CHRISTOPHER & BANKS CORP
Form 10-Q
September 06, 2018
Table of Contents

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

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 ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company ¨

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.

Table of Contents

CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

Table of Contents

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

Table of Contents

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 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

Table of Contents

CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES
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

Table of Contents

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):

5

Table of Contents

	February 3, 2018	ASC 606 Adjustments	February 4, 2018
Balance Sheet			
Assets			
Merchandise inventories	$41,361	$ (482)	$40,879
Prepaid expenses and other current assets	2,715	482	3,197
Liabilities			
Accrued liabilities and other current liabilities	26,201	(1,983)	24,218
Equity			
Retained earnings	34,993	1,983	36,976

Impact on Financial Statements

The following tables summarize the impacts of adopting ASC 606 on the Company's condensed consolidated financial statements as of and for the thirteen and twenty-six weeks ended August 4, 2018 (in thousands):

Condensed Consolidated Balance Sheet

	As reported	Balance without adoption of ASC 606	Effect of change Higher/(lower)
Balance Sheet			
Assets			
Merchandise inventories	$40,184	$40,781	$ (597)
Prepaid expenses and other current assets	4,263	3,666	597
Liabilities			
Accrued liabilities and other current liabilities	19,655	19,746	(91)
Equity			
Retained earnings	24,231	24,140	91

Condensed Consolidated Statement of Operations and Comprehensive Loss

	Thirteen weeks ended August 4, 2018			Twenty-six weeks ended August 4, 2018		
	As reported	Balance without adoption of ASC 606	Effect of change Higher/(lower)	As reported	Balance without adoption of ASC 606	Effect of change Higher/(lower)
Statement of Operations and Comprehensive Loss						
Net sales	$87,418	$87,407	$ 11	$173,319	$173,228	$ 91
Net loss	(7,426)	(7,437)	11	(12,745)	(12,836)	91
Net loss per share:						
Basic	$(0.20)	$(0.20)	$ 0.00	$(0.34)	$(0.34)	$ 0.00
Diluted	$(0.20)	$(0.20)	$ 0.00	$(0.34)	$(0.34)	$ 0.00

We reviewed all other significant newly-issued accounting pronouncements and concluded they are either not applicable to our operations, or that no material affect is expected on our consolidated financial statements as a result of future adoption.

Table of Contents

NOTE 2 — Property, Equipment and Improvements, Net

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

Description	August 4, 2018	February 3, 2018
Land	$—	$ 1,597
Corporate office, distribution center and related building improvements	—	12,753
Store leasehold improvements	48,587	50,094
Store furniture and fixtures	68,149	70,447
Corporate office and distribution center furniture, fixtures and equipment	5,033	5,053
Computer and point of sale hardware and software	33,825	33,126
Construction in progress	1,300	1,275
Total property, equipment and improvements, gross	156,894	174,345
Less accumulated depreciation and amortization	(118,511)	(126,572)
Total property, equipment and improvements, net	$38,383	$ 47,773

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. In conjunction with an impairment analysis, the Company analyzed improvements and equipment at certain under-performing stores and stores identified for closure for impairment. As a result, the Company recorded no long-lived asset impairment during the thirteen week period ended August 4, 2018 and approximately $0.1 million during the thirteen week period ended July 29, 2017. Additionally, the Company recorded no impairment during the twenty-six week period ended August 4, 2018 and approximately $0.2 million during the twenty-six week period ended July 29, 2017.

Sale-Leaseback

On April 27, 2018, the Company completed the sale of and entered into an agreement to leaseback its corporate headquarters facility, including the distribution center, in Plymouth, MN. The agreement provided for the sale of the facility for a purchase price of $13.7 million and the subsequent leaseback of the facility for a 15-year period. The lease is classified as an operating lease. As a result, the Company recorded a deferred gain of $7.7 million. As of August 4, 2018, $7.1 million of the deferred gain is reflected in the condensed consolidated balance sheet under other non-current liabilities, with the remaining $0.5 million included as a component of accrued liabilities and other current liabilities. The Company recorded $0.1 million into earnings during the thirteen week period ended August 4, 2018. As part of the transaction, the Company put $1.7 million in escrow for certain repairs to the building. As of August 4, 2018, $1.6 million remained in escrow for repairs to the building. This amount is considered to be restricted cash and is included within cash and cash equivalents on the condensed consolidated balance sheet.

NOTE 3 — Accrued Liabilities

Accrued liabilities and other current liabilities consisted of the following (in thousands):

	August 4, 2018	February 3, 2018
Gift card and store credit liabilities	$ 2,899	$ 6,931
Accrued Friendship Rewards Program loyalty liability	3,868	3,539
Accrued income, sales and other taxes payable	1,287	1,587
Accrued occupancy-related expenses	3,743	3,432
Sales return reserve	1,304	1,079
eCommerce obligations	3,999	3,824

Other accrued liabilities	2,555	5,809
Total accrued liabilities and other current liabilities	$ 19,655	$ 26,201

NOTE 4 — Credit Facility

The Company is party to an amended and restated credit agreement ("the Credit Facility") with Wells Fargo Bank, National Association ("Wells Fargo"), as lender. On August 3, 2018, the Company entered into a second amendment ("Second Amendment") to the Credit Facility.

Table of Contents

The Second Amendment, among other changes, (i) extended the term of the Credit Facility to August 3, 2023; and (ii) supplemented the existing $50.0 million revolving Credit Facility by adding a new $5.0 million revolving "first-in, last-out" tranche credit facility (the "FILO Facility"), subject to borrowing base restrictions applicable to the FILO Facility. The Company must draw under the FILO Facility before making any borrowings under the revolving Credit Facility.

Loans under the FILO Facility will bear interest based on quarterly excess available under the Borrowing Base as defined in the Credit Facility. The interest rate under the FILO Facility will be either (i) the London interbank Offered Rate ("LIBOR") plus 3.00% for FILO loans that are LIBOR loans; or (ii) 2.00% above the Base Rate for FILO loans that are Base Rate loans as such terms are defined in the Credit Facility. Borrowings under the Credit Facility will generally accrue interest at a rate ranging from 1.50% to 1.75% over the LIBOR or 0.50% to 0.75% over the Wells Fargo Prime Rate based on the amount of Average Daily Availability for the Fiscal Quarter immediately preceding each Adjustment Date, as such terms are defined in the Credit Facility. The Company has the ability to select between the LIBOR or prime based rate at the time of the cash advance. The Credit Facility has an unused commitment fee of 0.25%.

In addition to these changes, the Second Amendment eliminates availability against the Company's real property, which was the subject of a recent sale-leaseback transaction. The Company recorded approximately $0.2 million of deferred financing costs in the second quarter of fiscal 2018 in connection with the Second Amendment. The deferred financing costs have been combined with the balance of the deferred financing costs remaining from the prior amendment on September 8, 2014. The entire deferred financing costs are recorded within other assets on the condensed consolidated balance sheet and are being amortized as interest expense over the related term of the Second Amendment.

The Credit Facility contains customary events of default and various affirmative and negative covenants. The sole financial covenant contained in the Credit Facility requires the Company to maintain Availability at least equal to the greater of (a) ten percent (10%) of the borrowing base or (b) $3.0 million. In addition, the Credit Facility permits the payment of dividends to the Company's stockholders if certain financial conditions are met. The Company was in compliance with all financial covenants and other financial provisions as of August 4, 2018.

The Company's obligations under the Credit Facility are secured by the assets of the Company and its subsidiaries. The Company has pledged substantially all of its assets as collateral security for the loans, including accounts owed to the Company, bank accounts, inventory, other tangible and intangible personal property, intellectual property (including patents and trademarks), and stock or other evidences of ownership of 100% of all of the Company's subsidiaries.

There were no outstanding borrowings under the Credit Facility as of August 4, 2018 and July 29, 2017. The total Borrowing Base at August 4, 2018 was approximately $29.6 million. As of August 4, 2018, the Company had open on-demand letters of credit of approximately $6.7 million. Accordingly, after reducing the Borrowing Base for the open letters of credit and the required minimum availability of the greater of $3.0 million, or 10.0% of the Borrowing Base, the net availability of revolving credit loans under the Credit Facility was approximately $22.2 million at August 4, 2018.

NOTE 5 — Income Taxes

For the thirteen weeks ended August 4, 2018, the Company recorded income tax expense of $63 thousand, or an effective rate of (0.9)%, compared to income tax expense of $40 thousand, or an effective rate of (0.5)%, for the second quarter of fiscal 2017. For the twenty-six weeks ended August 4, 2018, the Company recorded income tax expense of $106 thousand, or an effective rate of (0.8)%, compared to income tax expense of $92 thousand, or an effective rate of (0.8)%, for the same period of fiscal 2017. The income tax provision for the fiscal 2018 and 2017 periods is primarily driven by state taxes.

As of August 4, 2018, the possibility of future cumulative losses still exists. Accordingly, the Company has continued to maintain a valuation allowance against its net deferred tax assets. A small deferred tax asset remains related to certain state tax benefits. The Company has federal and state net operating loss ("NOL") carryforwards which will reduce future taxable income. Approximately $26.1 million in net federal tax benefits are available from these federal loss carryforwards. An additional $0.8 million is available in net tax credit carryforwards. The state loss carryforwards will result in net state tax benefits of approximately $4.5 million.

Sections 382 and 383 of the Internal Revenue Code limit the annual utilization of certain tax attributes, including net operating loss carryforwards, incurred prior to a change in ownership. If the Company were to experience an ownership change, as defined by Sections 382 and 383, its ability to utilize its tax attributes could be substantially limited. Depending on the severity of the annual NOL limitation, the Company could permanently lose its ability to use a significant number of its accumulated NOLs.

Table of Contents

The Company's liability for unrecognized tax benefits associated with uncertain tax positions is recorded within other non-current liabilities. There has been no material change in the reserve for unrecognized tax benefits since the end of the previous fiscal year. The Company recognizes interest and penalties related to unrecognized tax benefits as components of income tax expense. We do not expect any significant changes to the amount of unrecognized tax benefits in the next twelve months.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. With few exceptions, the Company or its subsidiaries are no longer subject to examination prior to tax years before fiscal 2013. The Company does not have any ongoing income tax audits.

