

CHRISTOPHER & BANKS CORP

Form 10-Q

September 06, 2018

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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 August 4, 2018

or

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

For the transition period from ____ to ____

Commission File No. 001-31390

CHRISTOPHER & BANKS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

06 - 1195422

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

2400 Xenium Lane North, Plymouth, Minnesota 55441

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (763) 551-5000

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer "

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

Accelerated filer "

Smaller reporting company

Emerging growth company "

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO
As of August 31, 2018 there were 38,422,693 shares of the registrant's common stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	August 4, 2018	February 3, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$23,114	\$23,077
Accounts receivable	3,508	2,626
Merchandise inventories	40,184	41,361
Prepaid expenses and other current assets	4,263	2,715
Income taxes receivable	218	172
Total current assets	71,287	69,951
Property, equipment and improvements, net	38,383	47,773
Other non-current assets:		
Deferred income taxes	597	597
Other assets	1,213	1,043
Total other non-current assets	1,810	1,640
Total assets	\$111,480	\$119,364
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$23,689	\$20,825
Accrued salaries, wages and related expenses	5,045	5,309
Accrued liabilities and other current liabilities	19,655	26,201
Total current liabilities	48,389	52,335
Non-current liabilities:		
Deferred lease incentives	7,023	7,762
Deferred rent obligations	6,459	6,621
Other non-current liabilities	9,372	2,237
Total non-current liabilities	22,854	16,620
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock — \$0.01 par value, 1,000 shares authorized, none outstanding	—	—
Common stock — \$0.01 par value, 74,000 shares authorized, 48,222 and 47,625 shares issued, and 38,432 and 37,834 shares outstanding at August 4, 2018 and February 3, 2018, respectively	481	475
Additional paid-in capital	128,236	127,652
Retained earnings	24,231	34,993
Common stock held in treasury, 9,791 shares at cost at August 4, 2018 and February 3, 2018	(112,711)	(112,711)
Total stockholders' equity	40,237	50,409
Total liabilities and stockholders' equity	\$111,480	\$119,364

See Notes to Condensed Consolidated Financial Statements

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CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
 (in thousands, except per share data)
 (unaudited)

	Thirteen Weeks Ended August 4, 2018		Twenty-six Weeks Ended August 4, July 29, 2018 2017	
Net sales	\$87,418	\$86,618	\$173,319	\$175,173
Merchandise, buying and occupancy costs	62,546	61,990	121,103	120,007
Gross profit	24,872	24,628	52,216	55,166
Other operating expenses:				
Selling, general and administrative	29,675	29,179	59,422	60,153
Depreciation and amortization	2,518	3,167	5,334	6,266
Impairment of store assets	—	93	—	163
Total other operating expenses	32,193	32,439	64,756	66,582
Operating loss	(7,321)	(7,811)	(12,540)	(11,416)
Interest expense, net	(42)	(38)	(99)	(69)
Loss before income taxes	(7,363)	(7,849)	(12,639)	(11,485)
Income tax provision	63	40	106	92
Net loss	\$(7,426)	\$(7,889)	\$(12,745)	\$(11,577)
Other comprehensive income, net of tax	—	—	—	—
Comprehensive loss	\$(7,426)	\$(7,889)	\$(12,745)	\$(11,577)
Basic loss per share:				
Net loss	\$(0.20)	\$(0.21)	\$(0.34)	\$(0.31)
Basic shares outstanding	37,458	37,156	37,381	37,123
Diluted loss per share:				
Net loss	\$(0.20)	\$(0.21)	\$(0.34)	\$(0.31)
Diluted shares outstanding	37,458	37,156	37,381	37,123

See Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Twenty-six Weeks Ended	
	August 4, 2018	July 29, 2017
Cash flows from operating activities:		
Net loss	\$(12,745)	\$(11,577)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,334	6,266
Impairment of store assets	—	163
Amortization of financing costs	31	31
Deferred lease-related liabilities	(486)	(442)
Stock-based compensation expense	604	550
Changes in operating assets and liabilities:		
Accounts receivable	(882)	(1,284)
Merchandise inventories	1,178	(5,082)
Prepaid expenses and other assets	(1,579)	(1,180)
Income taxes receivable	(46)	261
Accounts payable	3,021	9,096
Accrued liabilities	(5,757)	(7,872)
Other liabilities	(59)	1,793
Net cash used in operating activities	(11,386)	(9,277)
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(1,722)	(3,150)
Proceeds from sale of assets	13,329	—
Net cash provided by (used in) investing activities	11,607	(3,150)
Cash flows from financing activities:		
Shares redeemed for payroll taxes	(13)	(6)
Proceeds from short-term borrowings	9,100	—
Payments of short-term borrowings	(9,100)	—
Payments of deferred financing costs	(171)	—
Net cash used in financing activities	(184)	(6)
Net increase (decrease) in cash and cash equivalents	37	(12,433)
Cash and cash equivalents at beginning of period	23,077	35,006
Cash and cash equivalents at end of period	\$23,114	\$22,573
Supplemental cash flow information:		
Interest paid	\$100	\$69
Income taxes paid (refunded)	\$130	\$(251)
Accrued purchases of equipment and improvements	\$143	\$219

See Notes to Condensed Consolidated Financial Statements

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CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES
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 (“U.S.”) Securities and Exchange Commission. Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been omitted, pursuant to such rules and regulations. These unaudited condensed consolidated financial statements, except the condensed consolidated balance sheet as of February 3, 2018 derived from the Company's audited 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 3, 2018.

The results of operations for the interim period 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, considered necessary to present fairly our financial position, results of operations, and cash flows as of August 4, 2018, and July 29, 2017 and for all periods presented.

Recently issued accounting pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases, which requires that any lease arrangements longer than twelve months result in an entity recognizing an asset and liability on its balance sheet. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company has elected to apply the standard on a prospective basis with an adjustment to retained earnings in the first period of adoption. The Company is currently evaluating the guidance and its impact on our consolidated financial statements and the related internal controls over financial reporting. The Company expects the adoption of this standard will have a material impact on its consolidated balance sheet for recognition of lease-related assets and liabilities. We will adopt the ASU beginning in the first quarter of fiscal 2019.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires that a statement of cash flows explain the change during the period among the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for public companies for fiscal years and interim periods within those years beginning after December 15, 2017. There was no adjustment to prior year financial statements as the Company had no restricted cash in prior years. As of August 4, 2018, the Company included \$1.6 million of restricted cash in cash and cash equivalents within the statement of cash flows related to cash held in escrow in conjunction with the sale-leaseback transaction.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The Company adopted ASC 606, Revenue from Contracts with Customers and all the related amendments (“new revenue standard”) on February 4, 2018 using the modified retrospective method for all contracts. The additional disclosures required by the ASU have been included in Note 6 Revenue. Results for reporting periods beginning February 4, 2018 reflect the application of ASC 606, while the results for prior reporting periods were prepared under the guidance of ASC 605, Revenue Recognition (“previous guidance”). We recorded a net increase to opening equity of \$2.0 million as of February 4, 2018 due to the cumulative impact of adopting the new standard, with the impact primarily related to the recognition of gift card breakage. Further, as a result of applying the modified retrospective method, the following adjustments were

made to accounts on the condensed consolidated balance sheet as of February 4, 2018 (in thousands):

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February ASC 606
3, 2018 Adjustments