

CHRISTOPHER & BANKS CORP

Form 10-Q

December 06, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**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 October 27, 2012**

**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**

(State or other jurisdiction of  
incorporation or organization)

**06 - 1195422**

(I.R.S. Employer  
Identification No.)

**2400 Xenium Lane North, Plymouth, Minnesota**

(Address of principal executive offices)

**55441**

(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 ☒ NO ☐

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 ☒ NO ☐

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 ☐

Accelerated filer ☒

Non-accelerated filer ☐  
(Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

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As of November 16, 2012, 36,983,679 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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(In thousands)

(Unaudited)

	October 27, 2012	January 28, 2012
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 33,209	\$ 40,782
Short-term investments		7,660
Accounts receivable	4,627	3,649
Merchandise inventories	58,186	39,455
Prepaid expenses	2,693	3,289
Income taxes receivable	836	1,188
Other current assets	71	
Total current assets	99,622	96,023
Property, equipment and improvements, net	44,964	56,443
Long-term investments		13,284
Other assets	414	266
Total assets	\$ 145,000	\$ 166,016
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 27,554	\$ 19,466
Accrued salaries, wages and related expenses	3,823	5,831
Other accrued liabilities	23,520	25,566
Total current liabilities	54,897	50,863
Non-current liabilities:		
Deferred lease incentives	6,240	10,546
Deferred rent obligations	3,148	5,294
Lease termination liabilities		8,032
Other non-current liabilities	1,929	1,919

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Total non-current liabilities	11,317	25,791
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, 46,775 and 45,819 shares issued and 36,984 and 36,028 shares outstanding at October 27, 2012 and January 28, 2012, respectively	468	458
Additional paid-in capital	118,900	117,399
Retained earnings	72,129	84,154
Common stock held in treasury, 9,791 shares at cost at October 27, 2012 and January 28, 2012, respectively	(112,711)	(112,711)
Accumulated other comprehensive income		62
Total stockholders' equity	78,786	89,362
Total liabilities and stockholders' equity	\$ 145,000	\$ 166,016

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

Table of Contents**CHRISTOPHER & BANKS CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

(Unaudited)

	<b>Thirteen Weeks Ended</b>	
	<b>October 27, 2012</b>	<b>November 26, 2011</b>
Net sales	\$ 117,263	\$ 123,896
Costs and expenses:		
Merchandise, buying and occupancy	75,952	97,056
Selling, general and administrative	32,917	37,552
Depreciation and amortization	4,445	5,314
Restructuring and impairment	333	12,199
Total costs and expenses	113,647	152,121
Operating income (loss)	3,616	(28,225)
Other income	6	104
Income (loss) before income taxes	3,622	(28,121)
Income tax provision	39	118
Net income (loss)	\$ 3,583	\$ (28,239)
Basic earnings (loss) per share:		
Net income (loss)	\$ 0.10	\$ (0.79)
Basic shares outstanding	35,643	35,585
Diluted earnings (loss) per share:		
Net income (loss)	\$ 0.10	\$ (0.79)
Diluted shares outstanding	36,030	35,585
Dividends per share	\$	\$ 0.06

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



Table of Contents**CHRISTOPHER & BANKS CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

(Unaudited)

	<b>Thirty-nine Weeks Ended</b>	
	<b>October 27, 2012</b>	<b>November 26, 2011</b>
Net sales	\$ 314,321	\$ 343,957
Costs and expenses:		
Merchandise, buying and occupancy	222,671	246,285
Selling, general and administrative	94,376	107,487
Depreciation and amortization	14,384	17,164
Restructuring and impairment	(5,161)	12,199
Total costs and expenses	326,270	383,135
Operating loss	(11,949)	(39,178)
Other income	96	259
Loss before income taxes	(11,853)	(38,919)
Income tax provision	173	412
Net loss	\$ (12,026)	\$ (39,331)
Basic loss per share:		
Net loss	\$ (0.34)	\$ (1.11)
Basic shares outstanding	35,626	35,542
Diluted loss per share:		
Net loss	\$ (0.34)	\$ (1.11)
Diluted shares outstanding	35,626	35,542
Dividends per share	\$	\$ 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 STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(In thousands)

(Unaudited)

	<b>Thirteen Weeks Ended</b>		<b>Thirty-nine Weeks Ended</b>	
	<b>October 27, 2012</b>	<b>November 26, 2011</b>	<b>October 27, 2012</b>	<b>November 26, 2011</b>
Net income (loss)	\$ 3,583	\$ (28,239)	\$ (12,026)	\$ (39,331)
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) on securities arising during period, net of taxes of \$0, \$13, \$1 and \$61		(20)	(2)	196
Less: reclassification adjustment for gains included in net income, net of taxes of \$0, \$25, \$39 and \$44		(39)	(60)	(67)
Other comprehensive income (loss)		(59)	(62)	129
Comprehensive income (loss)	\$ 3,583	\$ (28,298)	\$ (12,088)	\$ (39,202)

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

Table of Contents**CHRISTOPHER & BANKS CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	<b>Thirty-nine Weeks Ended</b>	
	<b>October 27, 2012</b>	<b>November 26, 2011</b>
Cash flows from operating activities:		
Net loss	\$ (12,026)	\$ (39,331)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	14,384	17,164
Amortization of premium on investments	11	113
Amortization of financing costs	18	
Deferred lease related liabilities	(3,100)	(1,796)
Stock-based compensation expense	1,536	2,158
Loss on disposal of assets	34	
Impairment of store assets	139	11,445
Gain on investments, net	(531)	(62)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(977)	(3,533)
Increase in merchandise inventories	(18,732)	(18,961)
(Increase) decrease in prepaid expenses	595	(2,048)
Decrease in income taxes receivable	352	5,441
Increase in other current assets	(71)	
Decrease in other assets	184	36
Increase in accounts payable	8,088	21,090
Decrease in accrued liabilities	(7,405)	(4,884)
Decrease in lease termination liabilities	(8,032)	
Increase (decrease) in other liabilities	10	(106)
Net cash used in operating activities	(25,523)	(13,274)
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(3,113)	(11,113)
Proceeds from sale of furniture, fixtures and equipment	35	
Purchases of investments		(35,712)
Sales of investments	21,403	57,446
Net cash provided by investing activities	18,325	10,621
Cash flows from financing activities:		
Shares redeemed for payroll taxes	(25)	(138)
Financing costs	(350)	
Dividends paid		(6,426)
Net cash used in financing activities	(375)	(6,564)
Net decrease in cash and cash equivalents	(7,573)	(9,217)

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Cash and cash equivalents at beginning of period	40,782	43,712
Cash and cash equivalents at end of period	\$ 33,209	\$ 34,495

**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 Quarterly Report on Form 10-Q have been prepared by Christopher & Banks Corporation and its subsidiaries (collectively referred to as Christopher & Banks, the Company, we or us) pursuant to the current 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 our Transition Report on Form 10-K for the eleven-month transition period ended January 28, 2012.

In January 2012, our Board of Directors amended and restated our By-Laws to provide that our fiscal year ends at the close of business on that Saturday which falls closest to the last day of January. Prior to this change, our fiscal year ended at the close of business on that Saturday which fell closest to the last day of February. In order to transition to our new fiscal calendar, our last fiscal year was shortened from twelve months to eleven months, resulting in an eleven-month transition period ended January 28, 2012 (the transition period). In this Quarterly Report on Form 10-Q, our current fiscal year, the 53-week period ending February 2, 2013, is referred to as fiscal 2012.

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 only of normal adjustments, except as otherwise stated in these notes, necessary to present fairly our financial position as of October 27, 2012 and January 28, 2012, our results of operations for the thirteen and thirty-nine-week periods ended October 27, 2012 and November 26, 2011 and our cash flows for the thirty-nine-week periods ended October 27, 2012 and November 26, 2011.

*Private Label Credit Card Program*

During the first quarter of fiscal 2012, we launched a private label credit card program with a sponsoring bank which provides for the issuance of credit cards bearing the Christopher & Banks and C.J. Banks brands. The sponsoring bank manages and extends credit to our customers and is the sole owner of the accounts receivable generated under the program. As part of the program, we received a signing bonus of \$0.5 million from the sponsoring bank and also earn revenue based on card usage by our customers. The deferred signing bonus is included in other liabilities and is being recognized in net sales ratably over the term of the contract. The other revenue based on customer usage of the card is recognized in net sales in the periods in which the related customer transaction occurs. In addition, the sponsoring bank reimburses us for certain marketing expenditures related to the program, subject to an annual cap on the amount of reimbursable expenses. The amounts related to the private label credit card program pertaining to the thirteen and thirty-nine weeks ended October 27, 2012 were not material to the consolidated financial statements.

*Recently Adopted Accounting Pronouncements*

In May 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS. ASU 2011-04 amends ASC 820, Fair Value Measurement, by expanding existing disclosure requirements for fair value measurements and modifying certain definitions in the guidance, which may change how the fair value measurement guidance of ASC 820 is applied. The Company adopted ASU 2011-04 effective January 29, 2012. The adoption of this pronouncement has not had a significant impact on our condensed consolidated financial statements and these changes are not expected to impact the consolidated financial statements in the future.

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In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. ASU 2011-05 amends Accounting Standards Codification (ASC) 220-10, Comprehensive Income, and requires that all changes in comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements and also requires the presentation of reclassification adjustments on the face of the financial statements from other comprehensive income to net income. The Company adopted ASU 2011-05 effective January 29, 2012. This pronouncement requires changes in presentation only and thus did not have any impact on our financial position or results of operations.

*Immaterial Correction of an Error*

In connection with the preparation of our financial statements for the transition period, we determined that purchases and redemptions of available-for-sale securities, as presented within the investing activities section of our consolidated statement of cash flows, incorrectly included activity related to cash equivalents for the year-to-date periods ended May 28, 2011, August 27, 2011 and November 26, 2011. We have revised our statement of cash flows for the thirty-nine weeks ended November 26, 2011 presented within this quarterly report on Form 10-Q to accurately reflect purchases and redemptions of available-for-sale securities. The effect of this revision was a decrease of purchases of available-for-sale securities by \$45.6 million and a corresponding decrease of redemptions of available-for-sale securities by \$45.6 million. There was no impact on net cash provided by investing activities or cash and cash equivalents or available-for-sale securities, as previously reported. We have concluded this correction is immaterial to the financial statements taken as a whole.

*Reclassifications*

Certain prior year amounts included in other accrued liabilities on the consolidated balance sheets have been reclassified to accounts payable to conform to the current year presentation. Corresponding reclassifications were made within the operating section of the consolidated statement of cash flows. These reclassifications have no impact on previously reported net loss, current liabilities or net cash flows from operating activities. We believe the changes related to merchandise deliveries received, but not yet invoiced, will provide enhanced transparency.

In addition, beginning in the second quarter of fiscal 2012, we have classified the change in certain deferred lease-related liabilities (deferred lease incentives and deferred rent obligations) as an adjustment to reconcile net loss to net cash used in operating activities on the consolidated statement of cash flows. Prior year amounts previously reported as a change in operating assets and liabilities within the operating activities section of the consolidated statement of cash flows have been reclassified to conform to the current year presentation. The reclassification has no impact on previously reported net cash flows from operating activities.

**NOTE 2 CHANGE IN FISCAL YEAR-END**

As referenced in Note 1, on January 6, 2012, our Board of Directors amended and restated our By-Laws to provide that our fiscal year ends at the close of business on that Saturday which falls closest to the last day of January. Prior to this change, our fiscal year ended at the close of business on that Saturday which fell closest to the last day of February.





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The table below provides unaudited financial information for the comparable thirteen and thirty-nine-week periods ended October 27, 2012 and October 29, 2011, respectively (in thousands).

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 27, 2012 (unaudited)	October 29, 2011 (unaudited)	October 27, 2012 (unaudited)	October 29, 2011 (unaudited)
Net sales	\$ 117,263	\$ 114,553	\$ 314,321	\$ 330,535
Operating income (loss)	3,616	(13,993)	(11,949)	(28,544)
Income tax provision (benefit)	39	(133)	173	(139)
Net income (loss)	\$ 3,583	\$ (13,749)	\$ (12,026)	\$ (28,131)
Basic earnings (loss) per share:				
Net income (loss)	\$ 0.10	\$ (0.39)	\$ (0.34)	\$ (0.79)
Basic shares outstanding	35,643	35,578	35,626	35,527
Diluted earnings (loss) per share:				
Net income (loss)	\$ 0.10	\$ (0.39)	\$ (0.34)	\$ (0.79)
Diluted shares outstanding	36,030	35,578	35,626	35,527

**NOTE 3 RESTRUCTURING AND IMPAIRMENT**

In the third quarter of the transition period, we announced that, following an in-depth analysis of our store portfolio, the Board approved a plan to close approximately 100 stores, most of which were underperforming. Ultimately, 103 stores were identified for closure. This group of stores generated approximately \$35 million of sales and store-level operating losses of approximately \$11 million, which included approximately \$7 million of non-cash impairment charges, on a trailing twelve-month basis through January 28, 2012.

Ninety of the 103 stores identified for closure were closed in the transition period. We closed eleven stores in the first quarter of fiscal 2012 and we closed two additional stores in the second quarter, which completed the store closures related to the restructuring initiative.

We recorded total restructuring and asset impairment charges of approximately \$21.2 million in the second half of the transition period, consisting primarily of \$11.4 million of non-cash asset impairment charges, \$8.2 million of net expense related to lease termination liabilities, partially offset by the reduction of deferred obligations related to closed stores, and approximately \$1.6 million of severance and miscellaneous other store closing costs. The lease termination liabilities consisted primarily of the costs of future contractual obligations related to closed store locations. Discounted liabilities for future lease costs and management's estimated fair value of assumed subleases of closed locations were recorded when the stores were closed and these amounts have been subject to adjustments as liabilities are settled. In addition, management has also been negotiating with landlords to mitigate the amount of lease termination liabilities. As a result, actual settlements have varied substantially from recorded obligations.



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In the first quarter of fiscal 2012, we recognized a net benefit of approximately \$0.8 million related to restructuring and impairment costs. We recorded a non-cash benefit of approximately \$1.4 million related to 18 stores where the amounts recorded for net lease termination liabilities exceeded the actual settlements negotiated with landlords. We recorded approximately \$0.5 million of additional lease termination liabilities related to three stores closed in the first quarter of fiscal 2012. In addition, we recorded approximately \$0.1 million of non-cash asset impairment charges related to five stores we plan to continue to operate.

In the second quarter of fiscal 2012, we recognized a net benefit of approximately \$4.7 million related to restructuring and impairment costs. We recorded a non-cash benefit of approximately \$4.9 million related to 35 stores where the amounts recorded for net lease termination liabilities exceeded the actual settlements negotiated with landlords. We recorded a nominal amount of additional lease termination liabilities related to stores closed in the second quarter of fiscal 2012. In addition, we recognized approximately \$0.2 million of professional services in the second quarter related to the restructuring initiative.

In the third quarter of fiscal 2012, we recorded a charge of approximately \$0.3 million related to restructuring costs which consisted of approximately \$30,000 related to one store where the amount recorded for net lease termination liabilities was less than the actual settlement negotiated with the landlord and approximately \$0.3 million related to professional services for lease terminations and renegotiations. In the third quarter of fiscal 2012, we also reclassified approximately \$0.3 million of the remaining long-term portion of the lease termination liability to current accrued liabilities which relates to one store. We anticipate the lease termination negotiations related to this store will be finalized by the end of fiscal 2012.

The following table details restructuring activity for the transition period and the first nine months of fiscal 2012 (in thousands).

	Severance Accrual	Lease Termination Obligations	Asset Impairment	Other	Total
<b>Balance, February 26, 2011</b>	\$	\$	\$	\$	\$
Asset impairment charge			11,445		11,445
Restructuring charges	1,168	8,225		345	9,738
Total charges	1,168	8,225	11,445	345	21,183
Non-cash charges			(11,445)	(106)	(11,551)
Deferred lease obligations on closed stores		3,587			3,587
Cash payments	(310)			(239)	(549)
<b>Balance, January 28, 2012</b>	858	11,812			12,670
Asset impairment charge			139		139
Non-cash adjustments		(6,263)			(6,263)
Restructuring charges		314		342	656
Total charges (credits)		(5,949)	139	342	(5,468)
Non-cash charges			(139)		(139)
Deferred lease obligations on closed stores		244			244
Cash payments	(858)	(5,782)		(342)	(6,982)