

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

**FORM 10-Q**

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

For the quarterly period ended August 3, 2002

OR

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

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

Commission file number 0-20052

**STEIN MART, INC.**

(Exact name of registrant as specified in its charter)

Florida  
(State or other jurisdiction of  
incorporation or organization)

64-0466198  
(I.R.S. Employer  
Identification Number)

1200 Riverplace Blvd., Jacksonville, Florida  
(Address of principal executive offices)

32207  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

At August 31, 2002, the latest practicable date, there were 41,509,381 shares outstanding of Common Stock, \$.01 par value.

**STEIN MART, INC.  
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**Stein Mart, Inc.**  
**Balance Sheet**  
*(In thousands)*

	<b>August 3, 2002</b>	<b>February 2, 2002</b>	<b>August 4, 2001</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 15,485	\$ 10,276	\$ 15,882
Trade and other receivables	5,779	5,201	2,799
Inventories	325,765	296,158	316,135
Prepaid expenses and other current assets	6,081	11,324	7,908
Total current assets	353,110	322,959	342,724
Property and equipment, net	89,904	88,601	84,602
Other assets	7,075	6,112	5,070
Total assets	<u>\$450,089</u>	<u>\$417,672</u>	<u>\$432,396</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 71,856	\$ 93,675	\$ 79,899
Accrued liabilities	49,979	46,001	40,889
Income taxes payable	1,187	4,071	1,900
Total current liabilities	123,022	143,747	122,688
Notes payable to banks	93,100	57,750	100,900
Other liabilities	16,505	14,280	13,029
Total liabilities	232,627	215,777	236,617
<b>COMMITMENTS AND CONTINGENCIES</b>			
Stockholders' equity:			
Preferred stock - \$.01 par value; 1,000,000 shares authorized; no shares outstanding			
Common stock - \$.01 par value; 100,000,000 shares authorized; 41,709,381; 41,495,876 and 40,955,610 shares issued and outstanding, respectively	417	415	410
Retained earnings	217,045	201,480	195,369
Total stockholders' equity	217,462	201,895	195,779
Total liabilities and stockholders' equity	<u>\$450,089</u>	<u>\$417,672</u>	<u>\$432,396</u>

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

**Stein Mart, Inc.**  
**Statement of Income**  
*(Unaudited)*  
*(In thousands except per share amounts)*

	<b>13 Weeks Ended</b>		<b>26 Weeks Ended</b>	
	<b>August 3, 2002</b>	<b>August 4, 2001</b>	<b>August 3, 2002</b>	<b>August 4, 2001</b>
Net sales	\$311,427	\$291,473	\$667,406	\$608,542
Cost of merchandise sold	233,323	219,663	492,771	453,655
Gross profit	78,104	71,810	174,635	154,887
Selling, general and administrative expenses	76,318	69,218	157,599	140,591
Other income, net	3,359	3,369	7,059	7,325
Income from operations	5,145	5,961	24,095	21,621
Interest expense	669	1,044	1,283	1,975
Income before income taxes	4,476	4,917	22,812	19,646
Provision for income taxes	1,701	1,869	8,669	7,466
Net income	<u>\$ 2,775</u>	<u>\$ 3,048</u>	<u>\$ 14,143</u>	<u>\$ 12,180</u>
Earnings per share – Basic	<u>\$0.07</u>	<u>\$0.07</u>	<u>\$0.34</u>	<u>\$0.30</u>
Earnings per share – Diluted	<u>\$0.07</u>	<u>\$0.07</u>	<u>\$0.34</u>	<u>\$0.29</u>
Weighted-average shares outstanding – Basic	<u>41,669</u>	<u>41,142</u>	<u>41,612</u>	<u>41,200</u>
Weighted-average shares outstanding – Diluted	<u>42,024</u>	<u>41,612</u>	<u>41,977</u>	<u>41,706</u>

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

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

	<b>26 Weeks Ended</b>	
	<b>August 3, 2002</b>	<b>August 4, 2001</b>
Cash flows from operating activities:		
Net income	\$14,143	\$12,180
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	9,190	8,108
Deferred income taxes	1,819	353
Tax benefit from exercise of stock options	385	80
Changes in assets and liabilities:		
Trade and other receivables	(578)	650
Inventories	(29,607)	(33,237)
Prepaid expenses and other current assets	4,401	(2,285)
Other assets	(963)	423
Accounts payable	(21,819)	(596)
Accrued liabilities	3,978	(2,311)
Income taxes payable	(2,884)	(2,899)
Other liabilities	1,248	(187)
Net cash used in operating activities	(20,687)	(19,721)
Cash flows used in investing activities:		
Capital expenditures	(10,493)	(11,155)
Cash flows from financing activities:		
Net borrowings under notes payable to banks	35,350	40,664
Proceeds from exercise of stock options	775	391
Proceeds from employee stock purchase plan	482	488
Purchase of common stock	(218)	(5,851)
Net cash provided by financing activities	36,389	35,692
Net increase in cash and cash equivalents	5,209	4,816
Cash and cash equivalents at beginning of year	10,276	11,066
Cash and cash equivalents at end of period	<u>\$15,485</u>	<u>\$15,882</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 1,231	\$ 2,012
Income taxes paid	2,242	9,572

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

# Stein Mart, Inc.

## Notes to Financial Statements

(Unaudited)

### 1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the 26 week periods are not necessarily indicative of the results that may be expected for the entire year. For further information, refer to the financial statements and footnotes thereto included in the Stein Mart, Inc. annual report on Form 10-K for the year ended February 2, 2002.

In November 2001, the Company changed its fiscal year end from the Saturday closest to December 31 to the Saturday closest to January 31. The Company's Form 10-K for the year ended February 2, 2002 included unaudited, condensed quarterly results of operations for fiscal 2001 reflecting the change in year end. This Form 10-Q includes the complete unaudited results for the 26 weeks ended August 3, 2002 and August 4, 2001.

### 2. Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding plus common stock equivalents related to stock options for each period.

A reconciliation of weighted-average number of common shares to weighted-average number of common shares plus common stock equivalents is as follows (000's):

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2002	August 4, 2001	August 3, 2002	August 4, 2001
Weighted-average number of common shares	41,669	41,142	41,612	41,200
Stock options	355	470	365	506
Weighted-average number of common shares plus common stock equivalents	<u>42,024</u>	<u>41,612</u>	<u>41,977</u>	<u>41,706</u>

### 3. Notes Payable to Banks

The Company has a revolving credit agreement with a group of banks which extends through June 2004. The agreement, which was amended in April 2002, provides a \$135 million senior revolving credit facility, including a \$10 million letter of credit sub-facility. Borrowings are secured by trade and other receivables and inventories. Interest is payable at rates based on spreads over the London Interbank Offering Rate (LIBOR) or the Prime Rate. A quarterly commitment fee ranging from 0.375% to 0.50% per annum is paid on the unused portion of the commitment. The agreement requires the Company to maintain certain financial ratios and indebtedness tests. At August 3, 2002, the Company was in compliance with all requirements of the amended agreement.

### 4. Stock Repurchases

During the first half of 2002 and 2001, the Company repurchased 20,000 shares and 637,500 shares for \$0.2 million and \$5.9 million, respectively. During the period August 4, 2002 through September 6, 2002, the Company repurchased 200,000 shares for \$1.3 million.

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

**5. Store Closing Reserve**

The store closing reserve includes the remaining lease obligation for one store closed in December 1999 (\$3.2 million), the estimated cost of lease terminations for three stores closed during the second quarter of 2002 (\$2.0 million) and one store closing during the fourth quarter of 2002 (\$0.2 million). Payments during 2002 include ongoing lease costs for previously closed stores. Activity in the store closing reserve is as follows:

Balance at February 2, 2002	\$5,680
Payments	<u>(231)</u>
Balance at August 3, 2002	<u><u>\$5,449</u></u>

The store closing reserve includes a current portion of \$1.4 million and a long-term portion of \$4.0 million which are included in Accrued liabilities and Other liabilities, respectively.

# Stein Mart, Inc.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This document includes a number of forward-looking statements which reflect the Company's current views with respect to future events and financial performance. Wherever used, the words "plan", "expect", "anticipate", "believe", "estimate" and similar expressions identify forward looking statements.

Any such forward-looking statements contained in this document are subject to risks and uncertainties that could cause the Company's actual results of operations to differ materially from historical results or current expectations. These risks include, without limitation, ongoing competition from other retailers many of whom are larger and have greater financial and marketing resources, the availability of suitable new store sites at acceptable lease terms, ability to successfully implement strategies to exit or improve under-performing stores, changing preferences in apparel, changes in the level of consumer spending due to current events and/or general economic conditions, adequate sources of designer and brand-name merchandise at acceptable prices, and the Company's ability to attract and retain qualified employees to support planned growth.

The Company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make clear that any projected results expressed or implied therein will not be realized.

### Results of Operations

The following table sets forth, for the periods indicated, the percentage of the Company's net sales represented by each line item presented:

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2002	August 4, 2001	August 3, 2002	August 4, 2001
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of merchandise sold	74.9	75.4	73.8	74.5
Gross profit	25.1	24.6	26.2	25.5
Selling, general and administrative expenses	24.5	23.7	23.6	23.1
Other income, net	1.1	1.1	1.0	1.2
Income from operations	1.7	2.0	3.6	3.6
Interest expense	0.2	0.3	0.2	0.4
Income before income taxes	1.5	1.7	3.4	3.2
Provision for income taxes	0.6	0.7	1.3	1.2
Net income	0.9%	1.0%	2.1%	2.0%

### For the 13 weeks ended August 3, 2002 compared with the 13 weeks ended August 4, 2001:

Three stores were opened and three were closed during the second quarter this year, bringing to 261 the number of stores in operation this year compared to 235 stores in operation at the end of the second quarter of 2001.

Net sales for the 13 weeks ended August 3, 2002 were \$311.4 million, a 6.8 percent increase over net sales of \$291.5 million for the same period of 2001. Comparable store net sales decreased 2.3 percent from the second quarter of 2001.



## Stein Mart, Inc.

Gross profit for the quarter ended August 3, 2002 was \$78.1 million or 25.1 percent of net sales compared to \$71.8 million or 24.6 percent of net sales for the second quarter of 2001. The 0.5 percent increase in the gross profit percentage resulted primarily from lower markdowns, somewhat offset by higher occupancy costs as a percent of sales.

Selling, general and administrative expenses were \$76.3 million or 24.5 percent of net sales for the quarter ended August 3, 2002, as compared to \$69.2 million or 23.7 percent of net sales for the same 2001 quarter. The increase of 0.8 percent of net sales is primarily due to decreased leverage of selling, general and administrative expenses.

Other income, primarily from in-store leased shoe departments, was \$3.4 million for both the second quarter of 2002 and 2001.

Interest expense was \$0.7 million for the second quarter of 2002 and \$1.0 million for the second quarter of 2001. The decrease resulted from lower average borrowings and lower interest rates during the second quarter this year compared to last year.

Net income for the second quarter of 2002 was \$2.8 million or \$0.07 diluted earnings per share compared to net income of \$3.0 million or \$0.07 diluted earnings per share for the second quarter of 2001.

### **For the 26 weeks ended August 3, 2002 compared with the 26 weeks ended August 4, 2001:**

Eleven stores were opened and three were closed during the first half of this year, bringing to 261 the number of stores in operation this year compared to 235 stores in operation at the end of the second quarter of 2001.

Net sales for the 26 weeks ended August 3, 2002 were \$667.4 million, a 9.7 percent increase over net sales of \$608.5 million for the same period of 2001. Comparable store net sales decreased 0.6 percent from the first half of 2001.

Gross profit for the 26 weeks ended August 3, 2002 was \$174.6 million or 26.2 percent of net sales compared to \$154.9 million or 25.5 percent of net sales for the first half of 2001. The 0.7 percent increase in the gross profit percentage resulted primarily from lower markdowns, somewhat offset by higher occupancy costs as a percent of sales.

Selling, general and administrative expenses were \$157.6 million or 23.6 percent of net sales for the 26 weeks ended August 3, 2002, as compared to \$140.6 million or 23.1 percent of net sales for the same 2001 period. The increase of 0.5 percent of net sales is primarily due to decreased leverage of selling, general and administrative expenses.

Other income, primarily from in-store leased shoe departments, was \$7.1 million and \$7.3 million for the first half of 2002 and 2001, respectively.

Interest expense was \$1.3 million for the first half of 2002 and \$2.0 million for the first half of 2001. The decrease resulted from lower average borrowings and lower interest rates during the first half of this year compared to last year.

