

CHRISTOPHER & BANKS CORP
Form 10-Q
January 10, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 1, 2007

OR

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

For the transition period from _____ to _____.

Commission File No. 001-31390

CHRISTOPHER & BANKS CORPORATION

(Exact name of registrant as specified in its charter)

(Mark One)

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Delaware
(State or other jurisdiction of
incorporation or organization)

06 - 1195422
(I.R.S. Employer
Identification Number)

2400 Xenium Lane North, Plymouth, Minnesota

(Address of principal executive offices)

55441

(Zip Code)

(763) 551-5000

(Registrant's telephone number, including area code)

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 NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

YES NO

As of January 4, 2008, 35,574,772 shares of the registrant's common stock were outstanding.

CHRISTOPHER & BANKS CORPORATION

QUARTERLY REPORT ON FORM 10-Q

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CHRISTOPHER & BANKS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	December 1, 2007	March 3, 2007	November 25, 2006
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 46,701,459	\$ 53,991,398	\$ 59,379,627
Short-term investments	48,300,000	48,275,000	53,800,000
Accounts receivable	6,811,678	4,481,624	6,523,830
Merchandise inventories	46,943,191	52,354,944	55,421,481
Prepaid expenses	11,497,446	10,666,421	2,589,165
Income taxes receivable		2,076,717	2,064,032
Other current assets	4,582,421	3,257,919	2,605,962
Total current assets	164,836,195	175,104,023	182,384,097
Property, equipment and improvements, net	136,373,593	127,776,442	128,176,122
Goodwill	3,587,052	3,587,052	3,587,052
Intangible assets	495,630	575,281	602,572
Other assets	3,842,342	280,299	646,494
Total assets	\$ 309,134,812	\$ 307,323,097	\$ 315,396,337
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	\$ 8,483,503	\$ 16,287,931	\$ 7,058,148
Accrued salaries, wages and related expenses	9,529,895	7,797,470	8,861,133
Other accrued liabilities	20,902,975	22,164,741	16,412,468
Total current liabilities	38,916,373	46,250,142	32,331,749
Non-current liabilities:			
Deferred lease incentives	22,336,658	23,646,261	21,896,081
Deferred rent obligations	11,673,329	10,678,341	10,581,792
Other	3,362,258	983,137	
Total non-current liabilities	37,372,245	35,307,739	32,477,873
Commitments			
Stockholders equity:			
Preferred stock \$0.01 par value, 1,000,000 shares authorized, none outstanding			
Common stock \$0.01 par value, 74,000,000 shares authorized, 45,052,590, 45,038,310 and 44,982,810 shares issued and 35,574,772, 36,521,451 and 37,832,074 shares outstanding at December 1, 2007, March 3, 2007 and November 25, 2006, respectively	450,526	450,383	449,828
Additional paid-in capital	109,766,765	106,806,885	105,561,337
Retained earnings	232,341,185	213,264,385	213,551,634
Common stock held in treasury, 9,477,818, 8,516,859 and 7,150,736 shares at cost at December 1, 2007, March 3, 2007 and November 25, 2006, respectively	(109,712,282)	(94,756,437)	(68,976,084)
Total stockholders equity	232,846,194	225,765,216	250,586,715
Total liabilities and stockholders equity	\$ 309,134,812	\$ 307,323,097	\$ 315,396,337

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

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

	Three Months Ended	
	December 1, 2007	November 25, 2006
Net sales	\$ 159,976,156	\$ 139,265,259
Costs and expenses:		
Merchandise, buying and occupancy, exclusive of depreciation and amortization	94,102,758	84,611,297
Selling, general and administrative	44,335,830	35,793,571
Depreciation and amortization	6,585,939	5,137,780
Total costs and expenses	145,024,527	125,542,648
Operating income	14,951,629	13,722,611
Interest income	1,163,225	1,353,399
Income before income taxes	16,114,854	15,076,010
Income tax provision	5,876,684	5,849,493
Net income	\$ 10,238,170	\$ 9,226,517
Basic earnings per common share:		
Net income	\$ 0.29	\$ 0.24
Basic shares outstanding	35,447,855	37,743,349
Diluted earnings per common share:		
Net income	\$ 0.29	\$ 0.24
Diluted shares outstanding	35,528,352	38,233,169
Dividends per share	\$ 0.06	\$ 0.06

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

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

	Nine Months Ended	
	December 1, 2007	November 25, 2006
Net sales	\$ 450,475,105	\$ 413,348,890
Costs and expenses:		
Merchandise, buying and occupancy, exclusive of depreciation and amortization	271,613,686	241,975,934
Selling, general and administrative	124,041,825	107,985,828
Depreciation and amortization	17,391,107	15,136,518
Total costs and expenses	413,046,618	365,098,280
Operating income	37,428,487	48,250,610
Interest income	3,382,477	3,640,355
Income before income taxes	40,810,964	51,890,965
Income tax provision	15,508,167	20,133,695
Net income	\$ 25,302,797	\$ 31,757,270
Basic earnings per common share:		
Net income	\$ 0.71	\$ 0.86
Basic shares outstanding	35,835,063	37,051,099
Diluted earnings per common share:		
Net income	\$ 0.70	\$ 0.84
Diluted shares outstanding	35,925,734	37,617,374
Dividends per share	\$ 0.18	\$ 0.14

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

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Nine Months Ended	
	December 1, 2007	November 25, 2006
Cash flows from operating activities:		
Net income	\$ 25,302,797	\$ 31,757,270
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,391,107	15,136,518
Deferred income taxes	(2,223,228)	(3,878,237)
Excess tax benefit related to stock-based compensation	(14,738)	(5,766,662)
Stock-based compensation expense	1,788,292	3,855,639
(Gain) loss on disposal of furniture, fixtures and equipment	221,928	92,511
Changes in operating assets and liabilities:		
Decrease (increase) in merchandise inventories	5,411,753	(17,550,106)
Increase in accounts receivable	(2,330,054)	(1,770,527)
Decrease in income taxes receivable	2,091,455	3,730,055
(Increase) decrease in prepaid expenses	(831,025)	473,656
Increase in other assets	(64,541)	(70,320)
Decrease in accounts payable	(7,876,176)	(3,553,659)
Increase (decrease) in accrued liabilities and income taxes payable	470,658	(656,723)
Increase (decrease) in deferred lease incentives	(500,116)	93,212
Increase in deferred rent obligations	994,988	971,793
Net cash provided by operating activities	39,833,100	22,864,420
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(26,868,274)	(24,223,274)
Purchases of short-term investments	(96,850,000)	(79,177,900)
Redemptions of short-term investments	96,825,000	55,377,900
Net cash used in investing activities	(26,893,274)	(48,023,274)
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,156,993	30,017,846
Dividends paid	(6,445,651)	(5,203,611)
Excess tax benefit related to stock-based compensation	14,738	5,739,237
Acquisition of common stock held in treasury	(14,955,845)	(8,399,990)
Net cash provided by (used in) financing activities	(20,229,765)	22,153,482
Net decrease in cash and cash equivalents	(7,289,939)	(3,005,372)
Cash and cash equivalents at beginning of period	53,991,398	62,384,999
Cash and cash equivalents at end of period	\$ 46,701,459	\$ 59,379,627
Supplemental cash flow information:		
Income taxes paid	\$ 12,199,530	\$ 21,307,134
Purchases of equipment and improvements, accrued, not paid	\$ 71,748	\$ 758,462

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

CHRISTOPHER & BANKS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

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The unaudited condensed consolidated financial statements included in this Form 10-Q have been prepared by Christopher & Banks Corporation and 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 financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended March 3, 2007.

The results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to present fairly the Company's financial position as of December 1, 2007 and November 25, 2006 and its results of operations and cash flows for the three and nine month periods ended December 1, 2007 and November 25, 2006. All such adjustments are of a normal recurring nature.

NOTE 2 CEO TRANSITION

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On August 30, 2007, the Company announced that its Board of Directors had appointed Lorna Nagler as President and Chief Executive Officer effective August 31, 2007. Ms. Nagler was also elected as a member of the Company's Board of Directors as of August 31, 2007. Ms. Nagler most recently served as President of Lane Bryant and has 29 years of experience in the women's apparel retail industry.

Matthew P. Dillon resigned as President and Chief Executive Officer, and as a member of the Company's Board of Directors, effective August 30, 2007. In the second quarter of fiscal 2008, the Company incurred a pre-tax charge of approximately \$2.1 million, or \$0.04 per diluted share, related to the transition of the CEO position from Mr. Dillon to Ms. Nagler.

NOTE 3 INCOME TAXES

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The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48), on March 4, 2007. FIN No. 48 prescribes a minimum recognition threshold and measurement process for recording uncertain tax positions in the financial statements. Additionally, FIN No. 48 provides guidance on derecognition, classification, accounting and disclosure related to uncertain tax positions. Implementation of FIN No. 48 resulted in an adjustment to the Company's liability for unrecognized tax benefits of approximately \$0.2 million with a corresponding increase to retained earnings. As of the date of adoption, the total amount of unrecognized tax benefits was \$3.4 million. Of that amount, approximately \$2.3 million represents the amount of unrecognized tax benefits that would, if recognized, favorably affect the Company's effective income tax rate in future periods.

The Company recognizes interest and penalties related to unrecognized tax benefits as components of income tax expense. At March 4, 2007, the Company had accrued \$0.7 million for the potential payment of interest and penalties.

The Company and its subsidiaries file income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. The Internal Revenue Service has completed their audit for tax years through fiscal 2006. The Company is not subject to state income tax examination by tax authorities for taxable years prior to fiscal 2004.

In the third quarter of fiscal 2008, the Company's effective tax rate was 36.5% compared to 38.8% in the third quarter of fiscal 2007. The decrease in effective tax rate resulted from an adjustment to the Company's liability for unrecognized tax benefits as the statute of limitations with respect to the Company's tax returns expired in a number of states and other tax jurisdictions in which the Company operates.

NOTE 4 SHORT-TERM INVESTMENTS

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Short-term investments consisted of the following:

Description	December 1, 2007	March 3, 2007	November 25, 2006
Tax advantaged auction rate securities	\$ 48,300,000	\$ 48,275,000	51,800,000
U.S. Government debt securities			2,000,000
	\$ 48,300,000	\$ 48,275,000	\$ 53,800,000

As of December 1, 2007, the Company's tax advantaged auction rate securities consisted solely of investments in student loans. These securities are rated AAA by the credit rating service providers of Standard & Poor's and/or Moody's Investors Service. In addition, these securities are fully insured by private insurers or guaranteed by the United States Department of Education and are collateralized by the underlying student loans. As of January 10, 2008, management is not aware of any failed auctions of such student loan auction rate securities.

NOTE 5 MERCHANDISE INVENTORIES

Merchandise inventories consisted of the following: