



100 years
Stein Mart[®]
Annual Report 2004

Message from the Chairman

As the chairman of the board of directors and the grandson of the founder, I have a unique perspective on both the history and the future of this Company. Stein Mart's outstanding performance in 2004 was gratifying in many ways, but mostly because it arose from a series of solid business decisions that underscored the original concept of this Company; namely to offer the very best fashion merchandise at truly compelling prices. Led by president and chief executive officer Michael Fisher, Stein Mart has proven that its value proposition is as valid today as it was when it was just an idea in my grandfather's mind.

I marvel at the fact that it has been one hundred years since Sam Stein left Russia and arrived at Ellis Island in New York; eventually, he made his way south to peddle a pack of jewelry and trinkets in the small towns throughout the Mississippi Delta. Our success today was predicated in no small way upon his determined belief in a better life and the gracious goodness of a free America where he could ply his trade.



A handwritten signature of Jay Stein in black ink.

Jay Stein
Chairman of the Board



The underlying connection between the time when Sam Stein peddled his wares from Greenville, Mississippi, and today's \$1.4 billion Company is opportunity. My grandfather risked everything for the opportunity to better himself and his family through hard work and customer service. Today, we celebrate that ethic at every one of Stein Mart's more than 260 stores. I like to think he would be proud of what his single store in Greenville, Mississippi has become, and I am sure that he would encourage each of us to pursue the many opportunities that still lie before us. Thank you for being our partner as we move forward.

100 years
Stein Mart®

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Stein Mart, Inc. Corporate Profile

Stein Mart's 261 stores offer the merchandise, service and presentation of a traditional, better department/specialty store, at prices competitive with off-price retail chains. Located in 30 states and the District of Columbia, Stein Mart stores feature fashion merchandise including moderate to designer brand-name apparel for women, men and young children, as well as accessories, gifts, linens and shoes.

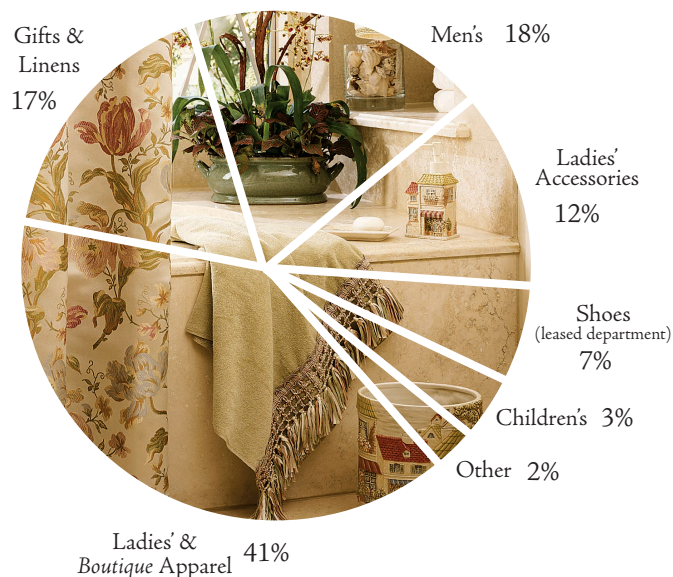
Selected Financial Highlights

(Dollars in thousands except per share amounts)

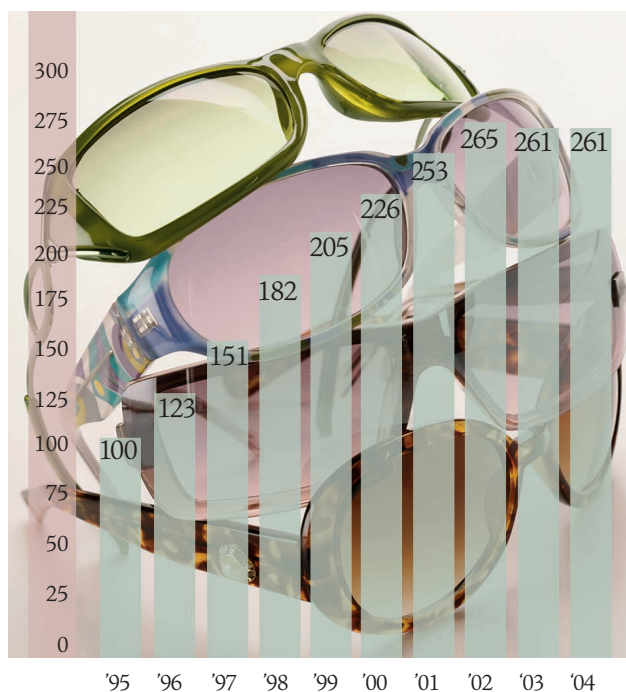
	2004	2003
Income Statement Data: ⁽¹⁾		
Net Sales	\$1,459,607	\$1,351,623
Income from Continuing Operations	\$38,118	\$3,974
Loss from Discontinued Operations, Net of Tax Benefit	\$(145)	\$(1,773)
Net Income	\$37,973	\$2,201
Diluted Earnings Per Share	\$0.89	\$0.05
Operational Data:		
Number of Stores	261	261
Comparable Store Sales	9.1%	(4.7%)

⁽¹⁾ The Company's consolidated financial statements have been restated to classify the results of operations for three stores closed during 2003 and 2004 as discontinued operations for all periods.

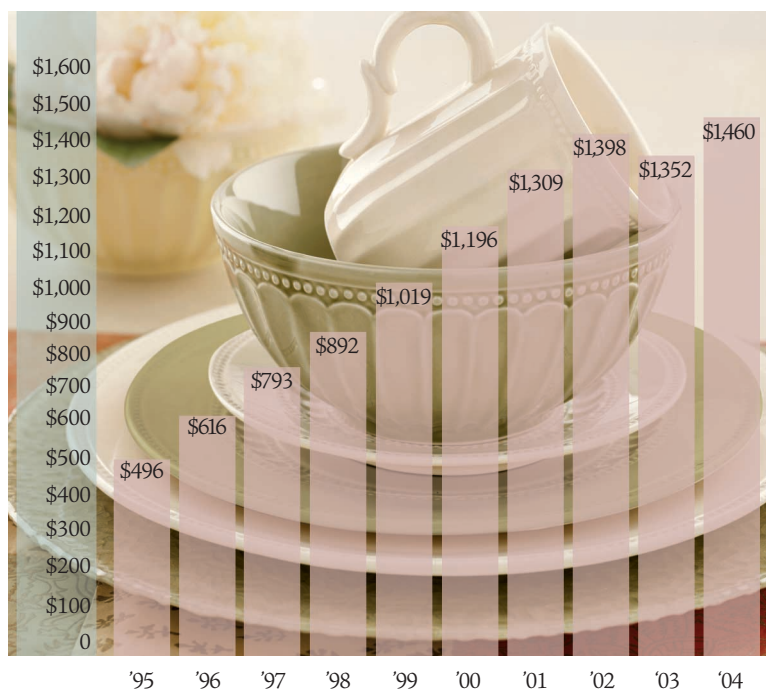
2004 Merchandise Mix



Stores Open at End of the Year



Net Sales (dollars in millions)



Letter to Stockholders, 2004

Dear fellow stockholders,

2004 was a pivotal year for Stein Mart. By virtually every financial and operating measurement, we made significant progress. Sales increased eight percent overall and more than nine percent in comparable stores (stores that were open for a full year before February 1, 2004). Net income was \$38 million, the second highest amount ever recorded by our Company. Gross profit increased substantially and expenses were reduced as a percent of sales. These results are even more significant considering that they were achieved with less inventory per average store and nearly five percent fewer stores for most of the year. Most importantly, we made real progress toward returning to our historical operating margins.

Looking Back

It is important to note that our success in 2004 was built upon some very difficult, but ultimately necessary, decisions made in past years. In 2003, we closed stores, eliminated our coupon promotion strategy and realigned the organization for future growth. In 2004, we focused on creating a compelling fashion assortment in our stores that would be delivered, priced and promoted to move through our inventory cycle as quickly and productively as possible. This top down/bottom up approach resonated with our customers, and resulted in a more efficient use of inventory dollars.

We enjoyed a very strong spring and summer season as we delivered distinctive merchandise that mirrored the overall vibrant fashion scene, supported by our newly-introduced branding campaign, "once you go, you get it." In early fall, our progress was momentarily slowed by an unusually active hurricane season that hampered sales during the third quarter, but fortunately, seriously damaging only one store. Our holiday business was very strong and we successfully parlayed our seasonal assortment into early spring transition selling, producing the most profitable fourth quarter in the Company's recent history.

Finally, the dynamic nature of our sales in 2004 produced enough cash to avoid borrowing against our line of credit for most of the year, and we ended the year debt-free and with more than \$92 million in cash and short-term investments.



Michael D. Fisher
*President &
Chief Executive Officer*



James G. Delfs
*Senior Vice President
& Chief Financial Officer*



D. Hunt Hawkins
*Senior Vice President,
Human Resources*



Michael D. Ray
*Senior Vice President,
Director of Stores*

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Growth

Seven new stores were opened during 2004 and two were relocated to more advantageous locations in existing markets. Seven stores were closed during the year. It is important to note that although the net number of stores in operation is the same (261) at the end of 2004 as it was at the end of 2003, the relative strength of the store network is much improved since we have removed under-performing stores.

In 2005, we plan to open 15 new stores, including one relocation, and we will close eight stores. The new stores are mainly within the existing footprint of our current network of locations. We continue to be pleased with the performance of stores opened in the past few years under the new, more rigorous site selection process, and it is our goal to continue the acceleration of our store opening program in both new and existing markets in the future.

Looking Ahead

We believe there is abundant opportunity to improve upon last year's strong performance.

- First of all, we are building on a firm foundation. Our associates have made enormous strides in freshening our inventory and creating excitement in our assortment, and we can build on that momentum. Because of the improved inventory productivity, we can increase sales at a more normalized rate and still yield substantial profit growth. Gross margin should continue to be favorably impacted by fewer markdowns on less inventory as well as a larger percentage of current merchandise.
- We will remain focused on store productivity—how to get more profit dollars out of each square foot of selling space. One of the things we will do in 2005 is to initiate a targeted customer research survey. This multi-faceted study will probe the customer base for detailed information suggesting areas of business to add, remove, expand or contract.
- Finally, our marketing program will continue to evolve as we seek new ways to support our fashion assortment and lifestyle offerings and draw new customers to our stores. The new promotional cadence, which worked so well in 2004, will be fine-tuned in 2005 and continue to support our fashion seasons.

