CHRISTOPHER & BANKS CORP
Form 10-Q
January 08, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 29, 2008

or

o **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 001-31390

CHRISTOPHER & BANKS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**06 - 1195422**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2400 Xenium Lane North, Plymouth, Minnesota	**55441**
(Address of principal executive offices)	**(Zip Code)**

(763) 551-5000

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO x

As of January 2, 2009 35,498,980 shares of the registrant s common stock were outstanding.

Table of Contents

CHRISTOPHER & BANKS CORPORATION

QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	November 29, 2008	March 1, 2008	December 1, 2007
ASSETS			
Current assets:			
Cash and cash equivalents	$ 74,086,872	$ 78,492,297	$ 46,701,459
Short-term investments			48,300,000
Accounts receivable	6,742,115	5,222,976	6,811,678
Merchandise inventories	53,151,343	43,840,338	46,943,191
Prepaid expenses	11,242,887	11,597,280	11,497,446
Other current assets	11,136,411	9,482,393	4,582,421
Total current assets	156,359,628	148,635,284	164,836,195
Property, equipment and improvements, net	129,067,110	133,598,580	136,373,593
Long-term investments	15,875,812	23,350,000	
Goodwill			3,587,052
Other assets	8,794,687	6,207,858	4,337,972
Total assets	$ 310,097,237	$ 311,791,722	$ 309,134,812
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 14,793,920	$ 15,380,692	$ 8,483,503
Accrued salaries, wages and related expenses	8,087,824	9,246,050	9,529,895
Other accrued liabilities	22,288,773	28,040,623	20,902,975
Total current liabilities	45,170,517	52,667,365	38,916,373
Non-current liabilities:			
Deferred lease incentives	24,822,736	24,854,278	22,336,658
Deferred rent obligations	10,037,563	11,720,689	11,673,329
Other	4,219,500	3,722,195	3,362,258
Total non-current liabilities	39,079,799	40,297,162	37,372,245
Commitments			
Stockholders equity:			
Preferred stock $0.01 par value, 1,000,000 shares authorized, none outstanding			
Common stock $0.01 par value, 74,000,000 shares authorized, 45,302,778, 45,050,290 and 45,052,590 shares issued and 35,498,980, 35,259,572 and 35,574,772 shares outstanding at November 29, 2008, March 1, 2008 and December 1, 2007, respectively	453,028	450,503	450,526
Additional paid-in capital	111,930,607	110,359,847	109,766,765
Retained earnings	226,322,245	221,928,654	232,341,185
Common stock held in treasury, 9,803,798, 9,790,718 and 9,477,818 shares at cost at November 29, 2008, March 1, 2008 and December 1, 2007, respectively	(112,858,959)	(112,711,809)	(109,712,282)
Accumulated other comprehensive income (loss)		(1,200,000)	
Total stockholders equity	225,846,921	218,827,195	232,846,194
Total liabilities and stockholders equity	$ 310,097,237	$ 311,791,722	$ 309,134,812

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

Table of Contents

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

	Three Months Ended	
	November 29, 2008	**December 1, 2007**
Net sales	$ 143,003,908	$ 155,242,697
Costs and expenses:		
Merchandise, buying and occupancy	91,914,238	90,522,545
Selling, general and administrative	45,204,023	42,933,371
Depreciation and amortization	6,548,133	5,430,983
Total costs and expenses	143,666,394	138,886,899
Operating income (loss)	(662,486)	16,355,798
Interest income	619,178	1,163,225
Income (loss) from continuing operations before income taxes	(43,308)	17,519,023
Income tax provision (benefit)	(3,855)	6,447,001
Income (loss) from continuing operations	(39,453)	11,072,022
Loss from discontinued operations, net of income tax	(1,334,013)	(833,852)
Net income (loss)	$ (1,373,466)	$ 10,238,170
Basic earnings (loss) per share:		
Continuing operations	$	$ 0.31
Discontinued operations	(0.04)	(0.02)
Earnings (loss) per basic share	$ (0.04)	$ 0.29
Basic shares outstanding	35,099,129	35,447,855
Diluted earnings (loss) per share:		
Continuing operations	$	$ 0.31
Discontinued operations	(0.04)	(0.02)
Earnings (loss) per diluted share	$ (0.04)	$ 0.29
Diluted shares outstanding	35,099,129	35,528,352
Dividends per share	$ 0.06	$ 0.06

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

4

Table of Contents

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

	Nine Months Ended November 29, 2008	Nine Months Ended December 1, 2007
Net sales	$ 426,850,378	$ 438,623,317
Costs and expenses:		
Merchandise, buying and occupancy	257,361,338	262,171,413
Selling, general and administrative	129,010,326	120,214,677
Depreciation and amortization	19,653,754	15,702,721
Total costs and expenses	406,025,418	398,088,811
Operating income	20,824,960	40,534,506
Interest income	2,031,770	3,382,476
Income from continuing operations before income taxes	22,856,730	43,916,982
Income tax provision	2,034,248	16,161,450
Income from continuing operations	20,822,482	27,755,532
Loss from discontinued operations, net of income tax	(10,087,651)	(2,452,735)
Net income	$ 10,734,831	$ 25,302,797
Basic earnings (loss) per share:		
Continuing operations	$ 0.59	$ 0.78
Discontinued operations	(0.28)	(0.07)
Earnings per basic share	$ 0.31	$ 0.71
Basic shares outstanding	35,091,041	35,835,063
Diluted earnings (loss) per share:		
Continuing operations	$ 0.59	$ 0.77
Discontinued operations	(0.28)	(0.07)
Earnings per diluted share	$ 0.31	$ 0.70
Diluted shares outstanding	35,093,991	35,925,734
Dividends per share	$ 0.18	$ 0.18

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

5

Table of Contents

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Nine Months Ended November 29, 2008	Nine Months Ended December 1, 2007
Cash flows from operating activities:		
Net income	$ 10,734,831	$ 25,302,797
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,754,489	17,391,107
Impairment of store assets	1,220,550	
Deferred income taxes	253,923	(5,585,486)
Excess income tax benefit on exercise of stock options		(14,738)
Stock-based compensation expense	1,577,843	1,788,292
Loss on disposal of furniture, fixtures and equipment	553,289	221,928
Changes in operating assets and liabilities:		
Increase in accounts receivable	(1,519,139)	(2,330,054)
(Increase) decrease in merchandise inventories	(9,311,005)	5,411,753
Decrease (increase) in prepaid expenses	354,393	(831,025)
(Increase) decrease in prepaid income taxes and income taxes payable	(903,712)	2,091,455
Decrease (increase) in other assets	8,993	(64,541)
Decrease in accounts payable	(586,772)	(7,876,176)
(Decrease) increase in accrued liabilities	(7,057,224)	470,658
Decrease in deferred lease incentives	(31,542)	(500,116)
(Decrease) increase in deferred rent obligations	(1,683,126)	994,988
Increase in other liabilities	497,305	3,362,258
Net cash provided by operating activities	13,863,096	39,833,100
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(16,922,724)	(26,868,274)
Purchases of investments		(96,850,000)
Sales of investments	5,000,000	96,825,000
Net cash used in investing activities	(11,922,724)	(26,893,274)
Cash flows from financing activities:		
Proceeds from exercise of stock options		1,156,993
Dividends paid	(6,345,797)	(6,445,651)
Excess income tax benefit on exercise of stock options		14,738
Acquisition of common stock held in treasury		(14,955,845)
Net cash used in financing activities	(6,345,797)	(20,229,765)
Net decrease in cash and cash equivalents	(4,405,425)	(7,289,939)
Cash and cash equivalents at beginning of period	78,492,297	53,991,398
Cash and cash equivalents at end of period	$ 74,086,872	$ 46,701,459

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

Table of Contents

CHRISTOPHER & BANKS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements included in this Form 10-Q have been prepared by Christopher & Banks Corporation and its subsidiaries (the Company) pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed, or omitted, pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s Annual Report on Form 10-K for the fiscal year ended March 1, 2008.

The results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the full fiscal year. In the opinion of management, the information contained herein reflects all adjustments, consisting of only normal adjustments except as otherwise stated in these notes, necessary to present fairly the Company s financial position as of November 29, 2008 and December 1, 2007, and its results of operations and cash flows for the three and nine month periods ended November 29, 2008 and December 1, 2007.

NOTE 2 DISCONTINUED OPERATIONS

On July 31, 2008, the Company announced its decision to exit its Acorn business when management concluded, after a comprehensive review and evaluation, that the concept had not demonstrated the potential to deliver an acceptable long-term return on the Company s investment. On July 30, 2008, the Company s Board of Directors authorized a plan to close all of the Company s 36 Acorn stores by December 31, 2008, allowing the Company to focus its resources on its two core brands, Christopher & Banks and C.J. Banks.

The Company closed 29 of its 36 Acorn stores during its third fiscal quarter ended November 29, 2008 and closed its seven remaining Acorn stores on December 24, 2008. The operating results of all Acorn stores have been presented as discontinued operations, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), in the Condensed Consolidated Statement of Operations for the three and nine month periods ended November 29, 2008 as the impact of the remaining stores open as of November 29, 2008 were not material to the results of operations for these periods and because, upon closure of the remaining stores, the results of operations for all periods would be retroactively included in discontinued operations.

In addition to store-level operating losses, the loss from discontinued operations for the nine months ended November 29, 2008 includes approximately $3.9 million of lease termination costs, $1.2 million of long-lived asset impairment charges and $0.3 million of severance costs incurred in connection with exiting the Acorn division business. The Company expects to incur approximately $0.7 million of additional charges related to closing the seven remaining Acorn stores during the fourth quarter of fiscal 2009.

The operating results of the discontinued operations are summarized below.

	Three Months Ended	
	November 29, 2008	December 1, 2007
Net sales	$ 3,015,273	$ 4,733,459
Loss before income tax benefit	(4,712,733)	(1,404,169)
Income tax provision (benefit)	(3,378,720)	(570,317)
Net loss	(1,334,013)	(833,852)
Net loss per share	$ (0.04)	$ (0.02)

Table of Contents

	Nine Months Ended November 29, 2008	Nine Months Ended December 1, 2007
Net sales	$ 10,448,260	$ 11,851,788
Loss before income tax benefit	(7,499,321)	(3,106,018)
Income tax provision (benefit)	2,588,330	(653,283)
Net loss	(10,087,651)	(2,452,735)
Net loss per share	$ (0.28)	$ (0.07)

Income taxes have been allocated to continuing and discontinued operations based on the methodology required by Financial Accounting Interpretation No. 18 (FIN 18). As required by this authoritative guidance, income taxes are computed with and without the impact of results from discontinued operations and the difference in taxes between these computations is allocated to discontinued operations.

Income taxes allocated to the loss from discontinued operations for the three and nine month interim periods ended November 29, 2008, result from the fact that the estimated effective tax rate on continuing operations for these interim periods is 8.9%, while the effective tax rate for all operations, including combined results for continuing and discontinued operations is estimated to be 30.1%. The difference in taxes between those allocable to continuing operations and total taxes previously estimated for all operations are allocated to discontinued operations. Actual tax rates for fiscal 2009 could differ significantly from estimated rates based on the results of operations in the fourth quarter of fiscal 2009.

The balance sheet impact of the discontinued operations included current assets and current liabilities of approximately $600,000 each as of November 29, 2008.

For comparison purposes, the Company s results from continuing and discontinued operations for the quarters ended March 1, 2008, May 31, 2008 and August 30, 2008 have been provided below.

	Three Months Ended March 1, 2008	Three Months Ended May 31, 2008	Three Months Ended August 30, 2008
Net sales	$ 122,289	$ 155,395	$ 128,451
Costs and expenses:			
Merchandise, buying and occupancy	79,756	86,734	78,715
Selling, general and administrative	40,965	43,565	40,241
Depreciation and amortization	6,472	6,408	6,696
Total costs and expenses	127,193	136,707	125,652
Operating income (loss)	(4,904)	18,688	2,799
Interest income	1,279	827	586
Income (loss) from continuing operations before income taxes	(3,625)	19,515	3,385
Income tax provision (benefit)	(1,334)	1,737	301
Income (loss) from continuing operations	(2,291)	17,778	3,084
Loss from discontinued operations, net of income tax	(5,993)	(6,506)	(2,248)
Net income (loss)	$ (8,284)	$ 11,272	$ 836
Basic earnings (loss) per share:			

Continuing operations	$	(0.06)	$	0.51	$	0.09
Discontinued operations		(0.17)		(0.19)		(0.06)
Earnings (loss) per basic share	$	(0.23)	$	0.32	$	0.03
Basic shares outstanding		35,287		35,071		35,099
Diluted earnings (loss) per share:						
Continuing operations	$	(0.06)	$	0.51	$	0.08
Discontinued operations		(0.17)		(0.19)		(0.06)
Earnings (loss) per diluted share	$	(0.23)	$	0.32	$	0.02
Diluted shares outstanding		35,287		35,138		35,122
Dividends per share	$	0.06	$	0.06	$	0.06

Table of Contents

NOTE 3 INVESTMENTS

The Company s investments consist of the following:

Description	November 29, 2008		March 1, 2008		December 1, 2007	
Tax-advantaged, auction rate, trading securities:						
Short-term	$		$		$	48,300,000
Long-term		15,875,812		23,350,000		
	$	15,875,812	$	23,350,000	$	48,300,000

As of November 29, 2008, the Company had approximately $15.9 million of long-term investments, which consisted solely of $19.6 million of auction rate securities (ARS) at cost, less a fair value adjustment of $3.7 million. Fair value was based on management s analysis of impairment factors taking into account the credit quality of the underlying securities and reflects the lack of liquidity of the Company s investments. All of the Company s ARS are collateralized by student loans and currently have AAA (S&P) or Aaa (Moody s) credit ratings. As of November 29, 2008, the repayment of approximately 80% of the student loans, which serve as collateral for the ARS held by the Company, is substantially backed by the United States government. Until February 2008, the ARS market was liquid and auctions for ARS held by the Company did not fail. However, beginning in February 2008, auctions for the ARS held by the Company began to fail and have continued to fail up to and as of the date of this report.

Based on current market conditions, management believes that it is likely that auctions related to the Company s ARS will continue to be unsuccessful for the near term. Unsuccessful auctions have limited the Company s ability to access these funds. Management anticipates the liquidity of the ARS will continue to be restricted until there is a successful auction, until such time as another market for the ARS develops, until the ARS are called by the issuer or until they are redeemed as described below. The Company reclassified its ARS to long-term investments at March 1, 2008 to reflect the lack of liquidity of these investments.

All of the ARS owned by the Company were purchased from UBS Financial Services, Inc., a subsidiary of UBS AG (UBS) and are held, for the benefit of the Company, by UBS. In August 2008, UBS announced a settlement in principle with the Securities and Exchange Commission, the New York Attorney General and other state regulatory agencies to restore liquidity to remaining clients who hold ARS. On October 7, 2008, UBS issued a prospectus to the Company formalizing the settlement offer and offering the Company certain ARS rights. Under the settlement, these ARS rights provide the Company the ability to redeem its ARS at par during a two-year time period beginning June 30, 2010. During this time, the Company may choose to continue to hold some or all of its ARS and earn interest or sell some or all of them to UBS at par plus accrued interest. The ARS rights are not transferable, tradeable or marginable and will not be listed or quoted on any securities exchange or any electronic communications network.

On November 7, 2008, the Company s Board of Directors accepted the UBS settlement offer. Consequently, the Company reclassified the ARS from available-for-sale to trading securities and elected, pursuant to Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159), to record the ARS rights at fair value on a recurring basis utilizing significant unobservable inputs in accordance with SFAS No. 157, Fair Value Measurements (SFAS No. 157).

The Company determined the fair value of the ARS rights to be approximately $3.7 million, which substantially offset the unrealized loss recorded within selling, general and administrative expense related to the fair value adjustment on the ARS. The ARS rights were recorded within other non-current assets on the consolidated balance sheet. Please see Note 12 for further disclosure regarding the Company s accounting for fair value measurements.

Table of Contents

NOTE 4 MERCHANDISE INVENTORIES AND SOURCES OF SUPPLY

Merchandise inventories consisted of the following:

Description	November 29, 2008	March 1, 2008	December 1, 2007
Merchandise - in store	$ 51,859,445	$ 37,303,879	$ 43,885,126
Merchandise - in transit	1,291,898	6,536,459	3,058,065
	$ 53,151,343	$ 43,840,338	$ 46,943,191

The Company does not have long-term purchase commitments or arrangements with any of its suppliers or agents. The Company purchased approximately 17% and 19% of its merchandise from its largest overseas supplier during the first nine months of fiscal 2009 and 2008, respectively. Although the Company has an established operating history with its largest vendor, there can be no assurance that this relationship can be maintained in the future or that the vendor will continue to supply merchandise to the Company. If there should be any significant disruption in the supply of merchandise from this vendor, management believes that it will be able to shift production to other suppliers so as to continue to secure the required volume of product. Nevertheless, it is possible that any significant disruption in supply could have a material adverse impact on the Company s financial position or results of operations.

In the three and nine month periods ended November 29, 2008, the Company purchased approximately 20% and 32% of its merchandise, respectively, through one buying agent (the Agent). The Company has continued the process of establishing relationships with additional primary suppliers, which are intended to reduce its reliance on the Agent. The Agent also has informed the Company that it desires to cease serving as an intermediary with manufacturers on behalf of the Company. Therefore, the Company and the Agent agreed to terminate their arrangement as of the end of December 2008. While management believes the actions it is taking to mitigate the risks of reliance on the Agent will be successful, any significant disruption in supply from vendors working through the Agent could have a material adverse impact on the Company s financial position or results of operations.

NOTE 5 PROPERTY, EQUIPMENT AND IMPROVEMENTS, NET

Property, equipment and improvements, net consisted of the following:

Description	Estimated Useful Life	November 29, 2008	March 1, 2008	December 1, 2007
Land		$ 1,596,898	$ 1,596,898	$ 1,596,898
Corporate office, distribution center and related building improvements	25 years	12,020,131	12,014,667	11,856,863
Store leasehold improvements	Term of related lease, typically 10 years			