, the Agreement renews automatically for successive one-

year terms unless either party provides notice of termination at least 180 days prior to expiration of the initial or current renewal term. The Agreement contains early termination rights for each party, including termination rights upon default or upon other specified events.

The Agreement provides for greater compensation to us by Synchrony, in part due to the significant growth of our credit card program since the addition of a private label card in 2011. The non-financial terms of the Agreement are substantially the same as the Prior Agreement. Synchrony extends credit directly to cardholders under the Program to finance purchases from Stein Mart and, for co-brand cardholders, from other retailers. Synchrony provides all servicing for the credit card accounts, including customer service and collections, and bears all credit and fraud losses. We maintain a cardholder rewards program and fund rewards redeemed by cardholders as part of that program. Co-brand cardholders earn reward certificates based on purchase volume and all cardholders can participate in in-store “extra savings events”. An operating committee with equal representation of Stein Mart and Synchrony oversees the Program.

**EXHIBIT INDEX**

| | |
|---|---|
| 3.1 | Articles of Incorporation of Stein Mart, Inc., incorporated by reference to the Company's Form S-1 Registration Statement No. 33-46322 |
| 3.2 | Bylaws of Stein Mart, Inc., amended January 21, 2014, incorporated by reference to the Company's Form 8-K filed January 23, 2014 |
| 4.1 | Form of stock certificate for Common Stock, incorporated by reference to the Company's Form S-1 Registration Statement No. 33-46322 |
| 4.2 | Amended and Restated Stein Mart, Inc. Employee Stock Purchase Plan, incorporated by reference to the Company's definitive proxy statement on Schedule 14A filed on April 24, 2015 |
| 10.1* | Form of Director's and Officer's Indemnification Agreement, incorporated by reference to the Company's Form S-1 Registration Statement No. 33-46322 |
| 10.2* | Stein Mart, Inc. 2001 Omnibus Plan as Amended and Restated Effective June 14, 2011, incorporated by reference to the Company's Form 8-K filed on June 15, 2011 |
| 10.3* | Form of Option Award Agreement for Key Employees, pursuant to Stein Mart, Inc. 2001 Omnibus Plan, incorporated by reference to the Company's Form 10-K for the fiscal year ended February 1, 2014 |
| 10.4* | Form of Option Award Agreement for Non-Employee Directors, pursuant to Stein Mart, Inc. 2001 Omnibus Plan, incorporated by reference to the Company's Form 10-K for the fiscal year ended February 1, 2014 |
| 10.5* | Form of Restricted Share Award Agreement for Key Employees, pursuant to Stein Mart, Inc. 2001 Omnibus Plan, incorporated by reference to the Company's Form 10-K for the fiscal year ended February 1, 2014 |
| 10.6* | Form of Performance Share Award Agreement for Key Employees, pursuant to Stein Mart, Inc. 2001 Omnibus Plan, incorporated by reference to the Company's Form 10-K for the fiscal year ended February 1, 2014 |
| 10.7* | Form of Restricted Share Award for Non-Employee Directors, pursuant to Stein Mart, Inc. 2001 Omnibus Plan, incorporated by reference to the Company's Form 10-K for the fiscal year ended February 1, 2014 |
| 10.8* | Profit Sharing Plan, incorporated by reference to the Company's Form S-1 Registration Statement No. 33-46322 |
| 10.9* | PPO Executive Plan for Stein Mart, Inc., incorporated by reference to the Company's Form 10-Q for the quarterly period ended May 1, 2010 |
| 10.10* | Executive Split Dollar Agreement, incorporated by reference to the Company's Form 10-K for the fiscal year ended January 1, 2000 |
| 10.11* | Form of Letter Agreement Amendment to Split Dollar Agreement, incorporated by reference to the Company's Form 8-K filed December 13, 2012 |
| 10.12* | Executive Deferral Plan, amended November 1, 2002, incorporated by reference to the Company's Form 10-K for the fiscal year ended January 31, 2004 |
| 10.13* | Amended and Restated Executive Deferral Plan effective January 1, 2008, incorporated by reference to the Company's Form 10-K for the year ended February 2, 2013 |

| | |
|---|---|
| 10.14* | Employment Agreement, dated May 1, 2014, between Stein Mart, Inc. and Gary L. Pierce, incorporated by reference to the Company's Form 8-K filed on May 1, 2014 |
| 10.15* | Amendment to Employment Agreement, dated May 5, 2014, between Stein Mart, Inc. and Gary L. Pierce, incorporated by reference to the Company's Form 8-K filed on May 7, 2014 |
| 10.16* | Employment Agreement, dated July 31, 2015, between Stein Mart, Inc. and Gregory W. Kleffner, incorporated by reference to the Company's Current Report in Form 8-K dated July 31, 2015 |
| 10.17* | Employment Agreement, dated September 15, 2013, between Stein Mart, Inc. and David H. Hawkins, incorporated by reference to the Company's Form 10-K for the fiscal year ended February 1, 2014 |
| 10.18 | Second Amended and Restated Credit Agreement dated February 3, 2015, by and among Stein Mart, Inc., as lead borrower, the other borrowers and guarantors named therein, and Wells Fargo Bank, National Association, as Administrative Agent, Collateral Agent, a Lender, Swing Line Lender, LC Issuer, Sole Lead Arranger and Sole Bookrunner, incorporated by reference to the Company's Form 8-K filed on February 4, 2015 |
| 10.19 | Master Loan Agreement No. 0220792 dated February 3, 2015, by and among Stein Mart, Inc. and Stein Mart Buying Corp., as Borrowers, Wells Fargo Equipment Finance, Inc., as Lender, and Wells Fargo Bank, National Association, as Administrative Agent, incorporated by reference to the Company's Form 8-K filed on February 4, 2015 |
| 10.20 | Amended and Restated Supply Agreement, dated May 30, 2006, between DSW Inc. and Stein Mart, Inc., incorporated by reference to the Company's Form 8-K filed on June 5, 2006 |
| 10.21 | First Amendment to Amended and Restated Supply Agreement, dated August 26, 2008, between DSW Inc. and Stein Mart, Inc., incorporated by reference to the Company's Form 10-Q for the quarterly period ended November 1, 2008 |
| 10.22 | Second Amendment to Amended and Restated Supply Agreement, dated February 23, 2012, between DSW Inc. and Stein Mart, Inc., incorporated by reference to the Company's Form 10-Q for the quarterly period ended April 28, 2012 |
| 10.23 | Third Amendment to Amended and Restated Supply Agreement, dated as of September 10, 2013, between DSW Leased Business Division aka Affiliated Business Group and Stein Mart, Inc., incorporated by reference to the Company's Form 10-Q for the quarterly period ended May 3, 2014 |
| 10.24 | Fourth Amendment to Amended and Restated Supply Agreement, dated as of July 31, 2014, between DSW Leased Business Division aka Affiliated Business Group and Stein Mart, Inc., incorporated by reference to the Company's Form 10-K for the fiscal year ended January 31, 2015 |
| 10.25+ | Amended and Restated Co-Brand and Private Label Credit Card Consumer Program Agreement by and between Stein Mart, Inc. and GE Capital Retail Bank, dated as of October 3, 2011, incorporated by reference to the Company's Amendment No. 1 to Form 10-Q for the quarterly period ended October 29, 2011 |
| 10.26 | Law Firm Engagement Agreement with Stein Mart, Inc. dated June 8, 2011, incorporated by reference to the Company's Form 10-Q for the quarterly period ended April 30, 2011 |
| 10.27 | Renewal of Law Firm Agreement between the Company and Kirschner & Legler, P.A., dated April 1, 2013, incorporated by reference to the Company's Form 10-K for the fiscal year ended February 2, 2013 |
| 10.28 | Renewal of Law Firm Agreement between the Company and Kirschner & Legler, P.A., dated April 1, 2015, incorporated by reference to the Company's Form 10-K for the fiscal year ended January 31, 2015 |
| 10.29 | First Amendment to Amended and Restated Co-Brand and Private Label Credit Card Program Agreement dated June 19, 2015 by and between Synchrony Bank and Stein Mart, Inc., incorporated by reference to the Company's Current Report on Form 10-Q for the quarterly period ended August 1, 2015 |

| | |
|---|---|
| 21 | Subsidiaries of the Company (filed herein) |
| 23.1 | Consent of KPMG LLP (filed herein) |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002 (filed herein) |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002 (filed herein) |
| 32.1 | Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 (filed herein) |
| 32.2 | Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 (filed herein) |
| 101 | Interactive data files from Stein Mart, Inc.'s Annual Report on Form 10-K for the year ended January 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive 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.