One of the best things about a year like 2004 is the chance to applaud the work of more than 14,000 Stein Mart associates whose efforts make these results possible. They have imbued this Company with a renewed sense of who we are and what we can do in the future. Through their work, and in partnership with you, our valued stockholders, we intend to pursue an even more rewarding performance for 2005. Thank you for your continued interest and support.



Michael D. Fisher
President and Chief Executive Officer

Highlights of 2004

Merchandising and Sales Promotion

Long-time customers depend on Stein Mart for a definitive interpretation of each season's fashion trends, and 2004 was no exception. The reigning fashion influences of color and novelty were translated in every department, and the rich spectrum of hues appealed to our customers. In the apparel departments, men's and ladies' sportswear were the most dynamic of all the businesses, as the new trends aligned with the colorful, casual lifestyle of our customers. In addition to the fashion brand offerings, proprietary label Isabella de Marco joined the Peck & Peck brand we introduced last year in the *Boutique*.

Close behind apparel was our fashion-right ladies' accessories assortment, especially colorful handbags and fashion brooches and the year's phenomenon, the poncho. The men's business was also positively affected by the introduction of more color, and we are pleased to see our re-vamped square footage become much more productive. Again, a standout area in men's is our Alan Flusser collection of fine tailored men's sportswear. The home business, while hampered by a weak performance in linens and tabletop, is improving with better performance in gifts and decorative accessories.

An important element in our 2004 success was the increase of new and current merchandise, coupled with a decrease in the amount of sale and clearance merchandise in our inventory. This meant our merchants and planner/distributors had to work closely to balance the merchandise in each family of business for optimal sell-through. As a result, in the prime clearance season (January-February and July-August), customers could clearly delineate the "dot clearance" items for the compelling value they represent, and react to the arrival of fresh seasonal merchandise. The natural byproduct of this strategy is the reinforcement



Stein Mart, Inc.

of the “once you go, you get it” theme, which encourages customers to go to the store and buy right away rather than risk an item being sold prior to their next visit.

Marketing

The strategy changes begun last year—concentrating on branding while moving away from coupons, frequent one-day promotions, and price-driven color inserts—were further advanced in 2004. The promotional calendar was synchronized to the fashion and clearance season. A nationwide TV campaign, supported by colorful lifestyle circulars, ran prior to and throughout the height of each fashion season. Run-of-press newspaper ads were utilized to support our seasonal “dot clearance” events.

After a successful introduction in the fall of 2003, the “once you go, you get it” campaign was re-imagined for each of the



Peck & Peck



fashion seasons, with new Stein Mart shoppers in each set of TV commercials. Successful auditions were held in the Orlando, Tampa and Phoenix markets for Stein Mart devotees to share their enthusiasm on the cable television networks that aired the ads. The program continues in Spring '05, with vignettes of customers' actual Stein Mart stories included in this edition of commercials.

“once you go, you get it.”

Highlights of 2004

Operations

We continue to invest in our store network systems for efficiency and to promote customer service. A new receiving system was implemented in 2004, reducing time spent in the receiving area and improving accuracy in the receiving process. Also in 2004, a new cash register system that allows cashiers to easily handle returns as well as sales was tested. We believe both these technology investments will ultimately expedite in-store processes so that customer service contact can be maximized.

Another enhancement to our store network is a more contemporary “look” for our stores. New locations, and older ones needing refurbishment, are receiving a neutral paint palette for the walls, updated flooring and a more flexible space configuration.

Store Network

Stein Mart entered the exciting Philadelphia market with a new store in the spring of 2004, and two additional stores opened later in the year. Customer response in this new, metropolitan area was more enthusiastic than we had expected, and we look forward to more growth in this important market. Other openings in 2004 included stores

in the new markets of Omaha, Nebraska and La Quinta, California, and an additional store in the existing market of Jackson, Mississippi. In February 2004, Stein Mart opened its fourth *collections of Stein Mart* store in Fernandina Beach, Florida. For 2005, Stein Mart intends to open 15 new stores, relocate one and close eight. New stores opening in spring 2005 include Boynton Beach and Orlando, Florida; Beaufort, South Carolina and Ocean, New Jersey.



Stein Mart, Inc. Selected Consolidated Financial Data

(Dollars In Thousands Except Per Share and Per Square Foot Data)

The Company's consolidated financial statements have been restated to classify the results of operations for three stores closed during 2003 and 2004 as discontinued operations for all periods.

STATEMENT OF OPERATIONS DATA:	2004	2003	2002	2001 ¹	2000
Net sales	\$1,459,607	\$1,351,623	\$1,397,851	\$1,309,429	\$1,196,166
Cost of merchandise sold	1,070,803	1,013,175	1,053,109	996,211	889,387
Gross profit	388,804	338,448	344,742	313,218	306,779
Selling, general and administrative expenses ²	341,932	343,354	322,115	297,846	253,207
Other income, net	14,277	13,004	13,825	13,938	13,625
Income from operations	61,149	8,098	36,452	29,310	67,197
Interest income (expense), net	332	(1,688)	(2,604)	(4,000)	(3,309)
Income from continuing operations before income taxes	61,481	6,410	33,848	25,310	63,888
Provision for income taxes	23,363	2,436	12,862	9,617	24,277
Income from continuing operations	38,118	3,974	20,986	15,693	39,611
Loss from discontinued operations, net of tax benefit	(145)	(1,773)	(296)	(339)	(254)
Net income	\$ 37,973	\$ 2,201	\$ 20,690	\$ 15,354	\$ 39,357
Basic income (loss) per share:					
Continuing operations	\$0.90	\$0.09	\$0.51	\$0.38	\$0.93
Discontinued operations	—	(0.04)	(0.01)	(0.01)	(0.01)
Total	\$0.90	\$0.05	\$0.50	\$0.37	\$0.92
Diluted income (loss) per share:					
Continuing operations	\$0.89	\$0.09	\$0.51	\$0.38	\$0.92
Discontinued operations	—	(0.04)	(0.01)	(0.01)	(0.01)
Total	\$0.89	\$0.05	\$0.50	\$0.37	\$0.91

OPERATING DATA:

Stores open at end of period	261	261	265	253	226
Sales per store including leased departments ³	\$6,058	\$5,564	\$5,741	\$5,922	\$6,068
Sales per store excluding leased departments ⁴	\$5,642	\$5,179	\$5,373	\$5,520	\$5,643
Sales per square foot including leased departments ³	\$199	\$181	\$184	\$189	\$192
Sales per square foot excluding leased departments ⁴	\$200	\$182	\$187	\$191	\$194
Comparable store net sales increase (decrease) ⁵	9.1%	(4.7%)	(0.8%)	(0.7%)	9.7%

BALANCE SHEET DATA:

Working capital	\$211,242	\$186,799	\$146,609	\$179,212	\$120,602
Total assets	474,580	399,101	415,846	417,672	389,989
Long-term debt ⁶	—	24,962	—	57,750	—
Total stockholders' equity	276,510	227,678	223,307	201,895	194,028

¹ Beginning with fiscal 2001, the Company changed to a 52-53 week year ending on the Saturday closest to January 31; previously, the Company's fiscal year ended on the Saturday closest to December 31. Financial data for the five-week Transition Period ended February 3, 2001 (restated for discontinued operations) is as follows: net sales \$83,332, cost of merchandise sold \$69,964, gross profit \$13,368, selling, general and administrative expenses \$22,861, other income net \$822, interest expense \$186, loss from continuing operations (\$5,491), loss from discontinued operations (\$123), net loss (\$5,614), basic and diluted loss per share/continuing operations \$(0.14).

² Selling, general and administrative expenses include store closing and asset impairment charges of \$4.7 million in 2004, \$12.0 million in 2003, \$2.5 million in 2002 and \$2.9 million in 2001. A \$3.4 million credit related to store closings was recorded in 2000.

³ These sales per store and sales per square foot calculations include sales from leased shoe and fragrance departments. Sales per store is calculated by dividing (a) total sales including leased department sales by (b) the number of stores open at the end of such period, exclusive of stores open for less than 12 months. Sales per square foot includes sales and selling space of leased departments and excludes administrative, receiving and storage areas.

⁴ These sales per store and sales per square foot calculations exclude sales from leased departments. Sales per store is calculated by dividing (a) total sales, excluding leased department sales by (b) the number of stores open at the end of such period, exclusive of stores open for less than 12 months. Sales per square foot excludes sales and selling space of leased departments, administrative, receiving and storage areas.

⁵ Comparable store information for a period reflects stores open throughout that period and for the same 52-week period in the prior year.

⁶ Notes payable to banks of \$41,350 at February 1, 2003 was classified as current.

Management's Discussion & Analysis

This document includes a number of forward-looking statements which reflect the Company's current views with respect to future events and financial performance. Wherever used, the words "plan", "expect", "anticipate", "believe", "estimate" and similar expressions identify forward-looking statements.

All such forward-looking statements contained in this document are subject to risks and uncertainties that could cause the Company's actual results of operations to differ materially from historical results or current expectations. These risks include, without limitation, ongoing competition from other retailers many of whom are larger and have greater financial and marketing resources, the availability of suitable new store sites at acceptable lease terms, ability to successfully implement strategies to exit or improve under-performing stores, changing preferences in apparel, changes in consumer spending due to current events and/or general economic conditions, the effectiveness of new advertising, marketing and promotional strategies, adequate sources of merchandise at acceptable prices, and the Company's ability to attract and retain qualified employees to support planned growth.

The Company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make clear that any projected results expressed or implied therein will not be realized.

The following should be read in conjunction with the "Selected Consolidated Financial Data" and the notes thereto and the consolidated financial statements and notes thereto of the Company.

Overview

Stein Mart's 261 stores offer the fashion merchandise, service and presentation of a better department or specialty store, at prices competitive with off-price retail chains. Currently with locations from California to New York, Stein Mart's focused assortment of merchandise features moderate to designer brand-name apparel for women, men and young children, as well as accessories, gifts, linens and shoes. Management believes that Stein Mart differentiates itself from typical off-price retailers by offering: (i) current-season merchandise carried by better department and specialty stores at value prices, (ii) a stronger merchandising "statement," with more depth of color and size, and (iii) merchandise presentation more comparable to other upscale retailers.

