STEIN MART INC
Form 10-K
April 18, 2007

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 February 3, 2007

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 0-20052

STEIN MART, INC.

(Exact name of registrant as specified in its charter)

Florida (State or other jurisdiction of incorporation or organization)	**64-0466198** (I.R.S. Employer Identification Number)
1200 Riverplace Blvd., Jacksonville, Florida (Address of principal executive offices)	**32207** (Zip Code)

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

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

Title of each class:	Name of each exchange on which registered:
Common Stock $.01 par value	The NASDAQ Stock Market LLC

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 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. x

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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 April 5, 2007 was $475,734,789. 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 16,461,589 shares. At April 5, 2007, the Registrant had issued and outstanding an aggregate of 43,769,461 shares of its common stock.

Documents Incorporated By Reference:

Portions of the Registrant s Proxy Statement for its 2007 Annual Meeting of Stockholders are incorporated by reference in Parts III-IV.

STEIN MART, INC.

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This report contains forward-looking statements which are subject to certain risks, uncertainties or assumptions and may be affected by certain factors, including but not limited to the 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-Liquidity and Capital Resources . 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 or future events. Undue reliance should not be placed on such forward-looking statements, which are based on current expectations. Forward-looking statements are no guarantees of performance.

PART I

ITEM 1. BUSINESS
OVERVIEW

Stein Mart is a retailer offering the fashion merchandise, service and presentation of a better department or specialty store at prices competitive with off-price retail chains. Our focused assortment of merchandise features current-season, moderate to better fashion apparel for women and men, as well as accessories, gifts, linens and shoes all offered at prices competitive with off-price retail chains. Our target customers are fashion-conscious, value-seeking 35-60 year old women with above average annual household incomes. As of February 3, 2007, we operated 268 stores in 30 states and the District of Columbia.

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

BUSINESS STRENGTHS

We believe our success and future growth will depend on the consistent execution of the following business strengths:

Target a Highly Desirable Customer. Generally, our target customers are fashion-conscious, value-seeking women between the ages of 35 and 60. Women in this age bracket spent over $32 billion on apparel in 2006. Within this group, our target customer generally has a higher than average level of disposable income. Furthermore, we believe that the product selection, customer service, mall location and pricing of better department and specialty stores have become less appealing to our targeted customer. For these reasons, we believe that by continuing to make our shopping experience convenient, relevant and desirable to this target customer, we will be able to increase our share of the apparel market.

Provide Timely, Consistent, Upscale Merchandise. We purchase current-season, fashionable, upscale merchandise primarily through pre-planned buying programs similar to those used by department stores. We generally purchase from many of the same vendors as department stores. We collaborate with our vendors to acquire a more focused selection of merchandise that we feel better reflects the fashion tastes, colors and patterns desired by our target customer. This strategy enables us to offer current-season, fashionable merchandise on a more timely basis than some of our off-price competitors, who concentrate on more opportunistic buying approaches, including the use of close-outs and overstocks to source their merchandise.

Offer Value on Fashion Merchandise. We strive to provide a compelling value on fashionable, current-season merchandise. As part of our favorable vendor relationships and streamlined purchase terms, we generally do not require many of the typical vendor concessions, such as advertising allowances or return privileges that are common in the department store industry. As a result, we believe that our buyers are able to negotiate more favorable pricing terms from vendors. We pass these savings on to our customers through everyday low pricing that we target to be competitive with off-price retail chains.

Deliver an Attractive Store Appearance, Appealing Merchandise Presentation and High-Quality Customer Service. Within each of our stores, we try to create an ambiance through attractive in-store layouts, signage, merchandise presentation and customer service. Our merchandise is displayed in lifestyle groupings to assist our customers in assembling outfits and encourage multiple unit purchases. We generally offer a full assortment of sizes and styles for the goods we sell. We provide customer service levels similar to those found at better department or specialty stores. We also operate a distinctive ladies apparel store-within-a-store concept, the *Boutique*, which offers better merchandise and the presentation and service levels found in a specialty boutique. The *Boutique* is a key element of our merchandising strategy to attract more fashion-conscious customers.

Maximize Inventory Efficiency. We primarily utilize drop shipments from our vendors to our stores of pre-ticketed, ready-to-hang, floor-ready merchandise. We use a drop-ship model because it enables our stores to introduce current-season merchandise on a timely basis, saves the expense of handling merchandise twice, as is typically the case through a distribution center, and optimizes inventory levels by avoiding the need to warehouse products. In addition, our merchandising control systems, including replenishment software, aid in our ability to optimize inventory levels and increase product flow-through, resulting in fewer markdowns and higher profitability.

Execute our Convenience-based Real Estate Strategy. Our typical store format averages 37,000 square feet and is located primarily in neighborhood shopping centers in close proximity to upscale, residential neighborhoods. Our optimal co-tenants within these shopping centers cater to a similar target customer and are typically highly frequented retail formats such as supermarkets, drug stores, specialty retailers and restaurants. In addition, our store size and layout offer greater convenience to our customers than some of our department store competitors. We utilize regional tenant representatives to locate new store sites in targeted markets across the United States.

Leverage our Broadly Recognized Brand. We enjoy a nationally recognized brand, with presence in 30 states and the District of Columbia as of February 3, 2007 and an active advertising and marketing program. We are evolving our advertising and marketing efforts to reinforce our principal value proposition with our current customers and introduce Stein Mart to prospective customers through a combination of television commercials, print ads, direct mail collateral and internet outreach.

RECENT INITIATIVES

Over the course of the past five years, we have implemented a number of strategies designed to highlight our traditional strengths, while creating a more productive, profitable foundation on which we seek to double the size of our business. At the core of each of these strategies is a goal to maximize profitability in each square foot of selling space. These strategies include:

Make the assortment more meaningful to our customer

A major customer research project was conducted in the spring of 2005 to identify those categories of merchandise that the customer did or did not value. We also asked what merchandise that we currently did not carry (or did not carry enough of) would attract more of her shopping dollars. The results of this research prompted the following:

The decision to exit the Children s Apparel business; a move that began post-Easter 2006 and culminated in October 2006. The additional square footage was dedicated to more desirable areas of ladies ready-to-wear, including intimate apparel and special sizes.

The introduction of several exclusive lines of merchandise created by well-known designers to fulfill our customers desire to identify with better brands. These include exclusive products by A Line/Anne Klein and Jones & Co. in the apparel areas, and Nina Campbell in the Home departments.

The expansion of Alan Flusser and Peck & Peck proprietary brands through the addition of Alan Flusser Golf in our Men s area and Peck & Peck Weekend in our *Boutique*.

The creation of a new Men s line, T. Harris-a British menswear-inspired line that provides premium quality product at a very attractive price point.

We executed a major overhaul of our Home area, which involved re-tooling the Gifts and Linens business to concentrate on Home Décor and Entertaining. This process, which began with the clearance of much of the former Home merchandise in the fall of 2005, was substantially completed during 2006; however, additional evaluation and fine-tuning of these assortments continues.

Deliver merchandise more appropriately and turn the product more effectively

Emphasis was placed on the creation of a more compelling fashion assortment that would be delivered, priced and promoted to move through the inventory cycle as quickly and productively as possible, with a goal of reducing markdowns and increasing inventory turn.

Fine tune our delivery systems so that the season s merchandise flows in proportionately in several mini-seasons rather than being delivered in a single window of time.

In the spring of 2006, we installed ProfitLogic®, Oracle s price optimization software. This system enhances our ability to make the best markdown decisions by predicting the most effective markdown cadence for a particular product. We believe it will allow us to deliver better merchandise margins through both timely decision-making and the ability to take markdowns regionally.

Make the shopping experience more pleasant and rewarding

A new register system was installed in all stores to provide a more efficient check-out experience for our customers. The new system will make wait times shorter and allow the cashier to respond more quickly to returns and exchanges. It will also serve as a platform for enhanced customer interaction as we add functionality to the platform in the future. All stores had received the upgrade by the end of October 2006.

The interior décor of many of our stores was upgraded to a more neutral paint palette and fitted with more flexible fixtures.

A new, Stein Mart Platinum MasterCard® was launched to provide a points-based system of customer rewards and a way to reach out to customers in a more targeted manner.

Establish rigorous new protocols for both selecting new store locations and determining which stores should close because of under-performance.

Each potential new location is scrutinized for future success based on projections of sales and operating profitability and is required to attain or exceed a three-year hurdle rate. A third party resource is employed to provide sales projections, and the proforma operating statement is presented to and must be approved by the management committee of the Company. A total of 38 new stores have been opened and three have been relocated to more advantageous locations since this process began to be utilized in February 2003.

Average new store sales for stores opened after 2002 under the new location selection process have increased to approximately $5.0 million for the first full fiscal year. Previously, new store sales averaged $4.0 - $4.5 million for the same period.

Under-performing stores are scrutinized at the end of each fiscal year and decisive action to improve, adjust or close them is prescribed. Since this process was put in place at the end of 2002, 35 under-performing locations had been removed from our existing real estate portfolio as of February 3, 2007.

As a result of these initiatives:

- Average sales per store (including leased departments) increased from \$5.7 million to \$6.1 million between fiscal 2002 and fiscal 2006 and sales per square foot (including leased departments) from \$184 to \$201 during the same period.

- Gross profit as a percentage of sales improved by 3.0 percentage points between fiscal 2002 and the end of fiscal 2006.

GROWTH STRATEGY

Our management team is committed to executing the following key growth strategies:

Optimize our Retail Footprint. As of February 3, 2007, we had 268 retail stores, 12 of which were opened in fiscal 2006. In 2007, we will accelerate our new store growth with the most aggressive store opening plan since 2001, with 15-20 new stores, the majority of which will open in the second half of the year. We will close two stores and relocate two stores in fiscal 2007. We expect to fund the cost of opening all new stores from our internal cash flow. Consistent with our past expansion strategy, new stores will be added in both new metropolitan markets and existing markets. Our drop shipment distribution approach allows management to concentrate on the most desirable real estate opportunities in targeted markets, without being constrained geographically by the capacity limits or locations of a distribution center.

We evaluate the entire portfolio of store locations at the end of each fiscal year. If there are stores that are not performing to their potential, we will consider a number of corrective measures or, in certain cases, choose to close the location, depending on our lease obligations. Accordingly, we anticipate that new store openings will be partially offset by the closure on a selective basis of under-performing stores.

Improve Profitability. As we grow our business and open new stores, we intend to increase our operating income. Key elements of our profitability improvement strategy include:

- focusing the business toward the needs and desires of our target customer by optimizing merchandise mix via continued customer research

- improving store traffic through enhanced marketing programs

- expanding margins by improving our product sell-through and minimizing our markdowns

- lowering the cost of our merchandise by continually improving our purchasing process

Further Strengthen and Build Customer Loyalty and Brand Awareness. As we grow our business, we believe we will continue to identify new and effective ways to improve our brand visibility and build customer loyalty. The Preferred Customer program and our credit card offer us opportunities to reward our most devoted customers. Additionally, we promote brand awareness in the community through fashion shows and wardrobe consultations for businesses and other organizations.

In 2007, we entered into an agreement with a new advertising agency to develop a stronger brand awareness campaign using an integrated marketing approach. We anticipate the first output of this endeavor in the Fall 2007 season.

MERCHANDISING, PRICING AND STORE APPEARANCE

Our focused assortment of merchandise features moderate to better fashion apparel for women and men as well as ladies accessories, gifts, linens and shoes. Our fashion assortment is driven primarily by our own merchandising plan, which is intended to anticipate and identify seasonal fashion, silhouette and color trends, and how each should be represented on the selling floor in order to serve our target customer. Branded merchandise is complemented by a limited private label program which enhances the presentation of current fashion trends and provides key basic items in complete size ranges and assortments. We seek to offer distinct value to our customer through everyday low pricing that we target to be competitive with off-price retail chains.

From our customer s perspective, we believe we differentiate ourselves from department stores and specialty stores due to our (i) everyday low pricing, (ii) convenient locations in neighborhood shopping centers near upscale neighborhoods, and (iii) assortments that are more focused than department stores and more varied than specialty stores. We also believe we differentiate ourselves from typical off-price retailers by offering (i) primarily current-season merchandise carried by better department and specialty stores, (ii) at moderate to better price levels, (iii) a stronger merchandising statement, consistently offering more depth of color and size in individual stock-keeping units, and (iv) merchandise presentation and customer service more comparable to other upscale retailers.

Our typical store is approximately 37,000 gross square feet with a racetrack design, convenient centralized check-out, and individual dressing rooms. 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.

We display merchandise in lifestyle groupings of apparel and accessories. Our management believes that the lifestyle grouping concept strengthens the fashion image of our merchandise and enables the customer to locate desired merchandise in a manner that encourages multiple purchases.

The following table reflects the percentage of our sales by major merchandise category, which includes sales from leased shoe departments, for the fiscal years indicated:

	2006	2005	2004
Ladies and *Boutique* apparel	**44%**	42%	41%
Ladies accessories	**12%**	13%	12%
Men s	**20%**	19%	18%
Gifts and linens	**14%**	15%	17%
Leased shoe departments	**7%**	7%	7%
Children s	**1%**	2%	3%
Other	**2%**	2%	2%
	100%	100%	100%

A comprehensive Customer Intensification Process™ was conducted in the spring of 2005 with a goal to further clarify our customers shopping preferences. The results of that study led to a decision to eliminate our Children s apparel offering in favor of additional ready-to-wear categories such as intimate apparel and special sizes. This process began in the spring of 2006 and was completed in the fall of 2006, with the new categories successfully replacing the prior category s sales and at higher gross margins.

Our shoe department has traditionally been a leased department operated in individual stores by one of two shoe retailers. DSW, Inc. or Nine West Group, Inc., a division of Jones Apparel Group, Inc. leased space in 60% and 40% of the stores, respectively, through the first 11 months of 2006. In January 2007, DSW, Inc. became the single lessee for all Stein Mart stores. The footwear featured in this department is presented in a manner consistent with our overall presentation in other departments, stressing fashionable, current-season footwear at value prices. This department offers a variety of women s and men s casual and dress shoes, which complement the range of apparel available in other departments.

STORE NETWORK

At February 3, 2007, we operated 268 stores in 30 states and the District of Columbia, primarily concentrated in the Southeast and Texas. Stores are located primarily in neighborhood shopping centers in close proximity to upscale residential neighborhoods, where our target customer is likely to reside. Other locations where our stores may be found include power centers, in freestanding buildings or in traditional shopping malls. All of our stores and our headquarters are leased.

Our philosophy is to finance growth with internally generated funds and to continue to fill in existing markets as well as expand into new markets. Since less than five percent of our merchandise on a dollar basis is handled through our distribution/warehouse facility, we are not constrained geographically or by the capacity limits or location of a central facility. Our tenant representative brokers scout potential locations for future expansion across the United States. We refurbish existing retail locations or occupy newly constructed stores, which typically are anchor stores in new or existing shopping centers, ideally with co-tenants that cater to a similar customer base.

Our costs associated with opening a new store include approximately $700,000 to $850,000 for fixtures, equipment, leasehold improvements and pre-opening expenses (primarily advertising, stocking and training). The cost of our initial inventory investment for a new store is approximately $1.0 million.

During 2002, we revised our approach to selecting new store locations. Most of the stores opened in 2003 and thereafter were selected using this new approach. Prior to that time, our principal consideration was population demographics, along with the availability of prime real estate locations, existing and potential competitors, and the number of our stores that a market could support. We have since expanded our analysis to consider psychographics, such as fashion consciousness in the marketplace. We have also retained a third-party consulting firm to analyze each potential location. Finally, a committee of our senior officers considers the collected data and analysis, and determines whether to approve or reject potential new store locations. Our management has identified several target markets to expand our existing presence as well as new geographic regions to enter. Based on information provided by real estate consultants, we believe the Stein Mart store network could eventually reach 500-550 stores.

We also revised our approach to identifying and analyzing under-performing stores. This approach involves regular review of all existing stores, with emphasis on strategies to improve the profitability of under-performing stores. If, after a period of time, a store s profitability does not improve, the store is considered for closure. In some instances, lease termination costs make it economically impracticable to close an under-performing store. A total of 35 under-performing stores were closed during the past four years. We plan to close two under-performing stores and relocate two stores in 2007.

In 2002, we also introduced a smaller (sub-15,000 square foot) store concept, *collections of Stein Mart*, to test our entry into resort and premium markets where our typical Stein Mart store is not feasible. There are currently four *collections of Stein Mart* stores, and we believe that this format has continued promise in locations where either real estate availability or costs are prohibitive for our typical 37,000 square foot store.

