

CHRISTOPHER & BANKS CORP
Form 10-Q
January 05, 2012
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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 November 26, 2011

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 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 December 23, 2011, 36,003,563 shares of the registrant's common stock were outstanding.

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CHRISTOPHER & BANKS CORPORATION

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1.****FINANCIAL STATEMENTS****CHRISTOPHER & BANKS CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)**

	November 26, 2011	February 26, 2011	November 27, 2010
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 34,495	\$ 43,712	\$ 30,578
Short-term investments	22,242	33,060	53,482
Accounts receivable	7,500	3,967	6,123
Merchandise inventories	58,173	39,211	45,973
Prepaid expenses	4,037	1,989	2,960
Income taxes receivable	997	6,439	3,918
Total current assets	127,444	128,378	143,034
Property, equipment and improvements, net	59,085	76,647	83,955
Long-term investments	17,987	28,824	18,200
Other assets	278	314	314
Total assets	\$ 204,794	\$ 234,163	\$ 245,503
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>			
Current liabilities:			
Accounts payable	\$ 32,143	\$ 15,149	\$ 7,803
Accrued salaries, wages and related expenses	5,433	7,883	6,485
Other accrued liabilities	23,110	21,931	20,040
Total current liabilities	60,686	44,963	34,328
Non-current liabilities:			
Deferred lease incentives	14,115	14,982	16,518
Deferred rent obligations	6,528	7,457	7,942
Other	2,842	2,532	3,377
Total non-current liabilities	23,485	24,971	27,837

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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, 45,683, 45,432 and 45,438 shares issued and 35,892, 35,641 and 35,647 shares outstanding at November 26, 2011, February 26, 2011 and November 27, 2010, respectively

Additional paid-in capital	457	454	454
Retained earnings	116,927	114,909	115,095
Common stock held in treasury, 9,791 shares at cost at November 26, 2011, February 26, 2011, and November 27, 2010, respectively	115,886	161,642	180,521
Accumulated other comprehensive income (loss)	(112,711)	(112,711)	(112,711)
Total stockholders' equity	64	(65)	(21)
Total liabilities and stockholders' equity	120,623	164,229	183,338
	\$ 204,794	\$ 234,163	\$ 245,503

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)

	Three Months Ended	
	November 26, 2011	November 27, 2010
Net sales	\$ 123,896	\$ 120,947
Costs and expenses:		
Merchandise, buying and occupancy	97,056	77,549
Selling, general and administrative	37,552	37,585
Depreciation and amortization	5,314	6,010
Impairment and restructuring	12,199	
Total costs and expenses	152,121	121,144
Operating loss	(28,225)	(197)
Other income	104	120
Loss before income taxes	(28,121)	(77)
Income tax provision	118	9,149
Net loss	\$ (28,239)	\$ (9,226)
Basic earnings per share:		
Net loss	\$ (0.79)	\$ (0.26)
Basic shares outstanding	35,585	35,379
Diluted earnings per share:		
Net loss	\$ (0.79)	\$ (0.26)
Diluted shares outstanding	35,585	35,379
Dividends per share	\$ 0.06	\$ 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)

	Nine Months Ended	
	November 26, 2011	November 27, 2010
Net sales	\$ 343,957	\$ 348,521
Costs and expenses:		
Merchandise, buying and occupancy	246,285	215,941
Selling, general and administrative	107,487	107,579
Depreciation and amortization	17,164	18,974
Impairment and restructuring	12,199	
Total costs and expenses	383,135	342,494
Operating income (loss)	(39,178)	6,027
Other income	259	363
Income (loss) before income taxes	(38,919)	6,390
Income tax provision	412	11,813
Net loss	\$ (39,331)	\$ (5,423)
Basic earnings per share:		
Net loss	\$ (1.11)	\$ (0.15)
Basic shares outstanding	35,542	35,360
Diluted earnings per share:		
Net loss	\$ (1.11)	\$ (0.15)
Diluted shares outstanding	35,542	35,360
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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(In thousands)

(Unaudited)

	Nine Months Ended	
	November 26, 2011	November 27, 2010
Cash flows from operating activities:		
Net loss	\$ (39,331)	\$ (5,423)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,164	18,974
Impairment of store assets	11,445	
Amortization of premium on investments	113	338
Excess tax benefit on stock-based compensation		(300)
Deferred income taxes		11,180
Stock-based compensation expense	2,158	1,513
Loss on disposal of furniture, fixtures and equipment		288
Gain on investments, net	(62)	(81)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(3,533)	(1,878)
Increase in merchandise inventories	(18,961)	(7,477)
Increase in prepaid expenses	(2,048)	(1,318)
(Increase) decrease in income taxes receivable	5,441	(3,224)
(Increase) decrease in other assets	36	(30)
Increase (decrease) in accounts payable	17,060	(5,699)
Decrease in accrued liabilities	(854)	(1,600)
Decrease in deferred lease incentives	(867)	(3,060)
Decrease in other liabilities	(1,035)	(1,379)
Net cash provided by (used in) operating activities	(13,274)	824
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(11,113)	(7,260)
Purchases of investments	(81,271)	(57,183)
Sales of investments	103,005	63,058
Net cash provided by (used in) investing activities	10,621	(1,385)
Cash flows from financing activities:		
Exercise of stock options		183
Excess tax benefit on stock-based compensation		300
Shares redeemed for payroll taxes	(138)	
Dividends paid	(6,426)	(6,417)
Net cash used in financing activities	(6,564)	(5,934)
Net decrease in cash and cash equivalents	(9,217)	(6,495)

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Cash and cash equivalents at beginning of period		43,712		37,073
Cash and cash equivalents at end of period	\$	34,495	\$	30,578

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, us or our) 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 Annual Report on Form 10-K for the fiscal year ended February 26, 2011.

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 November 26, 2011, February 26, 2011 and November 27, 2010, our results of operations for the three and nine month periods ended November 26, 2011 and November 27, 2010 and our cash flows for the nine month periods ended November 26, 2011 and November 27, 2010.

Revision to Fiscal 2010 Consolidated Statement of Cash Flows

In connection with the preparation of our financial statements for the fiscal year ended February 26, 2011, we determined that cash flows from the redemption of our investments in auction rate securities should be classified as cash inflows from investing activities. We previously classified certain of these cash flows as cash inflows from operating activities.

We have revised our statement of cash flows for the nine months ended November 27, 2010 to properly classify proceeds from the redemption of our investments of Auction Rate Securities (ARS) as cash inflows from investing activities. The effect of this revision was to decrease cash provided by operating activities by \$14.9 million and decrease cash used in investing activities by \$14.9 million, hence there was no impact on the net change in cash and cash equivalents or on our total balance of cash and cash equivalents as previously reported. We have concluded that this correction is immaterial to the financial statements taken as a whole.

Recently Issued Accounting Pronouncements

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In May 2011, the Financial Accounting Standards Board (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. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and must be applied prospectively. We are in the process of evaluating ASU 2011-04 and its impact on our consolidated financial statements.

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. ASU 2011-05 is effective for the first interim or annual reporting period beginning on or after December 15, 2011. Early adoption is permitted. We are in the process of evaluating ASU 2011-05 and its impact on the presentation of our consolidated financial statements. We do not expect these changes to impact the consolidated financial statements other than the change in presentation.

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Recently Adopted 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. The adoption of ASU 2009-13 at the beginning of fiscal 2012 had no impact on our consolidated financial statements.

NOTE 2 RESTRUCTURING

On November 11, 2011 we announced that following the review by our Board of Directors (Board) of an in-depth analysis of our store portfolio conducted by management and an outside advisor, the Board approved a plan to close approximately 100 stores, most of which are underperforming. The majority of the stores are targeted to close by the end of January 2012. Additionally, we plan to restructure the occupancy costs of a majority of our remaining stores and accelerate plans to convert or consolidate a number of existing Christopher & Banks and CJ Banks stores into dual format stores. The store closings are estimated to result in the termination of approximately 10% of our overall part-time and full-time store sales associates. The Company also reduced its corporate office headcount by approximately 7% and its store operations field management team by approximately 13% during October 2011.

During the quarter ended November 26, 2011, the Company performed an impairment analysis on certain store assets triggered by the significant decline in merchandise margins during the third quarter of fiscal 2012 and the projected continuation of this trend into the fourth quarter as well as the in-depth review of our store portfolio referenced above. The Company recorded a pre-tax restructuring and non-cash asset impairment charge of approximately \$12.2 million for the three and nine month periods ended November 26, 2011. The charge consisted of a non-cash charge of approximately \$7.4 million of asset impairment charges related to stores the majority of which are planned to close by the end of January 2012, a non-cash charge of approximately \$4.0 million related to store level asset impairment for stores which the Company will continue to operate and a \$0.8 million charge related to severance charges for field management and corporate office personnel who were terminated in October 2011 and for store associates who will be terminated as a result of the store closures. As of November 26, 2011 severance related accruals of approximately \$0.7 million were included in accrued salaries, wages, and related expenses on the consolidated balance sheet.

We expect to incur cash charges of approximately \$3.0 million to \$5.0 million in the fourth quarter of fiscal 2012 primarily for lease termination fees and related charges to exit the approximately 100 stores planned for closure. Some of these payments may extend into the first and second quarters of our next fiscal year based on the timing of termination negotiations with landlords. In the fourth quarter we anticipate paying the majority of the severance that was recorded in the third quarter related to field management and store associates impacted by the closing stores.

NOTE 3 INVESTMENTS

Investments consisted of the following (in thousands)

Nov 26, 2011

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Description	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
Available-for-sale securities:				
Commercial paper	\$ 2,700		\$	\$ 2,700
Municipal bonds	5,559	24	3	5,580
U.S. Agency securities	13,945	17		13,962
Total short-term investments	22,204	41	3	22,242
Long-term investments:				
Available-for-sale securities:				