

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 October 30, 2004

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 ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No ☐

At November 27, 2004, the latest practicable date, the Registrant had issued and outstanding an aggregate of 42,535,546 shares of its common stock.

**STEIN MART, INC.  
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# Stein Mart, Inc.

## Balance Sheets

*(In thousands)*

	October 30, 2004 (Unaudited)	January 31, 2004	November 1, 2003 (Unaudited)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 35,146	\$ 11,965	\$ 13,555
Trade and other receivables	3,934	4,227	9,359
Inventories	322,664	283,379	365,494
Prepaid expenses and other current assets	14,962	6,227	10,115
Total current assets	376,706	305,798	398,523
Property and equipment, net	79,655	76,934	81,541
Other assets	10,724	10,297	10,091
Total assets	\$ 467,085	\$393,029	\$490,155
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 129,191	\$ 59,046	\$123,206
Accrued liabilities	69,437	60,715	58,898
Total current liabilities	198,628	119,761	182,104
Notes payable to banks	-	24,962	74,968
Other liabilities	20,114	20,628	21,151
Total liabilities	218,742	165,351	278,223
<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; 42,494,654, 41,993,529 and 41,729,713 shares issued and outstanding, respectively	425	420	417
Paid-in capital	8,865	3,196	1,374
Unearned compensation	(454)	(309)	(370)
Retained earnings	239,507	224,371	210,511
Total stockholders' equity	248,343	227,678	211,932
Total liabilities and stockholders' equity	\$ 467,085	\$393,029	\$490,155

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

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

	<b>13 Weeks Ended</b>		<b>39 Weeks Ended</b>	
	<b>October 30, 2004</b>	<b>November 1, 2003</b>	<b>October 30, 2004</b>	<b>November 1, 2003</b>
Net sales	\$330,432	\$313,559	\$1,014,664	\$942,713
Cost of merchandise sold	253,920	240,139	754,880	715,327
Gross profit	76,512	73,420	259,784	227,386
Selling, general and administrative expenses	83,192	92,520	245,740	253,800
Other income, net	3,293	3,275	10,460	9,959
Income (loss) from operations	(3,387)	(15,825)	24,504	(16,455)
Interest income	108	-	181	-
Interest expense	-	(421)	(39)	(1,313)
Income (loss) from continuing operations before income taxes	(3,279)	(16,246)	24,646	(17,768)
Income tax benefit (provision)	1,246	6,174	(9,365)	6,752
Income (loss) from continuing operations	(2,033)	(10,072)	15,281	(11,016)
Loss from discontinued operations, net of tax benefit	-	(327)	(145)	(643)
Net income (loss)	<u>\$ (2,033)</u>	<u>\$ (10,399)</u>	<u>\$ 15,136</u>	<u>\$ (11,659)</u>
Basic income (loss) per share:				
Continuing operations	\$(0.05)	\$(0.24)	\$0.36	\$(0.26)
Discontinued operations	-	(0.01)	-	(0.02)
Total	<u>\$(0.05)</u>	<u>\$(0.25)</u>	<u>\$0.36</u>	<u>\$(0.28)</u>
Diluted income (loss) per share:				
Continuing operations	\$(0.05)	\$(0.24)	\$0.36	\$(0.26)
Discontinued operations	-	(0.01)	-	(0.02)
Total	<u>\$(0.05)</u>	<u>\$(0.25)</u>	<u>\$0.36</u>	<u>\$(0.28)</u>
Weighted-average shares outstanding – Basic	<u>42,394</u>	<u>41,658</u>	<u>42,181</u>	<u>41,615</u>
Weighted-average shares outstanding –Diluted	<u>42,394</u>	<u>41,658</u>	<u>42,578</u>	<u>41,615</u>

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

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

	<b>39 Weeks Ended</b>	
	<b>October 30, 2004</b>	<b>November 1, 2003</b>
Cash flows from operating activities:		
Net income (loss)	\$ 15,136	\$(11,659)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,401	14,399
Impairment (recovery) of property and other assets	(245)	2,290
Store closing charges	1,340	6,325
Deferred income taxes	966	(1,412)
Restricted stock compensation	80	28
Tax benefit from exercise of stock options	1,009	-
Changes in assets and liabilities:		
Trade and other receivables	293	(4,440)
Inventories	(39,285)	(68,264)
Prepaid expenses and other current assets	(8,735)	(5,454)
Other assets	(427)	(2,690)
Accounts payable	70,145	52,734
Accrued liabilities	8,410	3,036
Income taxes payable	-	(5,353)
Other liabilities	(2,508)	2,065
Net cash provided by (used in) operating activities	59,580	(18,395)
Cash flows used in investing activities:		
Capital expenditures	(15,877)	(11,783)
Cash flows from financing activities:		
Net (payments) borrowings under notes payable to banks	(24,962)	33,618
Proceeds from exercise of stock options	4,034	-
Proceeds from employee stock purchase plan	406	468
Purchase of common stock	-	(212)
Net cash (used in) provided by financing activities	(20,522)	33,874
Net increase in cash and cash equivalents	23,181	3,696
Cash and cash equivalents at beginning of year	11,965	9,859
Cash and cash equivalents at end of period	\$ 35,146	\$ 13,555
Supplemental disclosures of cash flow information:		
Interest paid	\$ 64	\$ 1,240
Income taxes paid	15,709	7,811

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

**STEIN MART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**October 30, 2004**  
**(Unaudited)**

(Dollars in tables in thousands, except per share amounts)

**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 39-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 January 31, 2004.

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

**2. Stock-Based Compensation**

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123, as amended by SFAS No. 148, “Accounting for Stock-Based Compensation”. Accordingly, no compensation cost has been recognized for the Company’s stock option plans. Restricted stock awards issued by the Company are accounted for in accordance with APB 25. The employee compensation cost is included in net income, as reported, throughout the vesting period. Had compensation cost of the Company’s stock-based plans been determined consistent with the provisions of SFAS No. 123, the Company’s net income and earnings per share would have been changed to the following pro forma amounts:

	13 Weeks Ended		39 Weeks Ended	
	Oct. 30, 2004	Nov. 1, 2003	Oct. 30, 2004	Nov. 1, 2003
Net income (loss) – as reported	\$(2,033)	\$(10,399)	\$15,136	\$(11,659)
Add: Restricted stock-based employee compensation expense included in reported net income (loss), net of related tax effects	20	9	50	18
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(259)	(363)	(828)	(1,105)
Net income (loss) – pro forma	\$(2,272)	\$(10,753)	\$14,358	\$(12,746)
Basic earnings (loss) per share – as reported	\$(0.05)	\$(0.25)	\$0.36	\$(0.28)
Diluted earnings (loss) per share – as reported	\$(0.05)	\$(0.25)	\$0.36	\$(0.28)
Basic earnings (loss) per share – pro forma	\$(0.05)	\$(0.26)	\$0.34	\$(0.31)
Diluted earnings (loss) per share – pro forma	\$(0.05)	\$(0.26)	\$0.34	\$(0.31)

**3. Discontinued Operations**

Two of the stores closed during 2003 and one store closed during 2004 (see Note 5) are reported as discontinued operations. SFAS No. 144 requires closed stores to be classified as discontinued operations when the operations and cash flows of the stores have been eliminated from ongoing operations. To determine if cash flows have been eliminated from ongoing operations, management evaluated a number of factors, including: proximity to a

**STEIN MART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

remaining store, physical location within a metropolitan or non-metropolitan area and transferability of sales between open and closed locations. Based on these criteria, management determined that these three closed stores should be accounted for as discontinued operations. The prior year's operating activities for these stores have also been reclassified to "Loss from discontinued operations, net of tax benefit" in the accompanying Statements of Operations.

Discontinued operations generated no sales during the third quarter of 2004, sales of \$2.4 million during the third quarter of 2003 and sales of \$0.9 million and \$7.3 million during the first 39 weeks of 2004 and 2003, respectively. Loss from discontinued operations, net of tax benefit includes the following components:

	13 Weeks Ended		39 Weeks Ended	
	Oct. 30, 2004	Nov. 1, 2003	Oct. 30, 2004	Nov. 1, 2003
Loss from operations	\$ -	\$(527)	\$(234)	\$(1,037)
Income tax benefit	-	200	89	394
Loss from discontinued operations, net of tax benefit	<u>\$ -</u>	<u>\$(327)</u>	<u>\$(145)</u>	<u>\$ (643)</u>

See Notes 4 and 5 for a description of asset impairment and store closing charges included in loss from discontinued operations for the first 39 weeks of 2004 and 2003.

#### **4. Impairment of Long-lived Assets**

The Company follows SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," 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 future undiscounted cash flows from the use of the assets is less than the carrying value of the assets. The amount of the impairment charge is the excess of the carrying value of the asset over its fair value. Fair value is based on estimated market values for similar assets.

During the first 39 weeks of 2004, the Company recovered \$0.2 million of asset impairment charges recorded during 2003, as the actual loss incurred to dispose of certain assets was lower than previously estimated. During the third quarter of 2003, the Company recorded a pre-tax asset impairment charge of \$1.5 million to reduce the carrying value of furniture, fixtures, equipment and leasehold improvements in certain under-performing stores to their respective estimated fair value. These assets were held for use. This charge is included in selling, general and administrative expenses in the Statement of Operations for the 13 and 39 weeks ended November 1, 2003.

During the first quarter of 2003, the Company recorded a pre-tax asset impairment charge of \$0.8 million to reduce the carrying value of furniture, fixtures, equipment and leasehold improvements held for use in four stores closed in 2003. This charge is included in selling, general and administrative expenses in the Statements of Operations for the 39 weeks ended November 1, 2003, except for \$42,000 which is included in loss from discontinued operations, net of tax benefit.

#### **5. Store Closing Charges**

The Company closed seven stores during the first 39 weeks of 2004, incurring minimal lease termination and severance costs.

The Company closed 16 stores during 2003, 12 of which were closed during the first 39 weeks of 2003, incurring pre-tax charges of \$6.6 million for the present value of lease termination costs. During the third quarter of 2004, the Company recorded a \$0.9 million pre-tax charge to adjust estimated sublease income for four locations closed in 2003 and an early lease termination for one other location. The four stores were closed during the third quarter of 2003 and lease termination costs, net of estimated sublease income, were recorded in that period. Store closing charges are included in selling, general and administrative expenses in the Statements of Operations, except for

**STEIN MART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

\$154,000 in 2004 and \$135,000 in 2003 which are included in loss from discontinued operations, net of tax benefit for the 39-week periods.

The following tables show the activity in the store closing reserve for the first 39 weeks of 2004 and 2003:

	Jan. 31, 2004	Charges	Payments	Oct. 30, 2004
Continuing operations:				
Lease termination costs	\$8,780	\$1,028	\$2,314	\$7,494
Severance	131	579	580	130
Other	105	-	105	-
	<u>9,016</u>	<u>1,607</u>	<u>2,999</u>	<u>7,624</u>
Discontinued operations:				
Lease termination costs	159	77	236	-
Severance	19	77	96	-
	<u>178</u>	<u>154</u>	<u>332</u>	<u>-</u>
Total store closing reserve	<u>\$9,194</u>	<u>\$1,761</u>	<u>\$3,337</u>	<u>\$7,624</u>
	Feb. 1, 2003	Charges	Payments	Nov. 1, 2003
Continuing operations:				
Lease termination costs	\$4,982	\$6,587	\$1,816	\$9,753
Severance	-	552	320	232
	<u>4,982</u>	<u>7,139</u>	<u>2,136</u>	<u>9,985</u>
Discontinued operations:				
Severance	-	135	135	-
Total store closing reserve	<u>\$4,982</u>	<u>\$7,274</u>	<u>\$2,271</u>	<u>\$9,985</u>

The store closing reserve at October 30, 2004, January 31, 2004 and November 1, 2003 includes a current portion (in accrued liabilities) of \$3.1 million, \$2.8 million and \$3.6 million, respectively, and a long-term portion (in other liabilities) of \$4.5 million, \$6.4 million and \$6.4 million, respectively.

The tables below set forth the components of loss from operations for all stores closed during 2004 and 2003. The 2004 tables present the losses from the seven stores that closed during the first 39 weeks of 2004. The 2003 tables present the sum of the losses from the seven stores that closed during the first 39 weeks of 2004 and the 16 stores closed during fiscal year 2003.

	Operating Results Of Closed Stores Included In:		
	Continuing Operations	Discontinued Operations	Total Closed Stores
<u>13 weeks ended October 30, 2004:</u>			
Sales	\$ 650	\$ -	\$ 650
Cost of sales	651	-	651
Gross profit	(1)	-	(1)
Selling, general and administrative expenses	1,269	-	1,269
Other income, net	(2)	-	(2)
Loss from operations	<u>\$(1,272)</u>	<u>\$ -</u>	<u>\$(1,272)</u>
# of stores closed in 2004	<u>6</u>	<u>1</u>	<u>7</u>



**STEIN MART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

<u>13 weeks ended November 1, 2003:</u>	Continuing Operations	Discontinued Operations	Total Closed Stores
Sales	\$10,205	\$2,383	\$ 12,588
Cost of sales	10,817	2,246	13,063
Gross profit	(612)	137	(475)
Selling, general and administrative expenses	9,118	673	9,791
Other income, net	70	9	79
Loss from operations	<u>\$ (9,660)</u>	<u>\$ (527)</u>	<u>\$(10,187)</u>
# of stores closed in 2004 and 2003	<u>20</u>	<u>3</u>	<u>23</u>

Operating Results Of Closed Stores Included In:

<u>39 weeks ended October 30, 2004:</u>	Continuing Operations	Discontinued Operations	Total Closed Stores
Sales	\$ 7,142	\$ 942	\$ 8,084
Cost of sales	6,909	752	7,661
Gross profit	233	190	423
Selling, general and administrative expenses	3,504	424	3,928
Other income, net	45	-	45
Loss from operations	<u>\$(3,226)</u>	<u>\$(234)</u>	<u>\$(3,460)</u>
# of stores closed in 2004	<u>6</u>	<u>1</u>	<u>7</u>

<u>39 weeks ended November 1, 2003:</u>	Continuing Operations	Discontinued Operations	Total Closed Stores
Sales	\$ 41,465	\$ 7,333	\$ 48,798
Cost of sales	42,163	6,176	48,339
Gross profit	(698)	1,157	459
Selling, general and administrative expenses	20,270	2,251	22,521
Other income, net	382	57	439
Loss from operations	<u>\$(20,586)</u>	<u>\$(1,037)</u>	<u>\$(21,623)</u>
# of stores closed in 2004 and 2003	<u>20</u>	<u>3</u>	<u>23</u>

**6. Notes Payable to Banks**

The Company has a three-year \$150 million senior revolving credit agreement (the "Agreement") with a group of lenders, with an initial term ending July 2006. Under the terms of the Agreement, the Company has the option to increase the facility by an additional \$25 million and to extend the terms for an additional year. The Company had outstanding commercial and stand-by letters of credit of \$0.6 million and \$5.4 million, respectively, at October 30, 2004. There were no direct borrowings under the Agreement at October 30, 2004.

**7. Stockholders' Equity and Earnings Per Share**

During the first 39 weeks of 2003, the Company repurchased 50,000 shares of its common stock at a cost of \$212,000. No shares have been repurchased in 2004.

Basic earnings per share is 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 and restricted stock for each period. Common stock equivalents are not included in the diluted loss per share calculations for the 13 weeks ended October 30, 2004 and the 13 weeks and 39 weeks ended November 1, 2003 because they are anti-dilutive.

**STEIN MART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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		39 Weeks Ended	
	Oct. 30, 2004	Nov. 1, 2003	Oct. 30, 2004	Nov. 1, 2003
Weighted-average number of common shares	42,394	41,658	42,181	41,615
Common stock equivalents	-	-	397	-
Weighted-average number of common shares plus common stock equivalents	42,394	41,658	42,578	41,615

**8. Sales by Major Merchandise Category**

The Company is a single business segment as defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 requires that companies report revenues for each product or group of similar products. The following table summarizes the Company's sales by major merchandise category:

	13 Weeks Ended		39 Weeks Ended	
	Oct. 30, 2004	Nov. 1, 2003	Oct. 30, 2004	Nov. 1, 2003
Ladies' apparel and accessories	\$198,036	\$180,042	\$ 611,599	\$536,371
Men's apparel and accessories	56,894	51,950	179,781	162,636
Gifts and linens	59,688	63,780	170,490	184,557
Other	15,814	17,787	52,794	59,149
Net sales	\$330,432	\$313,559	\$1,014,664	\$942,713

# 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 consumer spending due to current events and/or general economic conditions, the effectiveness of new advertising, marketing and promotional strategies, adequate sources of 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.

### **Overview**

Stein Mart's 260 stores offer the fashion merchandise, service and presentation of a better department or specialty store, at prices competitive with off-price retail chains. Currently with locations from California to New York, Stein Mart's focused assortment of merchandise features moderate to designer brand-name apparel for women, men and young children, as well as accessories, gifts, linens and shoes. Management believes that Stein Mart differentiates itself from typical off-price retailers by offering: (i) current-season merchandise carried by better department and specialty stores at value prices, (ii) a stronger merchandising "statement," with more depth of color and size, and (iii) merchandise presentation more comparable to other upscale retailers.

The Company faces competition for customers and for access to quality merchandise from better department stores, fine specialty stores and, to a lesser degree, from off-price retail chains. Many of these competitors are units of large national or regional chains that have substantially greater resources than the Company. The retail apparel industry is highly fragmented and competitive, and the off-price retail business may become even more competitive in the future.

During the current quarter, the Company experienced positive customer response to the new fall merchandise and colorful assortments which have attracted customers all year. The improvement in year-over-year performance is attributable to:

- A 6.6% increase in comparable store sales, leveraging of selling, general and administrative and occupancy expenses as a result of higher sales volume, and reduced store closing and impairment charges
- An increase in gross profit dollars; however, gross profit as a percent of sales was negatively affected by increased markdowns necessary to reach targeted levels of inventory freshness
- The closure of 16 stores during 2003 and seven stores in the first 39 weeks of 2004. Those stores had operating losses of \$(1.3) million or \$(0.02) per share in the third quarter of 2004 and \$(10.2) million or \$(0.15) per share in the third quarter of 2003. For the first 39 weeks, those stores had operating losses of \$(3.5) million or \$(0.05) per share this year compared to \$(21.6) million or \$(0.32) per share last year.

# Stein Mart, Inc.

## Outlook

During the fourth quarter, management will continue to focus advertising dollars on television and color fashion inserts. Because there is significantly less clearance merchandise in the stores, the level of shopping pass activity (percent discounts given on sale and clearance goods) is expected to be substantially less than it was in the pre-holiday months last year.

## Stores

The number of stores open as of October 30, 2004 and November 1, 2003 were 260 and 264, respectively.

	13 Weeks Ended		39 Weeks Ended	
	Oct. 30, 2004	Nov. 1, 2003	Oct. 30, 2004	Nov. 1, 2003
Stores at beginning of period	257	270	261	265
Stores opened during the period	4	2	6	11
Stores closed during the period	(1)	(8)	(7)	(12)
Stores at the end of period	260	264	260	264

## 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 (numbers may not add due to rounding):

	13 Weeks Ended		39 Weeks Ended	
	Oct. 30, 2004	Nov. 1, 2003	Oct. 30, 2004	Nov. 1, 2003
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of merchandise sold	76.8	76.6	74.4	75.9
Gross profit	23.2	23.4	25.6	24.1
Selling, general and administrative expenses	25.2	29.5	24.2	26.9
Other income, net	1.0	1.0	1.0	1.1
Income (loss) from operations	(1.0)	(5.0)	2.4	(1.7)
Interest income	-	-	-	-
Interest expense	-	0.1	-	0.1
Income (loss) from continuing operations before income taxes	(1.0)	(5.2)	2.4	(1.9)
Income tax benefit (provision)	0.4	2.0	(0.9)	0.7
Income (loss) from continuing operations	(0.6)	(3.2)	1.5	(1.2)
Loss from discontinued operations, net of tax benefit	-	(0.1)	-	(0.1)
Net income (loss)	(0.6)%	(3.3)%	1.5%	(1.2)%

## Store Closings

The Company closed seven stores and relocated one store during the first 39 weeks of 2004. Sixteen stores were closed during 2003, 12 of which were closed during the first 39 weeks of 2003.

# Stein Mart, Inc.

Two of the 16 stores closed during 2003 and one of the seven stores closed during the first 39 weeks of 2004 are classified as discontinued operations in accordance with SFAS No. 144, as cash flows of these stores have been eliminated from ongoing operations. Sales and operating losses for the seven stores closed in 2004 and the 16 stores closed during fiscal year 2003 are shown below for the 13 weeks and 39 weeks ended October 30, 2004 and November 1, 2003. Included in the 2003 column are operating results of the 16 stores closed in 2003, in addition to seven stores closed in 2004.

	13 Weeks Ended		39 Weeks Ended	
	Oct. 30, 2004	Nov. 1, 2003	Oct. 30, 2004	Nov. 1, 2003
Sales from closed stores:				
Included in continuing operations	\$ 650	\$ 10,205	\$ 7,142	\$ 41,465
Included in discontinued operations	-	2,383	942	7,333
	<u>\$ 650</u>	<u>\$ 12,588</u>	<u>\$ 8,084</u>	<u>\$ 48,798</u>
Operating losses from closed stores:				
Included in continuing operations	\$(1,272)	\$ (9,660)	\$(3,226)	\$(20,586)
Included in discontinued operations	-	(527)	(234)	(1,037)
	<u>\$(1,272)</u>	<u>\$(10,187)</u>	<u>\$(3,460)</u>	<u>\$(21,623)</u>

Operating losses from closed stores include the following store closing and asset impairment expenses:

	13 Weeks Ended		39 Weeks Ended	
	Oct. 30, 2004	Nov. 1, 2003	Oct. 30, 2004	Nov. 1, 2003
Continuing operations:				
Lease termination costs	\$ 927	\$5,587	\$1,028	\$6,587
Asset impairment (recovery) charges	-	18	(245)	759
Severance	106	158	579	552
Other	30	474	171	1,013
	<u>1,063</u>	<u>6,237</u>	<u>1,533</u>	<u>8,911</u>
Discontinued operations:				
Lease termination costs	-	-	77	-
Asset impairment charges	-	-	-	42
Severance	-	-	77	135
	<u>-</u>	<u>-</u>	<u>154</u>	<u>177</u>
Total	<u>\$1,063</u>	<u>\$6,237</u>	<u>\$1,687</u>	<u>\$9,088</u>

## Continuing Operations

### For the 13 weeks ended October 30, 2004 compared to the 13 weeks ended Nov. 1, 2003

The 5.4% total sales increase for the 13 weeks ended October 30, 2004 from the same 2003 period reflects a 6.6% increase in sales from comparable stores and a net decrease in the total number of stores from 264 at the end of the third quarter 2003 to 260 at the end of the third quarter 2004.

Gross profit for the 13 weeks ended October 30, 2004 was \$76.5 million or 23.2 percent of net sales, a 0.2 percentage point decrease over gross profit of \$73.4 million or 23.4 percent of net sales for the third quarter of 2003. Mark-up improved 1.1 percentage point, shrinkage expense decreased 0.2 percentage point and occupancy decreased 0.4 percentage point as a result of higher per store sales productivity in the third quarter this year compared to last year. These improvements were offset by a 1.9 percentage point increase in markdowns to achieve targeted levels of inventory freshness.

## Stein Mart, Inc.

Selling, general and administrative expenses (“SG&A”) were \$83.2 million or 25.2 percent of net sales for the 13 weeks ended October 30, 2004, as compared to \$92.4 million or 29.5 percent of net sales for the same 2003 quarter. The 4.3 percentage point decrease in SG&A expenses as a percent of sales is due to the leveraging of expenses as a result of the 6.6 percent increase in comparable store sales and a \$6.6 million decrease in store closing and asset impairment charges. Included in SG&A expenses for the third quarter of 2004 and 2003 are store closing and asset impairment charges of \$1.1 million and \$7.7 million, respectively. Charges were higher in 2003 because ongoing lease obligations were recorded for the eight stores closed during the third quarter of 2003. In addition, the Company recorded a \$1.5 million asset impairment charge for underperforming stores during the third quarter of 2003.

Loss from operations for the 13 weeks ended October 30, 2004 was \$(3.4) million, as compared to a loss from operations of \$(15.8) million for the same 2003 quarter. Approximately \$8.4 million of this improvement is the result of eliminating the effect of operating losses of stores closed during 2003 and 2004 and the remainder is due to improved operating results of ongoing stores.

As a result of increased sales, decreased inventories and ongoing expense control, there were no borrowings, and therefore no interest expense, during the third quarter of 2004. The Company earned interest income of \$108,000 on its cash and short-term investments during the third quarter of 2004. The Company had interest expense of \$421,000 during the third quarter of 2003.

### **For the 39 weeks ended October 30, 2004 compared to the 39 weeks ended November 1, 2003**

The 7.6% total sales increase for the 39 weeks ended October 30, 2004 from the same 2003 period reflects an 9.6% increase in sales from comparable stores and a net decrease in the total number of stores from 264 at November 1, 2003 to 260 at October 30, 2004.

Gross profit for the 39 weeks ended October 30, 2004 was \$259.8 million or 25.6 percent of net sales a 1.5 percentage point increase over gross profit of \$227.4 million or 24.1 percent of net sales for the same 2003 period. The increase was due to a 1.4 percentage point increase in mark-up, a 0.6 percentage point decrease in occupancy as a result of higher per store sales productivity in the first 39 weeks of this year compared to last year, partially offset by a 0.5 percentage point increase in markdowns.

Selling, general and administrative expenses (“SG&A”) were \$245.7 million or 24.2 percent of net sales for the 39 weeks ended October 30, 2004, as compared to \$253.8 million or 26.9 percent of net sales for the same 2003 period. The 2.7 percentage point decrease in SG&A expenses as a percent of sales is primarily due to the leveraging of expenses as a result of the 9.6 percent increase in comparable store sales and an \$8.9 million decrease in store closing and asset impairment charges. Included in SG&A expenses for the first 39 weeks of 2004 and 2003 are store closing and asset impairment charges of \$1.5 million and \$10.4 million, respectively. Charges were higher in 2003 primarily because ongoing lease obligations were recorded for several of the 11 stores closed during 2003 while the seven stores closed in 2004 had minimal lease termination and severance costs.

Income from operations for the 39 weeks ended October 30, 2004 was \$24.5 million compared to a loss from operations of \$(16.5) million for the same 2003 period. Approximately \$17.4 million of this earnings improvement is the result of eliminating the effect of operating losses of stores closed during 2003 and 2004 and the remainder is due to improved operating results of ongoing stores.

Interest expense was \$39,000 and \$1.3 million for the first 39 weeks of 2004 and 2003, respectively. As a result of increased sales, decreased inventories and ongoing expense control, the Company had borrowings on its revolving credit agreement only during the first quarter of 2004. The Company earned interest income of \$181,000 on its cash and short-term investments during the first 39 weeks of 2004.

# Stein Mart, Inc.

## Liquidity and Capital Resources

The Company's primary source of liquidity is the sale of its merchandise inventories. Capital requirements and working capital needs are funded through a combination of internally generated funds, a revolving credit facility and credit terms from vendors. As of October 30, 2004, the Company had \$35.1 million in cash and cash equivalents, including highly liquid short-term investments with original maturities of three months or less.

Working capital is needed to support store inventories and capital investments for new store openings and to maintain existing stores. Historically, the Company's working capital needs are lowest in the first quarter and highest in either the third or fourth quarter in anticipation of the fourth quarter peak selling season.

Net cash provided by operating activities was \$59.6 million for the first 39 weeks of 2004 compared to net cash used in operating activities of \$18.4 million for the same 2003 period. The increase in cash for 2004 is primarily attributable to an increase in net income including non-cash items and an increase in accounts payable from the end of the year, offset by an increase in inventories and income taxes paid. On an average store basis, inventories were reduced 10.4% from the prior year due to increased sales resulting from the Company's continued focus on marketing, sales promotion and clearance strategies.

Capital expenditures were higher for the first 39 weeks of 2004 compared to the first 39 weeks of 2003 primarily due to enhancements of the point of sale and merchandising systems. New store capital expenditures are lower this year compared to last year due to fewer store openings. Total capital expenditures for 2004 are anticipated to be approximately \$17-18 million.

Cash used in financing activities was \$20.5 million during the first 39 weeks of 2004 compared to \$33.9 million of cash provided by financing activities during the same 2003 period. The additional cash provided by operating activities enabled the Company to eliminate borrowings under the revolving credit agreement at the end of the first quarter.

The Company has a \$150 million senior revolving credit agreement with a group of lenders, with an initial term ending July 2006. Borrowings are based on and secured by eligible inventory and certain other assets. At October 30, 2004 there were no direct borrowings under the credit facility and no Event of Default existed under the terms of the Agreement.

The Company believes that expected net cash provided by operating activities and unused borrowing capacity under the revolving credit agreement will be sufficient to fund anticipated current and long-term capital expenditures and working capital requirements. Should current operating conditions deteriorate, management can adjust operating plans, including new store rollout.

## Contractual Obligations

To facilitate an understanding of the Company's contractual obligations, the following data is provided:

	Payments Due By Period				
	Total	Less than 1 Year	1 – 2 Years	3 – 5 Years	After 5 Years
Notes payable to banks	\$ -	\$ -	\$ -	\$ -	\$ -
Operating leases	398,076	64,197	60,316	147,375	126,188
Total	\$398,076	\$64,197	\$60,316	\$147,375	\$126,188

Other long-term liabilities on the balance sheet include deferred income taxes, deferred compensation and other long-term liabilities that do not have specific due dates, so are excluded from the preceding table. Other long-term liabilities also include long-term store closing reserves, a component of which is future minimum payments under non-cancelable leases for closed stores. These future minimum lease payments total \$19.2 million and are included in the operating leases line of the above table.

# Stein Mart, Inc.

## *Off-Balance Sheet Arrangements*

The Company has outstanding standby letters of credit totaling \$5.4 million securing certain insurance programs at October 30, 2004. If certain conditions occurred under these arrangements, the Company would be required to satisfy the obligations in cash. Due to the nature of these arrangements and based on historical experience, the Company does 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 the financial condition of the Company.

## **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**

The Company is exposed to interest rate risk primarily through borrowings under its revolving credit facility. At October 30, 2004, the Company had no outstanding borrowings. The facility permits debt commitments up to \$150 million and bears interest at spreads over the prime rate and LIBOR. Management believes that its exposure to market risk associated with its borrowings is not material.

## **Item 4. Controls and Procedures**

The Company's management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective in alerting them to material information relating to the Company required to be included in the Company's Exchange Act filings in a timely manner. There have been no changes in the Company's internal controls over financial reporting identified in connection with this evaluation that occurred during the period covered by this report that have affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 6. Exhibits and Reports on Form 8-K**

#### (a) Exhibits:

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
- 32.2 Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

#### (b) Reports on Form 8-K:

A press release dated November 4, 2004 was filed in a Form 8-K on November 9, 2004 that included earnings guidance for the quarterly period ended October 30, 2004.

A press release dated November 18, 2004 was filed in a Form 8-K on November 23, 2004 to report third quarter and first 39 weeks of 2004 financial results.



## 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.

Stein Mart, Inc.

Date: December 8, 2004

By: /s/ Michael D. Fisher  
**Michael D. Fisher**  
President and Chief Executive Officer

/s/ James G. Delfs  
**James G. Delfs**  
Senior Vice President and Chief  
Financial Officer

**Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael D. Fisher, certify that:

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

Date: December 8, 2004

/s/ Michael D. Fisher

**Michael D. Fisher**

President and Chief Executive Officer

**Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

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

Date: December 8, 2004

/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 President 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 October 30, 2004 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 8, 2004

/s/ Michael D. Fisher

**Michael D. Fisher**

President and Chief Executive Officer

**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 October 30, 2004 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 8, 2004

/s/ James G. Delfs

**James G. Delfs**

Chief Financial Officer