CUSTOMER SERVICE

Our customer service is fundamental to our goal of building customer loyalty. Our stores offer many of the services typically found in better department and specialty stores, such as a liberal merchandise return policy, a Preferred Customer program, a Stein Mart Platinum MasterCard® and electronic gift certificates. Each store is staffed to provide a number of sales associates to properly attend to customer needs. All our stores have their own *Boutique*, staffed generally by specially-recruited associates who are civically and socially prominent in the community and who generally work one day a week. We believe this staffing approach adds credibility and fashion integrity to the department.

Our associates are paid on a per-hour or salaried basis and are not on commission.

We completed the 360 Commerce cash register platform installation with 180 stores being converted in 2006. The installations included transaction processing hardware and software, as well as the re-configuration of the cash/wrap service desk areas in each of the stores.

VENDOR RELATIONSHIPS AND BUYING

We buy from approximately 1,500 vendors, and we enjoy longstanding working relationships with many of these vendors. Our buyers shop at a variety of marketplaces to identify and negotiate with vendors for our desired assortment of merchandise. In most cases, our merchandise is bought directly from the manufacturers lines, similar to department stores purchasing programs. In other cases, our merchants work with manufacturers to customize pieces on the vendor s line for our inventory. We also develop branded and private label proprietary product through established vendors in order to provide customers with a unique product. Our private label merchandise comprises approximately 10% of sales. In 2006, approximately six percent of our purchases were from two vendors, and less than two percent of total purchases were from any other single vendor.

Our in-house merchandise development department works with buyers and vendors to ensure that the merchandise assortments offered are unique, fashionable, color-forward and of high quality. Our information systems enable us to acquire merchandise and track sales information on a store-by-store basis, allowing our buying staff to respond quickly to customer buying trends.

MARKETING

Our advertising stresses upscale, fashion merchandise at significant savings. In recent years, we have transitioned from spending the majority of our marketing budget on newspaper run of press (ROP) advertising to the production of color inserts and concentrated local affiliate and national cable television programming. This evolution has been a reallocation of dollars. We anticipate new advertising and marketing initiatives beginning in Fall 2007 as a result of a new advertising agency agreement entered into February 2007.

Two major events affected our marketing in recent years. In August 2003, we discontinued the regular use of various coupons that allowed customers to take a specified percentage discount off of full-priced merchandise. In the fall of 2003, we launched a nationwide, television-based advertising campaign featuring our customers and their comments about shopping at our stores. Our television ads run during the height of the spring and fall selling season, and are reinforced by color pre-print circulars, both inserted in newspapers and mailed directly to customers. During major clearance seasons, we utilize newspaper ROP advertising.

Our Preferred Customer program, launched in May 2001, includes approximately 2.3 million active customers. It recognizes and rewards our most devoted shoppers and most of them receive regular mailings regarding key events, promotions, special members-only shopping days and special discounts exclusive to these individuals. It has been enhanced by the introduction of a Stein Mart Platinum MasterCard® in October 2006. The new credit card provides point-based rewards to Stein Mart shoppers when they utilize this credit card for Stein Mart or other transactions, and they receive reward certificates for use at Stein Mart at certain point levels.

We have an Internet site, www.steinmart.com, to promote Stein Mart s fashion point of view, as well as provide information for customers regarding stores, store locations, company management and selected sales promotion activity. We anticipate using steinmart.com to highlight featured merchandise and for traffic stimulation going forward; however, we do not sell merchandise online at this time. Visitors to the website may sign up to be Preferred Customers and/or purchase electronic gift certificates.

DISTRIBUTION METHODOLOGY

We primarily utilize drop shipments from our vendors directly to our stores, as opposed to having merchandise flow through a centralized distribution center. Most apparel merchandise is received pre-ticketed and ready to hang (floor ready). This system enables us to receive merchandise at each store on a timely basis and to save the time and expense of handling merchandise twice, which is typical of a traditional distribution center structure. Our management reviews the current system on a regular basis and, at this time, does not plan to change our drop-ship delivery system. We lease a small distribution/warehouse facility in Jacksonville, Florida, but less than five percent of our merchandise, on a dollar basis, is handled in this facility.

INFORMATION SYSTEMS

Our inventory control system enables us to achieve economies of scale from bulk purchases while at the same time ordering and tracking separate drop shipments by store. Our store inventory levels are regularly monitored and adjusted as sales trends dictate.

