BOTTOMLINE TECHNOLOGIES INC /DE/
Form SC 13G/A
February 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 8)*

BOTTOMLINE TECHNOLOGIES(de), INC.

(Name of Issuer)

Common Stock, $.001 par value per share

(Title of Class of Securities)

101388106

(CUSIP Number)

December 31, 2014

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d 1(b)

[ ] Rule 13d 1(c)

[ ] Rule 13d 1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial

filing on this form with respect to the subject class of securities, and for any

subsequent amendment containing information which would alter the disclosures provided in

a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be

"filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or

otherwise subject to the liabilities of that section of the Act but shall be subject to

all other provisions of the Act (however, see the Notes).

CUSIP NO. 101388106 13G
Page 2 of 14

1. NAMES OF REPORTING PERSONS.

Franklin Resources, Inc.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)

(b) X

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5. SOLE VOTING POWER

(See Item 4)

6. SHARED VOTING POWER

(See Item 4)

7. SOLE DISPOSITIVE POWER

(See Item 4)

8. SHARED DISPOSITIVE POWER

(See Item 4)

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,722,906

10. CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES
CERTAIN SHARES [ ]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

6.8%

12. TYPE OF REPORTING PERSON

HC, CO (See Item 4)

CUSIP NO. 101388106 13G
Page 3 of 14

1. NAMES OF REPORTING PERSONS.

Charles B. Johnson

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)

(b) X

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

USA

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5. SOLE VOTING POWER

(See Item 4)

6. SHARED VOTING POWER

(See Item 4)

7. SOLE DISPOSITIVE POWER

(See Item 4)

8. SHARED DISPOSITIVE POWER

(See Item 4)

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,722,906

10. CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES
CERTAIN SHARES [ ]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

6.8%

12. TYPE OF REPORTING PERSON

HC, IN (See Item 4)

CUSIP NO. 101388106 13G
Page 4 of 14

1. NAMES OF REPORTING PERSONS.

Rupert H. Johnson, Jr.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)

(b) X

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

USA

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5. SOLE VOTING POWER

(See Item 4)

6. SHARED VOTING POWER

(See Item 4)

7. SOLE DISPOSITIVE POWER

(See Item 4)

8. SHARED DISPOSITIVE POWER

(See Item 4)

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,722,906

10. CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES
CERTAIN SHARES [ ]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

6.8%

12. TYPE OF REPORTING PERSON

HC, IN (See Item 4)

CUSIP NO. 101388106 13G
Page 5 of 14

1. NAMES OF REPORTING PERSONS.

Franklin Advisers, Inc.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)

(b) X

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

California

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5. SOLE VOTING POWER

2,517,062

6. SHARED VOTING POWER

0

7. SOLE DISPOSITIVE POWER

2,568,862

8. SHARED DISPOSITIVE POWER

0

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,568,862

10. CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES
CERTAIN SHARES [ ]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

6.4%

12. TYPE OF REPORTING PERSON

IA, CO (See Item 4)

CUSIP NO. 101388106 13G
Page 6 of 14

Item 1.

(a) Name of Issuer

BOTTOMLINE TECHNOLOGIES (de), INC.

(b) Address of Issuer's Principal Executive Offices

325 Corporate Drive

Portsmouth, New Hampshire 03801

Item 2.

(a) Name of Person Filing

(i): Franklin Resources, Inc.

(ii): Charles B. Johnson

(iii): Rupert H. Johnson, Jr.

(iv): Franklin Advisers, Inc.

(b) Address of Principal Business Office or, if none, Residence

(i), (ii), and (iii):

One Franklin Parkway

San Mateo, CA 94403 1906

(iv): One Franklin Parkway

San Mateo, CA 94403 1906

(c) Citizenship

(i): Delaware

(ii) and (iii): USA

(iv): California

(d) Title of Class of Securities

Common Stock, $.001 par value per share

(e) CUSIP Number

101388106

Item 3. If this statement is filed pursuant to §§240.13d 1(b) or 240.13d 2(b) or (c),

check whether the person filing is a:

(a) [ ] Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).

(b) [ ] Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).

(c) [ ] Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).

(d) [ ] Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C 80a 8).

(e) [X] An investment adviser in accordance with §240.13d 1(b)(1)(ii)(E);

(f) [ ] An employee benefit plan or endowment fund in accordance with §240.13d 1(b)(1)(ii)(F);

(g) [X] A parent holding company or control person in accordance with §240.13d 1(b)(1)(ii)(G);

(h) [ ] A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);

(i) [ ] A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a 3);

(j) [ ] A non U.S. institution in accordance with §240.13d 1(b)(ii)(J);

(k) [ ] Group, in accordance with §240.13d 1(b)(1)(ii)(K).

If filing as a non U.S. institution in accordance with §240.13d 1(b)(1)(ii) (J).

please specify the type of institution:

Item 4. Ownership

The securities reported herein are beneficially owned by one or more open or closed end investment companies or other managed accounts that are investment management clients of investment managers that are direct and indirect subsidiaries

(each, an "Investment Management Subsidiary" and, collectively, the "Investment

Management Subsidiaries") of Franklin Resources Inc. ("FRI"), including the Investment

Management Subsidiaries listed in this Item 4. When an investment management contract

(including a sub advisory agreement) delegates to an Investment Management Subsidiary

investment discretion or voting power over the securities held in the investment

advisory accounts that are subject to that agreement, FRI treats the Investment

Management Subsidiary as having sole investment discretion or voting authority, as the

case may be, unless the agreement specifies otherwise. Accordingly, each Investment

Management Subsidiary reports on Schedule 13G that it has sole investment discretion

and voting authority over the securities covered by any such investment management

agreement, unless otherwise noted in this Item 4. As a result, for purposes of Rule

13d 3 under the Act, the Investment Management Subsidiaries listed in this Item 4 may

be deemed to be the beneficial owners of the securities reported in this Schedule 13G.

Beneficial ownership by Investment Management Subsidiaries and other FRI affiliates is

being reported in conformity with the guidelines articulated by the SEC staff in

Release No. 34 39538 (January 12, 1998) relating to organizations, such as FRI, where

related entities exercise voting and investment powers over the securities being

reported independently from each other. The voting and investment powers held by

Franklin Mutual Advisers, LLC (“FMA”), an indirect wholly owned Investment Management

Subsidiary, are exercised independently from FRI and from all other Investment Management Subsidiaries (FRI, its affiliates and the Investment Management Subsidiaries other than FMA are collectively, "FRI affiliates"). Furthermore, internal policies and procedures of FMA and FRI establish informational barriers that prevent the flow between FMA and the FRI affiliates of information that relates to the voting and investment powers over the securities owned by their respective management clients. Consequently, FMA and FRI affiliates report the securities over which they hold investment and voting power separately from each other for purposes of Section 13 of the Act.

Charles B. Johnson and Rupert H. Johnson, Jr. (the "Principal Shareholders") each own in excess of 10% of the outstanding common stock of FRI and are the principal stockholders of FRI. FRI and the Principal Shareholders may be deemed to be, for purposes of Rule 13d 3 under the Act, the beneficial owners of securities held by persons and entities for whom or for which FRI subsidiaries provide investment management services. The number of shares that may be deemed to be beneficially owned

and the percentage of the class of which such shares are a part are reported in Items

9 and 11 of the cover pages for FRI and each of the Principal Shareholders. FRI, the

Principal Shareholders and each of the Investment Management Subsidiaries disclaim any

pecuniary interest in any of the such securities. In addition, the filing of this

Schedule 13G on behalf of the Principal Shareholders, FRI and the FRI affiliates, as

applicable, should not be construed as an admission that any of them is, and each of

them disclaims that it is, the beneficial owner, as defined in Rule 13d 3, of any of

the securities reported in this Schedule 13G.

FRI, the Principal Shareholders, and each of the Investment Management Subsidiaries

believe that they are not a "group" within the meaning of Rule 13d 5 under the Act and

that they are not otherwise required to attribute to each other the beneficial

ownership of the securities held by any of them or by any persons or entities for whom

or for which the Investment Management Subsidiaries provide investment management

services.

(a) Amount beneficially owned:

2,722,906

(b) Percent of class:

6.8%

(c) Number of shares as to which the person has:

(i) Sole power to vote or to direct the vote

Franklin Resources, Inc.: 0

Charles B. Johnson: 0

Rupert H. Johnson, Jr.: 0

Franklin Advisers, Inc.: 2,517,062

Fiduciary Trust Company International: 26,400

Franklin Templeton Portfolio Advisors, Inc. [1]: 127,644

(ii) Shared power to vote or to direct the vote

0

(iii) Sole power to dispose or to direct the disposition of

Franklin Resources, Inc.: 0

Charles B. Johnson: 0

Rupert H. Johnson, Jr.: 0

Franklin Advisers, Inc.: 2,568,862

Franklin Templeton Portfolio Advisors, Inc.: 127,644

Fiduciary Trust Company International: 26,400

(iv) Shared power to dispose or to direct the disposition of

0

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following [ ].

Item 6. Ownership of More than Five Percent on Behalf of Another Person

The clients of the Investment Management Subsidiaries, including investment companies registered under the Investment Company Act of 1940 and other managed accounts, have the right to receive or power to direct the receipt of dividends from, and the proceeds from the sale of, the securities reported herein.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company

See Attached Exhibit C

Item 8. Identification and Classification of Members of the Group

Not Applicable

Item 9. Notice of Dissolution of Group

Not Applicable

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the

securities referred to above were acquired and are held in the ordinary course of

business and were not acquired and are not held for the purpose of or with the effect

	13 Weeks Ended November 1, 2008	**13 Weeks Ended November 3, 2007**	**39 Weeks Ended November 1, 2008**	**39 Weeks Ended November 3, 2007**
Basic weighted-average number of common shares	**41,410**	41,548	**41,323**	42,445
Incremental shares from share-based compensation plans				498
Diluted weighted-average number of common shares	**41,410**	41,548	**41,323**	42,943

Options to purchase approximately 2.0 million and 2.5 million shares of common stock that were outstanding during the 13 weeks ended November 1, 2008 and November 3, 2007, respectively, were not included in the computation of diluted net income (loss) per share as the exercise prices of these options were greater than the average market price of the common shares. For the 39 weeks ended November 1, 2008 and November 3, 2007, options to purchase 2.0 million and 1.8 million shares of common stock, respectively, were not included in the computation of diluted net income (loss) per share for the aforementioned reason. Common stock equivalents totaling 279,888, 195,071 and 300,238, respectively, would have been included in a diluted net income per share calculation had the Company reported net income for the 13 weeks and 39 weeks ended November 1, 2008 and the 13 weeks ended November 3, 2007.

5. Subsequent Events

On December 2, 2008, the Company s Board of Directors appointed David H. Stovall, Jr. as President and Chief Executive Officer (CEO) of the Company. Mr. Stovall assumed his new responsibilities on December 5, 2008. Mr. Stovall succeeds Linda McFarland Farthing, longtime Stein Mart board member who has held the president and CEO position since September 2007, but announced earlier this fall that a search for her successor had begun. Ms. Farthing s responsibilities as CEO will conclude on December 10, 2008, at which time she will continue to serve on the Company s Board of Directors.

In connection with Mr. Stovall s appointment, the Company and Mr. Stovall executed an employment agreement which, among other things, provides for: (i) a term of three years which will be extended for successive one-year periods unless either the executive or the Company cancels the automatic extension by providing at least 120 days advance written notice, (ii) a base salary of $826,000 per year, (iii) severance compensation equal to 100% of annual base salary and continuation of insurance benefits for one year if terminated without cause by the Company or with good reason by the executive, (iv) restrictive covenants against competing with the Company or recruiting any Company personnel for two years following termination, and (v) vesting of all unvested options and interests in incentive compensation plans upon death or disability. The executive remains eligible for other benefit plans and incentive plans in effect from time to time.

Table of Contents

On December 5, 2008, Mr. Stovall was granted an option to purchase one million shares of the Company s common stock, at an exercise price of $1.25, under the Company s 2001 Omnibus Plan. The option is valued at $570,000. One-third of the option vests on the first, second and third anniversary dates of grant. The vested portion of the option may be exercised two years after the grant date and no vested portion of the option may be exercised on or after December 5, 2015. Shares acquired on exercise of the option may not be sold until the earlier of (1) one year from date of exercise, or (2) a change of control of the Company. In January 2009, Mr. Stovall will be granted a second option to purchase 200,000 shares of common stock, which has terms similar to the initial option, but will have an exercise price based on the market value of the Company s common stock on the date of grant.

Table of Contents

STEIN MART, INC.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
As used herein, the terms we , our , us , Stein Mart and the Company refer to Stein Mart, Inc. and its wholly-owned subsidiaries.

Forward-Looking Statements

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 changes in consumer spending due to general economic conditions including uncertainty in the financial and credit markets, the effectiveness of advertising, marketing and promotional strategies, ongoing competition from other retailers, changing preferences in apparel, unanticipated weather conditions and unseasonable weather, adequate sources of merchandise at acceptable prices, the Company s ability to attract and retain qualified employees, the ability to successfully implement strategies to exit or improve under-performing stores, disruption of the Company s distribution system, acts of terrorism and failure to adequately protect our trademark Stein Mart® and other marks we use. Readers are urged to review and consider the matters discussed in Item 1A. Risk Factors of our Form 10-K for 2007.

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.

Overview

Stein Mart is a retailer offering the fashion merchandise, service and presentation of a better department or specialty store at prices up to 60 percent off department and specialty store original prices, every day. Our focused assortment of merchandise features current-season moderate to better fashion apparel for women and men, as well as accessories, gifts, linens and shoes. Management believes that Stein Mart differentiates itself from typical off-price retailers by offering: (i) primarily current-season merchandise carried by better department and specialty stores, (ii) at moderate to better price levels, (iii) a stronger merchandising statement, consistently offering more depth of color and size in individual stock-keeping units, and (iv) merchandise presentation and customer service more comparable to other upscale retailers. As of November 1, 2008, we operated 279 stores.

For the 13 weeks ended November 1, 2008, the Company incurred a net loss of $(14.1) million or $(0.34) per share compared to a net loss of $(2.7) million or $(0.06) per share for the same 2007 period. For the 39 weeks ended November 1, 2008, the Company incurred a net loss of $(15.1) million or $(0.37) per share compared to net income of $7.6 million or $0.18 per share for the same 2007 period. The 2008 net loss was driven by negative comparable store sales. Comparable store sales decreased 12.6 percent and 10.5 percent, respectively, for the 13 weeks and 39 weeks ended November 1, 2008 from the same 2007 periods. Gross profit decreased for both 2008 periods due to lower merchandise margins resulting from higher markdowns taken to keep inventory levels in line with current sales trends.

Our third quarter was the most challenging in the Company s history as the economic developments and aggressive promotional activities by the Company s competitors severely curbed our customer s normal shopping habits. Despite more aggressive promotion by the Company, reducing average store inventories 12.2 percent year over year, and accelerating our efforts to control costs, the magnitude of the sales shortfall could not be overcome. Although we planned conservatively for the holiday season, current sales trends and the amount and scale of competitive promotion already underway suggest that we will have to be especially aggressive to reduce seasonal inventory in a timely manner resulting in increased markdowns.

We are focused on cash and liquidity and, to that end, we continue to do everything possible to maximize our financial flexibility. In addition to cutting operating expenses, we have expanded our credit facility, scaled back our opening plans to one store, planned significantly reduced capital expenditures in 2009, and suspended the cash dividend and the stock buyback.

Initiatives and Outlook

In light of the severity of the current economic environment, management has accelerated various initiatives begun earlier this year to increase sales, motivate existing customers and attract new ones, reduce expenses and maximize cash flow.

In the merchandise area, efforts continue to expand the customer base by adding more desirable name brand merchandise throughout the store, and by extending our assortment to attract a somewhat younger customer to join our traditional base. At the same time, overall inventories are planned to reflect an expectation of continued consumer caution and extreme value-consciousness for the foreseeable future.

9

Table of Contents

Customers are understandably focused on superior value. Our updated marketing message positions Stein Mart as a different kind of discount store with better brands, service, ambiance and convenience vs. other discount stores. We continue to focus spending on those tactics that deliver a positive return on our marketing investment, including more targeted direct mail, email and efficient reach in newspaper. Like most other retailers, we added promotional events in the third quarter and offered deeper discounts compared to 2007. Going into the holiday season, we plan an even more aggressive promotional cadence, with deeper discounts and unique events designed to capture customers interest.

The Company has undergone a comprehensive strategic review of expenses throughout the organization. The review surfaced savings opportunities in non-merchandise procurement, some of which are now in effect, with greater potential in 2009 and beyond. Additionally, we have reduced headcount at the managerial level by approximately ten percent, and we have reduced the number of associates hours in the stores, also by approximately ten percent.

A significant outcome of the strategic review involves the Company s existing supply chain/distribution process, where we currently have merchandise drop-shipped directly from vendors to individual stores. We anticipate transforming the current process over the next 18 months to one that utilizes outside parties to consolidate merchandise from vendors into third-party owned regional distribution centers for store cluster delivery. Once fully operational, the new third-party-based distribution system is expected to yield significant expense reductions.

We are continuing to manage our business to preserve cash and enhance liquidity. Earlier this year, we suspended payment of a cash dividend and the repurchase of the Company s common stock. We have also reduced capital expenditures for fiscal year 2008 by approximately thirty percent from last year and capital expenditures for 2009 will be significantly less than those in 2008. We have also ceased opening additional stores except where we are obligated by prior agreements to do so.

Although we have been persistently re-forecasting our inventory plan as the economic climate worsens, it appears we will need even more aggressive markdowns in the fourth quarter to end the year with season-appropriate inventories at the proper level. Looking ahead, we are buying very conservatively for the spring season, not only to keep inventories in line, but also to be able to take advantage of many better brand opportunities that have opened up in this environment.

On December 2, 2008, the Company s Board of Directors appointed David H. Stovall, Jr. as President and Chief Executive Officer (CEO) of the Company. Mr. Stovall assumed his new responsibilities on December 5, 2008. Mr. Stovall succeeds Linda McFarland Farthing, longtime Stein Mart board member who has held the president and CEO position since September 2007, but announced earlier this fall that a search for her successor had begun. Ms. Farthing s responsibilities as CEO will conclude on December 10, 2008, at which time she will continue to serve on the Company s Board of Directors.

In connection with Mr. Stovall s appointment, the Company and Mr. Stovall executed an employment agreement which, among other things, provides for: (i) a term of three years which will be extended for successive one-year periods unless either the executive or the Company cancels the automatic extension by providing at least 120 days advance written notice, (ii) a base salary of $826,000 per year, (iii) severance compensation equal to 100% of annual base salary and continuation of insurance benefits for one year if terminated without cause by the Company or with good reason by the executive, (iv) restrictive covenants against competing with the Company or recruiting any Company personnel for two years following termination, and (v) vesting of all unvested options and interests in incentive compensation plans upon death or disability. The executive remains eligible for other benefit plans and incentive plans in effect from time to time.

On December 5, 2008, Mr. Stovall was granted an option to purchase one million shares of the Company s common stock, at an exercise price of $1.25, under the Company s 2001 Omnibus Plan. The option is valued at $570,000. One-third of the option vests on the first, second and third anniversary dates of grant. The vested portion of the option may be exercised two years after the grant date and no vested portion of the option may be exercised on or after December 5, 2015. Shares acquired on exercise of the option may not be sold until the earlier of (1) one year from date of exercise, or (2) a change of control of the Company. In January 2009, Mr. Stovall will be granted a second option to purchase 200,000 shares of common stock, which has terms similar to the initial option, but will have an exercise price based on the market value of the Company s common stock on the date of grant.

Table of Contents

Stores

There were 279 stores open as of November 1, 2008 and 276 stores open as of November 3, 2007. We completed our 2008 store-opening program during the third quarter. We plan to close three more stores by the end of fiscal year 2008, which will bring to ten the number of stores closed this year, and the total number of stores in operation to 276 at the end of fiscal year 2008. For 2009, we have not actively sought new real estate, although we will open one new store next year based on a previously signed lease. We anticipate closing ten stores in 2009.

	13 Weeks Ended November 1, 2008	13 Weeks Ended November 3, 2007	39 Weeks Ended November 1, 2008	39 Weeks Ended November 3, 2007
Stores at beginning of period	**283**	270	**280**	268
Stores opened during the period	**2**	8	**6**	10
Stores closed during the period	**(6)**	(2)	**(7)**	(2)
Stores at the end of period	**279**	276	**279**	276

Results of Operations

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

	13 Weeks Ended November 1, 2008	13 Weeks Ended November 3, 2007	39 Weeks Ended November 1, 2008	39 Weeks Ended November 3, 2007
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Cost of merchandise sold	**77.4**	74.1	**75.1**	73.3
Gross profit	**22.6**	25.9	**24.9**	26.7
Selling, general and administrative expenses	**31.3**	29.2	**28.8**	27.1
Other income, net	**1.7**	1.7	**1.7**	1.6
Income (loss) from operations	**(7.1)**	(1.6)	**(2.3)**	1.1
Interest expense, net	**(0.2)**	(0.1)	**(0.1)**	
Income (loss) before income taxes	**(7.2)**	(1.7)	**(2.4)**	1.1
Income tax benefit (provision)	**2.5**	0.9	**0.8**	(0.3)
Net income (loss)	**(4.7)%**	(0.8)%	**(1.6)%**	0.7%

For the 13 weeks ended November 1, 2008 compared to the 13 weeks ended November 3, 2007

Net sales for the third quarter of 2008 were $298.8 million, down 10.4% from $333.3 million in last year s third quarter. The $34.5 million decrease reflects a $40.3 million decrease in the comparable store group and a $3.8 million decrease in the closing/closed store group, offset by a $9.6 million increase in the non-comparable store group due to the inclusion of sales for the 14 stores opened in 2007 and the 6 stores opened in 2008. The closing/closed store group includes the ten stores we plan to close in 2008 and the two stores closed in 2007. Comparable stores sales for the third quarter of 2008 decreased 12.6% compared to third quarter of 2007.

Gross profit for the third quarter of 2008 was $67.5 million or 22.6 percent of net sales compared to $86.2 million or 25.9 percent of net sales for the third quarter of 2007. The $18.7 million decrease in gross profit reflects a $17.7 million decrease in the comparable store group and a $1.5 million decrease in the closing/closed store group, partially offset by a $0.5 million increase in the non-comparable store group due to the inclusion of operating results for the 14 stores opened in 2007 and six stores opened in 2008. Gross profit as a percent of sales decreased during the third quarter of 2008 primarily from a 1.9 percentage point increase in occupancy costs due to a lack of leverage on lower sales and a 1.0 percentage point decrease in merchandise margin due to increased markdowns slightly offset by an increase in markup.

Selling, general and administrative (SG&A) expenses were $93.5 million or 31.3 percent of net sales for the third quarter of 2008 as compared to $97.2 million or 29.2 percent of net sales for the third quarter of 2007. The $3.7 million decrease primarily reflects reductions in advertising and store operating expenses, somewhat offset by increased store closing expenses. Advertising expense decreased $5.2 million this quarter primarily due to reduced broadcast media. Store operating expenses decreased $2.0 million for the comparable store group due to cost saving initiatives, but were offset by a $1.0 million increase for the non-comparable store group due to the inclusion of operating results for the 14 stores opened in 2007 and the six stores opened in 2008. Store closing costs increased $2.6 million due to more planned store closings in 2008. SG&A expenses for the third quarter of 2008 also included $2.3 million for professional fees related to ongoing expense reduction initiatives and higher benefits costs, while last year s third quarter included $1.8 million of separation costs for the resignation of the former President/Chief Executive Officer. SG&A expenses as a percentage of net sales was higher for the third quarter of 2008 due to a lack of leverage on lower sales.

Interest expense, net increased only slightly for the third quarter of 2008 over the third quarter of 2007 due to higher borrowings at lower interest rates this quarter compared to last year.

Table of Contents

Other income, net decreased $0.8 million in the third quarter of 2008 compared to the third quarter of 2007 due to decreases in both credit card income and leased shoe department income resulting from the decreased net sales.

The effective income tax benefit, including certain book/tax differences and the recording of unrecognized tax benefits, is 34.7 percent for the third quarter of 2008 and 34.5 percent for the first 39 weeks of 2008. We expect the effective tax rate to be approximately 35 percent for the 2008 year. The income tax benefit was decreased in the third quarter of 2007 due to lower estimated annual taxable income, certain federal and state tax credits, and other state tax benefits.

For the 39 weeks ended November 1, 2008 compared to the 39 weeks ended November 1, 2007

Net sales for the first 39 weeks of 2008 were $962.6 million, down 7.5% from $1,040.2 million for the first 39 weeks of 2007. The $77.6 million decrease reflects a $105.3 million decrease in the comparable store group and an $8.1 million decrease in the closing/closed store group, offset by a $35.8 million increase in the non-comparable store group due to the inclusion of sales for the 14 stores opened in 2007 and the six stores opened in 2008. Comparable stores sales for the first 39 weeks of 2008 decreased 10.5% compared to the first 39 weeks of 2007.

Gross profit for first 39 weeks of 2008 was $239.3 million or 24.9 percent of net sales compared to $277.3 million or 26.7 percent of net sales for the first 39 weeks of 2007. The $38.0 million decrease in gross profit reflects a $39.7 million decrease in the comparable store group and a $3.2 million decrease in the closing/closed store group, partially offset by a $4.9 million increase in the non-comparable store group due to the inclusion of operating results for the 14 stores opened in 2007 and the six stores opened in 2008. Gross profit as a percent of sales decreased during the first 39 weeks of 2008 primarily from a 1.6 percentage point increase in occupancy costs due to a lack of leverage on lower sales and relatively flat merchandise margin due to increased markdowns mostly offset by an increase in markup.

SG&A expenses were $277.6 million or 28.8 percent of net sales for first 39 weeks of 2008 as compared to $282.3 million or 27.1 percent of net sales for the first 39 weeks of 2007. The $4.8 million decrease in SG&A expenses primarily reflects significant reductions in advertising expenses and share-based compensation, somewhat offset by increased store closing expenses, professional fees and benefits costs. Advertising expenses decreased $10.3 million this year due primarily to reduced broadcast media. Share-based compensation expense decreased $3.7 million ($2.4 million in cost of merchandise sold and $1.3 million in SG&A expenses) primarily due to compensation expense for performance shares issued in 2006 being fully amortized through the first quarter of 2008. Store closing costs increased $3.8 million due to more planned store closings in 2008. SG&A expenses for 2008 also include $4.9 million for professional fees related to ongoing expense reduction initiatives and higher benefits costs, while last year included $1.8 million of separation costs for the resignation of the former President/Chief Executive Officer. SG&A expenses as a percentage of net sales was higher this year due to a lack of leverage on lower sales.

Interest expense, net increased $0.7 million during the first 39 weeks of 2008 compared to the first 39 weeks of 2007 due to higher 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 November 1, 2008, the Company had $64.8 million in cash and cash equivalents.

Net cash used in operating activities was $9.8 million for the first 39 weeks of 2008 compared to $12.2 million for the first 39 weeks of 2007. The $2.4 million decrease in cash used in operating activities for the first 39 weeks of 2008 compared to 2007 is primarily due to $22.5 million less cash provided by net income (loss) plus non-cash charges and $8.6 million more cash used for inventories and accounts payable, offset by a $22.0 million decrease in cash used for income taxes receivable/payable and $11.5 million more cash provided by other operating activities, primarily collection of construction receivables. Less cash was needed for income taxes in 2008 due to a significant income tax receivable recorded at February 2, 2008. While both inventories and accounts payable decreased during the first 39 weeks of each year, the decrease in inventories was greater during the first 39 weeks of 2008 due to timing of merchandise receipts and vendor payments.

Net cash used in investing activities was $13.9 million for the first 39 weeks of 2008 and $9.2 million for the first 39 weeks of 2007. Less cash was used in investing activities last year primarily due to the $10.8 million net liquidation of short-term investments partially offsetting higher capital expenditures from more stores being opened last year. The Company expects to spend a total of $17-19 million in capital expenditures in 2008 to open new stores and continue updating systems and existing stores and anticipates that 2009 capital expenditures will be significantly less than in 2008.

12

Table of Contents

Net cash provided by financing activities was $73.4 million for the first 39 weeks of 2008 compared to $24.4 million of cash used in financing activities for the first 39 weeks of 2007. More cash was provided by financing activities during 2008 primarily due to higher net borrowings, no cash dividends paid and fewer shares of common stock repurchased this year. In February 2008 the Board of Directors suspended the payment of a quarterly dividend in order to conserve cash until improvements occur in the Company s business and in the current difficult economic conditions.

The Company has a senior revolving secured credit agreement (the Agreement) with a group of lenders which extends through January 2011. Effective September 10, 2008, the Company exercised an option to increase the facility from $100 million to $150 million. On September 29, 2008, the Company borrowed $75 million under the Agreement as a proactive step to increase its cash position to preserve its financial flexibility in light of the current uncertainty in the credit markets. The funds are being used to support seasonal working capital needs. The proceeds from this borrowing were invested on a short-term basis in AAA-rated United States Treasury money market funds. As of November 1, 2008, the Company had $100 million in direct borrowings, $8.0 million of outstanding standby letters of credit, and cash and cash equivalents of $64.8 million. Approximately $42 million was available under the Agreement and no event of default existed under the terms of the Agreement at November 1, 2008.

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 change, management can borrow on the revolving credit agreement or adjust operating plans, including new store rollout.

Recent Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP EITF No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method as described in Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share*. Under the guidance of FSP EITF No. 03-6-1, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. The Company s restricted stock awards are considered participating securities because they contain non-forfeitable rights to dividends. FSP EITF No. 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and all prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. The adoption of FSP EITF No. 03-6-1 will not have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 was effective for the Company on February 3, 2008 and had no effect on the Company s financial position or results of operations.

In September 2006, the EITF issued EITF No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. EITF No. 06-4 states that an employer accounting for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods should recognize a liability for future benefits in accordance with SFAS No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions,* or Accounting Principles Board Opinion No. 12, *Omnibus Opinion-1967*. The Company adopted EITF 06-4 on February 3, 2008 and recognized a liability of $4.5 million (included in other liabilities) and recorded a corresponding reduction to retained earnings representing the cumulative effect of the change in accounting principle. Subsequent changes in this liability are recorded through expense.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 was effective for the Company on February 3, 2008 and had no effect on the Company s financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding our exposure to certain market risk, see Quantitative and Qualitative Disclosures About Market Risk in Part II, Item 7A of our Form 10-K for the year ended February 2, 2008, filed with the Securities and Exchange Commission on April 17, 2008. There were no material changes to our market risk during the 39 weeks ended November 1, 2008.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) as of the end of the period covered by

Table of Contents

this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of November 1, 2008 to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

There were no changes in the Company s internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information regarding repurchases by the Company of its common stock during the 13-week period ended November 1, 2008:

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)
August 3, 2008 August 30, 2008	2,031	$ 4.68	2,031	805,223
August 31, 2008 October 4, 2008	981	3.94	981	804,242
October 5, 2008 November 1, 2008	267	1.87	267	803,975
Total	3,279	$ 4.23	3,279	803,975

(1) The Company s Open Market Repurchase Program is conducted pursuant to authorizations made from time to time by the Company s Board of Directors. The shares reported in the table are covered by an April 17, 2007 Board authorization to repurchase 2.5 million shares of common stock which does not have an expiration date. This quarter s repurchases are related to taxes due on the vesting of restricted stock awards which fall under the Company s repurchase program.

ITEM 5. OTHER INFORMATION

On August 26, 2008, the Company entered into a First Amendment to Amended and Restated Supply Agreement (the Amendment) with DSW Inc. The Amendment extends the initial term of the Amended and Restated Supply Agreement, dated May 30, 2006, from December 31, 2009 to December 31, 2012. The Amendment is attached hereto as Exhibit 10.1.

ITEM 6. EXHIBITS

10.1 First Amendment to Amended and Restated Supply Agreement, dated August 26, 2008, between DSW Inc. and Stein Mart, Inc.

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a)

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a)

32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350

32.2 Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STEIN MART, INC.

Date: December 10, 2008

By: /s/ Linda M. Farthing
Linda M. Farthing
President and Chief Executive Officer

/s/ James G. Delfs
James G. Delfs
Senior Vice President, Finance and Chief Financial Officer