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

Stein Mart's accomplishments during 2004 include:

- Increased total sales by 8.0 percent overall and comparable store sales by 9.1 percent
- Improved net income to \$0.89 per share compared to \$0.05 per share in 2003
- Improved gross profit as a percentage of sales by 1.6 percent
- Improved selling, general and administrative expenses by 2.0 percent
- Improved sales per store (including leased departments) from \$5.6 million to \$6.1 million
- Opened seven new locations during the year which produced \$19.4 million in sales by year-end; relocated two stores to more advantageous locations and closed seven under-performing stores
- Reduced average store inventories by 2.2 percent
- Reduced inventory shrinkage for a pre-tax benefit of \$2.2 million
- Eliminated borrowings and ended the year with more than \$92 million in cash and short-term investments

Outlook

Over the past three years, the Company has reduced inventory levels, re-formatted its stores, closed a number of unprofitable locations, eliminated full-price coupons and created a new marketing campaign. As such, the Company's preliminary outlook for 2005 is as follows:

- Increase sales at a more modest rate, yet producing substantial profit growth due to better inventory productivity
- Improve gross margin as a result of fewer markdowns on less inventory as well as a larger percentage of current merchandise
- Strengthen the store network with a plan to open 15 new stores, including one relocation, and close eight under-performing locations
- Continue strong cash position with no debt, expected capital expenditures of approximately \$25 million and a return to repurchasing shares of Company stock.

Stein Mart, Inc.

Stores

The number of stores open as of January 29, 2005, January 31, 2004 and February 1, 2003 were 261, 261 and 265, respectively.

	2004	2003	2002
Stores at beginning of year	261	265	253
Stores opened during the year	7	12	16
Stores closed during the year	(7)	(16)	(4)
Stores at the end of year	261	261	265

Reclassifications

As discussed in Note 1 to the consolidated financial statements, "Reclassifications", certain reclassifications have been made to prior years' financial statements to conform to classifications used in the current year. The accompanying Management's Discussion and Analysis gives effect to those reclassifications.

Results of Operations

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

	2004	2003	2002
Net sales	100.0%	100.0%	100.0%
Cost of merchandise sold	73.4	75.0	75.3
Gross profit	26.6	25.0	24.7
Selling, general and administrative expenses	23.4	25.4	23.0
Other income, net	1.0	1.0	1.0
Income from operations	4.2	0.6	2.6
Interest income	—	—	—
Interest expense	—	0.1	0.2
Income from continuing operations before income taxes	4.2	0.5	2.4
Provision for income taxes	1.6	0.2	0.9
Income from continuing operations	2.6	0.3	1.5
Loss from discontinued operations, net of tax benefit	—	(0.1)	—
Net income	2.6%	0.2%	1.5%

Store Closings

During 2004 and 2003, the Company closed 23 under-performing stores (see Notes 3 and 4 to the consolidated financial statements) whose aggregate losses from operations for 2004 and 2003 were \$3.8 million and \$26.4 million, respectively. Two of the stores closed during 2003 and one store closed during 2004 resulted in the exit from certain markets and, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, are classified as discontinued operations, as cash flows of these stores have been eliminated from ongoing operations. The Company plans to close eight more stores during 2005 primarily at natural lease exit dates, so lease termination costs in 2005 should not be significant.

Management's Discussion & Analysis

Sales and operating losses for the seven stores closed in 2004 and 16 stores closed in 2003 are shown below for the years ended January 29, 2005 and January 31, 2004. Included in the 2003 column are operating results of the 16 stores closed in 2003, in addition to the seven stores closed in 2004.

	2004	2003
Sales from closed stores:		
Included in continuing operations	\$ 7,142	\$ 49,814
Included in discontinued operations	942	10,009
	<u>\$ 8,084</u>	<u>\$ 59,823</u>
Operating losses from closed stores:		
Included in continuing operations	\$(3,602)	\$(23,521)
Included in discontinued operations	(234)	(2,860)
	<u>\$(3,836)</u>	<u>\$(26,381)</u>

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

	2004	2003
Continuing operations:		
Lease termination costs	\$1,028	\$ 6,561
Asset impairment (recovery) charges	(245)	1,544
Severance	647	723
Other	215	1,058
	<u>1,645</u>	<u>9,886</u>
Discontinued operations:		
Lease termination costs	77	172
Asset impairment charges	—	228
Severance	77	148
	<u>154</u>	<u>548</u>
Total	<u>\$1,799</u>	<u>\$ 10,434</u>

Continuing Operations

Year Ended January 29, 2005 Compared to Year Ended January 31, 2004

The 8.0% total sales increase for the year ended January 29, 2005 from the prior year reflects a 9.1% increase in sales from comparable stores, the opening of seven new stores which contributed \$19.4 million to net sales, and the closing of seven stores.

Gross profit for the year ended January 29, 2005 was \$388.8 million or 26.6 percent of net sales, a 1.6 percentage point increase over gross profit of \$338.4 million or 25.0 percent of net sales for the year ended January 31, 2004. The increase was due to a 1.2 percentage point increase in mark-up, a 0.5 percentage point improvement in occupancy leverage as a result of higher per store sales productivity this year compared to last year and a 0.2 percentage point improvement in shrinkage, partially offset by a 0.3 percentage point increase in markdowns. Continued improvements in the loss prevention organization and its system enhancements contributed to the shrinkage improvement. Gross profit also includes a \$1.5 million inventory charge to reduce merchandise inventories to the lower of cost or market value in five stores closing in Spring 2005.

Selling, general and administrative ("SG&A") expenses were \$341.9 million or 23.4 percent of net sales for the year ended January 29, 2005, a \$1.5 million decrease from SG&A expenses of \$343.4 million or 25.4 percent of net sales for 2003. The 2.0 percentage point decrease in SG&A expenses as a percent of sales is primarily due to the leveraging of expenses as a result of the 9.1 percent increase in comparable store sales and a \$7.3 million decrease in store closing and asset impairment charges. Included in SG&A expenses for fiscal 2004 and 2003 are store closing and asset impairment charges of \$4.7 million and \$12.0 million, respectively. Charges were higher in 2003 primarily because ongoing lease obligations were recorded for several of the 14 stores (excluding discontinued operations) closed during 2003 while the six stores (excluding discontinued operations) closed in 2004 had minimal lease termination and severance costs.

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Pre-opening expenses for the seven stores opened in 2004 amounted to \$1.4 million and for the 12 stores opened in 2003, amounted to \$1.8 million.

Income from operations for the year ended January 29, 2005 was \$61.1 million compared to \$8.1 million for 2003. Approximately \$19.9 million of this earnings improvement is the result of reducing the effect of operating losses of stores closed during 2003 and 2004 and the remainder is due to improved operating results of ongoing stores.

Interest expense was \$39,000 and \$1.7 million for 2004 and 2003, respectively. As a result of increased sales, decreased inventories and ongoing expense control, the Company only had borrowings on its revolving credit agreement during the first quarter of 2004. The Company earned interest income of \$371,000 on its cash and short-term investments during 2004. There was no interest income or short-term investments in 2003.

Year Ended January 31, 2004 Compared to Year Ended February 1, 2003

The 3.3% total sales decrease for the year ended January 31, 2004 from the prior year reflects a 4.7% decrease in sales from comparable stores, the opening of 12 new stores which contributed \$38.2 million to net sales, and the closing of 16 stores. In recent years, as a marketing vehicle to attract new customers, the Company used various coupons that allowed customers to take a specified percentage discount off of full-priced merchandise. As this practice escalated, it became apparent that these coupons did not support the Company's unique selling proposition. As a result, the Company discontinued these 'percentage off full price' coupons in July 2003. While such coupons may continue to be used on a limited basis in new markets and specific circumstances, the widespread distribution of full-price, percentage off coupons has ceased. As anticipated, the discontinuation of these customer traffic incentives hindered 2003 sales growth. However, discounts that had previously been devoted to these coupon incentives were used to clear seasonal goods more efficiently and create additional freshness in the inventory.

Gross profit for the year ended January 31, 2004 was \$338.4 million or 25.0 percent of net sales, a 0.3 percentage point increase over gross profit of \$344.7 million or 24.7 percent of net sales for the year ended February 1, 2003. Mark-up improved 2.1 percentage points over last year, but was offset by a 1.6 percentage point increase in markdowns and a 0.5 percentage point increase due to lack of occupancy leverage. Markdowns in the stores that were going out of business accounted for almost half of the markdown impact. Gross profit also includes a \$1.6 million inventory charge to reduce merchandise inventories to the lower of cost or market value in the six stores planned for closing in Spring 2004. Lastly, gross profit was favorably impacted by a 0.3 percentage point improvement in shrinkage from last year as a result of a restructured loss prevention organization and enhanced systems.

SG&A expenses were \$343.4 million or 25.4 percent of net sales for the year ended January 31, 2004, a \$21.0 million increase over SG&A expenses of \$322.1 million or 23.0 percent of net sales for 2002. Included in SG&A expenses for fiscal 2003 and 2002 are store closing and asset impairment charges of \$12.0 million and \$2.5 million, respectively. The increase in these charges accounted for approximately one-third of the 2.4 percentage point increase in SG&A expenses as a percent of sales. SG&A expenses increased 0.5 percent of net sales due to an increase in expenses related to the new advertising campaign and the remaining increase is due to a lack of leverage resulting from the 4.7% decrease in comparable store sales for fiscal year 2003.

Pre-opening expenses for the 12 stores opened in 2003 amounted to \$1.8 million and for the 16 stores opened in 2002, amounted to \$3.1 million.

Income from operations was \$8.1 million or 0.6 percent of net sales for 2003 and \$36.5 million or 2.6 percent of net sales for 2002. The decrease in income from continuing operations is due to the overall reduction in net sales, as well as increased operating losses from the stores closed in 2003 and 2002 and other changes discussed above.

Other income, primarily from in-store leased shoe departments, was \$13.0 million in 2003, a slight decrease from the \$13.8 million in 2002, but remained at 1.0% of sales. An improvement in the shoe business was offset by the elimination of fragrance as a leased department in May 2003.

Interest expense for 2003 was \$1.7 million, compared to \$2.6 million in 2002. The decrease resulted from lower average borrowings at lower interest rates this year compared to last year.

Liquidity and Capital Resources

The Company's primary source of liquidity is the sale of its merchandise inventories. Capital requirements and working capital needs are funded through a combination of internally generated funds, a revolving credit facility and credit terms from vendors. Working capital is needed to support store inventories and capital investments for new store openings and to maintain existing stores. Historically, the Company's working capital needs are lowest in the first quarter and highest in either the third or fourth quarter in anticipation of the fourth quarter peak selling season. As of January 29, 2005, the Company had \$20.2 million in cash and cash equivalents and \$72.5 million in short-term investments.