Net income for the first half of 2002 was \$14.1 million or \$0.34 diluted earnings per share compared to net income of \$12.2 million or \$0.29 diluted earnings per share for the first half of 2001.

# Stein Mart, Inc.

## **Liquidity and Capital Resources**

Net cash used in operating activities was \$20.7 million for the first half of 2002 and \$19.7 million for the comparable period in 2001. Slightly more cash was used in operating activities during the first half of 2002 as a result of more cash required for the payment of merchandise accounts payable, offset by lower income tax payments and increased net income. During the first half of 2002, \$2.2 million of income taxes were paid compared to \$9.6 million in the first half of 2001 primarily due to use of net operating loss carryforwards in 2002.

During the first half of 2002 and 2001, cash flows used in investing activities amounted to \$10.5 million and \$11.2 million, respectively, primarily for acquisition of fixtures, equipment, and leasehold improvements for new and existing stores.

Cash flows from financing activities were \$36.4 million and \$35.7 million for the first half of 2002 and 2001, respectively, which reflected in both periods net borrowing under the Company's revolving credit agreement to meet seasonal working capital requirements. During the first half of 2002, cash was used to repurchase 20,000 shares of the Company's common stock for \$0.2 million compared with 637,500 shares repurchased for \$5.9 million in the first half of 2001.

The Company has a revolving credit agreement with a group of banks which requires the Company to maintain certain financial ratios and meet required net worth and indebtedness tests. The Company was in compliance with all requirements of the agreement at August 3, 2002. The Company believes that cash flow generated from operating activities, bank borrowings and vendor credit will be sufficient to fund current and long-term capital expenditures and working capital requirements.

## **Seasonality**

The Company's business is seasonal in nature with a higher percentage of the Company's merchandise sales and earnings generated in the fall and holiday selling seasons. Accordingly, selling, general and administrative expenses are typically higher as a percent of net sales during the first three quarters of each year.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Interest on the Company's borrowings under its revolving credit agreement is based on variable interest rates and is, therefore, affected by changes in market interest rates. The Company does not use derivative financial instruments to hedge the interest rate exposure and does not engage in financial transactions for trading or speculative purposes.

**Stein Mart, Inc.**  
**PART II - OTHER INFORMATION**

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

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

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

(b) Reports on Form 8-K:

Statements under Oath pursuant to Section 21(a)(1) of the Securities Exchange Act of 1934 were filed in a Form 8-K on August 6, 2002.

## SIGNATURES

Pursuant to the requirements 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.

Date: September 16, 2002

Stein Mart, Inc.

/s/ John H. Williams, Jr. \_\_\_\_\_

**John H. Williams, Jr.**

Vice Chairman and Chief Executive Officer

/s/ James G. Delfs \_\_\_\_\_

**James G. Delfs**

Senior Vice President and Chief  
Financial Officer

## CERTIFICATIONS

### **Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act**

I, John H. Williams, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stein Mart, Inc. ;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of Stein Mart, Inc. as of, and for, the periods presented in this quarterly report.

Date: September 16, 2002

/s/ John H. Williams, Jr.

**John H. Williams, Jr.**

Vice Chairman and Chief Executive Officer

**Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act**

I, James G. Delfs, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stein Mart, Inc. ;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of Stein Mart, Inc. as of, and for, the periods presented in this quarterly report.

Date: September 16, 2002

/s/ James G. Delfs

**James G. Delfs**

Chief Financial Officer

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

Solely for the purposes of complying with 18 U.S.C. Section 1350, I, the undersigned Vice Chairman and Chief Executive Officer of Stein Mart, Inc. (the "Company"), hereby certify that:

1. the Quarterly Report on Form 10-Q of the Company for the quarter ended August 3, 2002 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 16, 2002

/s/ John H. Williams, Jr.

**John H. Williams, Jr.**

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

Solely for the purposes of complying with 18 U.S.C. Section 1350, I, the undersigned Chief Financial Officer of Stein Mart, Inc. (the "Company"), hereby certify that:

1. the Quarterly Report on Form 10-Q of the Company for the quarter ended August 3, 2002 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 16, 2002

/s/ James G. Delfs  
**James G. Delfs**