CHRISTOPHER & BANKS CORP
Form 10-Q
October 07, 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 August 28, 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 (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 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 September 25, 2010, 35,844,154 shares of the registrant s common stock were outstanding.

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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)

	August 28, 2010	February 27, 2010	August 29, 2009
ASSETS			
Current assets:			
Cash and cash equivalents	$ 37,760	$ 37,073	$ 83,384
Short-term investments	58,231	62,251	16,400
Accounts receivable	5,136	4,245	3,728
Merchandise inventories	40,109	38,496	38,285
Prepaid expenses	3,213	1,642	2,768
Income taxes receivable	1,195	394	7,750
Current deferred tax asset	4,376	3,509	3,779
Other current assets		2,000	2,650
Total current assets	150,020	149,610	158,744
Property, equipment and improvements, net	88,466	96,109	109,751
Long-term investments	13,408	13,622	
Deferred tax asset	8,600	7,631	6,597
Other assets	317	325	326
Total assets	$ 260,811	$ 267,297	$ 275,418
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 11,841	$ 13,654	$ 16,121
Accrued salaries, wages and related expenses	7,890	8,472	8,860
Other accrued liabilities	17,129	19,164	18,290
Other current liabilities			487
Total current liabilities	36,860	41,290	43,758
Non-current liabilities:			
Deferred lease incentives	17,245	19,578	21,443
Other	11,881	12,699	13,838
Total non-current liabilities	29,126	32,277	35,281
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, 45,635, 45,735 and 45,788 shares issued and 35,844, 35,944 and 35,997 shares outstanding at August 28, 2010, February 27, 2010 and August 29, 2009, respectively	456	457	458
Additional paid-in capital	115,109	113,584	112,606
Retained earnings	191,890	192,361	196,027
Common stock held in treasury, 9,791 shares at cost at August 28, 2010, February 27, 2010 and August 29, 2009, respectively	(112,712)	(112,711)	(112,712)
Accumulated other comprehensive income	82	39	
Total stockholders equity	194,825	193,730	196,379
Total liabilities and stockholders equity	$ 260,811	$ 267,297	$ 275,418

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 August 28, 2010	Three Months Ended August 29, 2009
Net sales	$ 101,340	$ 101,182
Costs and expenses:		
Merchandise, buying and occupancy	65,536	66,152
Selling, general and administrative	33,795	32,220
Depreciation and amortization	6,434	6,286
Total costs and expenses	105,765	104,658
Operating loss	(4,425)	(3,476)
Other income	127	228
Loss before income taxes	(4,298)	(3,248)
Income tax benefit	(1,760)	(1,116)
Net loss	$ (2,538)	$ (2,132)
Basic earnings (loss) per share:		
Net loss	$ (0.07)	$ (0.06)
Basic shares outstanding	35,354	35,176
Diluted earnings (loss) per share:		
Net loss	$ (0.07)	$ (0.06)
Diluted shares outstanding	35,501	35,176
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)

	Six Months Ended	
	August 28, 2010	**August 29, 2009**
Net sales	$ 227,574	$ 221,549
Costs and expenses:		
Merchandise, buying and occupancy	138,393	141,609
Selling, general and administrative	69,994	68,364
Depreciation and amortization	12,964	12,597
Total costs and expenses	221,351	222,570
Operating income (loss)	6,223	(1,021)
Other income	243	343
Income (loss) before income taxes	6,466	(678)
Income tax provision (benefit)	2,664	(232)
Net income (loss)	$ 3,802	$ (446)
Basic earnings (loss) per share:		
Net income (loss)	$ 0.11	$ (0.01)
Basic shares outstanding	35,329	35,134
Diluted earnings (loss) per share:		
Net income (loss)	$ 0.11	$ (0.01)
Diluted shares outstanding	35,525	35,134
Dividends per share	$ 0.12	$ 0.12

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)

	Six Months Ended August 28, 2010	Six Months Ended August 29, 2009
Cash flows from operating activities:		
Net income (loss)	$ 3,802	$ (446)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	12,964	12,597
Amortization of premium on investments	243	
Excess tax benefit on stock-based compensation	(224)	
Deferred income taxes	(1,864)	(2,246)
Stock-based compensation expense	1,646	848
Loss on disposal of furniture, fixtures and equipment	18	130
Gain on investments, net	(56)	(150)
Changes in operating assets and liabilities:		
Sales of trading securities	14,850	200
(Increase) decrease in accounts receivable	(891)	193
(Increase) decrease in merchandise inventories	(1,613)	543
Increase in prepaid expenses and other current assets	(1,571)	(972)
(Increase) decrease in income taxes receivable	(576)	10,997
Decrease in other assets	35	133
Decrease in accounts payable	(1,664)	(2,405)
Decrease in accrued liabilities	(3,048)	(4,541)
Decrease in deferred lease incentives	(2,333)	(2,063)
Decrease in other liabilities	(818)	(590)
Net cash provided by operating activities	18,900	12,228
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(5,488)	(3,411)
Purchases of investments	(37,696)	
Sales of investments	28,936	
Net cash used in investing activities	(14,248)	(3,411)
Cash flows from financing activities:		
Exercise of stock options	84	
Excess tax benefit on stock-based compensation	224	
Dividends paid	(4,273)	(4,247)
Net cash used in financing activities	(3,965)	(4,247)
Net increase in cash and cash equivalents	687	4,570
Cash and cash equivalents at beginning of period	37,073	78,814
Cash and cash equivalents at end of period	$ 37,760	$ 83,384

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 August 28, 2010, February 27, 2010 and August 29, 2009, and its results of operations and cash flows for the three and six month periods ended August 28, 2010 and August 29, 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 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):

	August 28, 2010			
Description	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Estimated Fair Value**
Short-term investments:				
Available-for-sale securities:				
Variable rate demand obligations	$ 28,320	$	$	$ 28,320
Municipal commercial paper	1,000			1,000
Municipal bonds	23,087	13	4	23,096
U.S. Agency securities	5,800	19	4	5,815
Trading securities:				
Auction Rate Securities				
Total short-term investments	58,207	32	8	58,231
Long-term investments:				
Available-for-sale securities:				
Municipal bonds	13,295	119	6	13,408
U.S. Agency securities				
Total long-term investments	13,295	119	6	13,408
Total investments	$ 71,502	$ 151	$ 14	$ 71,639

	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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	August 29, 2009							
Description		**Amortized Cost**		**Unrealized Gains**		**Unrealized Losses**		**Estimated Fair Value**
Trading securities:								
Auction Rate Securities	$	16,400	$		$		$	16,400
Total short-term investments		16,400						16,400
Total investments	$	16,400	$		$		$	16,400

In an effort to improve yield without increasing the risk of a loss in 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 August 28, 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 six months of fiscal 2011, purchases of available-for-sale securities totaled approximately $37.7 million, while proceeds from the sale of available-for-sale securities were $28.9 million. Gross realized gains and losses on the sale of available-for-sale securities during the six months ended August 28, 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 August 28, 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 August 28, 2010, the Company had no investments in ARS. The Company had approximately $12.8 million and $16.4 million of trading securities as of February 27, 2010 and August 29, 2009, respectively, which consisted solely of $14.8 million and $19.3 million of ARS at cost, less fair value adjustments of approximately $2.0 million and $2.9 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.

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

		August 28, 2010
Due in one year or less	$	58,231
Due after one year through three years		12,882
Due after three years		526
Total investment securities	$	71,639

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The Company has $28.3 million of Variable Rate Demand Obligations (VRDOs) as of August 28, 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		**August 28, 2010**		**February 27, 2010**		**August 29, 2009**
Merchandise - in store/e-Commerce	$	37,180	$	36,522	$	34,444
Merchandise - in transit		2,929		1,974		3,841
	$	40,109	$	38,496	$	38,285

The Company does not have long-term purchase commitments or arrangements with any of its suppliers or agents. During the three and six month periods ended August 28, 2010 and August 29, 2009, two of the Company s vendors each supplied the Company with greater than 10% of its merchandise inventory purchases. For the second quarter of fiscal 2011, these two vendors supplied approximately 28% and 17% of the Company s merchandise purchases, compared to 26% and 17% in the second quarter of fiscal 2010. For the six month period ended August 28, 2010, these vendors supplied approximately 29% and 18% of the Company s merchandise purchases, compared to 26% and 15% during the first six 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.

NOTE 4 PROPERTY, EQUIPMENT AND IMPROVEMENTS, NET

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

	Estimated	**August 28,**	**February 27,**	**August 29,**

Description	Useful Life	2010	2010	2009
Land		$ 1,597	$ 1,597	$ 1,597
Corporate office, distribution center and related building improvements	25 years	12,053	12,027	12,012
Store leasehold improvements	Term of related lease, typically 10 years	91,570	93,894	94,262
Store furniture and fixtures	Three to 10 years	110,664	112,815	112,705
Point of sale hardware and software	Five years	14,881	15,056	14,959
Computer hardware and software	Three to five years	24,736	24,176	21,160
Corporate office and distribution center furniture, fixtures and equipment	Seven years	5,366	5,315	3,605
Construction in progress		4,193	73	3,461
		265,060	264,953	263,761
Less accumulated depreciation and amortization		176,594	168,844	154,010
Net property, equipment and improvements		$ 88,466	$ 96,109	$ 109,751

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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 six month period ended August 28, 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		August 28, 2010		February 27, 2010		August 29, 2009
Gift card and store credit liabilities	$	7,118	$	10,884	$	7,753
Accrued merchandise inventory receipts not yet invoiced		2,048		1,539		3,749
Accrued Friendship Rewards loyalty liability		1,745				
Accrued income, sales and other taxes payable		2,428		2,081		2,287
Accrued workers compensation liability		285		600		774
Accrued occupancy-related expenses		738		665		734
Other		2,767		3,395		2,993
	$	17,129	$	19,164	$	18,290

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 August 28, 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 six 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 August 28, 2010 was $28.1 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 $26.8 million at August 28, 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 August 28, 2010, the most recent measurement date, the Company was in compliance with all financial covenants under the Credit Facility.

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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 August 28, 2010 and August 29, 2009 was approximately $1.0 million and $374,000, respectively. For the six months ended August 28, 2010 and August 29, 2009, pre-tax stock-based compensation expense totaled approximately $1.6 million and $848,000, 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.

The weighted average assumptions relating to the valuation of the Company s stock option grants for the three and six month periods ended August 28, 2010 and August 29, 2009 were as follows:

	Three Months Ended		Six Months Ended	
	August 28, 2010	August 29, 2009	August 28, 2010	August 29, 2009
Expected dividend yield	2.73%	4.40%	3.02%	5.00%
Expected volatility	70.7%	71.5%	70.2%	68.7%
Risk-free interest rate	1.78%	2.30%	2.36%	2.10%
Expected term in years	5.0	4.2	4.9	4.6

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Stock-Based Compensation Activity

The following table presents a summary of the Company s stock option activity for the six months ended August 28, 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	16.62	5	5.84	
Unvested	848,042	7.11	916	2.83	
Granted	332,900	10.06		4.83	
Exercised	(18,500)	4.68	110	1.78	
Canceled - vested (expired)	(3,318)	10.86		3.96	
Canceled - unvested (forfeited)	(138,633)	7.21	120	3.19	
Outstanding, end of period	1,765,119	11.69	566	4.46	7.05
Vested	967,538	14.81	115	5.28	5.52
Unvested	797,581	7.91	451	3.45	8.92
Exercisable, end of period	967,538	14.81	115	5.28	5.52

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 August 28, 2010.

The following table presents a summary of the Company s restricted stock activity for the six months ended August 28, 2010:

	Number of Shares	Weighted Average Fair Value
Unvested, beginning of period	702,450	$ 5.34
Granted	326,921	9.36
Vested	(209,052)	6.36
Canceled - unvested (forfeited)	(377,633)	4.97
Unvested, end of period	442,686	8.13

The total fair value of shares of restricted stock that vested during the six months ended August 28, 2010 and August 29, 2009 was approximately $1.3 million and $0.5 million, respectively.

As of August 28, 2010, there was approximately $3.4 million of unrecognized stock-based compensation expense, which is expected to be recognized over a weighted average period of approximately 2.4 years.

NOTE 8 INCOME TAXES

As of August 28, 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 August 28, 2010, the Company had accrued approximately $0.9 million for the potential payment of interest and penalties.

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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 August 28, 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 August 28, 2010, the Company has net deferred tax assets of approximately $13.0 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, depending on the magnitude of the allowance, 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 August 28, 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 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	
	August 28, 2010	**August 29, 2009**
Numerator (in thousands)**:**		
Net income (loss) attributable to Christopher & Banks Corporation	$ (2,538)	$ (2,132)
Income (loss) allocated to participating securities	(21)	23
Net income (loss) available to common shareholders	$ (2,559)	$ (2,109)

Denominator (in thousands)**:**				
Weighted average common shares outstanding - basic		35,354		35,176
Dilutive shares				
Weighted average common and common equivalent shares outstanding - diluted		35,354		35,176
Net income (loss) per common share:				
Basic	$	(0.07)	$	(0.06)
Diluted	$	(0.07)	$	(0.06)

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	Six Months Ended			
	August 28, 2010		August 29, 2009	
Numerator (in thousands)**:**				
Net income (loss) attributable to Christopher & Banks Corporation	$	3,802	$	(446)
Income (loss) allocated to participating securities		(38)		3
Net income (loss) available to common shareholders	$	3,764	$	(443)
Denominator (in thousands)**:**				
Weighted average common shares outstanding - basic		35,329		35,134
Dilutive shares		196		
Weighted average common and common equivalent shares outstanding - diluted		35,525		35,134
Net income (loss) per common share:				
Basic	$	0.11	$	(0.01)
Diluted	$	0.11	$	(0.01)

Stock options of approximately 1.6 million and 1.5 million were excluded from the shares used in the computation of diluted earnings per share for the three and six month periods ended August 28, 2010, respectively, as they were anti-dilutive. Total stock options of approximately 1.5 million and 1.9 million were excluded from the shares used in the computation of diluted EPS for the three and six month periods ended August 29, 2009, respectively, as they were anti-dilutive.

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 six month periods ended August 28, 2010 and August 29, 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.

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

Description	Fair Value at August 28, 2010	Level 1	Fair Value Measurements Using Inputs Considered as Level 2	Level 3
Assets:				
Available-for-sale securities	$ 71,639	$	$ 71,639	$
Trading securities				
ARS rights				
Liabilities:	$	$	$	$

Description	Fair Value at August 29, 2009	Level 1	Fair Value Measurements Using Inputs Considered as Level 2	Level 3
Assets:				
Available-for-sale securities	$	$	$	$
Trading securities	16,400			16,400
ARS rights	2,650			2,650
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 August 28, 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.

Trading securities: The Company s trading securities consist solely of ARS as of August 29, 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).

	Six Months Ended August 28, 2010		Six Months Ended August 29, 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)		200		(50)
Purchases (sales), issuances and settlements		(14,850)				(200)		
Ending balance	$		$		$	16,400	$	2,650

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 six months ended August 28, 2010 and August 29, 2009.

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NOTE 11 COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended		Six Months Ended	
	August 28, 2010	August 29, 2009	August 28, 2010	August 29, 2009
Net income (loss)	$ (2,538)	$ (2,132)	$ 3,802	$ (446)
Fair value adjustment on investments	58		43	
Total comprehensive income (loss)	$ (2,480)	$ (2,132)	$ 3,845	$ (446)

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.

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/	Corporate/

		cj banks		Administrative		Consolidated
Three Months Ended August 28, 2010						
Net sales	$	101,340	$		$	101,340
Operating income (loss)	$	7,688	$	(12,113)	$	(4,425)
Total assets	$	149,673	$	111,138	$	260,811
Three Months Ended August 29, 2009:						
Net sales	$	101,182	$		$	101,182
Operating income (loss)	$	7,063	$	(10,539)	$	(3,476)
Total assets	$	151,519	$	123,899	$	275,418

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Segment Reporting (in thousands):

	christopher & banks/ cj banks	Corporate/ Administrative	Consolidated
Six Months Ended August 28, 2010:			
Net sales	$ 227,574	$	$ 227,574
Operating income (loss)	$ 32,490	$ (26,267)	$ 6,223
Total assets	$ 149,673	$ 111,138	$ 260,811
Six Months Ended August 29, 2009:			
Net sales	$ 221,549	$	$ 221,549
Operating income (loss)	$ 23,073	$ (24,094)	$ (1,021)
Total assets	$ 151,519	$ 123,899	$ 275,418

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 August 28, 2010, the Company operated 789 stores in 46 states, including 530 Christopher & Banks stores, 257 C.J. Banks stores and two dual 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 stores offer an assortment of both Christopher & Banks and C.J. Banks apparel servicing the petite, misses and plus size customer in one store. 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 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 assortment of apparel through its stores and e-Commerce web sites in order to satisfy its customers expectations for style, quality, value and fit, while providing exceptional, personalized customer service.

The Company has competitively positioned itself to offer merchandise assortments balancing unique, novelty apparel with more classic, basic 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.