STEIN MART INC
Form 10-Q
December 06, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 28, 2006

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	**64-0466198**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1200 Riverplace Blvd., Jacksonville, Florida	**32207**
(Address of principal executive offices)	(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 25, 2006 was 43,563,606.

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Stein Mart, Inc.

Consolidated Balance Sheets

(Unaudited)

(In thousands)

	October 28, 2006	January 28, 2006	October 29, 2005
ASSETS			
Current assets:			
Cash and cash equivalents	**$ 14,928**	$ 20,200	$ 27,866
Short-term investments		104,935	65,895
Trade and other receivables	**11,546**	11,121	7,348
Inventories	**349,024**	265,788	313,332
Prepaid expenses and other current assets	**21,812**	13,672	21,696
Total current assets	**397,310**	415,716	436,137
Property and equipment, net	**110,187**	87,106	81,901
Other assets	**19,018**	17,023	14,915
Total assets	**$ 526,515**	$ 519,845	$ 532,953
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	**$ 133,387**	$ 88,408	$ 123,922
Accrued liabilities	**76,367**	80,337	77,355
Income taxes payable		5,453	
Total current liabilities	**209,754**	174,198	201,277
Notes payable to banks	**26,494**		
Other liabilities	**23,295**	21,908	21,794
Total liabilities	**259,543**	196,106	223,071
COMMITMENTS AND CONTINGENCIES			
Stockholders equity:			
Preferred stock - $.01 par value; 1,000,000 shares authorized; no shares issued or outstanding			
Common stock - $.01 par value; 100,000,000 shares authorized; 43,548,314; 43,516,372 and 43,759,295 shares issued and outstanding, respectively	**435**	435	438
Additional paid-in capital	**18,961**	21,967	26,563
Unearned compensation		(3,704)	(3,829)
Retained earnings	**247,576**	305,041	286,710
Total stockholders equity	**266,972**	323,739	309,882
Total liabilities and stockholders equity	**$ 526,515**	$ 519,845	$ 532,953

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

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Stein Mart, Inc.

Consolidated Statements of Income

(Unaudited)

(In thousands except per share amounts)

	13 Weeks Ended October 28, 2006	13 Weeks Ended October 29, 2005	**39 Weeks Ended October 28, 2006**	39 Weeks Ended October 29, 2005
Net sales	**$ 339,171**	$ 336,537	**$ 1,040,306**	$ 1,054,256
Cost of merchandise sold	**249,909**	253,486	**759,452**	763,254
Gross profit	**89,262**	83,051	**280,854**	291,002
Selling, general and administrative expenses	**92,634**	85,057	**267,960**	255,532
Other income, net	**3,777**	3,749	**11,371**	11,306
Income from operations	**405**	1,743	**24,265**	46,776
Interest income (expense), net	**(28)**	509	**1,096**	1,336
Income before income taxes	**377**	2,252	**25,361**	48,112
Provision for income taxes	**140**	856	**9,253**	18,283
Net income	**$ 237**	$ 1,396	**$ 16,108**	$ 29,829
Net income per share:				
Basic	**$ 0.01**	$ 0.03	**$ 0.37**	$ 0.69
Diluted	**$ 0.01**	$ 0.03	**$ 0.37**	$ 0.67
Weighted-average shares outstanding:				
Basic	**43,162**	43,553	**43,212**	43,252
Diluted	**43,662**	44,605	**43,907**	44,424

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 October 28, 2006	39 Weeks Ended October 29, 2005
Cash flows from operating activities:		
Net income	$ 16,108	$ 29,829
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	18,881	14,973
Impairment of property and other assets		531
Store closing charges	1,243	452
Deferred income taxes	(2,821)	1,381
Share-based compensation	3,657	516
Tax benefit from equity issuances	502	4,595
Excess tax benefits from share-based compensation	(296)	
Changes in assets and liabilities:		
Trade and other receivables	(425)	4,032
Inventories	(83,236)	(36,168)
Prepaid expenses and other current assets	(8,140)	(8,771)
Other assets	(3,317)	(1,281)
Accounts payable	44,979	24,759
Accrued liabilities	(4,230)	(2,902)
Income taxes payable	(5,453)	(5,089)
Other liabilities	1,651	478
Net cash (used in) provided by operating activities	(20,897)	27,335
Cash flows from investing activities:		
Capital expenditures	(39,067)	(24,731)
Purchases of short-term investments	(586,225)	(1,379,420)
Sales of short-term investments	691,160	1,386,000
Net cash provided by (used in) investing activities	65,868	(18,151)
Cash flows from financing activities:		
Borrowings under notes payable to banks	65,669	
Repayments of notes payable to banks	(39,175)	
Cash dividends paid	(73,572)	(5,463)
Excess tax benefits from share-based compensation	296	
Proceeds from exercise of stock options	2,046	15,157
Proceeds from employee stock purchase plan	581	499
Repurchase of common stock	(6,088)	(11,761)
Net cash used in financing activities	(50,243)	(1,568)
Net (decrease) increase in cash and cash equivalents	(5,272)	7,616
Cash and cash equivalents at beginning of year	20,200	20,250

Cash and cash equivalents at end of period	**$**	**14,928**	$	27,866

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

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STEIN MART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 28, 2006

(Unaudited)

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

1. Basis of Presentation

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 of normal recurring accruals) 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 January 28, 2006.

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

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 . FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with Statement of Financial Standards (SFAS) No. 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification and disclosure of tax positions. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of initially adopting this interpretation being recorded as an adjustment to the opening balance of retained earnings. We are currently evaluating the impact FIN 48 will have on our financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 provides guidance which is meant to eliminate the diversity of practice in quantifying identified misstatements by putting forward a single quantification framework to be used by all public companies. The provisions of SAB 108 are effective for fiscal years ending on or after November 15, 2006. Management does not expect the adoption of SAB 108 to have a material impact on our consolidated financial statements.

In September 2006, the FASB issued 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, and interim periods within those years. Earlier application is encouraged, provided the reporting entity has not yet issued financial statements for that fiscal year. We are currently evaluating the impact of SFAS No. 157, but management does not expect the adoption of SFAS No. 157 to have a material effect on our consolidated financial statements.

2. Share-Based Compensation

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment , which replaced SFAS No. 123 Accounting for Stock-Based Compensation and superseded Accounting Principles Board (APB) No. 25 Accounting for Stock Issued to Employees . SFAS No. 123R requires companies to recognize expense in the financial statements for the fair values of all share-based payments to employees over the employees requisite service periods. The pro forma disclosures previously permitted under SFAS No. 123 no longer are an alternative to financial statement recognition. Effective January 29, 2006, the Company adopted the provisions of SFAS No. 123R and elected to apply the modified prospective transition method to all past awards outstanding and unvested as of that date. Accordingly, financial statement amounts for the prior periods presented in this Form 10-Q have not been restated to reflect the fair value method of expensing share-based compensation.

For the 13 weeks ended October 28, 2006 and October 29, 2005, the Company recorded pretax share-based compensation expense of $1.5 million and $0.2 million, respectively, and related income tax benefits of $0.5 million and $0.1 million, respectively. For the 39 weeks ended October 28, 2006 and October 29, 2005, the Company recorded pretax share-based compensation expense of $3.7 million and $0.5 million, respectively, and related income tax benefits of $1.4 million and $0.2 million, respectively. The adoption of SFAS No. 123R caused a $0.02 decrease in basic and diluted earnings per share (EPS) for the 13 weeks ended October 28, 2006 and a $0.04 decrease in basic and diluted EPS for the 39 weeks ended October 28, 2006.

STEIN MART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	13 Weeks Ended October 28, 2006	39 Weeks Ended October 28, 2006
Cost of merchandise sold	$ 926	$ 2,280
Selling, general and administrative expenses	543	1,377
Total	$ 1,469	$ 3,657

Prior to the adoption of SFAS No. 123R, the Company presented all tax benefits resulting from share-based compensation arrangements as operating activities in the unaudited Consolidated Statements of Cash Flows. SFAS No. 123R requires that tax benefits resulting from share-based compensation in excess of compensation cost recognized be classified as financing cash flows. As a result, $0.3 million of excess tax benefits have been classified as financing cash flows for the 39 weeks ended October 28, 2006. SFAS No. 123R also requires that unearned compensation previously reported as a contra-equity amount and representing the amount of unamortized value of restricted stock issued no longer be reported separately. Accordingly, unearned compensation in the Consolidated Balance Sheet as of October 28, 2006 has been reclassified to additional paid-in capital.

Share-Based Compensation Plans

The Company has an Employee Stock Purchase Plan (the Stock Purchase Plan) whereby all employees who complete six months employment with the Company and who work on a full-time basis or are regularly scheduled to work more than 20 hours per week are eligible to participate in the Stock Purchase Plan. Participants in the Stock Purchase Plan are permitted to use their payroll deductions to acquire shares at 85% of the lower of the fair market value of the Company s stock determined at either the beginning or the end of each option period. The Company uses the Black-Scholes call option value model to determine the fair value of Employee Stock Purchase Plan shares.

In 2001, the shareholders approved a stock option plan (the Omnibus Plan), which replaced the Company s Employee Stock and Director Stock Option Plans (the Previous Plans). After the approval of the Omnibus Plan, no further options have been or will be issued under the Previous Plans. The term of the Omnibus Plan is indefinite, except that no incentive stock option award can be granted after the tenth anniversary of the plan. In 2002, the Board of Directors determined that it was appropriate to undertake an overall review of the Company s compensation strategies. As part of this review, it was decided that starting in 2003 restricted stock awards as provided for in the Omnibus Plan, in addition to stock options, would be granted.

The Omnibus Plan, consistent with the Previous Plans, provides that shares of common stock may be granted to certain key employees and outside directors through non-qualified stock options, incentive stock options, stock appreciation rights, performance awards, restricted stock, or any other award made under the terms of the plan. The Board of Directors, or its delegated authority, determines the exercise price and all other terms of all grants. In general, one-third of the options granted become exercisable on the third, fourth and fifth anniversary dates of grant and expire seven years after the date of grant. No stock appreciation rights have been granted under this or the Previous Plans.

The following table presents the number of awards initially authorized and available to grant under the Omnibus Plan (shares in thousands):

	Shares
Awards initially authorized	4,500
Awards available for grant:	
January 28, 2006	2,495