Management's Discussion & Analysis

Net cash provided by operating activities was \$116.0 million in 2004 and \$30.4 million in 2003. The increase in 2004 is primarily attributable to an increase in net income including non-cash items, increases in accounts payable, accrued liabilities and income taxes payable, and a decrease in inventories. Accounts payable increased while total inventories decreased from the prior year-end reflecting more current purchases and improved turnover of inventories. On an average store basis, inventories were reduced 2.2% from the prior year due to increased sales resulting from the Company's continued focus on marketing, sales promotion and clearance strategies.

Cash used in investing activities was \$91.5 million in 2004 and \$13.9 million in 2003. The additional cash provided by operations enabled the Company to invest in short-term investments during 2004. Capital expenditures, primarily for the acquisition of store fixtures, equipment and leasehold improvements and information system enhancements, were \$19.1 million and \$13.9 million for 2004 and 2003, respectively. Capital expenditures were higher in 2004 compared to 2003 due to enhancements to the point of sale and merchandising systems and remodeling costs for several existing stores.

Cash used in financing activities was \$16.2 million in 2004 and \$14.4 million in 2003. The Company eliminated borrowings under its revolving credit agreement during the first quarter of 2004. During 2003, cash was used to repurchase 50,000 shares of the Company's common stock for \$0.2 million. As of January 29, 2005, there are 1,994,200 shares which can be repurchased pursuant to the Board of Directors current authorizations.

The Company plans to open 15 new stores in 2005. The cost of opening a typical new store generally ranges from \$500,000 to \$700,000 for fixtures, equipment, leasehold improvements and pre-opening costs (primarily advertising, stocking and training). Pre-opening costs are expensed at the time of opening. Initial inventory investment for a new store is approximately \$1.0 million. The Company's total capital expenditures for 2005 (including amounts budgeted for new store expansion, improvements to existing stores and information system enhancements) are anticipated to be approximately \$25 million.

The Company has a revolving credit agreement with a group of lenders, with an initial term ending July 2006. The agreement, which was completed in July 2003, provides a \$150 million senior revolving credit facility. Borrowings are based on and secured by eligible inventory and certain other assets. At January 29, 2005 there were no direct borrowings under the credit facility and no Event of Default existed under the terms of the Agreement. At January 31, 2004, outstanding borrowings were \$25.0 million.

The interest rates on borrowings under the Agreement range from Prime to Prime plus .25% per annum for Prime Rate Loans and LIBOR plus 1.50% to LIBOR plus 2.25% per annum for Eurodollar Rate Loans and are established quarterly, based on excess availability as defined in the Agreement. An unused line fee of .25% to .375% per annum (.375% as of January 29, 2005) is charged on the unused portion of the revolving credit facility, based on excess availability.

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

Contractual Obligations

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

	Total	Less than 1 Year	1 – 2 Years	3 – 5 Years	After 5 Years
Operating leases	\$386,510	\$64,108	\$59,715	\$143,612	\$119,075

At January 29, 2005, the Company had no direct borrowings on its credit facility. Other long-term liabilities on the balance sheet include deferred income taxes, deferred compensation and other long-term liabilities that do not have specific due dates, so are excluded from the preceding table. Other long-term liabilities also include long-term store closing reserves, a component of which is future minimum payments under non-cancelable leases for closed stores. These future minimum lease payments total \$17.1 million and are included in the above table.

Off-Balance Sheet Arrangements

The Company has outstanding standby letters of credit totaling \$5.3 million securing certain insurance programs at January 29, 2005. If certain conditions occurred under these arrangements, the Company would be required to satisfy the obligations in cash. Due to the nature of these arrangements and based on historical experience, the Company does not expect to make any payments; therefore, the letters of credit are excluded from the preceding table. There are no other off-balance sheet arrangements that could affect the financial condition of the Company.

Seasonality

The Company's business is seasonal in nature with a higher percentage of the Company's merchandise sales and earnings generated in the fall and holiday selling seasons. Accordingly, selling, general and administrative expenses are typically higher as a percent of net sales during the first three quarters of each year.

Critical Accounting Policies

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, expenses and related disclosure of contingent assets and liabilities. Management bases its estimates and judgments on historical experience and other relevant factors, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. While the Company believes that the historical experience and other factors considered provide a meaningful basis for the accounting policies applied in the preparation of the financial statements, the Company cannot guarantee that its estimates and assumptions will be accurate, which could require the Company to make adjustments to these estimates in future periods. Following is a summary of the more significant accounting policies:

Inventories

Merchandise inventories are valued at the lower of average cost or market, on a first-in first-out basis, using the retail inventory method (RIM). RIM is an averaging method that is widely used in the retail industry. The use of RIM results in inventories being valued at the lower of cost or market as markdowns are taken as a reduction of the retail values of inventories.

Based on a review of historical markdowns, current business trends and seasonal inventory categories, additional inventory reserves may be recorded to reflect estimated markdowns which may be required to liquidate certain inventories and reduce inventories to the lower of cost or market. Management believes its inventory valuation methods approximate the net realizable value of clearance inventory and result in valuing inventory at the lower of cost or market.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors used in the review include management's plans for future operations, recent operating results and projected cash flows. For long-lived assets held for use, an impairment loss is recognized if the sum of the future undiscounted cash flows from the use of the assets is less than the carrying value of the assets. The amount of the impairment charge is the excess of the carrying value of the assets over its fair value. Fair value is based on estimated market values for similar assets.

Store Closing Costs

The Company follows SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," to record store closing costs. SFAS No. 146 requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan.

Insurance Reserve Estimates

The Company uses a combination of insurance and self-insurance for various risks including workers' compensation, general liability and associate-related health care benefits, a portion of which is paid by the covered employees. The Company is responsible for paying the claims that are less than the insured limits. The reserves recorded for these claims are estimated actuarially, based on claims filed and claims incurred but not reported. These reserve estimates are adjusted based upon actual claims filed and settled. The estimated accruals for these reserves could be significantly affected if future claims differ from historical trends and other actuarial assumptions.

Revenue Recognition

Revenue from sales of the Company's merchandise is recognized at the time of sale, net of any returns and allowances, discounts and percentage-off coupons. Future merchandise returns are estimated based on historical experience. Leased department sales are excluded from net sales; commissions, net of related selling expenses, and rental income from leased departments are included in other income, net.

Operating Leases

The Company leases retail stores under operating leases. Certain lease agreements contain rent holidays, rent escalation clauses and/or contingent rent provisions. The Company recognizes rent expense on a straight-line basis over the expected lease term and records the difference between the amounts charged to expense and the rent paid as a deferred rent liability.

The landlord/lessor constructs the building leasehold improvements for the majority of the Company's stores. For other store operating leases which require the Company/lessee to construct the building leasehold improvements, these assets are considered to be landlord assets and the Company records the cost of these leasehold improvements in excess of any landlord construction allowance received as prepaid rent which is amortized to rent expense over the lease term.

For a complete listing of our significant accounting policies, see Note 1 to the consolidated financial statements.

Management's Discussion & Analysis

Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to interest rate risk primarily through borrowings under its revolving credit facility. The facility permits debt commitments up to \$150.0 million, has a July 2006 maturity date and bears interest at spreads over the prime rate and LIBOR. The Company eliminated borrowings under its credit facility during the first quarter of 2004 and, at January 29, 2005, had no direct borrowings on its credit facility. The average outstanding borrowings during fiscal 2003 and 2002 were \$50.0 million and \$66.0 million at weighted-average interest rates of 3.4% and 3.9%. Management believes that its exposure to market risk associated with its borrowings is not material.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of January 29, 2005. In making this assessment, management used the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that the Company's internal control over financial reporting was effective as of January 29, 2005.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of January 29, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered certified public accounting firm, as stated in their report which is included on page 15 herein.

Report of Independent Registered Certified Public Accountants



To the Board of Directors and Stockholders of Stein Mart, Inc.

We have completed an integrated audit of Stein Mart, Inc.'s January 29, 2005 consolidated financial statements and of its internal control over financial reporting as of January 29, 2005 and audits of its January 31, 2004 and February 1, 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements appearing on pages 16 through 30 of this annual report present fairly, in all material respects, the financial position of Stein Mart, Inc. and its subsidiary at January 29, 2005 and January 31, 2004, and the results of their operations and their cash flows for each of the three years in the period ended January 29, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Controls over Financial Reporting appearing on page 14 of this annual report, that the Company maintained effective internal control over financial reporting as of January 29, 2005 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 29, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A stylized, handwritten-style signature of 'PricewaterhouseCoopers LLP' in a dark ink.

Jacksonville, Florida
April 8, 2005

Stein Mart, Inc. Consolidated Balance Sheets

(In thousands)	January 29, 2005	January 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,250	\$ 11,965
Short-term investments	72,475	—
Trade and other receivables	5,852	4,227
Inventories	277,164	283,379
Prepaid expenses and other current assets	13,010	13,528
Total current assets	388,751	313,099
Property and equipment, net	71,048	70,811
Other assets	14,781	15,191
Total assets	\$474,580	\$399,101
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 99,163	\$ 65,118
Accrued liabilities	73,257	61,182
Income taxes payable	5,089	—
Total current liabilities	177,509	126,300
Notes payable to banks	—	24,962
Other liabilities	20,561	20,161
Total liabilities	198,070	171,423
COMMITMENTS AND CONTINGENCIES (Note 8)		
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; 42,880,031 and 41,993,529 shares issued and outstanding, respectively	429	420
Paid-in capital	14,340	3,196
Unearned compensation	(603)	(309)
Retained earnings	262,344	224,371
Total stockholders' equity	276,510	227,678
Total liabilities and stockholders' equity	\$474,580	\$399,101