The inventory control system provides us with information that enhances management s ability to make informed buying decisions and accommodate unexpected increases or decreases in demand for a particular item. We use bar codes and bar code scanners as part of an integrated inventory management and check-out system in our stores.

Our merchandise planning and allocation system enables the buyers and planners to customize their merchandise assortments at the individual store and class level, based on selected criteria, such as a store s selling patterns, climate and merchandise color preferences. The ability to customize individual store assortments enables us to more effectively manage inventory, capitalize on sales trends and reduce markdowns.

We installed markdown optimization software in 2006, with a goal of enhancing our markdown decision-making and enabling regional markdowns. The initial start-up of the system required a longer learning curve than initially anticipated, but we believe it will be a contributor to gross margin progress in the future.

COMPETITION

Our management believes that we occupy a market niche closer to department and specialty stores than typical off-price retail chains. Our competitors range from national department stores, such as Belk, Dillard s and Macy s, to off-price retailers, such as Filene s Basement, Marshalls, Ross Stores and T.J. Maxx.

We believe that we are well positioned to compete on the principal competitive factors in the retail apparel industry: assortment, presentation, quality of merchandise, price, customer service, vendor relations and store location.

EMPLOYEES

As of February 3, 2007, our work force consisted of approximately 14,500 employees (8,900 40-hour equivalent employees). Each of our stores employs an average of 55 persons as merchandising managers, service associates, cashiers and other positions. The number of employees fluctuates based on the particular selling season.

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. In some classifications of merchandise, we use several private label programs to provide additional availability of items. 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 report on Form 10-K, proxy statement, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those filings are available free of charge on the investor relations portion of our website at http://ir.steinmart.com (click on SEC Filings) as soon as reasonably practicable after they are filed electronically with the Securities and Exchange Commission. Also available free of charge on the www.steinmart.com website (click on Investor Relations ; click on Corporate Governance) are the charters for the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee, as well as the Code of Ethics. Printed copies of these items are available free of charge upon request by writing Stein Mart, Inc., 1200 Riverplace Boulevard, Jacksonville, FL 32207, Attention: Stockholder Relations.

ITEM 1A. RISK FACTORS

Our results of operations and financial condition can be adversely affected by numerous risks and uncertainties. The most important of these risks and uncertainties are detailed below. You should carefully consider the risk factors described below and other risks which may be disclosed from time to time in the Company s filings with the SEC before investing in the Company s securities. Should any of these risks actually materialize, our business, financial condition, and future prospects could be negatively impacted.

Intense competition in the retail industry. We face intense competition for customers from department stores, specialty retailers and regional and national off-price retail chains. Many of these competitors are larger and have significantly greater financial and marketing resources than we do. In addition, many department stores have become more promotional and have reduced their price points, and 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 also make sales through the Internet, and although we do maintain an Internet site, we do not sell merchandise online. Accordingly, we may face periods of intense competition in the future which could have a material adverse effect on our profitability and results of operations. In addition, more competitors are opening stores in smaller markets where we have previously enjoyed less competition.

Unanticipated changes in fashion trends and changing consumer preferences. 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 cannot assure that we will 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 or excess inventory levels which could result in higher markdowns, any of which would have a material adverse effect on our financial condition and results of operations.

Our advertising, marketing and promotional strategies may be ineffective and inefficient. 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 our promotions, identify the most effective and efficient level of spending in each market and specific media vehicle and determine the appropriate creative message and media mix for our advertising, marketing and promotional expenditures. Our planned marketing expenditures may not result in increased revenues. In addition, if we are not able to manage our marketing expenditures on a cost-effective basis, our profitability and results of operations could be materially adversely affected.

Consumer sensitivity to economic conditions. The retail apparel business is dependent upon the level of consumer spending which may be materially adversely affected by an economic downturn or a decline in consumer confidence. As a fashion retailer, we rely on the expenditure of discretionary income for most, if not all, of our sales. A downturn, whether real or perceived, in economic conditions or prospects, particularly in the Southeast and other regions in which we derive a significant portion of our net sales, could adversely affect consumer spending habits and have a material adverse effect on our results of operations.

