STEIN MART INC
Form 10-Q
December 12, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 3, 2007

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 [X] No [ ]

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. (Check one):

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 Exchange Act). Yes [ ] No [X].

The number of shares outstanding of the Registrant s common stock as of November 30, 2007 was 41,656,548.

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STEIN MART, INC.

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Stein Mart, Inc.

Consolidated Balance Sheets

(Unaudited)

(In thousands, except for share data)

	November 3, 2007	February 3, 2007	October 28, 2006
ASSETS			
Current assets:			
Cash and cash equivalents	**$ 20,481**	$ 17,560	$ 14,928
Short-term investments	**-**	10,835	-
Trade and other receivables	**14,669**	10,164	11,546
Inventories	**344,817**	290,943	349,024
Prepaid income taxes	**13,252**	-	2,609
Prepaid expenses and other current assets	**16,260**	14,531	14,764
Total current assets	**409,479**	344,033	392,871
Property and equipment, net	**115,074**	113,254	110,187
Other assets	**30,783**	23,064	19,018
Total assets	**$555,336**	$480,351	$522,076
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	**$125,085**	$ 83,243	$133,387
Accrued liabilities	**80,139**	78,522	76,367
Income taxes payable	**-**	7,483	-
Total current liabilities	**205,224**	169,248	209,754
Notes payable to banks	**54,966**	-	26,494
Other liabilities	**23,594**	22,931	18,856
Total liabilities	**283,784**	192,179	255,104
COMMITMENTS AND CONTINGENCIES			
Stockholders equity:			
Preferred stock - $.01 par value; 1,000,000 shares authorized; no shares issued or outstanding			
Common stock - $.01 par value; 100,000,000 shares authorized; 41,709,780, 43,736,720 and 43,548,314 shares issued and outstanding, respectively	**417**	437	435
Additional paid-in capital	**5,612**	21,803	18,961
Retained earnings	**265,523**	265,932	247,576
Total stockholders equity	**271,552**	288,172	266,972
Total liabilities and stockholders equity	**$555,336**	$480,351	$522,076

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

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Stein Mart, Inc.

Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share amounts)

	13 Weeks Ended November 3, 2007	13 Weeks Ended October 28, 2006	**39 Weeks Ended November 3, 2007**	39 Weeks Ended October 28, 2006
Net sales	**$333,343**	$339,171	$1,040,201	$1,040,306
Cost of merchandise sold	**247,131**	249,909	762,881	759,452
Gross profit	**86,212**	89,262	277,320	280,854
Selling, general and administrative expenses	**97,224**	92,634	282,347	267,960
Other income, net	**5,736**	3,777	16,370	11,371
Income (loss) from operations	**(5,276)**	405	11,343	24,265
Interest (expense) income, net	**(445)**	(28)	(361)	1,096
Income (loss) before income taxes	**(5,721)**	377	10,982	25,361
Income tax benefit (provision)	**3,032**	(140)	(3,364)	(9,253)
Net income (loss)	**$ (2,689)**	$ 237	$ 7,618	$ 16,108
Net income (loss) per share:				
Basic	**$(0.06)**	$0.01	$0.18	$0.37
Diluted	**$(0.06)**	$0.01	$0.18	$0.37
Weighted-average shares outstanding:				
Basic	**41,548**	43,162	42,445	43,212
Diluted	**41,548**	43,662	42,943	43,907

