CHRISTOPHER & BANKS CORP
Form 10-Q
January 06, 2011
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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 27, 2010

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 001-3139

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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES o 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 December 24, 2010, 35,652,036 shares of the registrant s common stock were outstanding.

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CHRISTOPHER & BANKS CORPORATION

QUARTERLY REPORT ON FORM 10-Q

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PART I FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands)

(Unaudited)

	November 27, 2010	February 27, 2010	November 28, 2009
ASSETS			
Current assets:			
Cash and cash equivalents	$ 30,578	$ 37,073	$ 43,518
Short-term investments	53,482	62,251	48,968
Accounts receivable	6,123	4,245	5,841
Merchandise inventories	45,973	38,496	41,824
Prepaid expenses	2,960	1,642	2,476
Income taxes receivable	3,918	394	
Current deferred tax asset		3,509	3,965
Other current assets		2,000	2,628
Total current assets	143,034	149,610	149,220
Property, equipment and improvements, net	83,955	96,109	104,709
Long-term investments	18,200	13,622	9,669
Deferred tax asset		7,631	7,809
Other assets	314	325	325
Total assets	$ 245,503	$ 267,297	$ 271,732
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 7,803	$ 13,654	$ 6,491
Accrued salaries, wages and related expenses	6,485	8,472	7,795
Other accrued liabilities	20,040	19,164	21,568
Total current liabilities	34,328	41,290	35,854
Non-current liabilities:			
Deferred lease incentives	16,518	19,578	20,755
Other	11,319	12,699	13,338
Total non-current liabilities	27,837	32,277	34,093
Commitments			
Stockholders equity:			

Preferred stock $0.01 par value, 1,000 shares authorized, none outstanding					
Common stock $0.01 par value, 74,000 shares authorized, 45,438, 45,735 and 45,781 shares issued and 35,647, 35,944 and 35,990 shares outstanding at November 27, 2010, February 27, 2010 and November 28, 2009, respectively		454		457	458
Additional paid-in capital		115,095		113,584	113,139
Retained earnings		180,521		192,361	200,864
Common stock held in treasury, 9,791 shares at cost at November 27, 2010, February 27, 2010 and November 28, 2009, respectively		(112,711)		(112,711)	(112,712)
Accumulated other comprehensive income		(21)		39	36
Total stockholders equity		183,338		193,730	201,785
Total liabilities and stockholders equity	$	245,503	$	267,297 $	271,732

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

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CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED INCOME STATEMENT

(In thousands, except per share data)

(Unaudited)

	Three Months Ended	
	November 27, 2010	**November 28, 2009**
Net sales	$ 120,947	$ 132,000
Costs and expenses:		
Merchandise, buying and occupancy	77,549	78,205
Selling, general and administrative	37,585	37,535
Depreciation and amortization	6,010	6,469
Total costs and expenses	121,144	122,209
Operating income (loss)	(197)	9,791
Other income	120	107
Income (loss) before income taxes	(77)	9,898
Income tax provision	9,149	2,926
Net income (loss)	$ (9,226)	$ 6,972
Basic earnings (loss) per share:		
Net income (loss)	$ (0.26)	$ 0.20
Basic shares outstanding	35,379	35,178
Diluted earnings (loss) per share:		
Net income (loss)	$ (0.26)	$ 0.19
Diluted shares outstanding	35,379	35,351
Dividends per share	$ 0.06	$ 0.06

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

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CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED INCOME STATEMENT

(In thousands, except per share data)

(Unaudited)

	Nine Months Ended	
	November 27, 2010	**November 28, 2009**
Net sales	$ 348,521	$ 353,549
Costs and expenses:		
Merchandise, buying and occupancy	215,941	219,816
Selling, general and administrative	107,579	105,898
Depreciation and amortization	18,974	19,066
Total costs and expenses	342,494	344,780
Operating income	6,027	8,769
Other income	363	451
Income before income taxes	6,390	9,220
Income tax provision	11,813	2,694
Net income (loss)	$ (5,423)	$ 6,526
Basic earnings (loss) per share:		
Net income (loss)	$ (0.15)	$ 0.18
Basic shares outstanding	35,360	35,135
Diluted earnings (loss) per share:		
Net income (loss)	$ (0.15)	$ 0.18
Diluted shares outstanding	35,360	35,175
Dividends per share	$ 0.18	$ 0.18

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

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CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended	
	November 27, 2010	**November 28, 2009**
Cash flows from operating activities:		
Net income (loss)	$ (5,423)	$ 6,526
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	18,974	19,066
Amortization of premium on investments	338	
Excess tax benefit on stock-based compensation	(300)	
Deferred income taxes	11,180	(3,718)
Stock-based compensation expense	1,513	1,382
Loss on disposal of furniture, fixtures and equipment	288	130
Gain on investments, net	(81)	(150)
Changes in operating assets and liabilities:		
Sales of trading securities	14,850	350
Increase in accounts receivable	(1,878)	(1,920)
Increase in merchandise inventories	(7,477)	(2,996)
Increase in prepaid expenses and other current assets	(1,318)	(516)
(Increase) decrease in income taxes receivable	(3,224)	18,747
(Increase) decrease in other assets	(30)	65
Decrease in accounts payable	(5,699)	(12,035)
Decrease in accrued liabilities	(1,600)	(2,719)
Decrease in deferred lease incentives	(3,060)	(2,752)
Decrease in other liabilities	(1,379)	(1,185)
Net cash provided by operating activities	15,674	18,275
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(7,260)	(4,838)
Purchases of investments	(57,183)	(44,970)
Sales of investments	48,208	2,620
Net cash used in investing activities	(16,235)	(47,188)
Cash flows from financing activities:		
Exercise of stock options	183	
Excess tax benefit on stock-based compensation	300	
Dividends paid	(6,417)	(6,383)
Net cash used in financing activities	(5,934)	(6,383)
Net decrease in cash and cash equivalents	(6,495)	(35,296)
Cash and cash equivalents at beginning of period	37,073	78,814
Cash and cash equivalents at end of period	$ 30,578	$ 43,518

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

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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 February 27, 2010.

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 27, 2010, February 27, 2010 and November 28, 2009, and its results of operations and cash flows for the three and nine month periods ended November 27, 2010 and November 28, 2009.

Loyalty Program

During the first quarter of fiscal 2011, the Company launched its Friendship RewardsTM loyalty program. Under the program, customers accumulate points based on their purchase activity. Once a Friendship Rewards member achieves a certain point level, the member earns an award certificate that may be applied to the purchase of merchandise of equal or greater value. Points are accrued as unearned revenue and recorded as a reduction of net sales and a current liability as they are accumulated by members and certificates are earned. The liability is recorded net of estimated breakage based on redemption patterns and trends. Revenue and the related cost of sales are recognized upon redemption of the reward certificates, which expire approximately six weeks after issuance.

Recently Adopted Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-17, Consolidations, which seeks to improve financial reporting by requiring that entities perform an analysis to determine whether any variable interest or interests that they have give them a controlling financial interest in a variable interest entity. The Company adopted ASU 2009-17 during the first quarter of fiscal 2011. The adoption of ASU 2009-17 had no impact on the Company s financial statements.

In January 2010, the FASB issued ASU 2010-06, New Guidance and Clarifications for Improving Disclosures about Fair Value Measurements. This guidance requires enhanced disclosures regarding transfers in and out of the levels within the fair value hierarchy. Separate disclosures are required for transfers in and out of Level 1 and 2 fair value measurements, and the reasons for the transfers must be disclosed. In the reconciliation for Level 3 fair value measurements, separate disclosures are required for purchases, sales, issuances, and settlements on a gross basis. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted the disclosure requirements of ASU 2010-06 effective February 28, 2010. See Note 10, Fair Value Measurements, for the additional disclosures required under the guidance. The Company intends to adopt the remaining Level 3 disclosure requirements effective February 27, 2011. The Company is in the process of evaluating the additional disclosure requirements and does not expect that the additional requirements will have a significant impact on its consolidated financial statements.

Recently Issued Accounting Pronouncements

In October 2009, the FASB issued ASU 2009-13, Multiple Deliverable Revenue Arrangements. ASU 2009-13 amends ASC 605-10, Revenue Recognition, and addresses accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit, and provides guidance regarding how to measure and allocate arrangement consideration to one or more units of accounting. ASU 2009-13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted, but certain requirements must be met. The Company is in the process of evaluating ASU 2009-13 and does not expect that it will have a significant impact on its consolidated financial statements.

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NOTE 2 INVESTMENTS

Investments consisted of the following (in thousands):

	November 27, 2010			
Description	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Estimated Fair Value**
Short-term investments:				
Available-for-sale securities:				
Variable rate demand obligations	$ 32,835	$	$	$ 32,835
Municipal bonds	20,638	12	3	20,647
U.S. agency securities				
Trading securities:				
Auction rate securities				
Total short-term investments	53,473	12	3	53,482
Long-term investments:				
Available-for-sale securities:				
Municipal bonds	18,244	45	89	18,200
U.S. agency securities				
Total long-term investments	18,244	45	89	18,200
Total investments	$ 71,717	$ 57	$ 92	$ 71,682

	November 28, 2009			
Description	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Estimated Fair Value**
Short-term investments:				
Available-for-sale securities:				
Variable rate demand obligations	$ 19,450	$	$	$ 19,450
Municipal bonds	13,040	11	4	13,047
U.S. agency securities	199			199
Trading securities:				
Auction rate securities	16,272			16,272
Total short-term investments	48,961	11	4	48,968
Long-term investments:				
Available-for-sale securities:				
Municipal bonds	3,132	21	1	3,152
U.S. agency securities	6,485	32		6,517
Total long-term investments	9,617	53	1	9,669
Total investments	$ 58,578	$ 64	$ 5	$ 58,637

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Description	February 27, 2010 Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
Available-for-sale securities:				
Variable rate demand obligations	$ 24,900	$	$	$ 24,900
Municipal commercial paper	1,000			1,000
Municipal bonds	22,999	28	11	23,016
U.S. agency securities	536	1	2	535
Trading securities:				
Auction rate securities	12,800			12,800
Total short-term investments	62,235	29	13	62,251
Long-term investments:				
Available-for-sale securities:				
Municipal bonds	6,572	37	2	6,607
U.S. agency securities	7,002	13		7,015
Total long-term investments	13,574	50	2	13,622
Total investments	$ 75,809	$ 79	$ 15	$ 75,873

The Company accounts for its investments in accordance with ASC 320-10, Investments Debt and Equity Securities and, accordingly, its investment securities have been characterized as either available-for-sale or trading. As of November 27, 2010, the Company s available-for-sale investment securities were comprised of variable rate demand obligations and municipal bonds. These securities were classified as available-for-sale as the Company did not enter into these investments for speculative purposes or intend to actively buy and sell the securities in order to generate profits on differences in price. The Company s primary investment objective is preservation of principal. During the first nine months of fiscal 2011, purchases of available-for-sale securities totaled approximately $57.2 million, while proceeds from the sale of available-for-sale securities were $48.2 million. Gross realized gains and losses on the sale of available-for-sale securities during the nine months ended November 27, 2010 were not material.

The Company s available-for-sale securities are reviewed for possible impairment at least once each fiscal quarter, or more frequently if circumstances arise which indicate that impairment may exist. When the fair value of the securities declines below the amortized cost basis, impairment is indicated and it must be determined whether it is other-than-temporary. Impairment is considered to be other-than-temporary if the Company (i) intends to sell the security, (ii) will more likely than not be forced to sell the security before recovering its cost, or (iii) does not expect to recover the securities amortized cost basis. If the decline in fair value is considered other-than-temporary, the cost basis of the security is adjusted to its fair market value and the realized loss is reported in earnings. Subsequent increases or decreases in fair value are reported in equity as other comprehensive income (loss). As of November 27, 2010, there were no other-than-temporary impairments of the Company s available-for-sale securities.

In November 2008, the Company entered into a settlement agreement with UBS Financial Services, Inc., a subsidiary of USB AG (UBS) related to the Company s investment in Auction Rate Securities (ARS) purchased through UBS. Under the terms of the settlement agreement, the Company received rights that enabled it to sell its ARS to UBS at par value at any time during the two year period beginning June 30, 2010. On June 30, 2010, the Company exercised its ARS rights and sold its remaining $7.1 million investment in ARS to UBS at par value. As of November 27, 2010, the Company had no investments in ARS. The Company had approximately $12.8 million and $16.3 million of trading securities as of February 27, 2010 and November 28, 2009, respectively, which consisted solely of $14.8 million and $19.1 million of ARS at cost, less fair value adjustments of approximately $2.0 million and $2.8 million, respectively. The fair value of the ARS was determined utilizing a discounted cash flow method based on market rates and an estimated period of time the ARS were expected to be held.

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While the Company s investments are freely tradable, expected maturities are as follows (in thousands):

		November 27, 2010
Due in one year or less	$	53,482
Due after one year through three years		16,726
Due after three years		1,474
Total investment securities	$	71,682

The Company held $32.8 million of Variable Rate Demand Obligations (VRDOs) as of November 27, 2010. These investments maintain a constant par value, have variable rates of return tied to short-term interest rates which reset weekly, and may be tendered for sale upon notice to the trustee. Although the Company s VRDOs are issued and rated as long-term securities, with maturities ranging from 2013 through 2049, they are priced and traded as short-term investments as each VRDO contains a put feature, which is supported by highly rated financial institutions. The Company classified its VRDOs as short-term investments maturing in one year or less as it expects to realize the proceeds from its VRDOs within that time period. Actual maturities may differ from expected maturities because the issuers of the securities may have the right to prepay the obligations without prepayment penalties.

NOTE 3 MERCHANDISE INVENTORIES AND SOURCES OF SUPPLY

Merchandise inventories consisted of the following (in thousands):

Description		November 27, 2010		February 27, 2010		November 28, 2009
Merchandise - in store/e-Commerce	$	43,668	$	36,522	$	40,115
Merchandise - in transit		2,305		1,974		1,709
	$	45,973	$	38,496	$	41,824

The Company does not have long-term purchase commitments or arrangements with any of its suppliers or agents. During the three and nine month periods ended November 27, 2010 and November 28, 2009, three of the Company s vendors each supplied the Company with greater than 10% of its merchandise inventory purchases. For the third quarter of fiscal 2011, these three vendors supplied approximately 23%, 18% and 16% of the Company s merchandise purchases, compared to 25%, 20% and 16% in the third quarter of fiscal 2010. For the nine month period ended November 27, 2010, these vendors supplied approximately 27%, 11% and 17% of the Company s merchandise purchases, compared to 25%, 12% and 16% during the first nine months of fiscal 2010.

Although the Company has strong relationships with these vendors, there can be no assurance that these relationships can be maintained in the future or that the vendors will continue to supply merchandise to the Company. If there should be any significant disruption in the supply of merchandise from these vendors, 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.

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NOTE 4 PROPERTY, EQUIPMENT AND IMPROVEMENTS, NET

Property, equipment and improvements, net consisted of the following (in thousands):

Description	Estimated Useful Life	November 27, 2010	February 27, 2010	November 28, 2009
Land		$ 1,597	$ 1,597	$ 1,597
Corporate office, distribution center and related building improvements	25 years	12,080	12,027	12,012
Store leasehold improvements	Term of related lease, typically 10 years	91,498	93,894	94,602
Store furniture and fixtures	Three to 10 years	110,844	112,815	113,189
Point of sale hardware and software	Five years	9,606	15,056	14,959
Computer hardware and software	Three to five years	23,987	24,176	21,168
Corporate office and distribution center furniture, fixtures and equipment	Seven years	5,387	5,315	3,822
Construction in progress		3,048	73	3,839
		258,047	264,953	265,188
Less accumulated depreciation and amortization		174,092	168,844	160,479
Net property, equipment and improvements		$ 83,955	$ 96,109	$ 104,709

The Company reviews long-lived assets with definite lives for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Company recorded no impairments of long-lived assets in the nine month period ended November 27, 2010. The general economic uncertainty affecting the retail industry makes it reasonably possible, however, that long-lived asset impairments may be identified and recorded in future periods.

NOTE 5 ACCRUED LIABILITIES

Other accrued liabilities consisted of the following (in thousands):

Description	November 27, 2010	February 27, 2010	November 28, 2009
Gift card and store credit liabilities	$ 6,545	$ 10,884	$ 7,117
Accrued merchandise inventory receipts not yet invoiced	2,020	1,539	2,959
Accrued Friendship Rewards loyalty liability	2,910		
Accrued income, sales and other taxes payable	3,299	2,081	6,177
Accrued workers compensation liability	242	600	867
Accrued occupancy-related expenses	1,234	665	1,238
Other	3,790	3,395	3,210

$	20,040	$	19,164	$	21,568

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NOTE 6 CREDIT FACILITY

The Company maintains an Amended and Restated Revolving Credit Facility (the Credit Facility) with Wells Fargo Bank, National Association (Wells Fargo) which expires on June 30, 2011. The Credit Facility provides the Company with revolving credit loans and letters of credit of up to $50 million, in the aggregate, subject to a borrowing base formula based on inventory levels.

Loans under the Credit Facility bear interest at the prime rate minus 0.25%. As of November 27, 2010, the prime rate was 3.25%. The Credit Facility also provides the Company with the ability to borrow under the Credit Facility at an interest rate tied to the London Interbank Market Offered Rate (LIBOR). Advances under the LIBOR option would be tied to the one, three or six month LIBOR rate based on the length of time the corresponding advance is outstanding.

Interest under the Credit Facility is payable monthly in arrears. The Credit Facility carries a facility fee of 0.25%, based on the unused portion as defined in the agreement, a collateral monitoring fee and a guarantee service charge. Borrowings under the Credit Facility are collateralized by the Company s equipment, intangible assets, inventory, inventory letters of credit and letter of credit rights. The Company had no revolving credit loan borrowings under the Credit Facility during the first nine months of fiscal 2011 or fiscal 2010. Historically, the Credit Facility has been utilized by the Company only to open letters of credit to facilitate the import of merchandise. The borrowing base at November 27, 2010 was $28.4 million and the Company had open on-demand letters of credit in the amount of $1.3 million. Accordingly, the availability of revolving credit loans under the Credit Facility was $27.1 million at November 27, 2010.

The Credit Facility contains certain restrictive covenants, including restrictions on incurring additional indebtedness and limitations on certain types of investments, as well as requiring the maintenance of certain financial covenants. As of November 27, 2010, the most recent measurement date, the Company was in compliance with all financial covenants under the Credit Facility.

NOTE 7 STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with the provisions of ASC 718-10, Stock Compensation. Under various plans, the Company may grant options to purchase common stock to employees and non-employee members of its Board of Directors at a price not less than 100% of the fair market value of the Company s common stock on the option grant date. In general, options granted to employees vest over three to five years and are exercisable up to ten years from the date of grant, and options granted to Directors vest over three years and are exercisable up to ten years from the grant date.

The Company may also grant shares of restricted stock to its employees and non-employee members of its Board of Directors. The grantee cannot transfer the shares before the respective shares vest. Shares of nonvested restricted stock are considered to be currently issued and outstanding. Restricted stock grants to employees have original vesting schedules of three to seven years, while restricted grants to Directors are fully vested on the date of grant.

The Company s restricted stock awards are generally subject to forfeiture if employment or service terminates prior to the lapse of the restrictions. In addition, certain of the Company s restricted stock awards have performance-based vesting provisions and are subject to forfeiture in whole or in part if these performance conditions are not achieved. The Company assesses, on an ongoing basis, the probability of whether the performance criteria will be achieved and, once it is deemed probable, the Company begins recognizing compensation expense over the relevant performance period. For those awards not subject to performance criteria, the Company expenses the cost of the restricted stock awards, which is determined to be the fair market value of the shares at the date of grant, on a straight-line basis over the vesting period. The fair market value of the Company s restricted stock is determined based on the closing price of the Company s common stock on the grant date.

Total pre-tax compensation expense (benefit) related to stock-based awards for the three months ended November 27, 2010 and November 28, 2009 was approximately ($0.1) million and $0.5 million, respectively. For the nine months ended November 27, 2010 and November 28, 2009, pre-tax stock-based compensation expense totaled approximately $1.5 million and $1.4, respectively.

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Methodology Assumptions

The Company uses the Black-Scholes option-pricing model to value the Company s stock options for grants to its employees and non-employee directors. Using this option-pricing model, the fair value of each stock option award is estimated on the date of grant and is expensed on a straight-line basis over the vesting period, as the stock options are subject to pro-rata vesting. The expected volatility assumption is based on the historical volatility of the Company s stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience and represents the period of time that awards are expected to be outstanding. The risk-free interest rate is based on the implied yield on a U.S. Treasury constant maturity with a remaining term equal to the expected term of the option granted.

The weighted average assumptions relating to the valuation of the Company s stock option grants for the three and nine month periods ended November 27, 2010 and November 28, 2009 were as follows:

	Three Months Ended		**Nine Months Ended**	
	November 27, 2010	**November 28, 2009**	**November 27, 2010**	**November 28, 2009**
Expected dividend yield	3.26%	3.35%	3.04%	4.83%
Expected volatility	71.10%	68.26%	70.25%	68.69%
Risk-free interest rate	1.20%	2.34%	2.24%	2.09%
Expected term in years	5.00	5.00	4.93	4.67

Stock-Based Compensation Activity

The following table presents a summary of the Company s stock option activity for the nine months ended November 27, 2010.

	Number of Shares	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value (in thousands)**	**Weighted Average Fair Value**	**Weighted Average Remaining Contractual Life**
Outstanding, beginning of period	1,592,670	$ 11.56	$ 922	$ 4.24	
Vested	744,628				
Unvested	848,042				
Granted	370,150	9.72		4.65	
Exercised	(36,500)	5.02	110	1.99	
Canceled - vested (expired)	(77,335)	18.18		3.27	
Canceled - unvested (forfeited)	(408,033)	6.93	155	2.93	
Outstanding, end of period	1,440,952	12.20	104	4.82	5.77
Vested	935,169	14.44	41	5.45	4.04
Unvested	505,783	8.07	63	3.65	8.97
Exercisable, end of period	935,169	14.44	41	5.45	4.04

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value (the difference between the Company s closing stock price on the last trading day of the quarter and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on November 27, 2010.

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The following table presents a summary of the Company s restricted stock activity for the nine months ended November 27, 2010:

	Number of Shares	Weighted Average Fair Value
Unvested, beginning of period	702,450	$ 5.34
Granted	359,530	9.10
Vested	(228,706)	6.41
Canceled - unvested (forfeited)	(592,872)	5.96
Unvested, end of period	240,402	8.40

The total fair value of shares of restricted stock that vested during the nine months ended November 27, 2010 and November 28, 2009 was approximately $1.5 million and $0.5 million, respectively.

As of November 27, 2010, the Company had approximately $2.1 million of unrecognized stock-based compensation expense, which is expected to be recognized over a weighted average period of approximately 2.3 years.

NOTE 8 INCOME TAXES

As of November 27, 2010, the Company s liability for unrecognized tax benefits associated with uncertain tax positions was approximately $2.6 million and the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $1.6 million. The Company recognizes interest and penalties related to unrecognized tax benefits as components of income tax expense. At November 27, 2010, the Company had accrued approximately $0.9 million for the potential payment of interest and penalties.

The Company and its subsidiaries are subject to U.S. federal income tax and the income tax of various state and local jurisdictions. The Internal Revenue Service has completed its audit for tax years through fiscal 2006. The Company had submitted a report to the Internal Revenue Service for review by the Joint Committee on Taxation regarding the Company s refund claim for the carryback of its fiscal 2009 loss. This reporting process is standard for all claims greater than $2.0 million. The Company has received the refund and was notified in May 2010 the Joint Committee has taken no exception and has begun the process to close the case. With few exceptions, the Company is not subject to state income tax examination by tax authorities for taxable years prior to fiscal 2006. At November 27, 2010, the Company has ongoing audits in various jurisdictions. The Company does not believe that settlement of these examinations will have a significant impact on its liability for unrecognized tax benefits.

As of November 27, 2010, the Company had incurred net cumulative losses as measured by the results of the previous 36 months. ASC 740, Income Taxes, requires that deferred tax assets be reduced by a valuation allowance, if based on all available evidence, it is considered more likely than not that some or all of the recorded deferred tax assets will not be realized in a future period. Deferred income tax assets represent potential future income tax benefits. Realization of these assets is ultimately dependent upon future taxable income. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses. As a result of the Company s evaluation, the Company has concluded there is insufficient positive evidence to overcome the negative evidence of cumulative losses. Accordingly, for the three months ended November 27, 2010, the Company recognized a non-cash provision of $12.9 million to establish a

valuation allowance against its net deferred tax assets. Recording the valuation allowance does not have any impact on cash and does not prevent the Company from using the deferred tax assets in the future when profits are realized.

As of November 27, 2010, the Company had state net operating loss carry forwards which will result in state tax benefits of approximately $0.3 million. These state net loss carry forwards will expire in fiscal 2014 and beyond. Additionally, the Company had charitable contribution carry forwards that will expire in fiscal 2014.

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NOTE 9   EARNINGS PER SHARE

On March 1, 2009, the Company adopted ASC 260-10, Earnings per Share, which clarified that unvested share-based payment awards that contain nonforfeitable rights to receive dividends or dividend equivalents (whether paid or unpaid) are considered participating securities, and thus, should be included in the two-class method of computing earnings per share (EPS). Participating securities under this statement include the Company s unvested employee restricted stock awards with time-based vesting, which receive nonforfeitable dividend payments.

The calculation of EPS for common stock shown below excludes the income attributable to these unvested employee restricted stock awards from the numerator and excludes the dilutive impact of these shares from the denominator.

	Three Months Ended	
	November 27, 2010	November 28, 2009
Numerator (in thousands)**:**		
Net income (loss) attributable to Christopher & Banks Corporation	$ (9,226)	$ 6,972
Income and dividends allocated to participating securities	(19)	(86)
Net income (loss) available to common shareholders	$ (9,245)	$ 6,886
Denominator (in thousands)**:**		
Weighted average common shares outstanding - basic	35,379	35,178
Dilutive shares		173
Weighted average common and common equivalent shares outstanding - diluted	35,379	35,351
Net income (loss) per common share:		
Basic	$ (0.26)	$ 0.20
Diluted	$ (0.26)	$ 0.19

	Nine Months Ended	
	November 27, 2010	November 28, 2009
Numerator (in thousands)**:**		
Net income (loss) attributable to Christopher & Banks Corporation	$ (5,423)	$ 6,526
Income and dividends allocated to participating securities	(23)	(57)
Net income (loss) available to common shareholders	$ (5,446)	$ 6,469
Denominator (in thousands)**:**		
Weighted average common shares outstanding - basic	35,360	35,135
Dilutive shares		40
Weighted average common and common equivalent shares outstanding - diluted	35,360	35,175
Net income (loss) per common share:		
Basic	$ (0.15)	$ 0.18
Diluted	$ (0.15)	$ 0.18

Stock options of approximately 1.4 million were excluded from the shares used in the computation of diluted earnings per share for the three and nine month periods ended November 27, 2010, respectively, as they were anti-dilutive. Total stock options of approximately 1.4 million and 1.6

million were excluded from the shares used in the computation of diluted EPS for the three and nine month periods ended November 28, 2009, respectively, as they were anti-dilutive.

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NOTE 10 FAIR VALUE MEASUREMENTS

Under ASC 820-10, Fair Value Measurements and Disclosures, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. ASC 820-10 also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the factors market participants would use in valuing the asset or liability that are developed based upon the best information available in the circumstances. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis:

For the nine month periods ended November 27, 2010 and November 28, 2009, fair value under ASC 820-10 applied to the Company s available-for-sale securities, ARS and ARS rights. These financial assets are carried at fair value following the requirements of ASC 820-10.

The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis (in thousands).

		Fair Value Measurements Using Inputs Considered as		
Description	**Fair Value at November 27, 2010**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Available-for-sale securities	$ 71,682	$	$ 71,682	$
Trading securities				
ARS rights				
Liabilities:	$	$	$	$

		Fair Value Measurements Using Inputs Considered as		
Description	**Fair Value at November 28, 2009**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Available-for-sale securities	$ 42,365	$ 42,365	$	$
Trading securities	16,272			16,272
ARS rights	2,628			2,628
Liabilities:	$	$	$	$

Following is a description of the valuation methodologies used for financial assets and liabilities measured at fair value:

Available-for-sale securities: As of November 27, 2010, the Company s available-for-sale securities were valued based on quoted prices for similar assets in active markets or quoted prices for identical or similar assets in markets in which there were fewer transactions.

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Trading securities: The Company s trading securities consist solely of ARS as of November 28, 2009. See Note 2, Investments, for further disclosure regarding the Company s ARS.

ARS rights: As discussed in Note 2, Investments, in November 2008, the Company accepted UBS s ARS settlement offer. This resulted in the Company receiving ARS rights, which the Company has elected to account for at fair value.

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3) (in thousands).

	Nine Months Ended November 27, 2010		Nine Months Ended November 28, 2009	
	ARS	ARS Rights	ARS	ARS Rights
Beginning balance	$ 12,800	$ 2,000	$ 16,400	$ 2,700
Total gains (losses):				
Included in earnings	2,050	(2,000)	222	(72)
Purchases (sales), issuances and settlements	(14,850)		(350)	
Ending balance	$	$	$ 16,272	$ 2,628

Assets and Liabilities that are Measured at Fair Value on a Non-recurring Basis:

The Company measures certain assets and liabilities at fair value on a non-recurring basis. Specifically, the Company s nonfinancial long-lived asset groups are measured at fair value for impairment assessments. There were no impairment charges related to assets measured at fair value on a non-recurring basis recorded during the three and nine months ended November 27, 2010 and November 28, 2009.

NOTE 11 COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consisted of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	November 27, 2010	November 28, 2009	November 27, 2010	November 28, 2009
Net income (loss)	$ (9,226)	$ 6,972	$ (5,423)	$ 6,526
Fair value adjustment on investments	(102)	36	(60)	36
Total comprehensive income (loss)	$ (9,328)	$ 7,008	$ (5,483)	$ 6,562

NOTE 12 LEGAL PROCEEDINGS

The Company is subject, from time to time, to various claims, lawsuits or actions that arise in the ordinary course of business. Although the amount of any liability that could arise with respect to any current proceedings cannot, in our opinion, be accurately predicted, any such liability is not expected to have a material adverse impact on the Company s financial position, results of operations or liquidity.

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NOTE 13 SEGMENT REPORTING

The Company operates in the retail apparel industry in which it primarily designs, sources and sells women s apparel catering to customers who are typically part of the female baby boomer demographic. The Company has identified two operating segments (Christopher & Banks and C.J. Banks) as defined by ASC 820, Disclosures about Segments of an Enterprise and Related Information. The Company s Christopher & Banks and C.J. Banks operating segments have been aggregated into one reportable segment based on the similar nature of products sold, methods of sourcing, merchandising and distribution processes involved, target customers, and economic characteristics of the two brands.

In the table below, the Christopher & Banks/C.J. Banks reportable segment includes activity generated by the Company s Christopher & Banks and C.J. Banks operations. The Corporate/Administrative column, which primarily represents operating activity at the Company s corporate office and distribution center, is presented to allow for reconciliation of segment-level net sales, operating income and total assets to the Company s consolidated net sales, operating income and total assets. Segment operating income includes only net sales, merchandise gross margin and direct store expenses with no allocation of corporate overhead.

Segment Reporting (in thousands):	christopher & banks/ cj banks	Corporate/ Administrative	Consolidated
Three Months Ended November 27, 2010:			
Net sales	$ 120,947	$	$ 120,947
Operating income (loss)	$ 14,413	$ (14,610)	$ (197)
Total assets	$ 141,748	$ 103,755	$ 245,503
Three Months Ended November 28, 2009:			
Net sales	$ 132,000	$	$ 132,000
Operating income (loss)	$ 23,749	$ (13,958)	$ 9,791
Total assets	$ 152,392	$ 119,340	$ 271,732

Segment Reporting (in thousands):	christopher & banks/ cj banks	Corporate/ Administrative	Consolidated
Nine Months Ended November 27, 2010:			
Net sales	$ 348,521	$	$ 348,521
Operating income (loss)	$ 46,904	$ (40,877)	$ 6,027
Total assets	$ 141,748	$ 103,755	$ 245,503
Nine Months Ended November 28, 2009:			
Net sales	$ 353,549	$	$ 353,549
Operating income (loss)	$ 46,821	$ (38,052)	$ 8,769
Total assets	$ 152,392	$ 119,340	$ 271,732

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ITEM 2.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management s discussion and analysis of financial condition and results of operations (MD&A) should be read in conjunction with the consolidated financial statements and notes included in Item 1 of this Form 10-Q and the consolidated financial statements, notes and MD&A contained in the Company s Annual Report on Form 10-K for the fiscal year ended February 27, 2010.

Executive Overview

Christopher & Banks Corporation, a Delaware corporation, is a Minneapolis-based retailer of women s apparel, which operates retail stores through its wholly-owned subsidiaries. The Company was incorporated in 1986 to acquire Braun s Fashions, Inc., which had operated as a family-owned business since 1956. In July 2000, the Company s stockholders approved a change in the Company s name from Braun s Fashions Corporation to Christopher & Banks Corporation.

As of November 27, 2010, the Company operated 789 stores in 46 states, including 528 Christopher & Banks stores, 257 C.J. Banks stores, two dual stores and two outlet stores. The Company s Christopher & Banks brand offers distinctive fashions featuring exclusively designed, coordinated assortments of women s apparel in sizes four to 16. The Company s C.J. Banks brand offers similar assortments of women s apparel in sizes 14W to 26W. The Company s dual and outlet stores offer an assortment of both Christopher & Banks and C.J. Banks apparel servicing the petite, misses and plus size customer in one location. The Company also operates e-Commerce web sites for its two brands at **www.christopherandbanks.com** and **www.cjbanks.com** which, in addition to offering the apparel found in the Company s stores, also offer exclusive sizes and styles available only online.

The Company strives to provide its customers with high-quality apparel at a great value with a consistent fit. The Company s overall strategy for its two brands, Christopher & Banks and C.J. Banks, is to offer a compelling, evolving merchandise assortment through its stores and e-Commerce web sites in order to satisfy its customers expectations for style, quality, value, versatility and fit, while providing knowledgeable and personalized customer service.

The Company has positioned itself to offer merchandise assortments balancing updated unique, novelty apparel with more classic styles, at affordable prices. To differentiate itself from its competitors, the Company s buyers, working in conjunction with the Company s internal design group, strive to create a merchandise assortment of coordinated outfits, the majority of which is manufactured exclusively for the Company under its proprietary Christopher & Banks and C.J. Banks brand names.

Fiscal 2011 Third Quarter Summary

In the third quarter of fiscal 2011, customers did not respond favorably to the Company s fall and holiday merchandise assortment. As a result, same-store sales decreased 7% and merchandise margins declined when compared to the third quarter of fiscal 2010. The Company increased promotional activity during the quarter in an effort to encourage customers to purchase and to clear excess inventory. The Company s newer petite and accessory product categories were better received by customers during the quarter, resulting in stronger sales than experienced with the Company s core merchandise offerings.

Effective October 19, 2010, the Company announced that its Board of Directors elected Larry C. Barenbaum as its Interim President and Interim Chief Executive Officer. Mr. Barenbaum has served as a Director on the Company s Board since March 1992 and was named Chairman of the Board in December 2005. Mr. Barenbaum will retain his title as Chairman of the Board while he serves as Interim President and Interim Chief Executive Officer.

Mr. Barenbaum replaced Lorna E. Nagler, the Company s former President and Chief Executive Officer, who resigned all positions with the Company, including the position of Director, effective October 19, 2010. The Company incurred a pre-tax, non-recurring severance charge of approximately $1.0 million in the third quarter of fiscal 2011 in connection with Ms. Nagler s resignation.

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On December 16, 2010, the Company announced the appointment of Morris Goldfarb to its Board of Directors, effective January 3, 2011. The election of Mr. Goldfarb increased the number of Board members to eight and the number of independent Directors to seven. Mr. Goldfarb is Chairman of the Board and Chief Executive Officer of G-III Apparel Group, Ltd.

The Company opened one new C.J. Banks store, one new dual-concept store and two new outlet stores in the first nine months of fiscal 2011. It closed 12 Christopher & Banks stores and nine C.J. Banks stores during the first nine months of the year. The Company currently plans to open one additional outlet store and one more dual-concept store during the fourth quarter of fiscal 2011, for a total of six new store openings for the year. This is down from the Company s initial plans to open approximately 10 new stores in fiscal 2011, as several new store openings originally planned for the fourth quarter have been shifted to the first quarter of fiscal 2012.

Fiscal 2011 Outlook and Key Business Initiatives

The Company is focusing its efforts on the following key priorities and business initiatives:

Improving merchandising and sourcing capabilities

The Company has refocused its attention on its core merchandising efforts. It is striving to develop more innovative and creative merchandise assortments that offer updated styling and improved outfitting capabilities. The Company plans to adjust the number of product color stories introduced each year, narrow the amount of individual style choices and modify the mix of basic items in the Company s merchandise assortment. In addition, the Company will place increased focus on product construction and fit to ensure consistent standards across all merchandise categories and deliveries. While the Company has edited and modified some styling for its fiscal 2012 spring and summer assortments, the full impact of its renewed merchandising efforts is expected to be incorporated in its fiscal 2012 early fall assortment, to be delivered in August 2011.

The Company is also working to enhance its product sourcing capabilities through building relationships with new merchandise vendors and improving communication with existing suppliers. In addition, the Company is analyzing all aspects of its product development and sourcing practices to identify opportunities for cost savings in an effort to mitigate increases in the cost of raw materials, particularly cotton, and production labor. The Company also intends to diversify its vendor base, including the countries in which its merchandise is produced, and improve transparency, enhance control and reduce costs related to its inbound product transportation processes. The Company intends to maintain its commitment to providing quality merchandise to its customers while it works to reduce the impact of potential cost increases.

Based on successful product tests conducted in fiscal 2010, the Company rolled out a new assortment of jewelry to all of its stores during the first quarter of fiscal 2011 and plans to increase the size of its jewelry assortment throughout the year. The Company also plans to execute several tests of other new product categories in fiscal 2011 and fiscal 2012, including offering outerwear and handbags in select stores and testing extended sizes of other merchandise on its e-Commerce websites.

Increasing store productivity through existing and new formats

The Company introduced edited assortments, or capsules, of its C.J. Banks plus size merchandise in a select test group of 30 Christopher & Banks stores (capsule stores) in the third quarter of fiscal 2010. The C.J. Banks assortments were added to the capsule stores without a reduction in the Christopher & Banks merchandise assortments at these stores. Based on the improved productivity and sales performance at the initial 30 capsule stores, the Company expanded the number of capsule stores to approximately 80 as of the end of the third quarter of fiscal 2011.

The Company opened its first dual-concept store (dual store) in fiscal 2010 and its second dual store in the first quarter of fiscal 2011. The dual stores offer merchandise from both of the Company s Christopher & Banks and C.J. Banks brands, and all three size ranges (petite, missy and plus) within each store, resulting in a greater opportunity to service the Company s customers while increasing productivity and enhancing operating efficiencies. The Company plans to open one dual store in the fourth quarter of fiscal 2011 and additional dual stores in fiscal 2012, while it continues to evaluate and refine the concept.

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The Company opened its first two outlet stores in September 2010, as it believes the outlet business provides an additional opportunity to drive profitability and growth. The Company s outlet stores offer merchandise from both of the Company s Christopher & Banks and C.J. Banks brands, and all three size ranges (petite, missy and plus) in each location. In addition, the outlet stores carry select styles designed and sourced specifically for the outlet business. Going forward, the Company will continue to fine tune its outlet strategy and plans to open additional outlet stores in fiscal 2012.

In an effort to drive overall productivity, the Company is increasing its focus on enhancing its visual merchandise presentation and customer service at all stores. The Company is working to draw increased numbers of new and existing customers into its stores with a more compelling and organized presentation of merchandise and product outfitting options. In addition, the Company is striving to enhance the customer experience by encouraging its store associates to provide more knowledgeable selling and personalized service to its customers. The Company has further enhanced its customer experience by providing an in-store e-Commerce ordering system, which allows store associates to provide customers with a broader selection of merchandise, including select buys and special sizes and lengths available only online.

Growth of e-Commerce channel

The Company plans to continue to grow its Christopher & Banks and C.J. Banks e-Commerce channels, which have operated profitably since inception in February 2008. Focus will be placed on expanding the online merchandise assortment and increasing offerings of extended sizes. The Company is also developing plans to improve its online shopping experience and increase its Customer Relationship Management (CRM) efforts in order to attract new customers to its e-Commerce channel.

Refocusing marketing efforts

The Company is in the process of reevaluating is overall marketing strategy while it works to improve its merchandise assortments. The Company is committed to maximizing its CRM program and enhancing communication with customers. In the near term, e-mail will offer the most effective and economical method of customer communication, while selected use of direct mail will also be employed as the Company works to deliver a consistent brand message through its merchandise, stores and websites.

Key Performance Indicators

The Company s management evaluates the following items, which are considered key performance indicators, in assessing the Company s performance:

Same store sales

The Company s same store sales data is calculated based on the change in net sales for stores that have been open for more than 13 full months and includes stores, if any, that have been relocated within the same mall. Stores where square footage has been changed by more than 25 percent within the past 13 months are excluded from the same store sales calculation. Stores closed during the year are included in the same store sales calculation only for the full months of the year the stores were open. In addition, sales which are initiated in stores but fulfilled through the Company s e-Commerce website are included in the calculation of same store sales.

Management considers same store sales to be an important indicator of the Company s performance. Same store sales results are important in achieving leveraging of costs, including store payroll, store occupancy, depreciation and other general and administrative expenses. Year-over-year increases in same store sales contribute to greater leveraging of costs, while declining same store sales contribute to deleveraging of costs. Same store sales results also have a direct impact on the Company s total net sales, cash and cash equivalents and working capital.

Merchandise, buying and occupancy costs

Merchandise, buying and occupancy costs, exclusive of depreciation and amortization, measure whether the Company is appropriately optimizing the price of its merchandise. Merchandise, buying and occupancy costs include the cost of merchandise, markdowns, shrink, freight into and out from the Company s distribution center, buyer and distribution center salaries, buyer travel, rent and other occupancy-related costs, various merchandise design and development costs, miscellaneous merchandise expenses and other costs related to the Company s distribution network.

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Operating income

The Company s management views operating income as a key indicator of the Company s success. The key drivers of operating income are same store sales; merchandise, buying and occupancy costs; and the Company s ability to control its other operating costs.

Store productivity

Store productivity measures, including sales per square foot, average unit retail selling price, number of transactions per store, number of units per transaction, average retail dollars per transaction, customer traffic and conversion rates are evaluated by management in assessing the operational performance of individual stores and of the Company. The Company calculates conversion rates based on the percentage of customers who enter the Company s stores and make a purchase, as compared to the total number of customers entering the Company s stores. The Company currently has electronic customer traffic counters in approximately half of its stores.

Inventory turnover

The Company s management evaluates inventory turnover as a measure of how productively inventory is bought and sold. Declining rates of inventory turnover are important as they signal that inventory is becoming slow-moving.

Cash flow and liquidity

Management evaluates cash flow from operating, investing and financing activities in determining the sufficiency of the Company s cash position. Cash flow from operations has historically been sufficient to cover the Company s uses of cash. The Company anticipates its cash, cash equivalents and short-term investments, combined with cash flows generated from operations, will be sufficient to meet its capital expenditure, working capital and other requirements for liquidity for the remainder of fiscal 2011.

Critical Accounting Policies and Estimates

The Company s critical accounting policies are more fully described in Note 1 of the notes to consolidated financial statements contained within the Company s Annual Report on Form 10-K for the fiscal year ended February 27, 2010. There have been no material changes in the Company s critical accounting policies or estimates in the nine months ended November 27, 2010, except for the addition of a customer loyalty program as discussed below.

On an ongoing basis, the Company evaluates its estimates, including those related to customer product returns, inventories, income taxes, medical and workers compensation claims and contingencies. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, 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. Actual results may differ from these estimates under different assumptions or conditions.

Customer loyalty program

During the first quarter of fiscal 2011, the Company launched its Friendship Rewards loyalty program. Under the program, customers accumulate points based on purchase activity. Once a Friendship Rewards member achieves a certain point level, the member earns awards certificates that may be redeemed for merchandise. Points are accrued as unearned revenue and recorded as a reduction of net sales and a current liability as they are accumulated by members and certificates are earned. The liability is recorded net of estimated breakage based on redemption patterns and trends. Revenue and the related cost of sales are recognized upon redemption of the reward certificates, which expire approximately six weeks after issuance.

Long-lived assets

The Company reviews long-lived assets with definite lives at least annually, or whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. While the Company recorded no impairments of long-lived assets in the three month period ended November 27, 2010, the current challenging economic environment, combined with continued instability in the housing and labor markets, and general economic uncertainty affecting the retail industry, make it reasonably possible that long-lived asset impairments could be identified and recorded in future periods.

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Deferred tax assets

As of November 27, 2010, the Company had incurred net cumulative losses as measured by the results of the previous 36 months. ASC 740, Income Taxes, requires that deferred tax assets be reduced by a valuation allowance, if based on all available evidence, it is considered more likely than not that some or all of the recorded deferred tax assets will not be realized in a future period. Deferred income tax assets represent potential future income tax benefits. Realization of these assets is ultimately dependent upon future taxable income. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses. As a result of the Company s evaluation, the Company has concluded there is insufficient positive evidence to overcome the negative evidence of cumulative losses. Accordingly, for the three months ended November 27, 2010, the Company recognized a non-cash provision of $12.9 million to establish a valuation allowance against its net deferred tax assets. Recording the valuation allowance does not have any impact on cash and does not prevent the Company from using the deferred tax assets in the future when profits are realized.

Results of Operations

The following table sets forth consolidated income statement data expressed as a percentage of net sales for the periods indicated.

	Three Months Ended		Nine Months Ended	
	November 27, 2010	November 28, 2009	November 27, 2010	November 28, 2009
Net sales	100.0%	100.0%	100.0%	100.0%
Merchandise, buying and occupancy costs	64.1	59.2	61.9	62.2
Selling, general and administrative expenses	31.1	28.4	31.0	29.9
Depreciation and amortization	4.9	5.0	5.4	5.4
Operating income (loss)	(0.1)	7.4	1.7	2.5
Other income	0.1	0.1	0.1	0.1
Income tax provision	7.6	2.2	3.4	0.8
Net income (loss)	(7.6)%	5.3%	(1.6)%	1.8%

Three Months Ended November 27, 2010 Compared to Three Months Ended November 28, 2009

Net Sales. Net sales for the three months ended November 27, 2010 were $120.9 million, a decrease of approximately $11.1 million or 8.4%, from $132.0 million for the three months ended November 28, 2009. The decrease in net sales was primarily the result of a 7% decrease in same store sales, combined with a decrease in the number of stores operated by the Company during the quarter. In addition, net sales declined due to a reduction in sales related to accrued unearned revenue for points accumulated by customers and certificates issued in conjunction with the Company s Friendship Rewards loyalty program. The decrease in net sales was partially offset by increases in revenues at the Company s Christopher & Banks and C.J. Banks web sites during the third quarter of fiscal 2011 as compared to the third quarter of fiscal 2010.

Customers did not respond favorably to the Company s fall and holiday merchandise assortment in the third quarter. In addition, customer traffic continued to trend below prior year levels, while increasing rates of customer conversion somewhat offset the decline in traffic. As a result, same-store sales decreased 7%, primarily driven by a 7% decrease in the number of transactions per store. Average transaction values were

essentially flat when compared to the third quarter of fiscal 2010, as increased promotional activity, required to drive sales and clear through fall and holiday product deliveries, resulted in a decrease in the average selling price per unit, which was offset by an increase in the number of units sold per transaction.

The Company operated 789 stores at November 27, 2010, compared to 812 stores as of November 28, 2009.

Merchandise, Buying and Occupancy Costs. Merchandise, buying and occupancy costs, exclusive of depreciation and amortization, were $77.5 million, or 64.1% of net sales, during the third quarter of fiscal 2011, compared to $78.2 million, or 59.2% of net sales, during the same period in fiscal 2010, resulting in approximately 490 basis points of negative leverage when compared to the prior year period.

The increase in merchandise, buying and occupancy costs as a percentage of net sales in the third quarter of fiscal 2011, as compared to the third quarter of fiscal 2010, was primarily driven by a 430 basis point reduction in merchandise margins. Increased promotional activity resulted in higher markdowns as the Company worked to encourage its customers to purchase and clear through fall and holiday merchandise. Higher product costs, primarily related to increases in the cost of raw materials and production labor, accounted for approximately 80 basis points of the decline in merchandise margins. In addition, the Company experienced approximately 60 basis points of deleveraging of buying and occupancy costs associated with the 7% decrease in same store sales.

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Selling, General and Administrative Expenses. Selling, general and administrative expenses, exclusive of depreciation and amortization, for the three months ended November 27, 2010 were $37.6 million, or 31.1% of net sales, compared to $37.5 million, or 28.4% of net sales, for the three months ended November 28, 2009, resulting in approximately 270 basis points of deleverage associated with the 7% decline in same store sales. Increases in the amount of marketing expenditures and medical claims were offset by decreases in store payroll. In addition, selling, general and administrative expenses for the quarter included approximately $1.0 million of severance charges related to the resignation of the Company s former Chief Executive Officer in October 2010. This was partially offset by lower bonus and stock-based compensation expense in the third quarter of fiscal 2011 as compared to the third quarter of fiscal 2010.

Depreciation and Amortization. Depreciation and amortization expense was $6.0 million, or 4.9% of net sales, in the third quarter of fiscal 2011, compared to $6.5 million, or 5.0% of net sales, in the third quarter of fiscal 2010.

Operating Income (Loss). Based on the foregoing, the Company recorded an operating loss of $0.2 million, or 0.1% of net sales, for the quarter ended November 27, 2010, compared to operating income of $9.8 million, or 7.4% of net sales, for the quarter ended November 28, 2009.

Interest Income. Interest income was $0.1 million in the third quarter of fiscal 2010 and the third quarter of fiscal 2011.

Income Taxes. Income tax expense for the quarter ended November 27, 2010 was $9.1 million, which included a non-cash charge of $12.9 million to establish a full valuation allowance on the Company s net deferred tax assets, offset by approximately $3.8 million of tax benefit. Income tax expense for the third quarter of fiscal 2010 was $2.9 million, with an effective tax rate of 29.6%. The effective tax rate in the third quarter of fiscal 2011 and fiscal 2010 was affected by the impact of permanent differences, timing differences and state taxes on the annual effective tax rate and discrete income tax benefits related to reductions to the reserve for unrecognized tax benefits.

Net Income (Loss). As a result of the foregoing factors, the Company recorded a net loss of $9.2 million, or 7.6% of net sales and ($0.26) per share, for the three months ended November 27, 2010, compared to net income of $7.0 million, or 5.3% of net sales and $0.19 per diluted share, for the three months ended November 28, 2009.

Nine Months Ended November 27, 2010 Compared to Nine Months Ended November 28, 2009

Net Sales. Net sales for the nine months ended November 27, 2010 were $348.5 million, a decrease of approximately $5.0 million or 1.4%, from $353.5 million for the nine months ended November 28, 2009. The decrease in net sales was the result of a 1% decrease in same store sales, combined with a decrease in the number of stores operated by the Company. In addition, net sales declined due to a reduction in sales related to accrued unearned revenue for points accumulated by customers and certificates issued in conjunction with the Company s Friendship Rewards loyalty program. The decrease in net sales was partially offset by increases in revenues at the Company s Christopher & Banks and C.J. Banks web sites in the first nine months of fiscal 2011 as compared to the first nine months of fiscal 2010.

The number of average transactions per store was essentially flat in the first and second quarters of fiscal 2011, when compared to the first and second quarters of fiscal 2010, as declines in customer traffic were offset by increases in the rate of customer conversion. The number of average transactions per store decreased approximately 7% in the third quarter of fiscal 2011 as compared to the third quarter of fiscal 2010. Average transaction values were higher in the first and second quarters and flat in the third quarter of fiscal 2011, when compared to the corresponding periods in fiscal 2010, as average selling prices declined throughout the year. Improved selling at full price in the first quarter gave way to increased promotional activity and a reduced average selling price per unit in the second and third quarters as customers responded less favorably to the Company s fall and holiday merchandise assortments.

The Company operated 789 stores at November 27, 2010, compared to 812 stores as of November 28, 2009.

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Merchandise, Buying and Occupancy Costs. Merchandise, buying and occupancy costs, exclusive of depreciation and amortization, were $215.9 million, or 61.9% of net sales, during the nine months ended November 27, 2010, compared to $219.8 million, or 62.2% of net sales, during the nine months ended November 28, 2009. Merchandise margins declined throughout the first nine months of fiscal 2011 as lower markdown levels in the first quarter were replaced by increased promotional activity in the second and third quarters while the Company worked to drive top line and clear less desirable fall and holiday product assortments. Lower rent expense benefitted buying and occupancy costs throughout the first three quarters of fiscal 2011.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, exclusive of depreciation and amortization, for the nine months ended November 27, 2010 were $107.6 million, or 31.0% of net sales, compared to $105.9 million, or 29.9% of net sales, for the nine months ended November 28, 2009. The increase in selling, general and administrative expenses in the first nine months of fiscal 2011 was largely due to higher severance costs as the Company recorded total charges of approximately $1.5 million related to its former Chief Executive Officer and Chief Financial Officer in the first nine months of the year. In addition, increases in the amount of medical claims and marketing expenditures were partially offset by decreased store payroll and bonus expense. Selling, general and administrative expenses in the second quarter of fiscal 2010 included pre-tax, non-recurring benefits of approximately $1.2 million related largely to legal and contract settlements.

Depreciation and Amortization. Depreciation and amortization expense was $19.0 million, or 5.4% of net sales, in the first nine months of fiscal 2011, compared to $19.1 million, or 5.4% of net sales, in the first nine months of fiscal 2010.

Operating Income. Based on the foregoing, the Company recorded operating income of $6.0 million, or 1.7% of net sales, for the nine months ended November 27, 2010, compared to operating income of $8.8 million, or 2.5% of net sales, for the nine months ended November 28, 2009.

Interest Income. Interest income was $0.4 million for the nine months ended November 27, 2010, compared to $0.5 million for the nine months ended November 28, 2009.

Income Taxes. Income tax expense for the nine months ended November 27, 2011 was $11.8 million, which included a non-cash charge of $12.9 million to establish a full valuation allowance on the Company s net deferred tax assets, offset by approximately $1.1 million of tax benefit. Income tax expense for the nine months ended November 28, 2009 was $2.7 million, with an effective tax rate of 29.2%. The effective tax rate in the first nine months of fiscal 2011 and fiscal 2010 was affected by the impact of permanent differences, timing differences and state taxes on the annual effective tax rate and discrete income tax benefits related to reductions to the reserve for unrecognized tax benefits.

Net Income (Loss). As a result of the foregoing factors, the Company recorded a net loss of $5.4 million, or 1.6% of net sales and ($0.15) per share, for the nine months ended November 27, 2010, compared to net income of $6.5 million, or 1.8% of net sales and $0.18 per diluted share, for the nine months ended November 28, 2009.

Liquidity and Capital Resources

The Company s principal on-going cash requirements are to fund working capital needs, such as purchasing merchandise inventory, to finance the construction of new stores and the remodeling of certain existing stores, and to make information technology-related and other capital improvements. Merchandise purchases vary on a seasonal basis, peaking in the fall. As a result, the Company s cash requirements historically reach their peak in October or November, during the Company s third fiscal quarter. Conversely, cash balances peak in the fourth fiscal quarter in January, after the holiday season is completed. The Company s balance of cash, cash equivalents and short and long-term investments was approximately $102 million at the end of the third quarter of fiscal 2011, down from approximately $113 million at the end of fiscal 2010 and flat compared to the end of the third quarter of fiscal 2010. The decrease in cash, cash equivalents and investments as of November 27, 2010, compared to February 27, 2010, related to seasonal fluctuations in the Company s inventory and accounts payable balances as the Company typically increases inventory levels in the third quarter in anticipation of the holiday season. Please see Note 2, Investments, for further information regarding the Company s investment holdings.

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Net cash provided by operating activities

Net cash provided by operating activities totaled $15.7 million in the first nine months of fiscal 2011, which included the redemption of approximately $14.9 million of the Company s ARS. As of November 27, 2010, the Company had no investments in ARS. In the first nine months of fiscal 2010, net cash provided by operating activities totaled approximately $18.3 million.

Significant fluctuations in the Company s working capital accounts included a $7.5 million increase in merchandise inventory and a $5.7 million decrease in accounts payable, both of which related to seasonal fluctuations in the Company s inventory receipts and payments. A $3.2 million increase in income taxes receivable related to estimated tax payments made in the first and second quarters of fiscal 2011, while a $3.1 million decrease in deferred lease incentives resulted from ongoing amortization of tenant allowances and reductions for stores closed in the first nine months of fiscal 2011.

The remainder of the change in cash provided by operating activities was substantially the result of the net loss incurred during the first nine months of fiscal 2011, after adjusting for non-cash charges, including depreciation and amortization expense, deferred income taxes, stock-based compensation expense and various other changes in the Company s other operating assets and liabilities.

Net cash used in investing activities

Net cash used in investing activities in the first nine months of fiscal 2011 consisted of $7.3 million of capital expenditures as well as approximately $9.0 million of net purchases of available-for-sale securities. The Company opened four new stores during the first nine months of the year. The Company also made information technology-related and other investments at its stores, corporate office and distribution center facility during the nine months ended November 27, 2010.

The Company expects to fund approximately $3 million to $4 million of additional capital expenditures in the fourth quarter of fiscal 2011. The Company plans to open approximately two additional stores during the fourth quarter of fiscal 2011 and to fund additional investments in its stores and information technology infrastructure. In addition, the Company expects that a portion of these capital expenditures will relate to stores scheduled to open in the first quarter of fiscal 2012.

Net cash used in financing activities

In the first nine months of fiscal 2011, approximately $6.4 million was used in financing activities for the payment of three quarterly cash dividends, which was partially offset by approximately $0.2 million of proceeds received from the exercise of stock options and $0.3 million of excess tax benefit on stock-based compensation.

The Company anticipates its cash, cash equivalents and investments, combined with cash flows generated from operations, will be sufficient to meet its capital expenditure, working capital and other requirements for liquidity for the remainder of fiscal 2011 and all of fiscal 2012.

Credit facility

The Company maintains an Amended and Restated Revolving Credit Facility (the Credit Facility) with Wells Fargo Bank, National Association (Wells Fargo) which expires on June 30, 2011. The Credit Facility provides the Company with revolving credit loans and letters of credit of up to $50 million, in the aggregate, subject to a borrowing base formula based on inventory levels.

Loans under the Credit Facility bear interest at the prime rate minus 0.25%. As of November 27, 2010, the prime rate was 3.25%. The Credit Facility also provides the Company with the ability to borrow under the Credit Facility at an interest rate tied to the London Interbank Market Offered Rate (LIBOR). Advances under the LIBOR option would be tied to the one, three or six month LIBOR rate based on the length of time the corresponding advance is outstanding.

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Interest under the Credit Facility is payable monthly in arrears. The Credit Facility carries a facility fee of 0.25%, based on the unused portion as defined in the agreement, a collateral monitoring fee and a guarantee service charge. Borrowings under the Credit Facility are collateralized by the Company s equipment, intangible assets, inventory, inventory letters of credit and letter of credit rights. The Company had no revolving credit loan borrowings under the Credit Facility during the first nine months of fiscal 2011 or fiscal 2010. Historically, the Credit Facility has been utilized by the Company only to open letters of credit to facilitate the import of merchandise. The borrowing base at November 27, 2010 was $28.4 million and the Company had open on-demand letters of credit in the amount of $1.3 million. Accordingly, the availability of revolving credit loans under the Credit Facility was $27.1 million at November 27, 2010.

The Credit Facility contains certain restrictive covenants, including restrictions on incurring additional indebtedness and limitations on certain types of investments, as well as requiring the maintenance of certain financial covenants. As of November 27, 2010, the most recent measurement date, the Company was in compliance with all financial covenants under the Credit Facility.

Auction Rate Securities

In November 2008, the Company entered into a settlement agreement with UBS Financial Services, Inc., a subsidiary of USB AG (UBS) related to the Company s investment in Auction Rate Securities (ARS) purchased through UBS. Under the terms of the settlement agreement, the Company received rights that enabled it to sell its ARS to UBS at par value at any time during the two year period beginning June 30, 2010. On June 30, 2010, the Company exercised its ARS rights and sold its remaining $7.1 million investment in ARS to UBS at par value on July 1, 2010. As of November 27, 2010, the Company had no investments in ARS.

Merchandise Sourcing

The Company directly imported approximately 11% and 12% of its total merchandise purchases in the nine month periods ended November 27, 2010 and November 28, 2009. Substantially all of its remaining merchandise purchases were made from U.S. based companies which import the goods from overseas. This reliance on sourcing from foreign countries may cause the Company to be exposed to certain risks as indicated below and as discussed in Part I, Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the year ended February 27, 2010.

Import restrictions, including tariffs and quotas, and changes in such restrictions, could affect the import of apparel and might result in increased costs, delays in merchandise receipts or reduced supplies of apparel available to the Company, and could have an adverse effect on the Company s financial condition, results of operations and liquidity. The Company s merchandise flow could also be adversely affected by political instability in any of the countries where its merchandise is manufactured or by changes in the United States governmental policies toward such foreign countries. In addition, merchandise receipts could be delayed due to interruptions in air, ocean and ground shipments.

The Company does not have long-term purchase commitments or arrangements with any of its suppliers or agents. During the three and nine month periods ended November 27, 2010 and November 28, 2009, three of the Company s vendors each supplied the Company with greater than 10% of its merchandise inventory purchases. For the third quarter of fiscal 2011, these three vendors supplied approximately 23%, 18% and 16% of the Company s merchandise purchases, compared to 25%, 20% and 16% for the third quarter of fiscal 2010. For the nine month period ended November 27, 2010, these vendors supplied approximately 27%, 11% and 17% of the Company s merchandise purchases, compared to 25% , 12% and 16% of the Company s merchandise purchases during the nine months ended November 28, 2009.

Although the Company has strong relationships with these vendors, there can be no assurance that these relationships can be maintained in the future or that the vendors will continue to supply merchandise to the Company. If there should be any significant disruption in the supply of merchandise from these vendors, 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.

The Company has recently experienced an increase in product costs for some of its merchandise orders delivered in the second half of fiscal 2011 and to be delivered in the first half of fiscal 2012. The increase in costs consists primarily of increases in the price of cotton, labor and transportation. In response to these recent increases, the Company will continue to evaluate its merchandise sourcing initiatives in an effort to source product and make raw material commitments to mitigate these increases. In addition, management is analyzing its retail prices and believes it has the flexibility to pass on some of the increased product costs to its customers. The Company intends to maintain its commitment to providing quality merchandise to its customers while it works to reduce the impact of these potential cost increases. Nonetheless, the Company s gross margins could be negatively impacted if it is unable to mitigate these increases in product costs or to pass such product costs on to its customers.

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Quarterly Results and Seasonality

The Company s quarterly results may fluctuate significantly depending on a number of factors, including general economic conditions, timing of promotional events and new store openings, adverse weather conditions, shifts in the timing of certain holidays and customer response to the Company s seasonal merchandise mix.

Inflation

Management does not believe that inflation had a material effect on the Company s results of operations for the first nine months of fiscal 2011 or fiscal 2010.

Forward-Looking Statements

The Company, directly or through its management, may make forward-looking statements reflecting the Company s current views with respect to future events and financial performance. These forward-looking statements, which may be included in reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), in press releases and in other documents and materials as well as in written or oral statements made by or on behalf of the Company, are subject to certain risks and uncertainties, including those discussed below and in Item 1A of the Company s Annual Report on Form 10-K for the fiscal year ended February 27, 2010, which could cause actual results to differ materially from historical results or those anticipated.

The words or phrases will likely result, are expected to, will continue, estimate, project, believe, expect, anticipate, forecast, pl intends and similar expressions are intended to identify forward-looking statements within the meaning of Section 21e of the Exchange Act and Section 27A of the Securities Act of 1933, as amended, as enacted by the Private Securities Litigation Reform Act of 1995 (PSLRA). In particular, the Company desires to take advantage of the protections of the PSLRA in connection with the forward-looking statements made in this Quarterly Report on Form 10-Q.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date such statements are made. In addition, the Company wishes to advise readers that the factors listed in Item 1A of the Company s Annual Report on Form 10-K for the fiscal year ended February 27, 2010, as well as other factors including those listed below, could affect the Company s performance and could cause the Company s actual results for future periods to differ materially from any opinions or statements expressed about such future performance or results:

- Economic conditions may cause a decline in business and consumer spending which could adversely affect our financial performance.

- Current economic conditions may negatively impact the Company s suppliers and their ability to deliver products, as well as the Company s retail landlords and their ability to maintain their shopping centers in a first-class condition and otherwise perform their obligations as a landlord.

- All of our stores are located within the United States, making us highly susceptible to deteriorations in U.S. macroeconomic conditions and consumer confidence.

- Our ability to open and operate stores successfully, including our dual-concept and outlet stores, may be impacted by the potential lack of availability of suitable store locations and acceptable terms.

- If we are unable to anticipate or react to changing consumer preferences in a timely manner, our sales, merchandise margins and operating income could decline.

- Our ability to manage inventory levels and our ability to predict or respond to customer demand may impact our results.

- Our success depends on a consistent and sufficient level of traffic to our stores and an insufficient level of store traffic could significantly reduce our sales revenues and impact our margins, as well as leave us with unsold inventory.

- We operate in a highly competitive retail industry. The size and resources of some of our competitors may allow them to compete more effectively than we can, which could result in a reduced level of sales and a loss of market share.

- Fluctuations in our level of same-store sales could adversely affect our earnings growth.

- Our net sales and operating income fluctuate on a seasonal basis and decreases in sales or margins during our peak seasons could have a disproportionate effect on our overall financial condition and results of operations.

- Our results of operations could deteriorate if we fail to attract, develop and retain qualified employees.

- Extreme and/or unseasonable weather conditions could have a disproportionately large effect on our business, financial condition and results of operations and we could be forced to mark down inventory.

- Our ability to manage SG&A expenses and capital expenditures may impact our operating results.

- We are highly dependent on a few suppliers who primarily manufacture overseas and our reliance on foreign sources of production poses various risks.

- The raw materials used to manufacture our products, in particular cotton, and our transportation and labor costs are subject to availability constraints and price volatility and we have recently seen an increase in such costs, which could adversely affect our margins or result in increased prices which could result in lower sales.

- Our suppliers may be unable to manufacture and deliver products in a timely manner or meet our quality standards, which could result in lost sales, cancellation charges or excessive markdowns.

- Our inability to maintain the value of our brands and our trademarks may adversely affect our business and financial performance.

- We face challenges to grow our business and to manage our growth.

- Disruptions in our information systems could adversely affect our sales and profitability.

- We depend significantly on a single operations and distribution facility.

- There are risks associated with our e-Commerce business, such as reliance on a single fulfillment center, diversion of sales from our stores, potential failure of computer systems that operate our websites and timely delivery of our merchandise to our customers by third parties.

- If third parties who manage some aspects of our business do not adequately perform their functions, we might experience disruptions in our business, resulting in decreased profits or losses.

- Effects of war, terrorism or other catastrophes could adversely impact our business or operations.

- Natural disasters and health concerns relating to outbreaks of widespread diseases, particularly affecting manufacturing operations of the Company s suppliers, may have a negative impact on our business or operations.

- Failure to comply with legal and regulatory requirements could damage our reputation, financial condition and the market price of our stock.

- Our business could suffer if any of the manufacturers of the goods that we sell fails to use acceptable or ethical labor practices.

- Our marketing efforts rely upon the effective use of customer information. Restrictions on the availability or use of customer information or the unauthorized disclosure of sensitive or confidential information could adversely affect our marketing programs or expose us to litigation, which could disrupt our operations and harm our business.

- Operating losses in tax jurisdictions with deferred tax assets could hinder our ability to continue to carry the deferred tax assets, which would result in a valuation allowance negatively impacting our consolidated results and net worth.

- Government healthcare requirements could adversely affect our profits.

- The bankruptcy or significant deterioration of large commercial and retail landlords could have a material adverse effect on our sales and operating results.

- The inability of our suppliers to obtain credit may cause us to experience delays in obtaining merchandise.

- A failure in the effectiveness of internal control over financial reporting could adversely impact our business.

- We may be subject to adverse outcomes in potential future litigation.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in the Company s financial instruments and in its financial position represents the potential loss arising from adverse changes in interest rates. The Company s results of operations could be negatively impacted by decreases in interest rates on its investments.

The Company is potentially exposed to market risk from changes in interest rates relating to its Credit Facility with Wells Fargo Bank. Loans under the Credit Facility bear interest at Wells Fargo s prime rate, 3.25% as of November 27, 2010, less 0.25%, or the one, three or six month LIBOR rate, based on the length of time the advance is outstanding. However, the Company had no revolving credit loan borrowings under the Credit Facility during the first nine months of fiscal 2011 or fiscal 2010 and, given its existing liquidity position, the Company does not expect to utilize the Credit Facility in the reasonably foreseeable future other than for letters of credit.

The Company enters into certain purchase obligations outside the United States, which are denominated and settled in U.S. dollars. Therefore, the Company has only minimal exposure to foreign currency exchange risks. The Company does not hedge against foreign currency risks and believes that its foreign currency exchange risk is immaterial.

The Company does not have any derivative financial instruments and does not hold any derivative financial instruments for trading purposes.

ITEM 4.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of its Interim Chief Executive Officer and Interim Chief Financial Officer, the Company s management has evaluated the effectiveness and design of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report (the Evaluation Date). Based upon that evaluation, the Company s Interim Chief Executive Officer and Interim Chief Financial Officer concluded that, as of the Evaluation Date, the Company s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in applicable rules and forms, and (ii) accumulated and communicated to the Company s management, including its Interim Chief Executive Officer and Interim Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) Internal Control Over Financial Reporting.

There have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended November 27, 2010 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1.

LEGAL PROCEEDINGS

The Company is subject, from time to time, to various claims, lawsuits or actions that arise in the ordinary course of business. Although the amount of any liability that could arise with respect to any current proceedings cannot, in our opinion, be accurately predicted, any such liability is not expected to have a material adverse impact on the Company s financial position, results of operations or liquidity.

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ITEM 1A.

RISK FACTORS

There have been no material changes to the factors discussed in Part I, Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the year ended February 27, 2010.

ITEM 2.

UNREGISTERED SALES OF EQUITY

SECURITIES AND USE OF PROCEEDS

None.

ITEM 3.

DEFAULTS UPON

SENIOR SECURITIES

None.

ITEM 4.

(REMOVED AND RESERVED)

ITEM 5.

OTHER INFORMATION

None.

ITEM 6.

EXHIBITS

3.1*	Restated Certificate of Incorporation of Christopher & Banks Corporation, as amended through July 27, 2010
3.2*	Fifth Amended and Restated By-Laws of Christopher & Banks Corporation, as amended through July 27, 2010
14.1	Code of Conduct of Christopher & Banks Corporation (incorporated herein by reference to Exhibit 14.1 to Current Report on Form 8-K filed January 5, 2011)
31.1*	Certification of Interim Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Interim Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Interim Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of the Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed with this report.

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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.

CHRISTOPHER & BANKS CORPORATION

Dated: January 6, 2011	By:	/s/ LARRY C. BARENBAUM
		Larry C. Barenbaum Interim Chief Executive Officer (Principal Executive Officer)
Dated: January 6, 2011	By:	/s/ MICHAEL J. LYFTOGT
		Michael J. Lyftogt Vice President Finance, Chief Accounting Officer and Interim Chief Financial Officer (Principal Financial Officer)

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CHRISTOPHER & BANKS CORPORATION

QUARTERLY REPORT ON FORM 10-Q

INDEX TO EXHIBITS

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