

STEIN MART INC
Form 10-K
April 12, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 28, 2012

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)

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Florida (State or other jurisdiction of incorporation or organization)	64-0466198 (I.R.S. Employer Identification Number)
1200 Riverplace Blvd., Jacksonville, Florida (Address of principal executive offices)	32207 (Zip Code)
Registrant's telephone number, including area code: (904) 346-1500	

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

Title of each class: Common Stock \$.01 par value	Name of each exchange on which registered: The NASDAQ Global Select Market
Securities registered pursuant to Section 12(g) of the Act: NONE	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes No

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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Large accelerated filer Accelerated filer x
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No x

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of July 30, 2011 was \$266,983,611. For purposes of this response, executive officers and directors are deemed to be affiliates of the registrant and the holdings by non-affiliates was computed as 28,103,538 shares. At March 30, 2012, the Registrant had issued and outstanding an aggregate of 43,297,898 shares of its common stock.

Documents Incorporated By Reference:

Portions of the Registrant's Proxy Statement for its 2012 Annual Meeting of Stockholders are incorporated by reference in Part III.

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This report contains forward-looking statements which are subject to certain risks, uncertainties or assumptions and may be affected by certain factors, including but not limited to the specific factors discussed in Part I, Item 1A under Risk Factors and Item 3 under Legal Proceedings; in Part II, Item 5 under Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities; and Part II, Item 7 under Management's Discussion and Analysis of Financial Condition and Results of Operations. Wherever used, the words plan, expect, anticipate, believe, estimate and similar expressions identify forward-looking statements. In addition, except for historical facts, all information provided in Part II, Item 7A, under Quantitative and Qualitative Disclosures About Market Risk should be considered forward-looking statements. Should one or more of these risks, uncertainties or other factors materialize, or should underlying assumptions prove incorrect, actual results, performance or achievements of the Company may vary materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

Forward-looking statements are based on beliefs and assumptions of the Company's management and on information currently available to such management. Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to publicly update or revise its forward-looking statements in light of new information or future events. Undue reliance should not be placed on such forward-looking statements, which are based on current expectations. Forward-looking statements are no guarantees of performance.

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PART I

ITEM 1. BUSINESS OVERVIEW

Headquartered in Jacksonville, Florida, Stein Mart is a national retailer offering the fashion merchandise, service and presentation of a better department or specialty store. Our focused assortment of merchandise features current-season, moderate to better fashion apparel for women and men, as well as accessories, shoes and home fashions, all offered at prices competitive with off-price retail chains. Begun in the early 1900 s as a single store in Greenville, Mississippi, we operated 262 stores in 29 states as of January 28, 2012.

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

KEY STRATEGIC OBJECTIVES

Our mission is to provide current season, first-quality fashion apparel, accessories and home fashion merchandise at prices comparable to off-price retail chains in a convenient, attractive, easy-to-shop location. We believe our success and future growth will depend on the consistent execution of the following:

Having a desirable, current-season assortment of designer, brand name, exclusive and proprietary fashion apparel, accessories and home fashion merchandise

Sourcing a wide range of key brands and maintaining strong partnerships with the vendors representing those brands

Offering everyday low prices on fashion merchandise through buying methodologies and low-price cost structure

Attracting repeat and new customers through marketing and advertising programs

Having an attractive store appearance, appealing merchandise presentation and on-demand customer service, similar to a department or specialty store

Locations in regional, community and neighborhood shopping centers serving a more affluent customer

TARGET CUSTOMER

Our target customer is a 35-55 year old woman, sometimes called a missy customer, who is both fashion-conscious and value-seeking. Proprietary research has shown she is most likely to have a higher than average household income, at least some college education, and if she is employed, she typically has a professional or paraprofessional occupation.

MERCHANDISING, PURCHASING AND PRICING

Our fashion assortment is driven primarily by seasonal fashion trends and a focus on name brand and designer merchandise complemented by a select program of private label and proprietary/exclusive merchandise. In 2011, approximately 9 percent of our sales were from private label or proprietary/exclusive merchandise. The majority of merchandise is consistent from store to store, with exceptions based on individual store selling characteristics, seasonal delivery fluctuations and regional preferences.