\+ Certain portions of the exhibit have been omitted pursuant to a confidential treatment order. An unredacted copy of the exhibit has been filed separately with the United States Securities Exchange Commission pursuant to a request for confidential treatment.

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

## DIRECTORS

**Jay Stein**
Chairman of the Board;
Former Chief Executive Officer
Stein Mart, Inc.

**John H. Williams, Jr.**
Vice Chairman of the Board;
Former President and
Chief Executive Officer
Stein Mart, Inc.

**Dawn H. Robertson**
Chief Executive Officer
Stein Mart, Inc.

**Irwin Cohen**
Former Partner
Deloitte & Touche LLP

**Susan Falk**
Former Chief Executive Officer
Betsey Johnson LLC

**Linda M. Farthing**
Former President and
Chief Executive Officer
Stein Mart, Inc.

**Lisa Galanti**
Former Managing Director
Fitzgerald & Co.

**Mitchell W. Legler, Esquire**
Kirschner & Legler, P.A.

**Richard L. Sisisky**
President, The Shircliff
& Sisisky Company

**Burton M. Tansky**
Former President and
Chief Executive Officer
The Neiman Marcus Group

## EXECUTIVE OFFICERS

**Dawn H. Robertson**
Chief Executive Officer

**D. Hunt Hawkins**
President and
Chief Operating Officer

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

**Roseann McLean**
Executive Vice President,
Planning and Allocation

**Gary L. Pierce**
Executive Vice President and
Director of Stores

## SENIOR VICE PRESIDENTS, CORPORATE

**Brently Baxter**
Controller

**Sharon Hart**
Chief Information Officer

**Steven Horowitz**
Real Estate and Construction

**Glori Katz**
Marketing, Advertising and Sales
Promotion

**Richard A. Schart**
Supply Chain

## SENIOR VICE PRESIDENT, STEIN MART BUYING CORP.

**Jane Dever**
General Merchandising Manager,
Home

## CORPORATE HEADQUARTERS

**1200 Riverplace Boulevard**
**Jacksonville, FL 32207**
1-904-346-1500
www.steinmart.com

## ANNUAL MEETING OF SHAREHOLDERS

**Tuesday, June 21, 2016, 2:00 p.m. EST**
**Stein Mart Corporate Headquarters**
**5th Floor**
**1200 Riverplace Boulevard**
**Jacksonville, FL 32207**

## COMMON STOCK INFORMATION

**The Company's common stock trades on The NASDAQ Global Select Market under the trading symbol SMRT**

## TRANSFER AGENT AND REGISTRAR

**Computershare**
1-866-737-3777 (toll free)
1-800-231-5469 (TDD services for the hearing impaired)
1-201-680-6578 (Outside the U.S.)

Address shareholder inquiries to:
Computershare Investor Services
P.O. Box 30170
College Station, TX 77842

Overnight Delivery:
211 Quality Circle
College Station, TX 77845

Website and e-mail addresses:
www.computershare.com/investor
webqueries@computershare.com

## LEGAL COUNSEL

**Mitchell W. Legler**
**Kirschner & Legler, P.A.**
1431 Riverplace Blvd, Suite 910
Jacksonville, FL 32207

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**KPMG LLP**
Jacksonville, FL

## INVESTOR RELATIONS

**Linda L. Tasseff**
Director of Investor Relations
1-904-858-2639
ltasseff@steinmart.com

**Additional shareholder information is available online at http://ir.steinmart.com**

Stein Mart®

NAPLES, FL - OPENED MARCH 2016

RECORD-BREAKING GRAND OPENING SALES

Stein Mart®

1200 RIVERPLACE BOULEVARD | JACKSONVILLE, FL 32207

WWW.STEINMART.COM