In particular, the continued threat of terrorism, heightened security measures and military action in response to an act of terrorism has disrupted commerce and intensified the uncertainty of the U.S. economy. Any further acts of terrorism or war may further disrupt commerce and undermine consumer confidence, which could negatively impact our sales revenue by causing consumer spending to decline. Furthermore, 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.

Seasonality, and especially the importance of the holiday selling season. Our business is affected by the seasonal pattern common to most retailers. Historically, our highest net sales and profit levels occur during the fourth quarter, which includes the holiday selling season. Our operating results depend significantly upon net sales generated during the fourth quarter, and any factor that negatively impacts the holiday selling season could have a material adverse effect on our results of operations for the entire year.

Because of our focus on keeping our inventory at the forefront of fashion trends, extreme and/or unseasonable weather conditions could force us to prematurely mark down inventory. Our business is susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could

render a portion of our inventory incompatible with those unseasonable conditions. These prolonged unseasonable weather conditions could have a material adverse effect on our business, financial condition and results of operations. In addition, hurricanes or other 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. Moreover, as many of our stores are located in the Southeastern United States and Texas, we are subject to disruptions from hurricanes which may have a material adverse effect on our business.

We may be unable to open new stores in a cost-effective and timely manner. Our future operating results will depend to a substantial extent upon our ability to open and operate new stores successfully, and our ability to open new stores will depend upon a number of factors, including the ability to properly identify and enter new markets, locate suitable store sites in the face of intense competition, negotiate acceptable lease terms, construct or refurbish sites, hire, train and retain skilled managers and personnel, and other factors, some of which may be beyond our control. In particular, the success of our individual stores depends to a great extent on locating them in desirable and convenient venues in markets that include our target demographic. The success of individual stores also may depend on the success of the shopping centers in which they are located. In addition, the demographic and other marketing data we rely on in determining the location of our stores cannot predict future consumer preferences and buying trends with complete accuracy. As a result, stores we open may not be profitable or may be less successful than we anticipate.

In addition, our proposed expansion program also will place increased demands on our operational, managerial and administrative resources. These increased demands could cause us to operate our business less effectively, which in turn could cause deterioration in the financial performance of our existing stores. In addition, to the extent that our new store openings are in existing markets, we may experience reduced net sales volumes in existing stores in those markets. We expect to fund our expansion through cash flows from operations and, if necessary, by borrowings under our revolving credit facility; however, if we experience a decline in performance, we may slow or discontinue store openings.

Fluctuations in comparable store sales and quarterly results of operations could cause the price of our common stock to decline substantially. Our comparable store sales and quarterly results of operations are affected by a variety of factors, including:

- fashion trends
- calendar shifts of holiday or seasonal periods
- the effectiveness of our inventory management
- changes in our merchandise mix
- the timing of promotional events
- storms and other weather conditions
- changes in general economic conditions and consumer spending patterns
- actions of competitors

Our comparable store sales and quarterly results have fluctuated in the past and are expected to continue to fluctuate in the future. In addition, we cannot assure you that we will be able to maintain comparable store sales increases as we expand our business.

A lack of adequate sources of merchandise at acceptable prices. Our business is dependent to a significant degree upon our ability to purchase fashion merchandise at acceptable wholesale prices. We must continuously seek out buying opportunities from our existing suppliers and from new sources. We compete for these opportunities with other retailers, discount and deep-discount chains, mass merchandisers and various privately-held companies and individuals. 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 certain key vendors could make it difficult for us to acquire sufficient quantities and an appropriate mix of merchandise at acceptable prices, which could have a material adverse effect on our results of operations.

If the third parties, which we rely on for a majority of the distribution aspects of our business, experience labor strikes or do not adequately perform our distribution functions, our business would be disrupted. The efficient operation of our stores is dependent on our ability to receive merchandise in our stores throughout the United States in a timely manner. We depend on vendors to sort and pack substantially all of our merchandise and on package delivery companies to deliver this merchandise directly to our stores. These vendors and package delivery companies may experience labor strikes or other disruptions in the future, the resolution of which will be out of our control, and could result in a material disruption in our business. Any failure by these third parties to respond adequately to our distribution needs, including labor strikes or other disruptions in the business, would disrupt our operations and negatively impact our profitability.