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Our merchants purchase products from approximately 1,300 vendors. None of our vendors accounted for more than 5 percent of our total purchases during 2011. We buy a majority of our merchandise at the same time and from many of the same manufacturers as traditional department/specialty stores although we generally do not require the same level of front and back-end vendor concessions, such as advertising allowances, return privileges and markdown allowances, which are common and significant in the department store industry. As a result, we believe that our buyers are able to negotiate more favorable upfront pricing terms from vendors. We also purchase merchandise opportunistically when we believe a combination of the product and the price makes it a compelling addition to our assortment. In both instances, we reflect our savings in our pricing which passes on to our customers through everyday low pricing targeted to be competitive with off-price retail chains.

Our shoe department inventory is exclusively supplied and owned by DSW, Inc. (DSW). DSW s buyers determine each season s fashion footwear assortment. We operate the shoe department and receive a percentage of net revenue in accordance with a supply agreement (the Supply Agreement). Shoe department sales are not included in net sales reported in our Consolidated Statements of Income. Amounts received under the Supply Agreement are included in Other income.

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The following table reflects the percentage of our sales by major merchandise category, including shoe department sales, for the fiscal years indicated:

	2011	2010	2009
Ladies and <i>Boutique</i> apparel	45%	46%	46%
Ladies accessories	13%	13%	13%
Men s	20%	20%	20%
Home	11%	11%	11%
Shoes	8%	7%	7%
Other	3%	3%	3%
	100%	100%	100%

LOCATIONS, GROWTH STRATEGY AND STORE APPEARANCE

On January 28, 2012, we operated 262 stores in 29 states. Our stores are located in the Northeast, Midwest, Southeast, Texas and the Southwest. We are most fully concentrated in the Southeast and Texas where 181 of our stores are located. Most locations are in neighborhood, community and regional shopping centers frequented by a more affluent customer. Our optimal co-tenants within these shopping centers cater to a similar target customer and include highly-frequented retail formats such as other apparel retailers, higher-end grocers and restaurants. All Stein Mart locations, including the corporate headquarters, are leased.

We are selectively seeking properties that strengthen our portfolio of stores in current markets. We utilize regional tenant representative brokers to help us identify potential sites for new or relocated stores. New store decisions are supported by independent sales forecasts, and approved by a real estate committee made up of senior level executives.

Our typical store is currently approximately 35,000 gross square feet with a racetrack design, convenient centralized check-out, and individual dressing rooms. We display merchandise in lifestyle groupings of apparel and accessories, which we believe enables the customer to locate desired merchandise in a manner that encourages multiple purchases. We seek to create excitement in our stores through the continual flow of fashion merchandise, targeted sales promotions, store layout, merchandise presentation, and the quality, value and depth of our merchandise assortment. Our newer stores are approximately 32,000 gross square feet with the reduction from our past stores being in smaller backrooms that can be accommodated by our newer distribution processes.

In 2010 we began selling selected merchandise offerings on the internet. This expanded to additional product offerings for 2011 and we anticipate offering a greatly expanded assortment for the internet selection beginning in Spring 2013. Internet sales in 2010 and 2011 amounted to less than 1% of sales.

CUSTOMER SERVICE

Our stores offer many services typically found in better department or specialty stores, such as a liberal merchandise return policy, merchandise locator service, a Preferred Customer program, a Stein Mart Platinum MasterCard® and electronic gift cards. Each store is staffed with a number of sales associates to provide on-demand customer service. Our stores have their own *Boutique*, generally staffed by specially-recruited associates who typically work one day a week. We believe this staffing approach adds credibility and fashion integrity to the department.

MARKETING

Our marketing efforts are focused on deepening our relationship with our best customers in order to increase our share of her spending. We are also focused on attracting new customers, including younger and Hispanic shoppers who are vital to our future growth. We engage in periodic market research, including accessing our proprietary customer panel, to identify how best to reach each of these audiences and, in consultation with our outside advertising and direct-marketing agencies, we adjust our marketing focus accordingly.

Our advertising stresses upscale fashion merchandise at discount prices. We utilize a combination of full-color circulars (both inserted in newspapers and mailed directly to homes), direct mail, newspaper run of press (ROP) advertising, and email to distribute our sales promotion messages. To reach a broader audience and communicate our brand position, we have increased our use of television advertising to build brand

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awareness and to drive sales for specific promotional events. Radio advertising is also employed to create additional excitement for specific one-day sales. We utilize digital media including online advertising and have a solid presence on social networking sites, including Facebook and Twitter.

Our Stein Mart Platinum MasterCard® (SMMC) and Preferred Customer Card programs are important marketing tools. SMMC customers earn reward certificates based on purchase volume and participate in in-store extra savings events . Preferred Customer Card customers receive preview copies of select circulars mailed to their home, members only shopping days, birthday discounts and special email announcements. SMMC customers are also enrolled as Preferred Customers. Both programs provide useful database information regarding customer preferences, habits and advertising receptivity.

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In October 2011, we entered into an Amended and Restated Co-Brand and Private Label Credit Card Consumer Program Agreement (the Agreement) with GE that provides for continuation of the Co-Brand Program (for SMCC) and establishes a private label credit card (the PLCC Program) which will be offered to our customers beginning in the second quarter of 2012. Unlike our co-brand card, our private label card may only be used at Stein Mart. For retailers that have both co-brand and private label credit cards (PLCC), the PLCC typically accounts for a much higher portion of cardholders and related sales. As such, we believe we have significant opportunity to increase the number of our cardholders and deepen our relationship with the PLCC customer.

We have an Internet site, www.steinmart.com, to promote Stein Mart's fashion point of view, as well as provide information for customers regarding store locations, brands, products and selected sales promotion activity. Visitors to the website may apply for the Stein Mart Platinum MasterCard®, sign up to be Preferred Customers, sign up for email, purchase gift cards and/or purchase a narrow selection of merchandise.

COMPETITION

Our primary competitors are department and specialty stores, as well as conventional off-price retail chains. From our customer's perspective, we believe we differentiate ourselves from department stores and specialty stores due to our (i) everyday low pricing, (ii) convenient locations in shopping centers, and (iii) assortments that are more edited than department stores and more varied than specialty stores. We believe we differentiate ourselves from typical off-price retail chains by offering (i) primarily current-season first quality merchandise carried by better department or specialty stores, (ii) a stronger merchandising statement, consistently offering more depth of color and size in individual stock-keeping units, (iii) merchandise presentation and customer service more comparable to upscale retailers and (iv) competitive price levels.

DISTRIBUTION

We utilize a third-party logistics network (supply chain) to move product through third-party consolidation centers located in New Jersey, Atlanta and Los Angeles to third-party store distribution centers (DCs) located in Atlanta, Dallas and Los Angeles. This supply chain methodology enables us to aggregate merchandise from all vendors at the DCs where it is received and checked to ensure it is floor ready for our stores. The DCs are automated and virtually all of our vendors are now EDI capable so we are able to cross-dock a high percentage of our receipts. Store deliveries are made by contract carriers to the stores once or twice a week depending on location and store volume. All of these third-party operations have room for expansion so our supply chain is well positioned to support future growth.

EMPLOYEES

As of January 28, 2012, our work force consisted of approximately 11,400 employees (5,600 40-hour equivalent employees). Each of our stores employ an average of 42 persons. The number of employees fluctuates during the year based on the particular selling season.

SEASONALITY

Our business is seasonal. Sales and profitability are historically higher in the first and fourth quarters of the fiscal year, which include the spring and holiday seasons.

TRADEMARKS

We own the federally registered trademark Stein Mart®, together with a number of other marks used in conjunction with our private label merchandise program. Management believes that our trademarks are important, but with the exception of Stein Mart®, not critical to our merchandising strategy.

AVAILABLE INFORMATION

Copies of our annual report on Form 10-K, proxy statement, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those filings are available free of charge on the investor relations portion of our website at <http://ir.steinmart.com> (click on SEC Filings) as soon as reasonably practicable after they are filed electronically with the Securities and Exchange Commission. Also available free of charge on the www.steinmart.com website (click on About us ; click on Corporate Governance) are the charters for the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee, and the Strategic Planning Committee, as well as the Code of Conduct and Corporate Governance Guidelines. Printed copies of these items are available free of charge upon request by writing Stein Mart, Inc., 1200 Riverplace Boulevard, Jacksonville, FL 32207, Attention: Stockholder Relations.

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ITEM 1A. RISK FACTORS

Our results of operations and financial condition can be adversely affected by numerous risks and uncertainties. In evaluating the Company, the risks and uncertainties described below should be considered carefully. Should any of these risks actually materialize, our business, financial condition, and future prospects could be negatively impacted.

Consumer sensitivity to economic conditions. The retail apparel business is dependent upon consumer spending and, as a fashion retailer, we rely on the expenditure of discretionary income for most, if not all, of our sales. Economic factors, including levels of employment, the housing market, prevailing interest rates, personal bankruptcies, energy costs and availability of credit can impact consumer spending. Consumer confidence is also affected by both domestic and international events. Deterioration in the level of consumer spending could have a material adverse effect on our results of operations.

Intense competition in the retail industry. We face intense competition for customers from department stores, specialty stores and regional and national off-price retail chains. Many of these competitors are larger and have significantly greater financial and marketing resources than we do. In addition, many department stores and other competitors have become more promotional and have reduced their price points. Certain department stores and certain of our vendors have opened outlet stores which offer merchandise at prices that are competitive with ours. Many of our competitors also have significant Internet sales. While we maintain an Internet site, we currently only sell gift cards and a narrow selection of merchandise online. If we fail to successfully compete, our profitability and results of operations could be harmed.

Unanticipated changes in fashion trends and changing consumer preferences. Our success depends in part upon our ability to anticipate and respond to changing consumer preferences and fashion trends in a timely manner. Although we attempt to stay abreast of the fashion tastes of our customers and provide merchandise that satisfies customer demand, fashion trends can change rapidly and we cannot assure that we will accurately anticipate shifts in fashion trends and adjust our merchandise mix to appeal to changing consumer tastes in a timely manner. If we misjudge the market for our products or are unsuccessful in responding to changes in fashion trends or in market demand, we could experience insufficient inventory levels and missed opportunities, or excess inventory levels and higher markdowns, either of which would have a material adverse effect on our financial condition and results of operations.

Our advertising, marketing and promotional strategies may be ineffective and inefficient. Our profitability and results of operations may be materially affected by the effectiveness and efficiency of our marketing expenditures and our ability to select the right markets and media in which to advertise. In particular, we may not be successful in our efforts to create greater awareness of our stores and promotions, identify the most effective and efficient level of spending in each market and specific media vehicle and determine the appropriate creative message and media mix for our advertising, marketing and promotional expenditures. While we utilize different types of media, daily newspapers are an important delivery vehicle for both run of press advertising and circular insertions. The newspaper business is under increasing economic pressure, and the demise of certain newspapers would jeopardize an important distribution method for our advertising. As readers shift away from newspapers, our success will depend more on our effective use of other forms of media for our advertising, marketing and promotional strategies. Our planned marketing expenditures may not result in increased revenues. In addition, if we are not able to manage our marketing expenditures on a cost-effective basis, our profitability and results of operations could be materially adversely affected. If our de-emphasis of discount coupons and emphasis of our everyday value proposition does not resonate with our customers, our business could also be materially adversely affected.

We may be unable to raise additional capital, if needed, or to raise capital on favorable terms. We believe we have more than adequate capital to fund our business operations, including capital expenditures. If our existing cash, cash generated from operations and funds available under our revolving credit agreement were insufficient to fund our future operations, including capital expenditures, or repay debt when it becomes due, we may need to raise additional funds through public or private equity or debt financing. If unfavorable capital or credit market conditions exist if and when we were to seek additional financing, we may not be able to raise sufficient capital on favorable terms or on a timely basis, if at all. Failure to obtain capital on acceptable terms when required could have a material adverse effect on our business including an inability to fund new growth and other capital expenditures.

We may be unable to negotiate acceptable lease terms with current and potential landlords. Our continued growth and success depends in part on our ability to renew and enter into new leases for successful stores. There is no assurance that we will be able to re-negotiate leases at similar or satisfactory terms at the end of the lease, and we could be forced to move or exit trade areas if another favorable arrangement cannot be made. There is also no assurance that we will be able to negotiate satisfactory terms on new or replacement stores.

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We may not be able to exit underperforming stores on acceptable terms. As part of our strategy, we close certain under-performing stores, generally based on the lack of store profitability. Such closures subject us to costs, including lease termination payments and the write-down of leasehold improvements, equipment, furniture and fixtures. For early terminations, we may remain liable for future lease obligations which could adversely affect our profitability and results of operations.

Because of our focus on keeping our inventory at the forefront of fashion trends, extreme and/or unseasonable weather conditions could force us to have higher inventory markdowns. Our business is susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the fall season or cool weather during the spring season could render a portion of our inventory incompatible with those unseasonable conditions. Prolonged unseasonable weather conditions could have a material adverse effect on our business, financial condition and results of operations. In addition, hurricanes or other extreme weather conditions over a prolonged period might make it difficult for our customers to travel to our stores, which could have a material adverse effect on our business, financial condition and results of operations.

A lack of adequate sources of merchandise at acceptable prices. Our business is dependent to a significant degree upon our ability to purchase fashion and brand name merchandise, and to do so at acceptable wholesale prices. We continuously seek out buying opportunities and compete for these opportunities with other retailers. In the event of a further decrease in retail sales and the resulting pressure on manufacturers, the opportunities to purchase merchandise could become limited by the consolidation or demise of merchandise vendors. Our ability to obtain merchandise may also depend on manufacturers' ability to obtain vendor financing through banks and factoring companies. To the extent they are unable to secure sufficient credit, they may not be able to sell to us at acceptable terms. Although we do not depend on any single vendor or group of vendors and believe we can successfully compete in seeking out new vendors, the loss of key vendors could make it difficult for us to acquire sufficient quantities and an appropriate mix of merchandise, and to do so at acceptable prices which could have a material adverse effect on our results of operations.

Increases in the price of merchandise, could increase our costs which could negatively impact our margins. We believe the underlying costs incurred by the largely Asian-based manufacturers of our merchandise are increasing due to rising costs of raw materials, labor, energy and transportation. We have seen some merchandise price increases from vendors in the single-digit percentage range in 2011. If such price increases continue we may be unable to pass such increases on to our customers which could negatively impact our margins.

We are dependent on certain key personnel. Our success depends to a significant extent upon the efforts and abilities of our senior executives. The loss of the services of one or more of these executives could have a material adverse effect upon our results of operations. Competition for key executives in the retail industry is intense, and our operations could be adversely affected if we cannot retain our key executives or if we fail to attract additional qualified individuals. Our continued success is also dependent upon our ability to attract and retain qualified employees to meet our needs especially as we are currently in a search for a new Chief Executive Officer.

The seasonality of our business and fluctuations in sales and operating results could cause volatility in the price of our common stock. Our business is seasonal with our highest sales occurring in the first and fourth quarters, which include the spring and holiday seasons. Our annual operating results depend significantly upon sales generated during these quarters, and any factor that negatively impacts these selling seasons could have a material adverse effect on our results of operations for the entire year. Comparable store sales and quarterly operating results have fluctuated in the past and are expected to continue to fluctuate in the future. Our stock price is influenced by these financial fluctuations, as well as other factors, including economic conditions, timing of promotional events, actions of competitors, inventory management, changes in fashion trends and unseasonable weather conditions.

If the third parties that we rely on for a majority of the distribution aspects of our business experience labor strikes, increased fuel costs, or do not adequately perform our distribution functions, our business could be disrupted and our cost of goods could increase. We are dependent on our ability to receive merchandise in our stores throughout the United States in a timely manner. We depend on vendors and logistics providers to source, impact, sort and pack substantially all of our merchandise and on third parties to deliver this merchandise to our stores. These vendors and logistics providers may experience labor strikes or other disruptions in the future, the resolution of which will be out of our control, and could result in a material disruption in our business. Any failure by these third parties to respond adequately to our distribution needs, including labor strikes or other disruptions in the business, would disrupt our operations and negatively impact our profitability. In addition, although fluctuations in the price of fuel have not materially affected our cost of goods in recent years, an inability to mitigate cost increases, unless sufficiently offset by our pricing actions, could decrease our profitability.

Failure of information technology. The operation of our business and the effective execution of our marketing strategies is dependent in large measure on the effectiveness of our information technology systems. We are currently in the process of making material upgrades to our merchandising and accounting information systems and a failure in the installation and operation of those systems could materially and adversely affect our business.

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Unauthorized disclosure of sensitive or confidential customer or employee information could severely damage our reputation, expose us to risks of litigation and liability, disrupt our operations and harm our business. As part of our normal course of business, we collect, process and retain sensitive and confidential customer and employee information. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by us or our service providers, could severely damage our reputation, expose us to risks of litigation and liability, disrupt our operations and harm our business.

Threats of terrorism or violence. Acts of terrorism or war may disrupt commerce and undermine consumer confidence, which could negatively impact our sales revenue by causing consumer spending to decline. Also, an act of terrorism or war, or the threat thereof, could negatively impact our business by interfering with our ability to obtain merchandise from vendors. Inability to obtain merchandise from our vendors or substitute suppliers at similar costs in a timely manner could have a material adverse effect on our operating results and financial condition.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES**Stores**

The following table summarizes our store count activity during the last three fiscal years:

	2011	2010	2009
Stores at beginning of year	264	267	276
Stores opened during the year	3	2	2
Stores closed during the year	(5)	(5)	(11)
Stores at end of year	262	264	267

As of January 28, 2012, our stores operated in the following 29 states:

State	Number of Stores	State	Number of Stores
Alabama	9	Missouri	3
Arizona	8	Nevada	4
Arkansas	2	New Jersey	4
California	20	New York	3
Colorado	3	North Carolina	20
Florida	45	Ohio	9
Georgia	13	Oklahoma	4

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Illinois	4	Pennsylvania	4
Indiana	7	South Carolina	12
Kansas	2	Tennessee	13
Kentucky	2	Texas	42
Louisiana	8	Utah	1
Massachusetts	1	Virginia	11
Michigan	1	Wisconsin	1
Mississippi	6		

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We lease all of our store locations, generally for 10 years with options to extend the lease term for two or more 5-year periods. We have the right to terminate some of these leases before the expiration date under specified circumstances and some with specified termination payments. Most of our leases provide for fixed minimum rents, as well as contingent amounts based on a percentage of sales in excess of specified levels. We also lease our 107,000 square foot corporate headquarters and a 92,000 square foot distribution/warehouse facility used to hold and process a limited amount of merchandise (approximately three percent of our merchandise on a dollar basis), both in Jacksonville, FL.

As of January 28, 2012, the current terms of our store leases (assuming we exercise all lease renewal options) were as follows:

Years Lease Term Expire	Number of Leases Expiring (a)
2012	5
2013-2016	13
2017-2021	25
2022-2026	79
2027 and later	151

(a) *Includes leases for the 262 store locations operated at January 28, 2012, eight leases for previously closed store locations which we have subleased or are actively seeking to sublease, two new store*