STEIN MART INC
Form 10-K
April 15, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended February 1, 2014

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

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

Title of each class:	**Name of each exchange on which registered:**
Common Stock $.01 par value	**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 x

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 x

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 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 x 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.

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 August 3, 2013 was $398,577,541. 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 28,029,363 shares. At March 21, 2014, the Registrant had issued and outstanding an aggregate of 44,831,004 shares of its common stock.

Documents Incorporated By Reference:

Portions of the Registrant s Proxy Statement for its 2014 Annual Meeting of Shareholders 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 264 stores in 29 states and an Internet store as of February 1, 2014.

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

KEY STRATEGIC OBJECTIVES

Our mission is to provide current season, first-quality fashion apparel, shoes, 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 cost operations,
- 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, and
- Maintaining current and opening new 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 who is both style conscious and value seeking. She is typically married and college educated. She may be multi-cultural, works at least part-time in a professional position and has above-average household income.

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 2013, approximately 10 percent of our sales were from private label or proprietary/exclusive merchandise. We merchandise our stores based on individual store selling characteristics, seasonal delivery fluctuations and regional preferences while maintaining consistent assortments from store to store.

Our merchants purchase products from approximately 1,200 vendors. One of our vendors accounted for approximately 5 percent of our total purchases during 2013. 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). Commissions from this leased department are included in Net sales reported in our Consolidated Statements of 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:

	2013	2012	2011
Ladies and *Boutique* apparel	45%	45%	45%
Ladies accessories	11%	12%	13%
Men s	20%	20%	20%
Home	13%	12%	11%
Shoes	7%	8%	8%
Other	4%	3%	3%
	100%	100%	100%

LOCATIONS, GROWTH STRATEGY AND STORE APPEARANCE

On February 1, 2014, we operated 264 stores in 29 states and an Internet store. Our stores are located in the Northeast, Midwest, Southeast, Texas and the Southwest. We are most fully concentrated in the Southeast and Texas where 183 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 and distribution centers, 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 current distribution processes.

In 2010 we began selling selected merchandise offerings on the Internet. This expanded to additional product offerings for 2011 and 2012. During 2012, we temporarily ceased selling merchandise on the Internet as we realized we needed a world-class platform provider to maximize this important channel of business for us. We relaunched the Internet site during the third quarter of 2013. Internet sales in 2013, 2012 and 2011 amounted to less than 1% of our total sales.

CUSTOMER SERVICE

Our stores offer many services typically found in better department or specialty stores, such as merchandise locator service, a Preferred Customer program, co-branded and private label credit card programs, 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 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, increase brand awareness and drive promotional events, we use both television and radio advertising. We utilize digital media including online advertising and have a presence on social networking sites, including Facebook and Twitter.

Our Preferred Customer Card program is an important marketing tool. Preferred Customer Card customers receive preview copies of select circulars mailed to their home, members only shopping days, birthday discounts and special email announcements. This program provides useful database information regarding customer preferences, habits and advertising receptivity. All Stein Mart credit card holders are members of our Preferred Customer Card program.

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Stein Mart Credit Card holders (co-branded MasterCard and private label cards) receive advance notice of sales events and special promotional offers including Extra Savings Events which occur periodically throughout the year and provide incremental savings on purchases made with the Stein Mart credit card during these events.

Stein Mart co-branded credit card holders also participate in the credit card rewards program, which provides for an incentive in the form of reward certificates based on their cumulative purchases made on the credit card.

The Stein Mart Internet site, www.steinmart.com, was relaunched during the third quarter of 2013. The website now allows customers to make online purchases of much of the same product offered in our stores along with some online exclusive products. The website also provides information for customers regarding store locations, brands, products and selected sales promotion activity. Visitors to the website may apply for our credit card, sign up to be Preferred Customers, sign up for email notifications, and purchase gift cards.

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

Our logistics network (supply chain) consists of consolidation centers (CC s) located in the Atlanta, Los Angeles and New Jersey areas, and store distribution centers (SDC s) located in the Atlanta, Dallas, and Los Angeles areas. Approximately 75% of the vendor shipments are aggregated at the CC s and then shipped to the SDC s with the remaining 25% moving direct from vendors to SDC s. The SDC s receive and check the merchandise to ensure it is floor ready for our stores. The SDCs are automated and virtually all of our vendors are now electronic data interchange (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. During fiscal 2013, we transitioned two of the three CC s and all three SDC s from third-party to company-operated facilities. The New Jersey CC is the only facility managed by a third-party logistics provider.

EMPLOYEES

As of February 1, 2014, our work force consisted of approximately 11,000 employees (5,300 40-hour equivalent employees). Each of our stores employs an average of 40 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 reports on Form 10-K, proxy statements, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those filings are available, free of charge, on our investor relations website at http://ir.steinmart.com (click on SEC Filings). Also available free of charge on the investor relations website are the charters for the Audit Committee, Compensation Committee, Corporate Governance Committee, and Strategic Planning Committee, as well as the Code of Conduct, Corporate Governance Guidelines and Articles of Incorporation (click on Charters & Documents). Paper copies of these items are available free of charge upon request by writing Stein Mart, Inc., 1200 Riverplace Boulevard, Jacksonville, FL 32207, Attention: Shareholder Relations.

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 and the matters described in Forward-Looking Statements should be considered carefully. Should any of these risks actually materialize, our business, financial condition, and future prospects could be negatively impacted.

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Our sales and operating results are affected by 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 impacting consumer confidence and levels of consumer spending include levels of employment, the housing market, prevailing interest rates, tax policies, personal bankruptcies, energy costs and availability and cost of credit. 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.

We face intense competition in the retail industry. We face intense competition for customers from department stores, specialty stores, regional and national off-price retail chains and Internet and mail-order retailers. 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 have significant Internet sales. While we maintain an Internet site and began selling merchandise on the Internet in 2013, our Internet sales currently comprise an insignificant portion of our total sales. If we fail to successfully compete, our profitability and results of operations could be harmed.

Unanticipated changes in fashion trends and changing consumer preferences may adversely affect our sales. 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. 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 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.

We may be unable to raise additional capital, if needed, or to raise capital on favorable terms. 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 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.

We may not be able to exit under-performing 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, fixtures and inventory. 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.

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A lack of adequate sources of merchandise at acceptable prices may adversely affect our sales. 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. The raw materials used to manufacture our goods are subject to availability constraints and price volatility caused by high demand for fabrics, supply conditions, government regulations, and other unpredictable factors. Our procurement of goods and services is subject to the effects of price increases which we may or may not be able to pass through to our customers. Additionally, procurement of our merchandise is subject to increases in demand for, or the price of, raw materials, services and labor. All of these factors may affect our ability to access suitable merchandise on acceptable terms, are beyond our control and could negatively impact our margins.

We are dependent on certain key personnel and our ability to attract and retain qualified employees. Our business is dependent on attracting and retaining quality employees. Many of our employees are in entry level or part-time positions with historically high rates of turnover. Our ability to meet our labor needs while controlling the costs associated with hiring and training new employees is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. Our success also depends to a significant extent upon the efforts and abilities of our senior executives. Competition for key executives in the retail industry is intense, and our operations could be adversely affected if we cannot retain our key executives. Any circumstances that adversely impact our ability to attract, train, develop and retain quality individuals throughout the organization could adversely affect our business and results of operations.

Increases in the cost of employee benefits could impact our financial results and cash flow. Our expenses relating to employee health benefits are significant. Unfavorable changes in the cost of such benefits could impact our financial results and cash flow. Healthcare costs have risen significantly in recent years, and recent legislative and private sector initiatives regarding healthcare reform could result in significant changes to the U.S. healthcare system. We are not able at this time to determine the impact that healthcare reform could have on the cost of our employee health benefits.

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.

We now perform a majority of our own distribution functions and, if we experience any business interruptions or disruptions in the distribution process, our profitability could be materially impacted. We have transitioned a majority of our distribution functions away from third parties to three distribution centers which we lease and operate. We may not anticipate, respond adequately to or control all of the challenges of operating our distribution centers. In the event that the orderly receipt and distribution of merchandise is disrupted, impeding the timeliness or fulfillment quality of the products being distributed, or any of our distribution centers becomes inaccessible, or is otherwise not fully usable, it would have a material adverse effect on our ability to distribute our products, which in turn would have a material adverse effect on our sales, profitability, financial condition and operating performance.

We are subject to risks associated with importing merchandise from other countries. Much of the fashion and brand name merchandise we acquire, either directly or through vendors, is sourced from various foreign countries. Political or financial instability, terrorism, trade restrictions, tariffs, currency exchange rates, raw material shortages, disruptions, strikes, work stoppages and other factors beyond our control could affect the availability of our merchandise inventory. Additionally, while our internal policies require our vendors and the third parties from whom they source merchandise to comply with all applicable laws and regulations, we do not have the ability to control our vendors, their manufacturers or their employment and business practices. The failure of our vendors and their suppliers to comply with applicable laws, or the use of labor practices which deviate from those which generally are considered ethical in the United States, could affect the availability and price of merchandise, damage our reputation or otherwise have a material adverse effect on our sales, profitability, financial condition and operating performance.

Failure of information technology could disrupt operations and harm our business. The operation of our business and the effective execution of our merchandising and distribution strategies is dependent in large measure on the effectiveness of our information technology systems. The reliability and capacity of our information technology systems are critical and any disruptions affecting our information technology systems may have a material adverse impact on our business.

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 and we process customer credit card and check information. In addition, we accept and transmit credit card applications through our retail locations pursuant to our credit card agreement with GE Capital Retail Bank (GE). We also rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential information. The systems we utilize for credit card transactions, as well as the technology utilized in such transactions, are determined and controlled by the credit card industry. Recent breaches of security measures at major retailers have resulted in the theft and dissemination of the confidential information of millions of customers throughout the United States. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, such as GE, 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.

We rely on a single supplier for shoes sold by our shoe department and disruptions with that supplier could materially affect our reputation, operations or financial results. We have an agreement with DSW to be the exclusive supplier of shoes sold in our shoe departments. We rely on DSW to determine the quantity and mix of shoes to be sold, the prices at which such items are to be sold and the fulfillment and continuing supply of inventory. If DSW was unable to provide us with sufficient amounts of inventory or inventory that meets the fashion preferences of our customers or if DSW was unable to continue being our supplier of shoes, we may attract fewer customers and experience a loss in net sales, which could materially affect our reputation, operations or financial results.

We have engaged a single third-party provider to create, operate and maintain our e-commerce website operations, and disruptions with the provider or in the services it provides to us could materially affect our reputation, operations or financial results. We have contracted with a single third party to create, operate and host our e-commerce website and provide related order fulfillment and customer service. We will rely on that party s operational, privacy and security procedures and controls to operate and host our e-commerce business. Failure by such third party to adequately service these aspects of our e-commerce business could result in a prolonged disruption that affects our customers ability to utilize our website or receive product in a timely manner. As a result, we may lose customer sales and/or experience increased costs, which could materially affect our reputation, operations or financial results. In addition, the e-commerce operations also involve other risks that could have an impact on our results of operations including but not limited to diversion of sales from our physical stores, liability for online content, credit card fraud and risks related to the failure of the computer systems that operate the website and its related support systems, any of which could have a material adverse effect on our business.

Acts or threats of terrorism, violence or unfavorable political conditions could harm our business. 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, may 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.

Failure to comply with legal and regulatory requirements may adversely impact our business and results of operations. Our business is subject to many legal and regulatory requirements, including, among others, employment, trade, healthcare, tax, securities and privacy laws and regulations. Our policies, procedures and internal controls are designed to help us comply with all applicable laws; however, the current high level of regulatory reform across many different areas has led, and may continue to lead, to substantial new regulations and disclosure obligations. Additional legal or regulatory requirements or more stringent interpretations of applicable requirements could increase the complexity of the regulatory environment in which we operate and the cost of compliance. Failure to comply with the various laws and regulations, as well as changes in laws and regulations, could have an adverse impact on our reputation, operations or financial results.

The SEC Investigation could materially and adversely affect our business, our financial condition and results of operations. On July 24, 2013, the SEC informed the Company that it was conducting an investigation of the Company and made a request for voluntary production of documents and information. Based upon the request, the Company believes the investigation is focused on the Company s recent restatement of prior financial statements and the Company s change in auditors. The Company is cooperating fully with the SEC in this matter. The Company is unable to predict what action, if any, might be taken in the future by the SEC as a result of the matters that are the subject of the investigation or what impact the cost of responding to the investigation might have on the Company s financial condition or results of operations. The Company has not established any provision for losses in respect of this matter. A protracted investigation could impose substantial costs and distractions, regardless of its outcome. There can be no assurance that any final resolution of this investigation will not have a material and adverse effect on the Company s financial condition and results of operations.

We previously identified and remediated material weaknesses in our internal control over financial reporting which may, if our remediation measures are insufficient, result in additional material misstatements in our financial statements. Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. In prior fiscal years, our management identified certain material weaknesses in our internal control over financial reporting. We believe all such material weaknesses have been fully addressed by the remediation measures put in place during the 2013 fiscal year. However, if our remediation measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our financial statements may contain material misstatements and we could be required to restate our financial results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Stores

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

	2013	2012	2011
Stores at beginning of year	263	262	264
Stores opened during the year	4	6	3
Stores closed during the year	(3)	(5)	(5)
Stores at end of year	264	263	262

As of February 1, 2014, our stores operated in the following 29 states:

State	Number of Stores	State	Number of Stores
Alabama	9	Missouri	3
Arizona	10	Nevada	4
Arkansas	2	New Jersey	5
California	20	New York	3
Colorado	3	North Carolina	20
Florida	42	Ohio	8
Georgia	13	Oklahoma	4
Illinois	4	Pennsylvania	4
Indiana	7	South Carolina	12
Kansas	2	Tennessee	13
Kentucky	2	Texas	44
Louisiana	8	Utah	1
Massachusetts	1	Virginia	12
Michigan	1	Wisconsin	1
Mississippi	6		

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 109,000 square foot corporate headquarters in Jacksonville, Florida.

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As of February 1, 2014, we leased the following additional facilities:

Facility	Location	Square Feet
Distribution Center/Warehouse	Lithia Springs, Georgia	202,000
Distribution Centers:	Grand Prairie, Texas	75,000
	Ontario, California	70,000

As of February 1, 2014, the current terms of our 264 stores (assuming we exercise all lease renewal options) were as follows:

Years Lease Term Expire	Number of Leases Expiring
2014	2
2015-2018	13
2019-2023	39
2024-2028	74
2029 and later	136

ITEM 3. LEGAL PROCEEDINGS

On July 24, 2013, the Securities and Exchange Commission (the SEC) informed the Company that it was conducting an investigation of the Company and made a request for voluntary production of documents and information. Based upon the request, the Company believes the investigation is focused on the Company s recent restatement of prior financial statements and the Company s change in auditors. The Company is cooperating fully with the SEC in this matter.

In addition, we are involved in various routine legal proceedings incidental to the conduct of our business. Management, based upon the advice of outside legal counsel, does not believe that any of these legal proceedings will have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price and Related Matters

Our common stock trades on The NASDAQ Global Select Market (NASDAQ) under the trading symbol SMRT . On March 21, 2014, there were 875 shareholders of record. The following table sets forth the high and low sales prices of our common stock per NASDAQ and our quarterly cash dividends per common share for each quarter in the years ended February 1, 2014 and February 2, 2013:

	2013			2012		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$ 8.92	$ 7.44	$ 0.00	$ 7.58	$ 6.02	$ 0.00
Second Quarter	15.21	8.85	0.05	8.29	6.05	0.00
Third Quarter	15.50	11.95	0.05	9.34	7.58	0.00
Fourth Quarter	16.17	12.32	0.05	8.88	6.56	1.00

Dividends

On June 18, 2013, the Board of Directors approved the initiation of a regular quarterly dividend of $0.05 per share or $0.20 on an annual basis. In 2013, we paid a quarterly dividend of $0.05 per common share on July 19, 2013, October 18, 2013 and January 17, 2014. In 2012, we paid a special cash dividend of $1.00 per common share on December 24, 2012.

On March 12, 2014, the Company announced that its Board of Directors declared a quarterly dividend of $0.05 per common share which will be paid on April 18, 2014 to shareholders of record on April 4, 2014.

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Issuer Purchases of Equity Securities

The following table provides information regarding repurchases of our common stock during the quarter ended February 1, 2014:

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)
November 3, 2013 - November 30, 2013	733	$ 15.37	733	871,273
December 1, 2013 - January 4, 2014	511	13.25	511	870,762
January 5, 2014 - February 1, 2014	67,571	12.63	67,571	803,191
Total				