We may be unable to close under-performing stores in a cost-effective and timely manner. As part of our strategy, we close certain under-performing stores, generally based on considerations of store profitability, competition, strategic factors and other considerations. Closing a store could subject us to costs including the write-down of leasehold improvements, equipment, furniture and fixtures. In addition, we could remain liable for future lease obligations. These costs associated with closings of under-performing stores could have a material adverse effect on our profitability and results of operations.

Our failure to adequately protect our trademark Stein Mart®, and, to a lesser extent, the various other marks we use in conjunction with our private label merchandise program, could have a negative impact on our brand image. We believe that our trademark Stein Mart® and, to a lesser extent, the various other marks that we use in connection with our private label merchandise program, are important to us because we feel that these brands have characteristics unique to our business. We have obtained a federal registration of the Stein Mart® trademark and various other trademarks in the United States. We cannot assure you that the registrations that we have obtained will prevent the imitation of our business or infringement of our intellectual property rights by others. If we are unable to protect our brand or our brand becomes associated with lesser characteristics or otherwise carries a negative connotation, our brand image, and consequently the results of our operations, could be materially adversely affected.

We are dependent on certain key personnel. Our continued success will depend to a significant extent upon the efforts and abilities of our senior executives, and the loss of the services of one or more of these executives could have a material adverse effect upon our results of operations. These executives are Michael D. Fisher, president and chief executive officer; D. Hunt Hawkins, executive vice president, operations; William A. Moll, executive vice president and chief merchandising officer; James G. Delfs, senior vice president, finance and chief financial officer; Michael D. Ray, senior vice president, director of stores; as well as Jay Stein, chairman of the board of directors, our general merchandising managers, Julie Thomas Dinklage, John H. Pennell and Martha Withers, and the vice president of planning and allocation, Roseann McLean. Our continued success is also dependent upon our ability to attract and retain qualified employees to meet our needs, especially to support planned growth.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At February 3, 2007, the Company operated stores in the following states and the District of Columbia:

State	Number of Stores
Alabama	10
Arizona	7
Arkansas	3
California	20
Colorado	2
Florida	44
Georgia	17
Illinois	7
Indiana	6
Iowa	1
Kansas	2
Kentucky	3
Louisiana	8
Michigan	1
Mississippi	5
Missouri	3
Nebraska	1
Nevada	3
New Jersey	2
New York	3
North Carolina	20
Ohio	10
Oklahoma	5
Pennsylvania	4
South Carolina	14
Tennessee	12
Texas	42
Utah	1
Virginia	10
Washington DC	1
Wisconsin	1
Total	**268**

We lease all of our store locations and, therefore, have been able to grow without incurring indebtedness to acquire real estate. Management believes that we have earned a reputation as an anchor tenant, which, along with our established operating history, has enabled us to negotiate favorable lease terms. Most of our leases provide for minimum rents, as well as percentage rents that are based on sales in excess of predetermined levels.

The table below reflects (i) the number of the Company s leases (as of February 3, 2007) that will expire each year if the Company does not exercise any of its renewal options, and (ii) the number of the Company s leases that will expire each year if the Company exercises all of its renewal options (assuming the lease is not otherwise terminated by either party pursuant to any other provision). The table includes the leases for the 268 store locations operated at February 3, 2007 and 7 previously closed store locations for which the Company has subleased or is actively seeking to sublease the property.

	Number of Leases Expiring Each Year if no Renewals Exercised	Number of Leases Expiring Each Year if all Renewals Exercised
2007	14	2
2008	34	4
2009	35	6
2010	38	2
2011	46	2
2012-2016	95	25
2017-2021	13	28
2022-2041		206

We have made consistent capital commitments to maintain and improve existing store facilities. During 2006, we spent approximately $41 million for fixtures, equipment and leasehold improvements in stores opened prior to 2006.

As of February 3, 2007 we lease approximately 98,750 gross square feet of office space for our corporate headquarters in Jacksonville, Florida. We also lease a 92,000 square foot distribution/warehouse facility in Jacksonville for the purpose of processing a limited amount of merchandise purchases (less than five percent of our merchandise on a dollar basis).

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various routine legal proceedings incidental to the conduct of its 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 the Company s financial condition, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2006.

PART II

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

Market Price and Related Matters

The following table sets forth the high and low sales prices of Common Stock and dividends declared for each fiscal quarter in fiscal 2006 and 2005: