CHRISTOPHER & BANKS CORP
Form 10-Q
July 08, 2010
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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 May 29, 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 001-31390

CHRISTOPHER & BANKS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**06 - 1195422**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2400 Xenium Lane North, Plymouth, Minnesota	**55441**
(Address of principal executive offices)	(Zip Code)

(763) 551-5000

(Registrant s telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant 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 June 25, 2010, 35,826,742 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)

	May 29, 2010	February 27, 2010	May 30, 2009
ASSETS			
Current assets:			
Cash and cash equivalents	$ 38,730	$ 37,073	$ 88,306
Short-term investments	60,962	62,251	
Accounts receivable	5,847	4,245	4,371
Merchandise inventories	34,543	38,496	32,570
Prepaid expenses	2,834	1,642	2,608
Income taxes receivable		394	16,597
Current deferred tax asset	4,017	3,509	4,114
Other current assets	1,562	2,000	
Total current assets	148,495	149,610	148,566
Property, equipment and improvements, net	92,884	96,109	114,759
Long-term investments	15,172	13,622	16,400
Deferred tax asset	8,076	7,631	5,206
Other assets	320	325	3,026
Total assets	$ 264,947	$ 267,297	$ 287,957
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 7,443	$ 13,654	$ 22,570
Accrued salaries, wages and related expenses	6,563	8,472	7,485
Other accrued liabilities	18,109	19,164	20,362
Other current liabilities	3,704		487
Total current liabilities	35,819	41,290	50,904
Non-current liabilities:			
Deferred lease incentives	18,371	19,578	22,471
Other	12,259	12,699	14,315
Total non-current liabilities	30,630	32,277	36,786
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, 45,621, 45,735 and 45,658 shares issued and 35,830, 35,944 and 35,867 shares outstanding at May 29, 2010, February 27, 2010 and May 30, 2009, respectively		456		457		457
Additional paid-in capital		114,163		113,584		112,233
Retained earnings		196,567		192,361		200,289
Common stock held in treasury, 9,791 shares at cost at May 29, 2010, February 27, 2010, and May 30, 2009, respectively		(112,711)		(112,711)		(112,712)
Accumulated other comprehensive income		23		39		
Total stockholders equity		198,498		193,730		200,267
Total liabilities and stockholders equity	$	264,947	$	267,297	$	287,957

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 May 29, 2010	Three Months Ended May 30, 2009
Net sales	$ 126,235	$ 120,367
Costs and expenses:		
Merchandise, buying and occupancy	72,857	75,458
Selling, general and administrative	36,199	36,144
Depreciation and amortization	6,530	6,311
Total costs and expenses	115,586	117,913
Operating income	10,649	2,454
Other income	116	115
Income before income taxes	10,765	2,569
Income tax provision	4,425	884
Net income	$ 6,340	$ 1,685
Basic earnings per share:		
Net income	$ 0.18	$ 0.05
Basic shares outstanding	35,306	35,132
Diluted earnings per share:		
Net income	$ 0.18	$ 0.05
Diluted shares outstanding	35,607	35,137
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 STATEMENT OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	May 29, 2010	**May 30, 2009**
Cash flows from operating activities:		
Net income	$ 6,340	$ 1,685
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,530	6,311
Amortization of premium on investments	187	
Excess tax benefit on stock-based compensation	(206)	
Deferred income taxes	(946)	(1,197)
Stock-based compensation expense	638	474
Loss on disposal of furniture, fixtures and equipment	3	77
Gain on investments, net	(18)	
Changes in operating assets and liabilities:		
Sales of trading securities	3,250	
Increase in accounts receivable	(1,602)	(450)
Decrease in merchandise inventories	3,953	6,258
Increase in prepaid expenses	(1,192)	(670)
Decrease in income taxes receivable	601	2,150
Increase in other assets	(2)	(2)
Increase (decrease) in accounts payable	(6,124)	3,813
Increase (decrease) in accrued liabilities	386	(3,844)
Decrease in deferred lease incentives	(1,207)	(1,035)
Decrease in other liabilities	(440)	(113)
Net cash provided by operating activities	10,151	13,457
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(3,395)	(1,849)
Purchases of investments	(22,034)	
Sales of investments	18,776	
Net cash used in investing activities	(6,653)	(1,849)
Cash flows from financing activities:		
Exercise of stock options	87	
Excess tax benefit on stock-based compensation	206	
Dividends paid	(2,134)	(2,116)
Net cash used in financing activities	(1,841)	(2,116)
Net increase in cash and cash equivalents	1,657	9,492
Cash and cash equivalents at beginning of period	37,073	78,814
Cash and cash equivalents at end of period	$ 38,730	$ 88,306

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 May 29, 2010, February 27, 2010 and May 30, 2009, and its results of operations and cash flows for the three month periods ended May 29, 2010 and May 30, 2009.

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. The reward certificates 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 required disclosure requirements 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 Accounting Standards Codification (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):

	May 29, 2010			
Description	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Estimated Fair Value**
Short-term investments:				
Available-for-sale securities:				
Variable rate demand obligations	$ 22,195	$	$	$ 22,195
Municipal commercial paper	1,000			1,000
Municipal bonds	27,281	8		27,289
U.S. Agency securities	484	1	6	479
Trading securities:				
Auction Rate Securities	9,999			9,999
Total short-term investments	60,959	9	6	60,962
Long-term investments:				
Available-for-sale securities:				
Municipal bonds	9,635	32		9,667
U.S. Agency securities	5,501	5	1	5,505
Total long-term investments	15,136	37	1	15,172
Total investments	$ 76,095	$ 46	$ 7	$ 76,134

	February 27, 2010			
Description	**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

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Description	May 30, 2009 Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Trading securities:				
Auction Rate Securities	$ 16,400	$	$	$ 16,400
Total long-term investments	16,400			16,400
Total investments	$ 16,400	$	$	$ 16,400

In an effort to improve yield without sacrificing principal, the Company diversified its investment portfolio in fiscal 2010 to include holdings of select, highly-rated, short-duration variable rate demand obligations, municipal bonds, municipal commercial paper and U.S. Agency securities.

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 May 29, 2010, the Company s available-for-sale investment securities were comprised of variable rate demand obligations, municipal bonds, municipal commercial paper and U.S. Agency securities. 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 quarter of fiscal 2011, purchases of available-for-sale securities totaled approximately $22.0 million, while proceeds from the sale of available-for-sale securities were $18.8 million. Gross realized gains and losses on the sale of available-for-sale securities during the quarter ended May 29, 2010 were not material.

The Company s available-for-sale securities are reviewed for possible impairment at least quarterly, or more frequently if circumstances arise which may indicate impairment. 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 May 29, 2010, there were no other-than-temporary impairments of the Company s available-for-sale securities.

The Company had approximately $10.0 million, $12.8 million and $16.4 million of trading securities as of May 29, 2010, February 27, 2010 and May 30, 2009, respectively, which consisted solely of $11.6 million, $14.8 million and $19.5 million of Auction Rate Securities (ARS) at cost, less fair value adjustments of approximately $1.6 million, $2.0 million and $3.1 million. 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 are expected to be held.

Substantially all of the Company s ARS are collateralized by student loans. As of May 29, 2010, approximately 90% of its ARS had AAA (Standard & Poor s), Aaa (Moody s), or AAA (Fitch) credit ratings. As of May 29, 2010, the repayment of approximately 80% of the student loans, which serve as collateral for the ARS held by the Company, was substantially backed by the United States government. Until February 2008, the ARS market was liquid and auctions for ARS held by the Company did not fail. However, beginning in February 2008, auctions for the ARS held by the Company began to fail and have continued to fail up to and as of the date of this report. Unsuccessful auctions have limited the Company s ability to access these funds.

All of the ARS owned by the Company were purchased through UBS Financial Services, Inc., a subsidiary of UBS AG (UBS) and are held, for the benefit of the Company, by UBS. In November 2008, the Company accepted a settlement offer from UBS to restore liquidity to its clients who hold ARS. The settlement grants the Company certain ARS rights. These ARS rights provide the Company the ability to redeem its ARS at par during a two-year time period beginning June 30, 2010. During this time, the Company may choose to continue to hold some, or all, of its ARS and earn interest or sell some, or all, of its ARS to UBS at par plus accrued interest. The ARS rights are not transferable, tradable or marginable and will not be listed or quoted on any securities exchange or any electronic communications network. As the Company has the ability and intent to redeem its ARS at June 30, 2010, it reclassified the ARS to short-term investments during the second quarter of fiscal 2010.

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Upon acceptance of the settlement offer, the Company classified its ARS as trading securities and elected to record the ARS rights at fair value on a recurring basis utilizing significant unobservable inputs in accordance with ASC 820-10, Fair Value Measurements and Disclosures. The fair value of the ARS rights was estimated utilizing the Black-Scholes option pricing model and the forward contract method. The fair value of the ARS rights was determined to be approximately $1.6 million, $2.0 million and $2.7 million as of May 29, 2010, February 27, 2010 and May 30, 2009, respectively. The ARS rights were recorded within other current assets on the consolidated financial statements as of May 29, 2010 and February 27, 2010 and as other non-current assets on the consolidated financial statements as of May 30, 2009. During the quarter ended May 29, 2010, approximately $3.3 million of the Company s ARS were redeemed.

Effective June 30, 2010, the Company exercised its ARS rights under the settlement agreement with UBS and redeemed all of its outstanding ARS at par, which totaled approximately $7.1 million, on July 1, 2010.

Expected maturities of the Company s investments are as follows (in thousands):

		May 29, 2010
Due in one year or less	$	60,962
Due after one year through three years		15,172
Total investment securities	$	76,134

The Company has $22.2 million of Variable Rate Demand Obligations (VRDOs) as of May 29, 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 2041, 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		May 29, 2010		February 27, 2010		May 30, 2009
Merchandise - in store/e-Commerce	$	33,178	$	36,522	$	31,140
Merchandise - in transit		1,365		1,974		1,430
	$	34,543	$	38,496	$	32,570

The Company does not have long-term purchase commitments or arrangements with any of its suppliers or agents. During the quarter ended May 29, 2010, one of the Company s vendors supplied approximately 30% of the Company s merchandise purchases and a second vendor supplied approximately 18% of the Company s merchandise purchases. The Company purchased approximately 25% and 14% of its merchandise from these vendors during the quarter ended May 30, 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.

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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	May 29, 2010	February 27, 2010	May 30, 2009
Land		$ 1,597	$ 1,597	$ 1,597
Corporate office, distribution center and related building improvements	25 years	12,047	12,027	12,005
Store leasehold improvements	Term of related lease, typically 10 years	92,431	93,894	94,994
Store furniture and fixtures	Three to 10 years	111,482	112,815	113,497
Point of sale hardware and software	Five years	14,943	15,056	15,162
Computer hardware and software	Three to five years	24,269	24,176	21,328
Corporate office and distribution center furniture, fixtures and equipment	Seven years	5,334	5,315	3,587
Construction in progress		2,833	73	1,940
		264,936	264,953	264,110
Less accumulated depreciation and amortization		172,052	168,844	149,351
Net property, equipment and improvements		$ 92,884	$ 96,109	$ 114,759

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 three month period ended May 29, 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	May 29, 2010	February 27, 2010	May 30, 2009
Gift card and store credit liabilities	$ 8,337	$ 10,884	$ 8,991
Accrued merchandise inventory receipts not yet invoiced	1,673	1,539	3,781
Accrued Friendship Rewards loyalty liability	1,189		
Accrued income, sales and other taxes payable	2,753	2,081	2,357
Accrued workers compensation liability	505	600	1,184
Accrued occupancy-related expenses	1,143	665	841
Other	2,509	3,395	3,208
	$ 18,109	$ 19,164	$ 20,362

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 May 29, 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 three 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 May 29, 2010 was $21.6 million. As of May 29, 2010, 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 $20.3 million at May 29, 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 May 29, 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 immediately 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 related to stock-based awards for the three months ended May 29, 2010 and May 30, 2009 was approximately $638,000 and $474,000, respectively.

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.

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The weighted average assumptions relating to the valuation of the Company s stock option grants for the three month periods ended May 29, 2010 and May 30, 2009 were as follows:

	Three Months Ended	
	May 29, 2010	May 30, 2009
Expected dividend yield	3.08%	5.50%
Expected volatility	70.0%	66.2%
Risk-free interest rate	2.49%	1.80%
Expected term in years	4.9	5.0

Stock-Based Compensation Activity

The following table presents a summary of the Company s stock option activity for the three months ended May 29, 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	$ 2,360	$ 4.24	
Vested	744,628	16.62	211	5.59	
Unvested	848,042	7.11	2,149	2.81	
Granted	272,900	10.76		5.15	
Exercised	(18,500)	4.68	110	1.78	
Canceled - vested (expired)	(3,318)	10.86		3.96	
Canceled - unvested (forfeited)	(57,400)	7.08	156	3.10	
Outstanding, end of period	1,786,352	11.65	2,121	4.44	7.39
Vested	941,872	14.99	405	5.34	5.86
Unvested	844,480	7.93	1,716	3.43	9.10
Exercisable, end of period	941,872	14.99	405	5.34	5.85

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 May 29, 2010.

The following table presents a summary of the Company s restricted stock activity for the three months ended May 29, 2010:

	Number of Shares	Weighted Average Fair Value
Unvested, beginning of period	702,450	$ 5.34
Granted	253,900	9.96
Vested	(125,341)	5.94
Canceled - unvested (forfeited)	(327,650)	4.61
Unvested, end of period	503,359	7.99

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The total fair value of shares of restricted stock that vested during the quarter ended May 29, 2010 and May 30, 2009 was approximately $745,000 and $475,000, respectively. As of May 29, 2010, there was approximately $3.5 million of unrecognized stock-based compensation expense, which is expected to be recognized over a weighted average period of approximately two years.

NOTE 8 INCOME TAXES

As of May 29, 2010, the Company s liability for unrecognized tax benefits associated with uncertain tax positions was approximately $2.7 million and the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $1.7 million. The Company recognizes interest and penalties related to unrecognized tax benefits as components of income tax expense. At May 29, 2010, the Company had accrued approximately $0.8 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 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 May 29, 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 May 29, 2010, the Company has net deferred tax assets of approximately $12.1 million. Deferred income tax assets represent potential future income tax benefits. Realization of these assets is ultimately dependent upon future taxable income. No valuation allowance has been provided for deferred tax assets because management believes realization of the full amount of net deferred tax assets is more likely than not. While the Company has a history of profits, the Company recorded a net loss in fiscal 2009 and near break-even results in fiscal 2010. Therefore, achievement of profitability in the future is a significant factor in determining the Company s continuing ability to carry these deferred tax assets. The Company s accounting for deferred taxes represents its best estimate of future events. If future results from the Company s operations are less than projected, a valuation allowance may be required to reduce deferred tax assets, which could have a material impact on the Company s results of operations in the period in which it is recorded. Significant negative events, including losses in future periods, would make it reasonably possible that valuation allowances against deferred tax assets would be required in future periods.

As of May 29, 2010, the Company has state net operating loss carryforwards which will result in state tax benefits of approximately $0.3 million. These state net loss carryforwards will expire in fiscal 2014 and beyond. Additionally, the Company has charitable contribution carryforwards that will expire in fiscal 2014.

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 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.

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	Three Months Ended	
	May 29, 2010	May 30, 2009
Numerator (in thousands)**:**		
Net income attributable to Christopher & Banks Corporation	$ 6,340	$ 1,685
Income allocated to participating securities	(64)	(9)
Net income available to common shareholders	$ 6,276	$ 1,676
Denominator (in thousands)**:**		
Weighted average common shares outstanding - basic	35,306	35,132
Dilutive shares	301	5