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

Stein Mart, Inc. Consolidated Statements of Operations

(In thousands except per share amounts)	For The 52 Weeks Ended		
	January 29, 2005	January 31, 2004	February 1, 2003
Net sales	\$1,459,607	\$1,351,623	\$1,397,851
Cost of merchandise sold	1,070,803	1,013,175	1,053,109
Gross profit	388,804	338,448	344,742
Selling, general and administrative expenses	341,932	343,354	322,115
Other income, net	14,277	13,004	13,825
Income from operations	61,149	8,098	36,452
Interest income	371	—	—
Interest expense	39	1,688	2,604
Income from continuing operations before income taxes	61,481	6,410	33,848
Provision for income taxes	23,363	2,436	12,862
Income from continuing operations	38,118	3,974	20,986
Loss from discontinued operations, net of tax benefit	(145)	(1,773)	(296)
Net income	\$ 37,973	\$ 2,201	\$ 20,690
Basic income (loss) per share:			
Continuing operations	\$0.90	\$0.09	\$0.51
Discontinued operations	—	(0.04)	(0.01)
Total	\$0.90	\$0.05	\$0.50
Diluted income (loss) per share:			
Continuing operations	\$0.89	\$0.09	\$0.51
Discontinued operations	—	(0.04)	(0.01)
Total	\$0.89	\$0.05	\$0.50
Weighted-average shares outstanding – Basic	42,268	41,649	41,575
Weighted-average shares outstanding – Diluted	42,786	41,701	41,764

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

Stein Mart, Inc. Consolidated Statements of Stockholders' Equity

(In thousands)	Common Stock	Paid-in Capital	Unearned Compensation	Retained Earnings	Total Stockholders' Equity
BALANCE AT FEBRUARY 2, 2002	\$415	\$ —	\$ —	\$201,480	\$201,895
Net income				20,690	20,690
Common shares issued under stock option plan and related income tax benefits	2	1,193			1,195
Common shares issued under employee stock purchase plan	1	1,027			1,028
Reacquired shares	(2)	(1,499)			(1,501)
BALANCE AT FEBRUARY 1, 2003	416	721	—	222,170	223,307
Net income				2,201	2,201
Common shares issued under stock option plan and related income tax benefits	2	1,433			1,435
Common shares issued under employee stock purchase plan	2	908			910
Reacquired shares		(212)			(212)
Restricted stock compensation		346	(309)		37
BALANCE AT JANUARY 31, 2004	420	3,196	(309)	224,371	227,678
Net income				37,973	37,973
Common shares issued under stock option plan and related income tax benefits	8	9,785			9,793
Common shares issued under employee stock purchase plan	1	951			952
Restricted stock compensation		408	(294)		114
BALANCE AT JANUARY 29, 2005	\$429	\$14,340	\$(603)	\$262,344	\$276,510

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

Stein Mart, Inc. Consolidated Statements of Cash Flows

(In thousands)	For The 52 Weeks Ended		
	January 29, 2005	January 31, 2004	February 1, 2003
Cash flows from operating activities:			
Net income	\$37,973	\$ 2,201	\$20,690
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	18,018	19,543	18,770
Impairment of property and other assets	2,103	3,881	2,709
Store closing charges	1,382	5,883	113
Deferred income taxes	57	(1,734)	9,193
Restricted stock compensation	114	37	—
Tax benefit from exercise of stock options	1,938	164	385
Changes in assets and liabilities:			
Trade and other receivables	(1,625)	692	282
Inventories	6,215	13,851	(1,072)
Prepaid expenses and other current assets	603	(2,408)	761
Other assets	(109)	(2,483)	(2,328)
Accounts payable	34,045	(11,179)	(23,203)
Accrued liabilities	12,145	4,499	7,601
Income taxes payable	5,089	(5,353)	1,282
Other liabilities	(1,967)	2,784	(1,230)
Net cash provided by operating activities	115,981	30,378	33,953
Cash flows from investing activities:			
Capital expenditures	(19,066)	(13,853)	(18,307)
Purchases of short-term investments	(912,525)	—	—
Sales of short-term investments	840,050	—	—
Net cash used in investing activities	(91,541)	(13,853)	(18,307)
Cash flows from financing activities:			
Net payments under notes payable to banks	(24,962)	(16,388)	(16,400)
Proceeds from exercise of stock options	7,855	1,271	810
Proceeds from employee stock purchase plan	952	910	1,028
Purchase of common stock	—	(212)	(1,501)
Net cash used in financing activities	(16,155)	(14,419)	(16,063)
Net increase (decrease) in cash and cash equivalents	8,285	2,106	(417)
Cash and cash equivalents at beginning of year	11,965	9,859	10,276
Cash and cash equivalents at end of year	\$20,250	\$ 11,965	\$ 9,859
Supplemental disclosures of cash flow information:			
Interest paid	\$ 63	\$ 1,702	\$ 2,567
Income taxes paid	17,154	7,723	2,392

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

Notes to Consolidated Financial Statements

January 29, 2005

(Dollars in tables in thousands except per share amounts)

1. Summary of Significant Accounting Policies and Other Information

As of January 29, 2005 the Company operated a chain of 261 off-price retail stores in 30 states and the District of Columbia that features women's, men's and young children's apparel, as well as accessories, gifts, linens and shoes.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All intercompany accounts have been eliminated in consolidation.

Fiscal Year End

The Company's fiscal year ends on the Saturday closest to January 31. Results for 2004, 2003 and 2002 are for the 52 weeks ended January 29, 2005, January 31, 2004 and February 1, 2003, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents include money market funds and are stated at cost, which approximates fair value.

Short-Term Investments

Short-term investments include investment grade variable-rate debt obligations and are classified as available-for-sale securities. These securities are recorded at cost, which approximates fair value due to their variable interest rates, which reset every 7-35 days. Despite the long-term nature of their stated contractual maturities, the Company has the ability to quickly liquidate these securities. As a result of the resetting variable rates, there are no cumulative gross unrealized or realized holding gains or losses from these investments. All income generated from these investments is recorded as interest income.

Inventories

Merchandise inventories are valued at the lower of average cost or market, on a first-in first-out basis, using the retail inventory method (RIM). RIM is an averaging method that is widely used in the retail industry. The use of RIM results in inventories being valued at the lower of cost or market as markdowns are taken as a reduction of the retail values of inventories.

Based on a review of historical markdowns, current business trends and seasonal inventory categories, additional inventory reserves may be recorded to reflect estimated markdowns which may be required to liquidate certain inventories and reduce inventories to the lower of cost or market. Management believes its inventory valuation methods approximate the net realizable value of clearance inventory and result in valuing inventory at the lower of cost or market.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over estimated useful lives of 3-10 years for furniture, fixtures and equipment and 5-15 years for leasehold improvements. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the term of the lease.

Impairment of Long-Lived Assets

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires impairment losses to be recorded on long-lived assets used in operations whenever events or changes in circumstances indicate that the net carrying amounts may not be recoverable. For long-lived assets held for use, an impairment loss is recognized if the sum of the future undiscounted cash flows from the use of the assets is less than the carrying value of the assets. The amount of the impairment is the excess of the carrying value of the asset over its fair value. Fair value is based on estimated market values of similar assets. Impairment reviews are performed for individual stores. Factors used in the review include management's plans for future operations, recent operating results and projected cash flows.

Store Closing Costs

The Company follows SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," to record store closing costs. SFAS No. 146 requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan.

Insurance Reserves

The Company uses a combination of insurance and self-insurance for various risks including workers' compensation, general liability and associate-related health care benefits. Claim liabilities are estimated actuarially, based on claims filed and claims incurred but not reported.

Notes to Consolidated Financial Statements

Store Pre-Opening Costs

Costs incurred prior to the date that new stores open are expensed as incurred.

Comprehensive Income

Net income for all years presented is the same as comprehensive income.

Revenue Recognition

Revenue from sales of the Company's merchandise is recognized at the time of sale, net of any returns and allowances, discounts and percentage-off coupons. Future merchandise returns are estimated based on historical experience. Leased department sales are excluded from net sales; commissions, net of related selling expenses, and rental income from leased departments are included in other income, net.

Operating Leases

The Company leases retail stores under operating leases. Certain lease agreements contain rent holidays, rent escalation clauses and/or contingent rent provisions. The Company recognizes rent expense on a straight-line basis over the expected lease term and records the difference between the amounts charged to expense and the rent paid as a deferred rent liability.

The landlord/lessor constructs the building leasehold improvements for the majority of the Company's stores. For other store operating leases which require the Company/lessee to construct the building leasehold improvements, these assets are considered to be landlord assets and the Company records the cost of these leasehold improvements in excess of any landlord construction allowance received as prepaid rent which is amortized to rent expense over the lease term.

Advertising Expense

Advertising costs are expensed as incurred. Advertising expenses of \$52.2 million, \$57.2 million and \$51.5 million are reflected in selling, general and administrative expenses in the Consolidated Statements of Operations for 2004, 2003 and 2002, respectively.

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding plus common stock equivalents related to stock options for each period.

A reconciliation of weighted-average number of common shares to weighted-average number of common shares plus common stock equivalents is as follows (000's):

	2004	2003	2002
Weighted-average number of common shares	42,268	41,649	41,575
Stock options	518	52	189
Weighted-average number of common shares plus common stock equivalents	42,786	41,701	41,764

Statements of Operations Classifications

Cost of merchandise sold includes merchandise costs, net of vendor discounts and allowances; freight; inventory shrinkage; store occupancy costs (including rent, common area maintenance, real estate taxes, utilities and maintenance); payroll, benefits and travel costs directly associated with buying inventory; and costs of operating the distribution warehouse.

Selling, general and administrative expenses include store operating expenses, such as payroll and benefit costs, advertising, store supplies, depreciation and other direct selling costs, and costs associated with the Company's corporate functions.

Reclassifications

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

Stock-Based Compensation

The Company currently follows the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148. Accordingly, no compensation cost has been recognized for the Company's stock option plans. Restricted stock awards issued by the Company are accounted for in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". The employee compensation cost is included in net income, as reported, throughout the vesting period.

Stein Mart, Inc.

Had compensation cost of the Company's stock-based plans been determined consistent with the provisions of SFAS No. 123, the Company's net income and earnings per share would have been changed to the following pro forma amounts (in thousands except per share amounts):

	2004	2003	2002
Net income – as reported	\$37,973	\$2,201	\$20,690
Add: Restricted stock-based employee compensation expense included in reported net income, net of related tax effects	71	23	—
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(1,055)	(1,209)	(1,741)
Net income – pro forma	\$36,989	\$1,015	\$18,949
Basic earnings per share – as reported	\$0.90	\$0.05	\$0.50
Diluted earnings per share – as reported	\$0.89	\$0.05	\$0.50
Basic earnings per share – pro forma	\$0.88	\$0.02	\$0.46
Diluted earnings per share – pro forma	\$0.86	\$0.02	\$0.45

The effects of applying SFAS No. 123 for pro forma disclosures are not likely to be representative of the effects on reported net income for future years, because options vest over several years and additional awards are made each year. In determining the pro forma compensation cost, the weighted-average fair value of options granted during fiscal 2004, 2003 and 2002 was estimated to be \$8, \$3 and \$5, respectively, using the Black-Scholes options pricing model. The following weighted-average assumptions were used for grants made during 2004, 2003 and 2002: dividend yield of 0.0%, expected volatility of 51.4%, 51.8% and 51.9%, respectively; risk-free interest rate of 3.5%, 3.0% and 3.8%, respectively and expected lives of 5.0 years.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment", which revises SFAS No. 123 and supersedes APB Opinion No. 25. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement requires an entity to recognize the cost of employee services received in share-based payment transactions and measure the cost on a grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of SFAS No. 123R will be effective for the Company's financial statements issued for periods beginning after June 15, 2005. The Company is evaluating the requirements of SFAS No. 123R and has not yet determined the method of adoption or the effect of adopting SFAS No. 123R, nor has the Company determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS No. 123.

2. Discontinued Operations

Two of the stores closed during 2003 and one store closed during 2004 resulted in the exit from certain markets. SFAS No. 144 requires closed stores to be classified as discontinued operations when the operations and cash flows of the stores have been eliminated from ongoing operations. To determine if cash flows have been eliminated from ongoing operations, management evaluated a number of factors, including: proximity to a remaining store, physical location within a metropolitan or non-metropolitan area and transferability of sales between open and closed locations. Based on these criteria, management determined that these three closed stores should be accounted for as discontinued operations. The prior years' operating activities for these stores have also been reclassified to "Loss from discontinued operations" in the accompanying Consolidated Statements of Operations.

Discontinued operations generated sales of \$0.9 million, \$10.0 million and \$10.8 million, in 2004, 2003 and 2002, respectively. Loss from discontinued operations includes the following components:

	2004	2003	2002
Loss from operations	\$(234)	\$(2,860)	\$(477)
Income tax benefit	89	1,087	181
Loss from discontinued operations, net of tax benefit	\$(145)	\$(1,773)	\$(296)

See Notes 3 and 4 for a description of store closing costs and asset impairment charges included in loss from discontinued operations for 2003 and 2004.

Notes to Consolidated Financial Statements

3. Store Closing Charges

The Company plans to close eight stores during 2005. A \$1.5 million inventory charge was recorded in 2004 to reduce merchandise inventories in five of these stores closing in Spring 2005 to their estimated realizable value. Lease termination fees of \$1.0 million were also paid and expensed during 2004 related to 2005 store closings. The estimated remaining charges that will be recorded in 2005 are approximately \$1.2 million for lease termination costs and severance charges.

The Company closed seven stores during 2004, incurring pre-tax charges of \$1.1 million for lease termination costs and \$0.7 million for severance costs. The Company closed 16 under-performing stores during 2003 incurring pre-tax charges of \$6.7 million for lease termination costs and \$0.9 million for severance costs. During 2004, the Company recorded a \$0.9 million pre-tax charge to adjust estimated sublease income for four locations closed in 2003 and an early lease termination for one other location. Lease termination costs are net of estimated sublease income that could reasonably be obtained for the properties. In the event the Company is not successful in subleasing closed store locations when management expects, additional reserves for store closing costs may be recorded. Store closing charges are included in selling, general and administrative expenses in the Consolidated Statements of Operations, except for \$154,000 in 2004 and \$320,000 in 2003 which are included in loss from discontinued operations, net of tax benefits.

The following tables show the activity in the store closing reserve:

	January 31, 2004	Charges	Payments	January 29, 2005
Continuing operations:				
Lease termination costs	\$8,780	\$1,991	\$3,873	\$6,898
Severance	131	647	647	131
Other	105	—	105	—
	9,016	2,638	4,625	7,029
Discontinued operations:				
Lease termination costs	159	77	236	—
Severance	19	77	96	—
	178	154	332	—
Total store closing reserve	\$9,194	\$2,792	\$4,957	\$7,029

	February 1, 2003	Charges	Payments	January 31, 2004
Continuing operations:				
Lease termination costs	\$4,982	\$6,561	\$2,763	\$8,780
Severance	—	723	592	131
Other	—	105	—	105
	4,982	7,389	3,355	9,016
Discontinued operations:				
Lease termination costs	—	172	13	159
Severance	—	148	129	19
	—	320	142	178
Total store closing reserve	\$4,982	\$7,709	\$3,497	\$9,194

	February 2, 2002	Charges	Payments	February 1, 2003
Continuing operations:				
Lease termination costs	\$5,680	\$ 113	\$ 811	\$4,982

The store closing reserve at January 29, 2005, January 31, 2004 and February 1, 2003 includes a current portion (in accrued liabilities) of \$3.0 million, \$2.8 million and \$1.5 million, respectively, and a long-term portion (in other liabilities) of \$4.0 million, \$6.4 million and \$3.5 million, respectively.

Stein Mart, Inc.

The table below sets forth the components of loss from operations for stores closed during 2004, 2003 and 2002. The 2004 table presents the losses from the seven stores that closed during 2004; the 2003 table presents the losses from the seven stores closed during 2004 and the 16 stores that closed in 2003; and the 2002 table presents the sum of the losses from the seven stores closed during 2004, the 16 stores closed in 2003 and the four stores closed in 2002.

Operating Results Of Closed Stores Included In:			
Year ended January 29, 2005:	Continuing Operations	Discontinued Operations	Total Closed Stores
Sales	\$ 7,142	\$ 942	\$ 8,084
Cost of sales	7,174	752	7,926
Gross margin	(32)	190	158
Selling, general and administrative expenses	3,615	424	4,039
Other income, net	45	—	45
Loss from operations	\$(3,602)	\$(234)	\$(3,836)
# of stores closed in 2004	6	1	7

Year ended January 31, 2004:	Continuing Operations	Discontinued Operations	Total Closed Stores
Sales	\$ 49,814	\$10,009	\$ 59,823
Cost of sales	50,380	9,611	59,991
Gross margin	(566)	398	(168)
Selling, general and administrative expenses	23,401	3,327	26,728
Other income, net	446	69	515
Loss from operations	\$(23,521)	\$(2,860)	\$(26,381)
# of stores closed in 2004 and 2003	20	3	23

Year ended February 1, 2003:	Continuing Operations	Discontinued Operations	Total Closed Stores
Sales	\$77,925	\$10,797	\$ 88,722
Cost of sales	65,137	8,356	73,493
Gross margin	12,788	2,441	15,229
Selling, general and administrative expenses	23,836	3,046	26,882
Other income, net	1,060	128	1,188
Loss from operations	\$ (9,988)	\$ (477)	\$(10,465)
# of stores closed in 2004, 2003 and 2002	24	3	27

4. Impairment of Long-lived Assets

During 2004, the Company recorded a net \$1.8 million pre-tax asset impairment charge to reduce the carrying value of furniture, fixtures, equipment and leasehold improvements held for use in stores closing during 2005 and certain other under-performing stores to their respective estimated fair value. This charge is included in selling, general and administrative expenses in the Consolidated Statements of Operations for the year ended January 29, 2005.

During 2003, the Company recorded pre-tax asset impairment charges of \$1.3 million to reduce the carrying value of furniture, fixtures, equipment and leasehold improvements held for use in stores closed in 2004 and \$2.6 million related to stores closed in 2003 and other under-performing stores. These charges are included in selling, general and administrative expenses in the Consolidated Statements of Operations for the year ended January 31, 2004, except for \$228,000 which is included in loss from discontinued operations, net of tax benefit.

Notes to Consolidated Financial Statements

5. Property and Equipment, Net

Property and equipment and the related accumulated depreciation and amortization are as follows:

	January 29, 2005	January 31, 2004
Furniture, fixtures and equipment	\$157,550	\$151,100
Leasehold improvements	42,187	36,721
	199,737	187,821
Accumulated depreciation and amortization	128,689	117,010
	\$ 71,048	\$ 70,811

6. Accrued Liabilities

The major components of accrued liabilities are as follows:

	January 29, 2005	January 31, 2004
Compensation and employee benefits	\$22,892	\$14,389
Unredeemed gift and returns cards	17,538	14,434
Property taxes	11,458	10,668
Payroll and other taxes	7,477	6,312
Store closing reserve	3,041	2,827
Other	10,851	12,552
	\$73,257	\$61,182

7. Notes Payable to Banks

The Company has a three-year \$150 million senior revolving credit agreement (the "Agreement") with a group of lenders, with an initial term ending July 2006. Under the terms of the Agreement, the Company has the option to increase the facility by an additional \$25 million and to extend the terms for an additional year. At January 29, 2005, there were no direct borrowings and no Event of Default existed under the terms of the Agreement.

Borrowings under the Agreement are based on and secured by eligible inventory and certain other assets. The Company routinely issues commercial and standby letters of credit for purposes of securing foreign sourced merchandise and certain insurance programs. Outstanding letters of credit reduce availability under the credit agreement. The Company had outstanding commercial and stand-by letters of credit of \$0.5 million and \$5.3 million, respectively, at January 29, 2005.

The interest rates on borrowings under the Agreement range from Prime to Prime plus .25% per annum for Prime Rate Loans and LIBOR plus 1.50% to LIBOR plus 2.25% per annum for Eurodollar Rate Loans and are established quarterly, based on excess availability as defined in the Agreement. An unused line fee of .25% to .375% per annum (.375% as of January 29, 2005) is charged on the unused portion of the revolving credit facility, based on excess availability.

All borrowings bear interest at variable rates that approximate current market rates and therefore the carrying value of these borrowings approximates fair value.

8. Leased Facilities and Commitments

The Company leases all of its retail and support facilities. Annual store rent is generally comprised of a fixed minimum amount plus a contingent amount based on a percentage of sales exceeding a stipulated amount. Most leases also require additional payments covering real estate taxes, common area costs and insurance.

Rent expense is as follows:

	2004	2003	2002
Minimum rentals	\$64,010	\$64,195	\$62,151
Contingent rentals	531	441	678
	\$64,541	\$64,636	\$62,829

Stein Mart, Inc.

At January 29, 2005, for the majority of its retail and corporate facilities, the Company was committed under non-cancelable leases with remaining terms of up to 15 years. Future minimum payments under non-cancelable leases are:

2005	\$ 64,108
2006	59,715
2007	54,748
2008	48,904
2009	39,960
Thereafter	119,075
	<u>\$386,510</u>

The Company subleases the space for shoe departments in all of its stores. The Company owns and operates the fragrance department, but subleased that department through March 2003. Sales from leased departments are excluded from sales of the Company. Sublease rental income of \$12.8 million, \$12.1 million and \$12.4 million is included in other income, net in the Consolidated Statements of Operations for 2004, 2003 and 2002, respectively.

9. Income Taxes

The income tax provision is as follows:

	2004	2003	2002
Current:			
Federal	\$21,466	\$3,841	\$ 3,379
State	1,840	329	290
Total	<u>23,306</u>	<u>4,170</u>	<u>3,669</u>
Deferred:			
Federal	52	(1,597)	8,467
State	5	(137)	726
Total	<u>57</u>	<u>(1,734)</u>	<u>9,193</u>
Income tax provision	<u>\$23,363</u>	<u>\$2,436</u>	<u>\$12,862</u>

The income tax provision excludes the income tax benefit related to losses from discontinued operations in the amount of \$0.1 million in 2004, \$1.1 million in 2003 and \$0.2 million in 2002 (see Note 2).

Income taxes at the federal statutory rate of 35 percent differ from amounts provided as follows:

	2004	2003	2002
Federal tax at the statutory rate	\$21,519	\$2,244	\$11,847
State income taxes, net of federal benefit	1,438	329	536
Other, net	406	(137)	479
Total income tax provision	<u>\$23,363</u>	<u>\$2,436</u>	<u>\$12,862</u>
Effective tax rate	<u>38.0%</u>	<u>38.0%</u>	<u>38.0%</u>

Notes to Consolidated Financial Statements

Temporary differences, which give rise to deferred tax assets and liabilities, are as follows:

	January 29, 2005	January 31, 2004
Deferred tax assets:		
Store closing reserves	\$ 2,671	\$ 3,437
Accrued liabilities	6,141	3,752
NOL carryforward	—	684
Other	57	14
	8,869	7,887
Deferred tax liabilities:		
Property and equipment	12,384	10,812
Inventory	3,165	2,971
Prepaid items	1,762	2,137
Other assets	1,508	1,860
	18,819	17,780
Net deferred tax liability	\$(9,950)	\$(9,893)

Deferred tax assets and liabilities are reflected on the Company's Consolidated Balance Sheets as follows:

	January 29, 2005	January 31, 2004
Current deferred tax assets (included in prepaid expenses and other current assets)	\$ 85	\$ —
Current deferred tax liabilities (included in accrued liabilities)	—	(668)
Non-current deferred tax liabilities (included in other liabilities)	(10,035)	(9,225)
Net deferred tax liability	\$(9,950)	\$(9,893)

The exercise of certain stock options which have been granted under the Company's stock option plans gives rise to compensation which is includable in the taxable income of the applicable employees and deductible by the Company for federal and state income tax purposes. Such compensation results from increases in the market value of the Company's common stock subsequent to the date of grant of the applicable exercised stock options, and in accordance with APB Opinion No. 25, such compensation is not recognized as an expense for financial accounting purposes and the related tax benefits are recorded directly in paid-in capital.

10. Stockholders' Equity

During 2003 and 2002, the Company repurchased 50,000 and 220,000 shares of its common stock in the open market at a total cost of \$212,000 and \$1,501,000, respectively. As of January 29, 2005, there are 1,994,200 shares which can be repurchased pursuant to the Board of Directors' current authorizations.

11. Stock Option and Purchase Plans

In 2001, the shareholders approved a stock option plan (the "Omnibus Plan"), under which a maximum of 4,500,000 shares of the Company's common stock may be issued. Shares covered by unexercised options that terminate or shares that are forfeited may be subject to new awards. The Omnibus Plan replaced the Company's Employee Stock and Director Stock Option Plans (the "Previous Plans") under which there were 2,301,575 options to purchase shares outstanding as of January 29, 2005. Upon 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 Compensation Committee of 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 fiscal 2003 restricted stock awards as provided for in the Omnibus Plan, in addition to stock options, would be granted. A total of 10,944 shares, 18,200 shares and 72,026 shares were issued to key employees and directors in January 2005, April 2004 and May 2003, respectively, at \$18.27, \$13.45 and \$5.53 per share, respectively, the market value at date of grant. At January 29, 2005, these awards, net of forfeitures, aggregated 85,111 shares. Shares awarded under the plan entitle the shareholder to all rights of common stock ownership except that the shares may not be sold, transferred, pledged, exchanged or otherwise disposed of during the restriction period. Vesting occurs either (1) seven years following the date of grant or at the end of the second fiscal

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year following the date of grant, if certain defined Company performance goals are achieved or (2) at the rate of 33%, 33% and 34%, respectively, at the end of each of the first three years. Unvested shares are forfeited upon termination of employment.

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 in the past have become exercisable on the third, fourth and fifth anniversary dates of grant and expire ten years after the date of grant. No stock appreciation rights have been granted under this or the prior plan.

Activity for the fixed-price stock option plans is as follows (shares in thousands):

	Number of Shares	Weighted-Average Exercise Price
Outstanding at February 2, 2002	4,780	\$10.70
Granted	514	10.63
Exercised	(166)	4.58
Forfeited	(97)	10.49
Outstanding at February 1, 2003	5,031	10.90
Granted	303	4.74
Exercised	(251)	4.79
Forfeited	(727)	9.06
Outstanding at January 31, 2004	4,356	11.13
Granted	180	15.24
Exercised	(765)	10.11
Forfeited	(129)	10.91
Outstanding at January 29, 2005	3,642	\$11.55

Exercisable stock options were 2.248 million, 2.611 million and 2.625 million, at January 29, 2005, January 31, 2004 and February 1, 2003, respectively.

The following table summarizes information about the weighted-average remaining contractual life (in years) and the weighted-average exercise prices for fixed-price stock options outstanding at January 29, 2005 (shares in thousands):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Remaining Life	Exercise Price	Number Exercisable	Exercise Price
\$ 5.00 – 7.00	392	5.6	\$ 5.92	186	\$ 6.19
\$ 7.75 – 10.19	887	6.1	8.41	311	8.60
\$10.90 – 13.82	1,854	3.4	13.11	1,409	13.68
\$14.25 – 16.62	509	5.1	15.69	342	15.54
	3,642	4.5	\$11.55	2,248	\$12.64

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. In 2004, 2003 and 2002, the participants acquired 97,836 shares, 179,902 shares and 173,048 shares of the Company’s common stock at weighted-average per share prices of \$9.73, \$4.92 and \$5.94 per share, respectively.

12. Employee Benefit Plans

The Company has a defined contribution retirement plan covering employees who are at least 21 years of age, have completed at least one year of service and who work at least 1,000 hours annually. Under the profit sharing portion of the plan, the Company can make discretionary contributions which vest at a rate of 20 percent per year after two years of service. The Company matches 50 percent of the employee’s voluntary pre-tax contributions up to a maximum of four percent of the employee’s compensation. The Company’s matching portion vests in accordance with the plan’s vesting schedule. Total Company contributions under the retirement plan were \$985,000, \$1,044,000 and \$1,627,000 for 2004, 2003 and 2002, respectively.

Notes to Consolidated Financial Statements

The Company has an executive split dollar life insurance plan wherein eligible executives are provided with pre-retirement life insurance protection based upon three to five times base salary. Upon retirement, the executive is provided with life insurance protection based upon one and one-half to two and one-half times final base salary. The expense for this plan was \$290,000, \$229,000 and \$331,000 in 2004, 2003 and 2002, respectively.

The Company also has an executive deferral plan providing officers and key executives with the opportunity to participate in an unfunded, deferred compensation program. Effective November 1, 2002, the plan was amended to include director-level employees. Under the program, participants may defer up to 100% of their base compensation and bonuses earned. The Company will match the officers' and key executives' contributions 100%, and the director-level employees' contributions 50%, up to the first 10% of compensation deferred. A participant's Company matching contributions and related investment earnings are 20% vested after four years of participation in the plan and increase 20% per year through the eighth year, at which time a participant is fully vested. The total of participant deferrals and Company matching contributions was \$4,051,000 at January 29, 2005, \$3,446,000 at January 31, 2004 and \$2,286,000 at February 1, 2003 and is included in other liabilities. The expense for this plan was \$1,084,000, \$747,000 and \$611,000 in 2004, 2003 and 2002, respectively.

In connection with the above two plans, whole life insurance contracts were purchased on the related participants. At January 29, 2005 and January 31, 2004 the cash surrender value of these policies was \$7,160,000 and \$5,515,000, respectively, and is included in other assets.

13. Sales by Major Merchandise Category

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

	2004	2003	2002
Ladies' apparel and accessories	\$ 843,616	\$ 743,323	\$ 744,410
Men's apparel and accessories	281,730	250,555	250,449
Gifts and linens	260,018	277,150	306,272
Other	74,243	80,595	96,720
Net sales	\$1,459,607	\$1,351,623	\$1,397,851

14. Quarterly Results of Operations (Unaudited)

The Company's quarterly operating results have been restated to reflect discontinued operations (Note 2) for all periods presented.

	13 Weeks Ended			
Year Ended January 29, 2005	May 1, 2004	July 31, 2004	October 30, 2004	January 29, 2005
Net sales	\$363,608	\$320,624	\$330,432	\$444,943
Gross profit	98,738	83,920	76,204	129,942
Income (loss) from continuing operations	11,654	5,660	(2,033)	22,837
Loss from discontinued operations	(139)	(6)	—	—
Net income (loss)	11,515	5,654	(2,033)	22,837
Basic income (loss) per share:				
Continuing operations	\$0.27	\$0.13	\$(0.05)	\$0.54
Discontinued operations	—	—	—	—
Total	\$0.27	\$0.13	\$(0.05)	\$0.54
Diluted income (loss) per share:				
Continuing operations	\$0.27	\$0.13	\$(0.05)	\$0.53
Discontinued operations	—	—	—	—
Total	\$0.27	\$0.13	\$(0.05)	\$0.53

Stein Mart, Inc.

Year Ended January 31, 2004	13 Weeks Ended			
	May 3, 2003	August 2, 2003	November 1, 2003	January 31, 2004
Net sales	\$328,201	\$300,954	\$313,559	\$408,909
Gross profit	82,889	70,415	73,088	112,056
Income (loss) from continuing operations	1,671	(2,615)	(10,072)	14,990
Loss from discontinued operations	(158)	(158)	(327)	(1,130)
Net income (loss)	1,513	(2,773)	(10,399)	13,860
Basic income (loss) per share:				
Continuing operations	\$0.04	\$(0.06)	\$(0.24)	\$0.36
Discontinued operations	—	(0.01)	(0.01)	(0.03)
Total	\$0.04	\$(0.07)	\$(0.25)	\$0.33
Diluted income (loss) per share:				
Continuing operations	\$0.04	\$(0.06)	\$(0.24)	\$0.36
Discontinued operations	—	(0.01)	(0.01)	(0.03)
Total	\$0.04	\$(0.07)	\$(0.25)	\$0.33

15. Legal Proceedings

The Company is involved in various routine legal proceedings incidental to the conduct of its 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 the Company's financial condition, results of operations or cash flows.

Stein Mart, Inc. Corporate Officers & Board of Directors

Executive Officers

Michael D. Fisher
President & Chief Executive Officer

James G. Delfs
Senior Vice President & Chief Financial Officer

D. Hunt Hawkins
Senior Vice President, Human Resources

Michael D. Ray
Senior Vice President, Director of Stores

Vice Presidents

Corporate

W. Michael Allen, *Real Estate*
David W. Bothe, *Marketing, Advertising and Sales Promotion*
Carl D. Davis, *Administration*
Ronald G. Hughes, *Distribution and Traffic*
Joseph Martinolich, *Internal Audit, Safety and Security*
Roseann McLean, *Planning and Allocation*
Clayton E. Roberson, Jr., *Controller*
Matthew K. Votaw, *Information Systems*

Regional Directors of Stores

Robert H. Brooks Jim C. Love
Roy E. Roberts Diane Tarman

General Merchandising Managers

William A. Moll, *Ladies' Boutique, Dresses and Intimate Apparel*
John H. Pennell, *Men's, Children's and Accessories*

Board of Directors



Jay Stein, Chairman of the Board, Stein Mart, Inc. Formerly a director of American Heritage Life Insurance Company and Promus Hotel Corporation.



Linda McFarland Farthing, Former President and Director of Friedman's, Inc. and Cato Corporation; Director nominee, CT Communications. *Chairperson, Audit committee; Corporate Governance committee.*



Richard L. Sisisky, President, The Shirdcliff & Sisisky Company. Former president, chief operating officer and director of Parker Vision, Inc. *Audit committee; Corporate Governance committee.*



Michael D. Fisher, President and Chief Executive Officer, Stein Mart, Inc.



Mitchell W. Legler, Esquire, Kirschner & Legler, P.A. General counsel to the Company since 1991.



Martin E. "Hap" Stein, Jr. Chairman and Chief Executive Officer of Regency Centers Corporation. Director of Patriot Transportation Holding, Inc. and EverBank Financial Corp. *Compensation committee; Corporate Governance committee.*



John H. Williams, Jr., Vice Chairman of the Board and former President and Chief Executive Officer, Stein Mart, Inc. Director of SunTrust Bank, North Florida N.A.



Michael D. Rose, Private Investor, Chairman, Gaylord Entertainment. Director of Darden Restaurants, Inc., First Tennessee National Corporation, Felcor Lodging Trust, Inc and General Mills, Inc. *Lead Director; Compensation committee; Corporate Governance committee.*



J. Wayne Weaver, Chairman and Chief Executive Officer of LC Footwear, L.L.C., the licensed shoe division of Liz Claiborne, Inc.; Chairman of Shoe Carnival, Inc.; and Chairman, Chief Executive Officer and majority owner of the Jacksonville Jaguars. *Corporate Governance committee.*



Alvin R. "Pete" Carpenter, Former Vice Chairman, CSX Corporation. Director of Regency Centers Corporation and Florida Rock Industries, Inc. *Chairman, Compensation committee; Corporate Governance committee.*



James H. Winston, LPMC, a real estate investment firm based in Jacksonville, Florida. President and director of Omega Insurance Company and Citadel Life & Health Insurance Company. Also a director of Patriot Transportation Holding, Inc., Winston Hotels and Scott-McRae Group, Inc. *Audit committee; Corporate Governance committee.*

Stein Mart, Inc. Stockholder Information

Corporate headquarters

Stein Mart, Inc.
1200 Riverplace Boulevard
Jacksonville, FL 32207
(904) 346-1500
www.steinmart.com

Annual meeting of stockholders

The annual meeting of stockholders will be held at two o'clock in the afternoon, Tuesday, June 7, 2005 at The Cummer Gallery of Art and Gardens, Jacksonville, Florida.

Transfer Agent and Registrar

Mellon Investor Services maintains the records for our registered shareholders and can help you with a variety of shareholder-related services including:

- Change of name or address
- Consolidation of accounts
- Duplicate mailings
- Lost stock certificates
- Transfer of stock to another person

Mellon Investor Services LLC
Overpeck Center
85 Challenger Road
Ridgefield Park, New Jersey 07660-2108
1-800-756-3353
www.melloninvestor.com/isd

Legal Counsel

Mitchell W. Legler
Kirschner & Legler, P.A.
300A Wharfside Way
Jacksonville, Florida 32207

Independent Auditors

PricewaterhouseCoopers LLP
Jacksonville, Florida

Common stock information

Stein Mart's common stock trades on The Nasdaq Stock Market® under the trading symbol SMRT. On April 6, 2005, there were 1,131 stockholders of record.

The following table reflects the high and low sales prices of the common stock for each fiscal quarter in 2003 and 2004.

Stock prices by quarter

<u>Quarter ending dates</u>	<u>High</u>	<u>Low</u>
May 3, 2003	\$ 5.69	\$ 4.22
August 2, 2003	\$ 6.27	\$ 5.35
November 1, 2003	\$ 7.58	\$ 5.00
January 31, 2004	\$ 10.94	\$ 7.07
May 1, 2004	\$ 14.52	\$ 10.10
July 31, 2004	\$ 18.59	\$ 12.70
October 30, 2004	\$ 18.96	\$ 13.71
January 29, 2005	\$ 19.75	\$ 15.75

Financial information

Copies of the Annual Report, Form 10-K and other financial reports are available without charge by written request to: Stockholder Relations, Stein Mart, Inc., 1200 Riverplace Boulevard, Jacksonville, FL 32207. Current and past news releases, all SEC filings, current stock price and stock history are available on line at www.steinmart.com; click on Investor Relations.

Investor and Media Inquiries

If you are a member of the financial community or the news media and need to address specific financial information, please call Susan Datz Edelman, Director of Stockholder Relations, at (904) 346-1506.

Vision

To be the preeminent upscale off-price retailer in America.

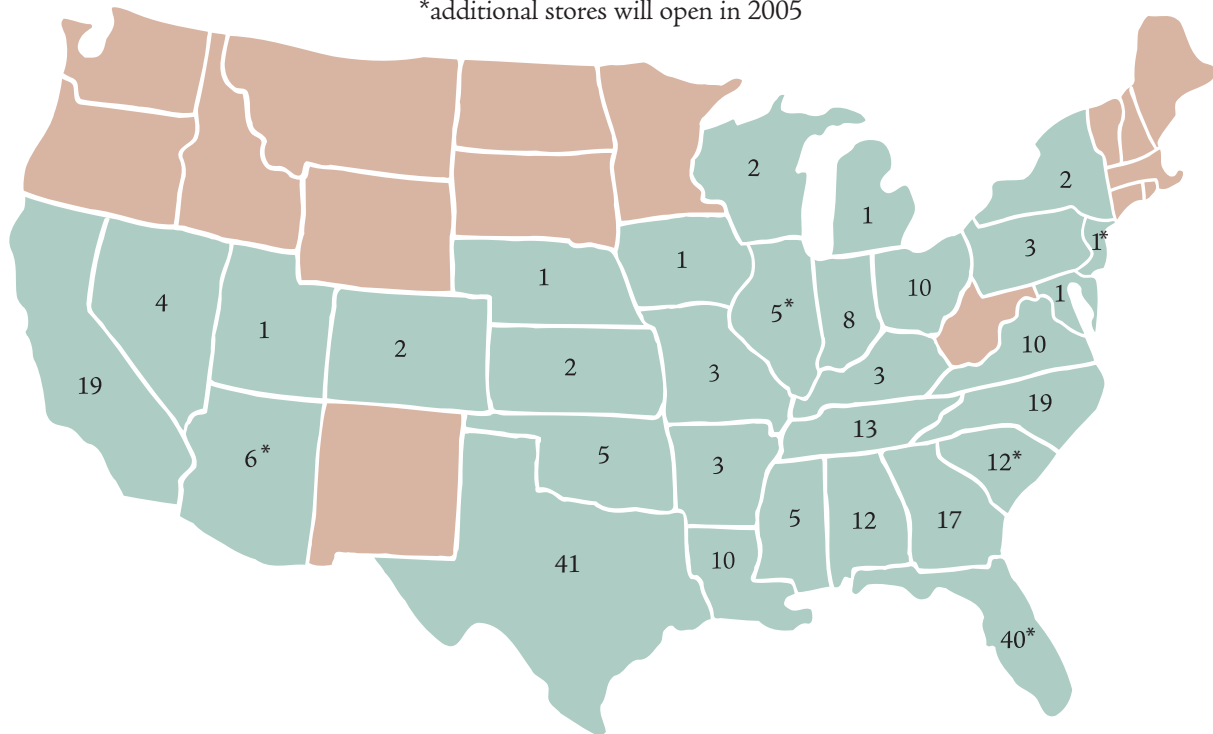
Stein Mart® is a federally registered trademark of Stein Mart, Inc.

The Stein Mart Mission

To serve our customers and community efficiently and effectively; to act with integrity toward customers, associates and vendors; to maintain profitable growth and build long-term value for our shareholders.

Stein Mart locations as of January 29, 2005

*additional stores will open in 2005



For a complete list of Stein Mart store locations, please visit www.steinmart.com

Dignity U Wear

Stein Mart continues its Company-wide association with Dignity U Wear, a Jacksonville-based non-profit organization that procures brand new clothing for children and families in need. For several years, Stein Mart has helped Dignity U Wear by encouraging our manufacturing partners to provide merchandise for distribution, and last year, we assisted Dignity U Wear in going nationwide by identifying deserving distribution agencies in most of our markets. As a result, more than 220,000 pieces of clothing



were distributed to agencies identified by Stein Mart across the country.

In 2004, our associates became more personally involved with this effort as they raised money to support the costs associated with distributing clothing to the recipients. Using a variety of fund-raising efforts, they raised nearly a half million dollars to support the agency's work. Combined with gifts and in-kind assistance from the Company, Stein Mart is providing meaningful support for this worthwhile organization.

100 years
Stein Mart®

1200 Riverplace Boulevard

Jacksonville, FL 32207

www.steinmart.com