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

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Stein Mart, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	39 Weeks Ended November 3, 2007	39 Weeks Ended October 28, 2006
Cash flows from operating activities:		
Net income	**$ 7,618**	$ 16,108
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	**19,190**	18,881
Impairment of property and other assets	**108**	-
Store closing charges	**396**	1,243
Deferred income taxes	**(943)**	(2,821)
Share-based compensation	**6,496**	3,657
Tax benefit from equity issuances	**287**	502
Excess tax benefits from share-based compensation	**(258)**	(296)
Changes in assets and liabilities:		
Trade and other receivables	**(4,505)**	(425)
Inventories	**(53,874)**	(83,236)
Prepaid income taxes	**(13,252)**	(2,609)
Prepaid expenses and other current assets	**(1,729)**	(1,092)
Other assets	**(2,560)**	(3,317)
Accounts payable	**41,842**	44,979
Accrued liabilities	**800**	(4,230)
Income taxes payable	**(13,091)**	(9,892)
Other liabilities	**1,273**	1,651
Net cash used in operating activities	**(12,202)**	(20,897)
Cash flows from investing activities:		
Capital expenditures	**(20,071)**	(39,067)
Purchases of short-term investments	**(36,580)**	(586,225)
Sales of short-term investments	**47,415**	691,160
Net cash (used in) provided by investing activities	**(9,236)**	65,868
Cash flows from financing activities:		
Borrowings under notes payable to banks	**236,054**	65,669
Repayments of notes payable to banks	**(181,088)**	(39,175)
Cash dividends paid	**(8,073)**	(73,572)
Excess tax benefits from share-based compensation	**258**	296

Proceeds from exercise of stock options	**3,521**	2,046
Proceeds from employee stock purchase plan	**586**	581
Repurchase of common stock	**(26,899)**	(6,088)
Net cash provided by (used in) financing activities	**24,359**	(50,243)
Net increase (decrease) in cash and cash equivalents	**2,921**	(5,272)
Cash and cash equivalents at beginning of year	**17,560**	20,200
Cash and cash equivalents at end of period	**$ 20,481**	$ 14,928

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

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STEIN MART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 3, 2007

(Unaudited)

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

1. Basis of Presentation and Other Information

The accompanying unaudited consolidated 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 primarily of normal and recurring adjustments) considered necessary for a fair statement 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 consolidated financial statements and footnotes thereto included in the Stein Mart, Inc. annual report on Form 10-K for the year ended February 3, 2007.

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

Fiscal Year. The Company s fiscal year ends on Saturday closest to January 31. Fiscal years 2007 and 2006 include 52 weeks and 53 weeks, respectively.

Reclassifications. Certain reclassifications have been made in the prior year s financial statements to conform to classifications used in the current year.

Gift and Return Card Revenue Recognition. The Company offers electronic gift cards and electronic merchandise return cards to its customers. No revenue is recognized at the time gift cards are sold; rather, the issuance is recorded as a liability to customers. At the time return cards are issued for returned merchandise, the sale is reversed and the issuance is recorded as a liability to customers. Card liabilities are relieved and sales revenue is recognized when cards are redeemed for merchandise.

Vendor Allowances. The Company receives allowances from some of its vendors primarily related to markdown reimbursement, damaged/defective merchandise and vendor compliance issues. Vendor allowances are recorded when earned. Allowances received from vendors related to profitability of inventory recently sold are reflected as reductions to cost of merchandise sold in the later of the period that the merchandise markdown is incurred or the allowance is negotiated. Allowances received from vendors related to damaged/defective inventory are reflected as reductions to the cost of merchandise as it is received and to cost of merchandise sold as the merchandise is sold. Allowances received due to compliance issues (primarily violations of shipping and merchandise preparation requirements) are reflected as a reduction of the cost of the merchandise when negotiated.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principals, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but rather eliminates inconsistencies in guidance provided in previous accounting pronouncements. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 for financial assets and liabilities, as well as nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on an annual or more frequently recurring basis. In November 2007, the FASB proposed a one year deferral for the implementation of SFAS No. 157 for nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Management does not expect the adoption of SFAS No. 157 to have a material effect on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value and is effective for fiscal years beginning after November 15, 2007. Management does not expect the adoption of SFAS No. 159 to have a material effect on our consolidated financial statements.

2. Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on February 4, 2007. As a result of the implementation of FIN 48, the Company recognized a $0.2 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction of the February 4, 2007 retained earnings balance.

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As of February 4, 2007, the total amount of unrecognized tax benefits was $7.3 million and the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $1.8 million. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. The total amount of accrued interest and accrued penalties as of February 4, 2007 was $1.6 million and $0.2 million, respectively.

The Company and/or its subsidiary files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for fiscal years ended before 2005 and is no longer subject to state and local tax examinations for fiscal years before 2003. During the third quarter of 2007, the Internal Revenue Service (IRS) completed its examination of the Company s federal income tax returns for fiscal years 2003 and 2004 and the Company settled with the IRS. The most significant adjustments were related to the Company s revenue recognition associated with gift and return cards, for tax purposes. Primarily as a result of the IRS settlement, the total amount of gross unrecognized tax benefits decreased from $7.3 million as of February 4, 2007 to $1.3 million as of November 3, 2007 and accrued interest decreased from $1.6 million as of February 4, 2007 to $0.2 million as of November 3, 2007. The $1.3 million gross unrecognized tax benefits include $1.9 million of tax positions that, if recognized, would affect the effective tax rate. The IRS is now in the early stages of examining the Company s federal income tax return for fiscal year 2005 and this examination is expected to be completed during 2008. It is reasonably possible that an increase in the unrecognized tax benefits may occur as the 2005 temporary differences related to favorable rollforward adjustments from the 2003 and 2004 IRS examination are agreed to; however, quantification of an estimated range cannot be made at this time.

During the third quarter of 2007, the annual effective income tax rate was reduced from 36.6 percent, used for the first half of 2007, to 28.2 percent. The rate decreased due to lower estimated annual taxable income, certain federal and state tax credits, and other state benefits.

3. Stockholders Equity

Stock Repurchase Plan

During the 39 weeks ended November 3, 2007 and October 28, 2006, the Company repurchased 2,438,854 shares and 410,812 shares of its common stock in the open market at a total cost of $26.9 million and $6.1 million, respectively. As of November 3, 2007, there are 807,984 shares which can be repurchased pursuant to the Board of Directors current authorizations.

Share-Based Compensation Expense

For the 13 and 39 weeks ended November 3, 2007 and October 28, 2006, share-based compensation expense was recorded as follows:

	13 Weeks Ended November 3, 2007	13 Weeks Ended October 28, 2006	**39 Weeks Ended November 3, 2007**	39 Weeks Ended October 28, 2006
Cost of merchandise sold	**$1,148**	$ 926	**$4,107**	$2,280
Selling, general and administrative expenses	**638**	543	**2,389**	1,377
Total share-based compensation expense	**$1,786**	$1,469	**$6,496**	$3,657

During the 39 weeks ended November 3, 2007, $0.2 million of dividends paid to employees on restricted stock awards that are not expected to vest was charged to share-based compensation expense in accordance with SFAS No. 123R, *Share-Based Payment.*

Stock Options

On August 27, 2007 the Company s Board of Directors appointed Linda McFarland Farthing as President and Chief Executive Officer of the Company. Ms. Farthing was granted an option to purchase 200,000 shares of the Company s common stock, at an exercise price of $8.56, under the Company s 2001 Omnibus Plan. The options, valued at $528,000, vested immediately and were recognized as expense during the third quarter of 2007. The options may not be exercised after the earlier of seven years from August 27, 2007 or 90 days following Ms. Farthing s ceasing to be either an executive officer or a member of the Board of Directors of the Company. Shares acquired on exercise of the options may not be sold until the earlier of August 27, 2008 or a change of control of the Company.

4. Earnings Per Share (EPS)

Basic EPS is computed by dividing net income by the basic weighted-average number of common shares outstanding for the period. Diluted EPS is calculated by also considering the impact of potential common stock equivalents on both net income and the weighted-average number of common shares outstanding.

