STEIN MART INC
Form 10-K
April 01, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 29, 2011

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number 0-20052

STEIN MART, INC.

(Exact name of registrant as specified in its charter)

Florida	**64-0466198**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
1200 Riverplace Blvd., Jacksonville, Florida	**32207**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (904) 346-1500

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

Title of each class:	**Name of each exchange on which registered:**
Common Stock $.01 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of July 31, 2010 was $210,383,657. For purposes of this response, executive officers and directors are deemed to be affiliates of the registrant and the holdings by non-affiliates was computed as 27,251,769 shares. At March 25, 2011, the Registrant had issued and outstanding an aggregate of 43,994,200 shares of its common stock.

Documents Incorporated By Reference:

Portions of the Registrant s Proxy Statement for its 2011 Annual Meeting of Stockholders are incorporated by reference in Part III.

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

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

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PART I

ITEM 1. BUSINESS
OVERVIEW

Headquartered in Jacksonville, Florida, Stein Mart is a national retailer offering the fashion merchandise, service and presentation of a better department or specialty store. Our focused assortment of merchandise features current-season, moderate to better fashion apparel for women and men, as well as accessories, shoes and home fashions, all offered at prices competitive with off-price retail chains. Begun in the early 1900 s as a single store in Greenville, Mississippi, we operated 264 stores in 29 states and the District of Columbia as of January 29, 2011.

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

KEY STRATEGIC OBJECTIVES

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

- Expertise in creating a desirable, current-season assortment of designer, brand name, exclusive and proprietary fashion apparel, accessories and home fashion merchandise
- Access to and strong partnerships with a wide range of manufacturers
- Capability to offer everyday low prices on fashion merchandise through buying methodologies and low-price cost structure
- Attracting customers through marketing and advertising programs
- Emphasis on an attractive store appearance, appealing merchandise presentation and on-demand customer service, similar to a department or specialty store
- Convenience-based location strategy in shopping centers within close proximity to upscale residential neighborhoods

TARGET CUSTOMER

Our target customer is a 35-60 year old woman, sometimes called a missy customer, who is both fashion-conscious and value-seeking. Proprietary research has shown she is most likely to have a higher than average household income, at least some college education, and if she is employed, she typically has a professional or paraprofessional occupation.

MERCHANDISING, PURCHASING AND PRICING

Our fashion assortment is driven primarily by seasonal fashion trends and a focus on name brand and designer merchandise complemented by a select program of private label and proprietary/exclusive merchandise. In 2010 approximately 11 percent of our sales were from private label or proprietary/exclusive merchandise. The majority of merchandise is consistent from store to store, with exceptions based on individual store selling characteristics, seasonal delivery fluctuations and/or regional preferences.

Our merchants purchase products from approximately 1,300 vendors. None of our vendors accounted for more than 4 percent of our total purchases during 2010. We buy a majority of our merchandise at the same time and from many of the same manufacturers as traditional department/specialty stores although we generally do not require the same level of vendor concessions, such as advertising allowances or return privileges, which are common in the department store industry. As a result, we believe that our buyers are able to negotiate more favorable pricing terms from vendors. We also purchase merchandise opportunistically when we believe a combination of the product and the price makes it a compelling addition to our assortment. In both instances, we pass these savings on to our customers through everyday low pricing that we target to be competitive with off-price retail chains.

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

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

	2010	2009	2008
Ladies and *Boutique* apparel	**46%**	46%	46%
Ladies accessories	**13%**	13%	13%
Men s	**20%**	20%	20%
Home	**11%**	11%	11%
Shoes	**7%**	7%	7%
Other	**3%**	3%	3%
	100%	100%	100%

LOCATIONS, GROWTH STRATEGY AND STORE APPEARANCE

On January 29, 2011, we operated 264 stores in 29 states and the District of Columbia, primarily concentrated in the Southeast and Texas. Most locations are in neighborhood, lifestyle and power shopping centers in close proximity to upscale residential concentrations. Our optimal co-tenants within these shopping centers cater to a similar target customer and include highly-frequented retail formats such as supermarkets, specialty retailers and restaurants. All Stein Mart locations, including the corporate headquarters, are leased.

We are selectively seeking properties that strengthen our portfolio of stores in current markets. We utilize regional tenant representative brokers to identify and propose potential sites for new or relocated stores. Their proposals are augmented by an independent sales forecast, and reviewed by a senior level real estate committee for approval.

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

CUSTOMER SERVICE

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

MARKETING

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

Our advertising stresses upscale fashion merchandise at significant savings. We primarily utilize a combination of full-color circulars (both inserted in newspapers and mailed directly to homes), direct mail, newspaper run of press (ROP) advertising, and email to distribute our sales promotion messages. To reach a broader audience and communicate our brand position, we have increased our use of television advertising to build brand awareness and to drive sales for specific promotional events. Radio advertising is also employed to create additional excitement for specific one-day sales. We utilize digital media including online advertising and have a solid presence on social networking sites, including Facebook and Twitter.

Our Stein Mart Platinum MasterCard® and Preferred Customer Card programs are important marketing tools. As customers use the Stein Mart Platinum MasterCard®, they accumulate points that generate reward certificates at certain levels of spend. Preferred Customer Card customers receive preview copies of select circulars mailed to their home, members only shopping days, birthday discounts and special email announcements. Both cards provide useful information regarding customer preferences, habits and advertising receptivity.

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

COMPETITION

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

DISTRIBUTION

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

EMPLOYEES

As of January 29, 2011, our work force consisted of approximately 11,500 employees (6,000 40-hour equivalent employees). Our stores employ an average of 42 persons. The number of employees fluctuates during the year based on the particular selling season.

SEASONALITY

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

TRADEMARKS

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

AVAILABLE INFORMATION

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

ITEM 1A. RISK FACTORS

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

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

Intense competition in the retail industry. We face intense competition for customers from department stores, specialty stores and regional and national off-price retail chains. Many of these competitors are larger and have significantly greater financial and marketing resources than we do. In addition, many department stores and other competitors have become more promotional and

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have reduced their price points and certain department stores and certain of our vendors have opened outlet stores which offer merchandise at prices that are competitive with ours. Many of our competitors also make sales through the Internet, and while we maintain an Internet site, we currently sell gift cards and a narrow selection of merchandise online. Accordingly, we may face periods of intense competition in the future which could have a material adverse effect on our profitability and results of operations.

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

Our advertising, marketing and promotional strategies may be ineffective and inefficient. Our profitability and results of operations may be materially affected by the effectiveness and efficiency of our marketing expenditures and our ability to select the right markets and media in which to advertise. In particular, we may not be successful in our efforts to create greater awareness of our stores and our promotions, identify the most effective and efficient level of spending in each market and specific media vehicle and determine the appropriate creative message and media mix for our advertising, marketing and promotional expenditures. While we utilize several methods of distribution, daily newspapers are an important delivery vehicle for both run of press advertising and circular insertions. The newspaper business is under increasing economic pressure, and the demise of certain newspapers would jeopardize an important distribution method for our advertising. Our planned marketing expenditures may not result in increased revenues. In addition, if we are not able to manage our marketing expenditures on a cost-effective basis, our profitability and results of operations could be materially adversely affected.

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

We may be unable to negotiate acceptable lease terms with current landlords. Our continued growth and success depends in part on our ability to renew leases for successful stores. There is no assurance that we will be able to re-negotiate leases at similar or favorable terms at the end of the lease, and we could be forced to move or exit trade areas if another favorable arrangement cannot be made. Conversely, as part of our strategy, we close certain under-performing stores, generally based on the lack of store profitability. Such closures subject us to costs, including lease termination payments and the write-down of leasehold improvements, equipment, furniture and fixtures. For early terminations, we may remain liable for future lease obligations which could adversely affect our profitability and results of operations.

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

A lack of adequate sources of merchandise at acceptable prices. Our business is dependent to a significant degree upon our ability to purchase fashion and brand name merchandise, and to do so at acceptable wholesale prices. We continuously seek out buying opportunities and compete for these opportunities with other retailers. In the event of a further decrease in retail sales and the resulting pressure on manufacturers, our ability to purchase merchandise could become limited by the consolidation or demise of merchandise vendors. Our ability to obtain merchandise may also depend on manufacturers ability to obtain vendor financing through banks and factoring companies. To the extent they are unable to secure sufficient credit, they may not be able to sell to us at acceptable terms. Although we do not depend on any single vendor or group of vendors and believe we can successfully compete in seeking out new vendors, the loss of key vendors could make it difficult for us to acquire sufficient quantities and an appropriate mix of merchandise, and to do so at acceptable prices which could have a material adverse effect on our results of operations. In addition, 6

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increases in raw material, labor and energy costs could increase our cost to acquire merchandise which could negatively impact our margins.

We are dependent on certain key personnel. Our continued success will depend to a significant extent upon the efforts and abilities of our senior executives, and the loss of the services of one or more of these executives could have a material adverse effect upon our results of operations. These executives include David H. Stovall, Jr., president and chief executive officer; D. Hunt Hawkins, executive vice president and chief administrative officer; Gregory W. Kleffner, executive vice president and chief financial officer; Brian R. Morrow, executive vice president and chief merchandising officer; and Gary Pierce, senior vice president and director of stores; as well as Jay Stein, chairman of the board of directors. Our continued success is also dependent upon our ability to attract and retain qualified employees to meet our needs.

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Stores

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

	2010	2009	2008
Stores at beginning of year	**267**	276	280
Stores opened during the year	**2**	2	6
Stores closed during the year	**(5)**	(11)	(10)
Stores at end of year	**264**	267	276

As of January 29, 2011, our stores operated in the following 29 states and the District of Columbia:

State	Number of Stores	State	Number of Stores
Alabama	9	Missouri	3
Arizona	9	Nevada	4
Arkansas	2	New Jersey	5
California	19	New York	3
Colorado	2	North Carolina	20
Florida	45	Ohio	10
Georgia	13	Oklahoma	4
Illinois	5	Pennsylvania	4
Indiana	7	South Carolina	11
Kansas	2	Tennessee	13
Kentucky	2	Texas	42
Louisiana	8	Utah	1
Massachusetts	1	Virginia	11
Michigan	1	Washington DC	1
Mississippi	6	Wisconsin	1

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

As of January 29, 2011, the current terms of our store leases (assuming we exercise all lease renewal options) were as follows:

Years Lease Term Expire	Number of Leases Expiring (a)
2011	4
2012-2015	17
2016-2020	18
2021-2025	72
2026 and later	162

(a) Includes leases for the 264 store locations operated at January 29, 2011, seven leases for previously closed store locations which we have subleased or are actively seeking to sublease and two leases for stores being relocated in 2011.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. RESERVED

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PART II

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

Market Price and Related Matters

Our common stock trades on The NASDAQ Stock Market LLC (NASDAQ) under the trading symbol SMRT . On March 25, 2011, there were 1,114 stockholders. The following table sets forth the high and low sales prices of our common stock per NASDAQ for each quarter in the years ended January 29, 2011 and January 30, 2010:

	2010		2009	
	High	Low	High	Low
First Quarter	$ 10.91	$ 7.70	$ 4.82	$ 1.00
Second Quarter	10.14	5.90	11.45	3.71
Third Quarter	10.14	6.56	13.75	8.94
Fourth Quarter	10.89	7.75	11.89	7.90

Dividends

On November 10, 2010, the Board of Directors declared a special cash dividend of $0.50 per common share that was paid on December 22, 2010 to shareholders of record on December 8, 2010.

Issuer Purchases of Equity Securities

The following table provides information regarding repurchases of our common stock during the quarter ended January 29, 2011:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (1)	Maximum number of shares that may yet be purchased under the plans or programs (1)
October 31, 2010 November 27, 2010	2,503	$ 9.91	2,503	530,492
November 28, 2010 January 1, 2011	610,075	9.75	610,075	620,417
January 2, 2011 January 29, 2011	957	8.84	957	619,460
Total	**613,535**	**$ 9.75**	**613,535**	**619,460**

(1) Our Open Market Repurchase Program is conducted pursuant to authorizations made from time to time by our Board of Directors. The shares reported in this table are covered by an April 17, 2007 Board authorization to repurchase 2.5 million shares of common stock and a December 14, 2010 Board authorization to repurchase 700,000 shares of common stock, neither of which have an expiration date. All of these repurchases are for taxes due on the vesting of employee stock awards which fall under the repurchase program.

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Performance Graph

The following graph compares the cumulative five-year stockholder return on our common stock with the cumulative total return to the NASDAQ Composite Index and the Dow Jones US Apparel Retailers Index. The comparison assumes $100 was invested at the beginning of the five year period in Stein Mart, Inc. stock and in each of the indices shown and assumes reinvestment of any dividends.

	1/28/2006	2/3/2007	2/2/2008	1/31/2009	1/30/2010	1/29/2011
Stein Mart, Inc.	$ 100.0	$ 89.4	$ 39.7	$ 7.9	$ 53.4	**$ 56.7**
NASDAQ Composite	100.0	108.1	106.3	65.9	96.6	**122.2**
Dow Jones US Apparel Retailers	100.0	120.8	95.5	50.3	95.1	**117.9**

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA (Dollars in Thousands, Except Per Share and Per Square Foot Data)

The following selected consolidated financial data has been derived from our audited consolidated financial statements and should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and notes thereto and the other information contained elsewhere in this Form 10-K.

	2010	2009	2008	2007	2006[1]
Consolidated Statement of Operations Data:					
Net sales	**$ 1,181,510**	$ 1,219,109	$ 1,326,469	$ 1,457,645	$ 1,501,296
Cost of merchandise sold	**869,202**	888,752	1,032,232	1,096,235	1,084,975
Gross profit	**312,308**	330,357	294,237	361,410	416,321
Selling, general and administrative expenses [2]	**288,592**	314,115	394,767	388,572	376,611
Other income, net	**29,430**	18,405	20,401	21,376	18,214
Operating income (loss)	**53,146**	34,647	(80,129)	(5,786)	57,924
Interest income (expense), net	**46**	(238)	(1,753)	(794)	1,006
Income (loss) before income taxes	**53,192**	34,409	(81,882)	(6,580)	58,930
Income tax (provision) benefit	**(4,439)**	(10,856)	10,581	2,050	(21,754)
Net income (loss)	**$ 48,753**	$ 23,553	$ (71,301)	$ (4,530)	$ 37,176
Basic income (loss) per share [3]	**$ 1.10**	$ 0.55	$ (1.72)	$ (0.11)	$ 0.85
Diluted income (loss) per share [3]	**$ 1.08**	$ 0.54	$ (1.72)	$ (0.11)	$ 0.84
Cash dividends paid per share	**$ 0.50**	$	$	$ 0.25	$ 1.75
Adjusted Non-GAAP Measures: [7]					
Adjusted income (loss) per diluted share	**$ 0.86**	$ 0.71	$ (0.87)	$ (0.04)	$ 0.88
Consolidated Operating Data:					
Stores open at end of period	**264**	267	276	280	268
Sales per store including shoe department [4]	**$ 4,813**	$ 4,845	$ 5,113	$ 5,737	$ 6,079
Sales per store excluding shoe department [5]	**$ 4,469**	$ 4,515	$ 4,778	$ 5,363	$ 5,644
Sales per square foot including shoe department [4]	**$ 161**	$ 160	$ 170	$ 190	$ 201
Sales per square foot excluding shoe department [5]	**$ 161**	$ 161	$ 171	$ 192	$ 201
Comparable store net sales decrease [6]	**(1.8)%**	(5.6)%	(10.9)%	(4.0)%	(1.2)%
Consolidated Balance Sheet Data:					
Working capital	**$ 172,302**	$ 152,781	$ 206,104	$ 165,469	$ 174,785
Total assets	**436,444**	404,213	449,890	460,539	480,351
Long-term debt			100,000	27,133	
Total stockholders equity	**247,251**	215,689	186,350	256,689	288,172

(1) 2006 is a 53-week year; all others are 52-week years.

(2) Selling, general and administrative expenses include asset impairment and store closing charges of $3.1 million in 2010, $11.1 million in 2009, $25.4 million in 2008, $5.2 million in 2007 and $2.6 million in 2006.

(3) Earnings per share (EPS) data for the years 2006-2008 has been adjusted retrospectively for the February 1, 2009 adoption of new EPS guidance on participating securities included in the computation of EPS under the two-class method.

(4) These sales per store and sales per square foot calculations include shoe department sales, which are not included in our reported net sales. Sales per store is calculated by dividing (a) total sales including shoe 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 shoe department sales and selling space and excludes administrative, receiving and storage areas. All periods are calculated on a 52-week basis.

(5) These sales per store and sales per square foot calculations exclude shoe department sales, which are not included in our reported net sales. Sales per store is calculated by dividing (a) total sales excluding shoe 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 shoe department sales and selling space, administrative, receiving and storage areas. All periods are calculated on a 52-week basis.

(6) Comparable store sales information for a period reflects stores open throughout that period and for the same 52-week period in the prior year, except for the year 2006. Comparable store net sales decrease for 2006 represents comparable store sales for the 52 weeks ended January 27, 2007 compared to the 52 weeks ended January 28, 2006.

(7) SEC Regulation S-K 10(e) We report our consolidated financial results in accordance with generally accepted accounting principles (GAAP). However, to supplement these consolidated financial results, we believe that certain non-GAAP operating results, which exclude asset impairment and store closing

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charges, a cumulative breakage gain, net of a charge associated with changing our physical inventory process and the (reversal)/initial recording of a valuation allowance for deferred tax assets, may provide a more meaningful measure on which to compare the results of operations between periods. We believe these non-GAAP results provide useful information to both management and investors by excluding certain items that impact the comparability of the results.

Reconciliations of net income (loss) per diluted share on a GAAP basis to adjusted net income (loss) per diluted share (non-GAAP basis) are presented in the table below:

	2010	2009	2008	2007	2006
Net income (loss) per diluted share (GAAP basis)	**$ 1.08**	$ 0.54	$ (1.72)	$ (0.11)	$ 0.84
Adjustments:					
Cumulative breakage gain, net of inventory charge	**(0.15)**				
Asset impairment and store closing charges, net of tax	**0.06**	0.17	0.39	0.07	0.04
Valuation allowance for deferred tax assets (reversal)/initial	**(0.13)**		0.46		
Adjustments total	**(0.22)**	0.17	0.85	0.07	0.04
Adjusted net income (loss) per diluted share (non-GAAP basis)	**$ 0.86**	$ 0.71	$ (0.87)	$ (0.04)	$ 0.88

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Stein Mart is a national retailer offering the fashion merchandise, service and presentation of a better department or specialty store at prices competitive with off-price retail chains. Our focused assortment of merchandise features current-season moderate to better fashion apparel for women and men, as well as accessories, shoes and home fashions.

2010 Highlights

We are pleased to have delivered a strong year of profitability and eight consecutive profitable quarters. For the year ended January 29, 2011, net income was $48.8 million or $1.08 per diluted share compared to net income of $23.6 million or $0.54 per diluted share in 2009. These results include items that impact comparability, including a $6 million income tax benefit (see *Adjusted Results for Items Impacting Comparability* and non-GAAP table below). Excluding these items, adjusted net income increased 23.7 percent to $38.5 million or $0.86 per diluted share compared to $31.1 million or $0.71 per diluted share in 2009.

Operating income for 2010 increased to $53.1 million from $34.6 million in 2009. Excluding store closing and impairment charges in both years and a net gain recorded in the second quarter of 2010, operating income increased to $47.8 million or 4.0 percent of sales from $45.7 million or 3.8 percent of sales in 2009 (see non-GAAP table below). The increase in adjusted operating income is the result of lower selling, general and administrative (SG&A) expenses and an increase in other income, partially offset by a reduction in gross profit.

On the balance sheet, we ended 2010 with $80.2 million in cash compared to $81.0 million in 2009, after payment of a special dividend totaling $22.2 million or $0.50 per common share in December 2010. We did not use our credit facility in 2010 and had no debt at year-end. Capital expenditures totaled $29.6 million in 2010 including a $19 million investment in systems which will allow us to better manage our merchandise and serve our customers.

2011 Outlook

Our focus in 2011 is to increase sales by attracting more customers and build our share of their spending. Our strategic initiatives to drive sales growth include a continued focus on offering distinctive merchandise at great values and enhancing our marketing to attract more customers, including younger and Hispanic shoppers. We are making significant progress in expanding our selection of designer and national brands that are recognized by and resonate with our customers. We continue to reinforce our brand value proposition with our new tagline more fashion, less price . We also continue to plan conservatively including rigorous cost and inventory management.

We expect the following factors to influence our business in 2011:

- SG&A dollars, excluding store closing and impairment charges, are expected to increase slightly.

- The tax rate for the year is expected to be approximately 39%.

- We plan to open three to five stores, close three to five stores and relocate approximately five stores to better locations in their respective markets.

- Capital expenditures are expected to be in the range of $25 million to $30 million. These expenditures will be used primarily for enhancing information systems and for store openings, relocations and remodels.

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Results of Operations

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

	2010	2009	2008
Net sales	**100.0%**	100.0%	100.0%
Cost of merchandise sold	**73.6**	72.9	77.8
Gross profit	**26.4**	27.1	22.2
Selling, general and administrative expenses	**24.4**	25.8	29.8
Other income, net	**2.5**	1.5	1.5
Operating income (loss)	**4.5**	2.8	(6.0)
Interest income (expense), net			(0.1)
Income (loss) before income taxes	**4.5**	2.8	(6.2)
Income tax (provision) benefit	**(0.4)**	(0.9)	0.8
Net income (loss)	**4.1%**	1.9%	(5.4)%

Adjusted Results for Items Impacting Comparability

Results for 2010, 2009 and 2008 include items that impact comparability of financial performance. Fiscal 2010 includes a net pretax gain of $8.5 million recorded during the second quarter, comprised of a $9.7 million pretax gain to recognize cumulative breakage income on unused gift and merchandise return cards and an offsetting $1.2 million charge associated with our physical inventory process. The $1.2 million charge related to a change in the process and timing of our physical inventories, as well as accelerating one-half of our stores inventory observations to mid-year from year-end. Asset impairment and store closing charges are reflected in all years, but were significantly lower in fiscal 2010. Income tax for fiscal 2010 was favorably impacted by the reversal of the remaining deferred tax valuation allowance established in fiscal 2008.

Reconciliations of operating and net income (loss) on a GAAP basis to adjusted operating and net income (loss) on a non-GAAP basis are presented in the following table:

	2010		2009		2008	
	Operating Income	Net Income	Operating Income	Net Income	Operating Loss	Net Loss
Income (loss) - (GAAP basis)	**$ 53,146**	**$ 48,753**	$ 34,647	$ 23,553	$ (80,129)	$ (71,301)
Adjustments:						
Cumulative breakage gain, net of inventory charge	**(8,481)**	**(6,713)**				
Asset impairment and store closing charges	**3,093**	**2,448**	11,087	7,589	25,423	16,103
Valuation allowance for deferred tax assets (reversal)/initial		**(5,973)**				18,958
Adjusted income (loss) - (non-GAAP basis)	**$ 47,758**	**$ 38,515**	$ 45,734	$ 31,142	$ (54,706)	$ (36,240)

Asset impairment and store closing charges, including costs to relocate stores, are as follows:

	2010	2009	2008
Asset impairment charges	**$ 1,150**	$ 8,429	$ 20,726

Lease termination costs, net	**1,702**	2,089	3,568
Severance costs	**241**	569	1,129
Total	**$ 3,093**	$ 11,087	$ 25,423

2010 Compared to 2009

Net sales for the year ended January 29, 2011 were $1,181.5 million, a decrease of 3.1 percent from $1,219.1 million for 2009. The $37.6 million decrease reflects a $20.7 million decrease in the comparable store group and a $26.0 million decrease in the closed store group, offset by a $9.1 million increase in the non-comparable store group due to the inclusion of sales for a total of four stores opened in 2010 and 2009. The closed store group includes 5 stores closed in 2010 and 11 stores closed in 2009. Comparable stores sales for 2010 decreased 1.8 percent compared to 2009.

Gross profit for the year ended January 29, 2011 was $312.3 million or 26.4 percent of net sales compared to $330.4 million or 27.1 percent of net sales for 2009. The $18.1 million decrease in gross profit reflects a $14.2 million decrease in the comparable store group and a $6.0 million decrease in the closed store group, offset by a $2.1 million increase in the non-comparable store group.

Gross profit as a percent of sales decreased during 2010 primarily due to a 0.6 percent of sales increase in markdowns and negative leverage on lower sales. Markdowns were higher in 2010 due to the competitive retail environment.

SG&A expenses were $288.6 million or 24.4 percent of net sales for the year ended January 29, 2011 as compared to $314.1 million or 25.8 percent of net sales for 2009. Excluding pre-tax asset impairment and store closing charges in both years and the $1.2 million charge associated with changing our physical inventory process in 2010, SG&A expenses decreased $18.7 million to $284.3 million or 24.1 percent of sales from $303.0 million or 24.9 percent of sales for 2009. This decrease reflects a $23.7 million decrease in store expenses offset by a $3.2 million increase in advertising expenses and a $1.8 million increase in corporate expenses. Store expense reductions include a $9.0 million decrease in personnel expenses resulting from our new supply chain process, a $9.0 million decrease in other store operating and depreciation expenses and a $5.7 million decrease due to the elimination of operating costs from closed stores. Other store operating expenses were lower as a result of continued cost savings initiatives. Depreciation expense was lower as a result of asset impairment charges taken at the end of fiscal 2009. Advertising spend was higher to increase our marketing impact.

Asset impairment charges were $7.3 million higher in 2009 due to more store closings and a greater number of stores with projected cash flows that did not support the carrying value of their long-lived assets which required a write-down of their assets. Store closing charges were $0.7 million lower this year because there were fewer store closings and this year includes an offsetting $1.2 million gain on a lease buyout by a landlord for the early termination of a lease.

Other income, net for 2010 increased $11.0 million to $29.4 million from $18.4 million in 2009. During the second quarter of 2010, we recognized $9.7 million of other income related to cumulative breakage on unused gift and merchandise return cards since the inception of these programs. Prior to the second quarter of 2010, we had not recognized breakage on card balances pending our final determination of the interpretation of the escheat laws applicable to our operations and historical redemption patterns. The remaining increase in other income was from our magazine subscription program and breakage income recognized in the second half of 2010.

We had a small amount of interest income in 2010 compared to net interest expense in 2009 as a result of having no direct borrowings since the first quarter of 2009.

The income tax provision for 2010 was favorably impacted by the reversal of the remaining $6 million deferred tax asset valuation allowance established in 2008. In the fourth quarter of 2010, we were no longer in a cumulative three-year loss position because the Company s income in the last two years exceeded the loss incurred in 2008. Excluding this favorable tax adjustment, the effective tax rate (ETR) was 19.6 percent in 2010 compared to 31.5 percent in 2009. The 2010 rate was lower than the federal statutory rate of 35.0 percent due to the impact of favorable changes in book/tax differences on our valuation allowance prior to the year-end reversal and favorable settlements of state income tax examinations. The 2009 ETR was lower than the federal statutory rate of 35.0 percent due to the effect of certain book/tax differences on the valuation allowance including a tax accounting method change made in the third quarter of 2009. We expect our 2011 ETR to be approximately 39.0 percent.

2009 Compared to 2008

Net sales for the year ended January 30, 2010 were $1,219.1 million, down 8.1 percent from $1,326.5 million for 2008. The $107.4 million decrease reflects a $69.7 million decrease in the comparable store group and a $47.9 million decrease in the closed store group, offset by a $10.2 million increase in the non-comparable store group due to the inclusion of sales for a total of eight stores opened in 2009 and 2008. The closed store group includes 11 stores closed in 2009 and 10 stores closed in 2008. Comparable stores sales for 2009 decreased 5.6 percent compared to 2008.

Although sales decreased in 2009, gross profit for the year ended January 30, 2010 increased to $330.4 million or 27.1 percent of net sales from $294.2 million or 22.2 percent of net sales for 2008. The $36.1 million increase in gross profit reflects a $37.9 million increase in the comparable store group and a $3.2 million increase in the non-comparable store group, partially offset by a $5.0 million decrease in the closed store group. Gross profit as a percent of sales increased during fiscal 2009 due to a 4.6 percentage point decrease in markdowns and a 1.1 percentage point increase in markup, offset by a 0.8 percentage point decrease in buying and occupancy costs. Markdowns were lower in 2009 due to lower inventory levels and lower levels of clearance merchandise.

SG&A expenses were $314.1 million or 25.8 percent of net sales for the year ended January 30, 2010 as compared to $394.8 million or 29.8 percent of net sales for 2008. SG&A expenses for 2009 include $11.1 million of non-cash pre-tax asset impairment and store closing charges compared to $25.4 million in 2008. Asset impairment charges were $11.6 million higher last year due to a greater number of stores with projected cash flows that did not support the carrying value of their long-lived assets. Store closing charges were $2.7 million higher last year because two closings occurred before the end of the lease term resulting in higher store closing reserve charges for continuing lease obligations.

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Excluding asset impairment and store closing charges, SG&A expenses were $303.0 million or 24.9 percent of sales in 2009 compared to $369.4 million or 27.8 percent of sales in 2008. This $66.4 million decrease in SG&A expenses reflects a $45.8 million reduction in store operating expenses, a $13.7 million decrease in non-buying expenses in the corporate office, a $5.6 million decrease in depreciation expense and a $1.3 million decrease in advertising expense. Store operating expenses decreased $35.4 million for the comparable and non-comparable store group due to headcount reductions and other cost saving initiatives and decreased $10.4 million for the closed store group. Corporate office expenses decreased from 2008 primarily due to compensation and benefit reductions related to expense reduction initiatives and lower consulting fees. Depreciation expense decreased as a result of asset impairment charges taken during the fourth quarter of 2008. Advertising expense was slightly lower this year primarily due to reduced spending on direct mail marketing and newspaper advertising.

Pre-opening expenses for the two stores opened in 2009 and the six stores opened in 2008 amounted to $0.3 million and $1.5 million, respectively.

Other income, net decreased $2.0 million in 2009 compared to 2008 due to a decrease in the number of credit cards issued through our co-brand credit card program offset slightly by income from our new magazine subscription program.

Interest expense, net decreased $1.5 million in 2009 compared to 2008 as a result of our having no direct borrowings since the first quarter of 2009. During the third quarter of 2008, we borrowed an additional $75 million on our revolving credit agreement which increased our notes payable to banks balance to $100 million. We maintained that notes payable balance through January 31, 2009, investing excess borrowings in short-term money market funds, and liquidated these money market funds and repaid that portion of the borrowings during the first quarter of 2009.

The effective tax rate (ETR) was 31.5 percent in 2009 compared to a tax benefit of 12.9 percent in 2008. The 2008 rate was unusually low due to our recording a $19.0 million deferred tax asset valuation allowance through a charge to tax expense during the fourth quarter of 2008. We recorded the valuation allowance because 2008 operating results produced a cumulative three-year loss, which is considered a significant factor that is difficult to overcome when determining if a valuation allowance is required. Although we were profitable in 2009, we remained in a cumulative three-year loss. We perform a quarterly assessment of net deferred tax assets and plan to carry a valuation allowance until such time that positive evidence is sufficient to justify realization. The 2009 ETR was lower than the federal statutory rate of 35.0 percent due to the effect of certain book/tax differences on the valuation allowance including a tax accounting method change made in the third quarter of 2009.

Liquidity and Capital Resources

Our primary source of liquidity is the sale of merchandise inventories. Capital requirements and working capital needs are funded through a combination of internally generated funds, available cash, credit terms from vendors and a revolving credit facility. Working capital is needed to support store inventories and capital investments for new store openings and to maintain existing stores. Historically, our working capital needs are lowest in the first quarter and highest at the end of the third quarter and beginning of the fourth quarter as we build inventories for the holiday selling season.

As of January 29, 2011, we had $80.2 million in cash and cash equivalents compared to $81.0 million in 2009. We did not use our revolving credit facility in 2010 and had no direct borrowings at the end of either year. We paid a special dividend of $0.50 per common share, or $22.2 million, in December 2010.

Net cash provided by operating activities was $49.6 million in 2010, $98.3 million in 2009 and $19.4 million in 2008. Cash provided by operating activities decreased $48.7 million from 2009. The decrease was primarily due to $12.6 million more cash used for inventories and accounts payable and $32.7 million less cash from income tax receivable/payable (including $24.6 million of net operating loss carry back refunds in 2009). Inventories at January 29, 2011 were $14.2 million higher than at January 30, 2010 primarily due to higher inventory balances in our warehouse and distribution centers. The timing of receipts and vendor payments increased accounts payable at the end of this year compared to last year.

Operating cash flows for 2009 increased $79.0 million over 2008. The increase was primarily due to $66.4 million more cash provided by net income plus non-cash charges and a $37.7 million increase in cash provided by income taxes receivable/payable (including $24.6 million of net operating loss carry back refunds received during 2009), offset by $20.3 million more cash used for inventories and accounts payable and $4.9 million more cash used by other operating activities. While the end of year 2009 inventory balance was only slightly higher compared to 2008, accounts payable was higher at the end of 2009 due to approximately $30 million of merchandise in distribution centers at the end of 2009 that was received earlier than at the end of 2008 as part of our new supply chain network.

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Net cash used in investing activities, solely for capital expenditures, was $(29.6) million in 2010, $(7.6) million in 2009 and $(19.3) million in 2008. Capital expenditures for 2010 include approximately $19 million for systems improvements, with the largest portion for our new merchandise information system. The remaining capital amounts are for improvements in our point-of-sale system, upgrades to store fixtures and for new and relocated stores. Capital expenditures for 2009 compared to 2008 reflect a decrease in the number of store openings.

Net cash (used in) provided by financing activities was $(20.9) million in 2010, $(98.7) million in 2009 and $73.7 million in 2008. We paid $22.2 million in dividends in 2010 and had no activity on our revolving credit agreement. More cash was used in 2009 for the repayment of all direct borrowings under our credit agreement while 2008 had cash provided by net borrowings on the credit agreement.

We expect to invest approximately $25 to $30 million in capital expenditures in 2011. The cost of opening a new store ranges from $550,000 to $600,000 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 $800,000.

We have a $150 million senior revolving secured credit agreement (the Agreement) with a group of lenders which extends through January 2012. We expect to enter into a new credit agreement before the end of 2011. The amount available for borrowing was $139.2 million at January 29, 2011 and is based on a percentage of eligible inventories less reserves, as defined in the Agreement. Availability was further reduced to $130.6 million after deducting outstanding letters of credit of $8.6 million. We had no direct borrowings at January 29, 2011 and are in compliance with the terms of the Agreement.

We believe that we will continue to generate positive cash flow from operations, which, along with our available cash and borrowing capacity under the revolving credit agreement, will provide the means needed to fund our operations for the foreseeable future.

Contractual Obligations

The following table sets forth our contractual obligations at January 29, 2011 (in thousands):

	Total	Less than 1 Year	1 2 Years	3 5 Years	After 5 Years
Operating leases	$ 316,446	$ 72,477	$ 61,885	$ 125,760	$ 56,324
Purchase obligations (a)	210,559	210,559			
Total	$ 527,005	$ 283,036	$ 61,885	$ 125,760	$ 56,324

(a) Represent open purchase orders with vendors for merchandise not yet received and recorded on our Consolidated Balance Sheet.

The above table does not include long-term debt as we did not have any direct borrowings under our senior revolving credit facility at January 29, 2011. Other long-term liabilities on the balance sheet include the liability for unrecognized tax benefits, deferred compensation, deferred rent liability, postretirement benefit liability 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 for these closed stores total $5.0 million and are included in the above table.

Off-Balance Sheet Arrangements

We have outstanding standby letters of credit totaling $8.6 million securing certain insurance programs at January 29, 2011. If certain conditions were to occur under these arrangements, we would be required to satisfy the obligations in cash. Due to the nature of these arrangements and based on historical experience, we do 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 our financial condition.

Critical Accounting Policies and Estimates

The preparation of our 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 we believe that the historical experience and other factors considered provide a meaningful basis for the accounting policies applied in the preparation of the financial statements, we cannot guarantee that our estimates and assumptions will be accurate, which could require adjustments of these estimates in future periods. A summary of the more significant accounting policies follows.

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Retail Inventory Method and Inventory Valuation. 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 va