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A reconciliation of basic weighted-average number of common shares to diluted weighted-average number of common shares is as follows (shares in thousands):

	13 Weeks Ended November 3, 2007	13 Weeks Ended October 28, 2006	**39 Weeks Ended November 3, 2007**	39 Weeks Ended October 28, 2006
Basic weighted-average number of common shares	**41,548**	43,162	**42,445**	43,212
Incremental shares from share-based compensation plans		500	**498**	695
Diluted weighted-average number of common shares	**41,548**	43,662	**42,943**	43,907

The effect of common stock equivalents is not included in the diluted net loss per share calculation for the 13 weeks ended November 3, 2007 as their inclusion would be anti-dilutive. Common stock equivalents totaling 300,238 would have been included in the diluted net income per share calculation had the Company reported net income for the 13 weeks ended November 3, 2007. Options to purchase approximately 2.5 million and 1.5 million shares of common stock that were outstanding during the 13 weeks ended November 3, 2007 and October 28, 2006, respectively, were not included in the computation of diluted net income (loss) per share as the exercise prices of these options were greater than the average market price of the common shares. For the 39 weeks ended November 3, 2007 and October 28, 2006, options to purchase 1.8 million and 1.4 million shares of common stock, respectively, were not included in the computation of diluted net income per share for the aforementioned reason.

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STEIN MART, INC.

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

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

Forward-Looking Statements

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 ongoing competition from other retailers, the effectiveness of advertising, marketing and promotional strategies, changes in consumer spending due to current events and/or general economic conditions, unanticipated weather conditions and unseasonable weather, changing preferences in apparel, adequate sources of merchandise at acceptable prices, the availability of suitable new store sites at acceptable lease terms, the Company s ability to attract and retain qualified employees to support planned growth, the ability to successfully implement strategies to exit or improve under-performing stores and disruption of the Company s distribution system. Readers are urged to review and consider the matters discussed in Item 1A. Risk Factors of our Form 10-K for 2006.

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.

Executive 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 November 3, 2007, we operated 276 stores in 30 states and the District of Columbia.

Fiscal years 2007 and 2006 include 52 weeks and 53 weeks, respectively. The 53rd week in fiscal 2006 created a timing shift in the 4-5-4 calendar for fiscal 2007, resulting in a one-week difference between Stein Mart s fiscal reporting and comparable store sales reporting periods. This timing shift positively affected total net sales by approximately $6.7 million for the third quarter of 2007 and positively affected total net sales by approximately $7.3 million for the first 39 weeks of 2007. The timing shift and last year s 53rd week will have a negative impact of approximately $29.0 million on total net sales for the fourth quarter of 2007 in comparison to total net sales for the fourth quarter of 2006.

Net sales decreased 1.7% for the 13 weeks ended November 3, 2007 compared to the 13 weeks ended October 28, 2006 and net sales were flat for the 39 weeks ended November 3, 2007 compared to the 39 weeks ended October 28, 2006. Comparable store sales decreased 6.3% and 3.1%, respectively, for the 13 weeks and 39 weeks ended November 3, 2007 compared to the same periods ended November 4, 2006. We were unable to drive sales this quarter and, as the retail environment deteriorated, we made mid-course corrections in marketing, promotion and store environment to try to improve sales; unfortunately, our efforts were not sufficient.

Gross profit decreased to $86.2 million or 25.9 percent of sales for the 13 weeks ended November 3, 2007 from $89.3 million or 26.3 percent of sales for the 13 weeks ended October 28, 2006. Similarly, gross profit for the 39 weeks ended November 3, 2007 decreased to $277.3 million or 26.7 percent of sales from $280.9 million or 27.0 percent of sales for the 39 weeks ended October 28, 2006. In both periods, the gross profit rates decreased primarily due to a lack of sales leverage on increased occupancy and share-based buying costs. Selling, general and administrative (SG&A) expenses were higher in total dollars and as a percentage of sales for both the 13 weeks and 39 weeks ended November 3, 2007 due to increases in advertising, depreciation, share-based compensation expenses and costs associated with the transition of the President/Chief Executive Officer and a lack of sales leverage. These factors contributed to a $0.07 and $0.19 decrease, respectively, in diluted earnings per share for the 13 weeks and 39 weeks ended November 3, 2007 compared to the same periods last year.

The current environment is difficult for retailers in general, and particularly for companies like ours that cater to the missy customer. Our target customer has simply not been tempted to shop for apparel, either because the current fashion does not excite her, she is worried about the economy, or both. At the same time, our larger competitors have gone to extraordinary lengths to attract customers, including steep discounts off regular price merchandise which makes competing even more difficult for an everyday low price retailer like Stein Mart. We also continue to have problems with our Home business that has continued to track well below the Company trend. Improving the productivity of this area is a priority, but in a soft housing market, this will be challenging.

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Based on current unfavorable selling trends, management expects a comparable stores sales decrease of approximately ten percent for the fourth quarter of 2007. Given this lowered sales outlook, escalating competitive pressure, and the prospect of extremely aggressive markdowns to move merchandise on lower than planned sales, the Company anticipates a loss of approximately $(0.15) per diluted share for the fourth quarter ending February 2, 2008.

Key action steps to improve our performance include:

- Pulling back on our new store opening plans to dedicate our efforts to returning our core business to profitability
- Re-evaluating our merchandise mix and the productivity of each category
- Continuing to ensure we present a strong value message in our store and media
- Evaluating the productivity of each square foot of selling space
- Focusing capital spending to those areas that provide the most immediate and greatest returns
- Cutting costs commensurate with the trend of business

Stores

There were 276 stores open as of November 3, 2007 and 265 stores open at October 28, 2006. We completed our 2007 store-opening program with four stores opened in November 2007, resulting in 280 stores.

	13 Weeks Ended November 3, 2007	**13 Weeks Ended October 28, 2006**	**39 Weeks Ended November 3, 2007**	**39 Weeks Ended October 28, 2006**
Stores at beginning of period	**270**	261	**268**	262
Stores opened during the period	**8**	6	**10**	9
Stores closed during the period	**(2)**	(2)	**(2)**	(6)
Stores at the end of period	**276**	265	**276**	265

Results of Operations

The following table sets forth each line item of the Consolidated Statements of Operations expressed as a percentage of the Company s net sales (numbers may not add due to rounding):

	13 Weeks Ended November 3, 2007	13 Weeks Ended October 28, 2006	**39 Weeks Ended November 3, 2007**	39 Weeks Ended October 28, 2006
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Cost of merchandise sold	**74.1**	73.7	**73.3**	73.0
Gross profit	**25.9**	26.3	**26.7**	27.0
Selling, general and administrative expenses	**29.2**	27.3	**27.1**	25.8
Other income, net	**1.7**	1.1	**1.6**	1.1
Income (loss) from operations	**(1.6)**	0.1	**1.1**	2.3
Interest (expense) income, net	**(0.1)**	-	**-**	0.1
Income (loss) before income taxes	**(1.7)**	0.1	**1.1**	2.4
Income tax benefit (provision)	**0.9**	-	**(0.3)**	(0.9)
Net income (loss)	**(0.8)%**	0.1%	**0.7%**	1.5%

For the 13 weeks ended November 3, 2007 compared to the 13 weeks ended October 28, 2006

The $5.8 million or 1.7% total net sales decrease for the 13 weeks ended November 3, 2007 compared to the 13 weeks ended October 28, 2006 reflects a $15.1 million decrease in comparable store sales and a $1.8 million decrease in net sales due to the closing of six stores in 2006 and two stores in 2007, offset by an increase in net sales of $11.1 million due to the inclusion of sales for the 12 stores opened in 2006 and the opening of 10 new stores in 2007. The $6.7 million increase in total sales as a result of the one-week shift in fiscal reporting periods is included in the aforementioned changes. Comparable stores sales for the 13 weeks ended November 3, 2007 decreased 6.3% compared to the 13 weeks ended November 4, 2006.

Gross profit for the 13 weeks ended November 3, 2007 was $86.2 million or 25.9 percent of net sales, a 0.4 percentage point decrease from gross profit of $89.3 million or 26.3 percent of net sales for the 13 weeks ended October 28, 2006. The $3.1 million decrease in gross profit reflects a $4.8 million decrease in the comparable store group and a $0.5 million decrease due to the closing of six stores in 2006 and two stores in 2007, partially offset by a $2.2 million increase due to the inclusion of operating results for the 12 stores opened in 2006 and the opening of 10 new stores in 2007. Gross profit as a percent of sales decreased during the third quarter of 2007 primarily due to a 0.4 percentage point increase in occupancy and share-based compensation costs. Merchandise margin was flat due to a 0.5 percentage point increase in markup offset by a 0.5 percentage point increase in markdowns.

SG&A expenses were $97.2 million or 29.2 percent of net sales for the 13 weeks ended November 3, 2007 as compared to $92.6 million or 27.3 percent of net sales for the same 2006 quarter. The SG&A rate was higher due to a lack of leverage on lower sales during the third quarter of 2007 and expenses increased $4.6 million due to a $2.5 million increase in store operating expenses for the non-comparable store group, a $3.6 million increase in advertising expense, a $1.3 million increase in corporate overhead expenses, a $0.4 million increase in depreciation expense and increased share-based compensation costs. Store operating expenses were reduced by $3.3 million in the comparable store group due to cost saving initiatives. The non-comparable store group had higher operating expenses this quarter due to the inclusion of operating results for the 12 stores opened in 2006 and the 10 stores opened in 2007. Advertising expense was higher this quarter primarily due to increased spending, including additional television advertising, and other costs associated with our new advertising agency. Corporate overhead expenses were higher this quarter primarily due to recognizing $1.8 million of separation costs for the August 2007 resignation of the former President/Chief Executive Officer.

Share-based compensation expense from stock options, restricted stock and performance awards was $1.8 million for the third quarter of 2007 and $1.5 million for the third quarter of 2006. The $1.8 million is net of a $0.5 million reversal of previously accrued performance grants, as results no longer support such awards, and includes $0.5 million for stock options issued to the new President/Chief Executive Officer. The increase of $0.3 million is included in cost of merchandise sold at $0.2 million and in SG&A expenses at $0.1 million.

Other income, net was $5.7 million or 1.7 percent of net sales for the 13 weeks ended November 3, 2007 compared to $3.8 million or 1.1 percent of net sales for the same 2006 quarter. The $1.9 million increase is due to income from our Co-Brand Credit Card Program launched in October 2006.

The income tax benefit for the 13 weeks ended November 3, 2007 reflects a favorable adjustment resulting from a reduction in the projected annual effective tax rate from 36.6 percent, used for the first half of 2007, to 28.2 percent. The rate decreased due to lower estimated annual taxable income, certain federal and state tax credits, and other state tax benefits.

For the 39 weeks ended November 3, 2007 compared to the 39 weeks ended October 28, 2006

Net sales were flat for the 39 weeks ended November 3, 2007 compared to the 39 weeks ended October 28, 2006 and reflects an increase of $34.8 million due to the inclusion of sales for the 12 stores opened in fiscal 2006 and the opening of 10 new stores in 2007, offset by a $25.4 million decrease in comparable store sales and a $9.5 million decrease in net sales due to the closing of six stores in 2006 and two stores in 2007. The $7.3 million increase in total net sales as a result of the one-week shift in fiscal reporting periods is included in the aforementioned changes. Comparable stores sales for the 39 weeks ended November 3, 2007 decreased 3.1% compared to the 39 weeks ended November 4, 2006.

Gross profit for the 39 weeks ended November 3, 2007 was $277.3 million or 26.7 percent of net sales, a 0.3 percentage point decrease from gross profit of $280.9 million or 27.0 percent of net sales for the 39 weeks ended October 28, 2006. The $3.6 million decrease in gross profit reflects a $9.1 million decrease in the comparable store group and a $1.7 million decrease due to the closing of six stores in 2006 and two stores in 2007, offset by a $7.2 million increase due to the inclusion of operating results of the 12 stores opened in 2006 and the opening of 10 new stores in 2007. Gross profit as a percent of sales decreased during the first 39 weeks of 2007 primarily due to a 0.3 percentage point increase in occupancy and share-based compensation costs. Merchandise margin was flat due to a 0.6 percentage point increase in markup offset by a 0.6 percentage point increase in markdowns.

SG&A expenses were $282.3 million or 27.1 percent of net sales for the 39 weeks ended November 3, 2007 as compared to $268.0 million or 25.8 percent of net sales for the same 2006 period. The SG&A rate was higher due to a lack of leverage on flat sales during the first 39 weeks of 2007 and expenses increased $14.3 million primarily due to a $7.2 million increase in store operating expenses for the non-comparable store group, a $7.1 million increase in advertising expense, a $2.1 million increase in depreciation expense, a $2.8 million increase in corporate overhead expenses and increased share-based compensation costs. Store operating expenses were reduced by $3.1 million in the comparable store group due to cost saving initiatives and $2.8 million for the six stores that closed in 2006 and two stores that closed in 2007. The non-comparable store group had higher operating expenses this period due to the inclusion of operating results for the 12 stores opened in 2006 and the 10 stores opened in 2007. Advertising expense was higher for the period due to increased spending, including additional television advertising, and other costs associated with our new advertising agency. Corporate overhead expenses were higher this period primarily due to recognizing $1.8 million of separation costs for the August 2007 resignation of the former President/Chief Executive Officer and increases in technology expenses.

Share-based compensation expense from stock options, restricted stock and performance awards was $6.5 million for the first 39 weeks of 2007 and $3.7 million for the first 39 weeks of 2006. The $6.5 million is net of a $0.5 million reversal of previously accrued performance grants, as operating results no longer support such awards, and includes $0.5 million for stock options issued to the new President/Chief Executive Officer. The $2.8 million increase primarily relates to the expensing of performance awards issued during the third quarter of 2006 and is included in cost of merchandise sold at $1.8 million and SG&A expenses at $1.0 million.

Other income, net was $16.4 million or 1.6 percent of net sales for the 39 weeks ended November 3, 2007 compared to $11.4 million or 1.1 percent of net sales for the same 2006 period. The $5.0 million increase is due to income from our Co-Brand Credit Card Program launched in October 2006.

The income tax provision for the 39 weeks ended November 3, 2007 reflects a favorable adjustment resulting from a reduction in the projected annual effective tax rate from 36.6 percent, used for the first half of 2007, to 28.2 percent. The rate decreased due to lower estimated annual taxable income, certain federal and state tax credits, and other state tax benefits.

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. 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. As of November 3, 2007, the Company had $20.5 million in cash and cash equivalents.

Net cash used in operating activities was $12.2 million and $20.9 million for the first 39 weeks of 2007 and 2006, respectively. Less cash was used in operating activities this year due to a $29.3 million decrease in cash used to acquire inventories offset by a $10.6 million increase in cash used for prepaid income taxes, a $4.4 million decrease in cash provided by net income plus non-cash charges, a $3.1 million decrease in cash used to reduce accounts payable and a $2.5 million net decrease in cash used for other working capital accounts. Less inventory was purchased this year due to the current and projected decreasing sales trend and because inventory levels were unseasonably high at February 3, 2007 due to a sales shortfall during the 2006 holiday selling season.

Net cash used in investing activities was $9.2 million for the first 39 weeks of 2007 compared to $65.9 million provided by investing activities for the first 39 weeks of 2006. More cash was provided by investing activities during the first 39 weeks of 2006 primarily due to the net liquidation of short-term investments in order to pay a special cash dividend. Capital expenditures were higher in the first 39 weeks of 2006 compared to the first 39 weeks of 2007 due to remodeling costs for existing stores and the roll-out of new point-of-sale equipment in 2006. The Company expects to invest approximately $23-$25 million in capital expenditures in 2007 to open new stores and continue investment in systems and store upgrades for increased productivity and enhanced customer service.

Net cash provided by financing activities was $24.4 million during first 39 weeks of 2007 compared to $50.2 million used in financing activities during the first 39 weeks of 2006. More cash was used in financing activities last year primarily due to $65.5 million more dividends paid. In 2006 three regular quarterly cash dividends of $0.0625 per share and a special cash dividend of $1.50 per share were paid compared to 2007 when only the three regular quarterly cash dividends were paid. The change in net cash used in financing activities also includes a $28.5 million increase in net borrowings and a $20.8 million increase in cash used to repurchase common stock. During the 39 weeks ended November 3, 2007 and October 28, 2006, the Company repurchased 2,438,854 shares and 410,812 shares of its common stock in the open market at a total cost of $26.9 million and $6.1 million, respectively. In November 2007, the Company declared a quarterly cash dividend of $0.0625 per share which will be paid on December 21, 2007 to shareholders of record at close of business on December 7, 2007.

The Company has a $100 million senior revolving secured credit agreement with a group of lenders, with an initial term ending January 2011. At November 3, 2007, there were $55.0 million in direct borrowings 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, working capital requirements, dividend payments and stock repurchases. Should current operating conditions change, management can borrow on the revolving credit agreement or adjust operating plans, including new store rollout.

Critical Accounting Policies and Estimates

For a complete summary of the Company s critical accounting policies and estimates, refer to Item 7 included in the Stein Mart, Inc. annual report on Form 10-K for the year ended February 3, 2007. The following policy disclosure has been expanded from that included in the Form 10-K.

Vendor Allowances. The Company receives allowances from some of its vendors primarily related to markdown reimbursement, damaged/defective merchandise and vendor compliance issues. Vendor allowances are recorded when earned. Allowances received from vendors related to profitability of inventory recently sold are reflected as reductions to cost of merchandise sold in the later of the period that the merchandise markdown is incurred or the allowance is negotiated. Allowances received from vendors related to damaged/defective inventory are reflected as reductions to the cost of merchandise as it is received and to cost of merchandise sold as the merchandise is sold. Allowances received due to compliance issues (primarily violations of shipping and merchandise preparation requirements) are reflected as a reduction of the cost of the merchandise when negotiated.

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Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principals, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but rather eliminates inconsistencies in guidance provided in previous accounting pronouncements. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 for financial assets and liabilities, as well as nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on an annual or more frequently recurring basis. In November 2007, the FASB proposed a one year deferral for the implementation of SFAS No. 157 for nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Management does not expect the adoption of SFAS No. 157 to have a material effect on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value and is effective for fiscal years beginning after November 15, 2007. Management does not expect the adoption of SFAS No. 159 to have a material effect on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For information regarding our exposure to certain market risk, see Quantitative and Qualitative Disclosures About Market Risk in Part II, Item 7A of our Form 10-K for the year ended February 3, 2007, filed with the Securities and Exchange Commission on April 18, 2007. There were no material changes to our market risk during the 39 weeks ended November 3, 2007.

Item 4. Controls and Procedures

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of November 3, 2007 to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

There were no changes in the Company s internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information regarding repurchases by the Company of its common stock during the 13-week period ended November 3, 2007:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (1)	Maximum number of shares that may yet be purchased under the plans or programs (1)

August 5, 2007	September 1, 2007	406,212	$8.61	406,212	1,639,126
September 2, 2007	October 6, 2007	731,142	$8.83	731,142	907,984
October 7, 2007	November 3, 2007	100,000	$7.47	100,000	807,984
Total		1,237,354	$8.65	1,237,354	807,984

(1) The Company s Open Market Repurchase Program is conducted pursuant to authorizations made from time to time by the Company s Board of Directors. The shares reported in the table are covered by two Board authorizations dated March 5, 2001 and April 17, 2007, each to repurchase 2.5 million shares of common stock. These authorizations do not have an expiration date.

Item 6. Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a)

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a)

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

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

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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 12, 2007

By: /s/ Linda McFarland Farthing
Linda McFarland Farthing
President and Chief Executive Officer

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

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