The Tax Cuts and Jobs Act ("the Act") was enacted on December 22, 2017. The Act reduced the U.S. federal corporate tax rate from 35% to 21% as of January 1, 2018. The income tax effects of the Act required the remeasurement of our deferred tax assets and liabilities in accordance with ASC Topic 740. The Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 118 ('SAB 118') that allows companies to record provisional estimates of the impacts of the Act during a measurement period of up to one year from the enactment, which is similar to the measurement period used when accounting for business combinations. The Company has estimated the effects of the Act, and those estimates have been reflected in our 2017 financial statements.

NOTE 6 — Revenue

Merchandise sales
We sell merchandise through our brick and mortar and eCommerce sales channels. Revenues are recognized when control of the promised merchandise is transferred to our customers. Within our brick and mortar sales channel, control is transferred at the point of sale. Within our eCommerce sales channel, control is transferred upon delivery of the merchandise to our customers. Shipping revenues associated with the eCommerce channel are recognized upon the completion of the delivery. The revenue recorded reflects the consideration that we expect to receive in exchange for our merchandise. The Company has elected, as an accounting policy, to exclude from the transaction price all taxes assessed by governmental authorities imposed on merchandise sales.
Right of return
As part of our merchandise sales, we offer customers a right of return on merchandise that lapses based on the original purchase date. The Company estimates the amount of sales that may be returned by our customers and records this estimate as a reduction of revenue in the period in which the related revenues are recognized. We utilize historical and industry data to estimate the total return liability. Conversely, the reduction in revenue results in a corresponding reduction in merchandise, buying and occupancy costs which results in a contract asset for the anticipated merchandise returned. The total reduction in revenue from estimated returns was $1.3 million as of August 4, 2018, which is included within accrued liabilities and other current liabilities in the condensed consolidated balance sheet.
Friendship rewards program
The Company established the Friendship Rewards Program as a loyalty program where customers earn points towards future discount certificates based on their purchase activity. We have identified the additional benefits received from this program as a separate performance obligation within a sales contract in the form of the discount certificates earned by customers. Accordingly, we assess any incremental discounts issued to our customers through the program and allocate a portion of the transaction price associated with merchandise sales from loyalty program members to the future discounts earned. The transaction price allocated to future discounts is recorded as deferred revenue until the discounts are used or forfeited.
In addition, the Company estimates breakage on the points earned within the program that will not be used by customers for future discounts. The Company estimates breakage based on the historical redemption rate and considers industry trends. Breakage is recorded as a reduction to the deferred revenue associated with the program.

As of August 4, 2018, the Company recorded $3.9 million in deferred revenue associated with the program, which is included in accrued liabilities and other current liabilities in the condensed consolidated balance sheet.

Gift card revenue

The Company sells gift cards to customers which can be redeemed for merchandise within our brick and mortar and eCommerce sales channels. Gift cards are recorded as deferred revenue when issued and are subsequently recorded as revenue upon redemption. The Company estimates breakage related to gift cards when the likelihood of redemption is remote. This estimate utilizes historical trends based on the vintage of the gift card. Breakage on gift cards is recorded as revenue in proportion to the rate of gift card redemptions by vintage. This represents a change in the methodology used to estimate

Table of Contents

breakage as we have historically recognized breakage for the portion of the gift card balances that remained outstanding following 36 months of issuance.

As of August 4, 2018, the Company had $2.9 million of deferred revenue associated with the issuance of gift cards, which is included in accrued liabilities and other current liabilities in the condensed consolidated balance sheet.

Private label credit card

The Company offers a private label credit card ("PLCC") which bears the Christopher and Banks brand name offered under an agreement with Comenity Bank. Pursuant to this agreement, there are several obligations on behalf of Comenity Bank that impact the recording of revenue.

As part of the agreement, the Company received a signing bonus. We have determined that the benefits associated with signing the agreement are recognized over time throughout its term. This is a faithful depiction of the transfer of services as the customer receives and consumes the benefits by obtaining and having the ability to use financing through Comenity Bank for purchases within our brick and mortar and eCommerce sales channels throughout the agreement's term. As of August 4, 2018, the Company had $1.8 million recorded as deferred revenue associated with the signing bonus, which is included in accrued liabilities and other current liabilities in the condensed consolidated balance sheet. The Company recorded $0.1 million into revenue for the thirteen week and twenty-six week periods ended August 4, 2018 associated with the signing bonus.

The Company records revenue associated with royalties received for purchases made using the PLCC. Royalty revenue is recognized based on the total amount to which we have a right to invoice in accordance with the practical expedient included in ASC 606-10-55-18. Therefore, royalty revenue is recognized in the period in which the related purchases are recognized.

The Company receives a performance bonus based on the total amount of new accounts that are opened during the year. We have determined that this is a form of variable consideration. Variable consideration is recorded if, in the Company’s judgment, it is probable that a significant future reversal of revenue under the contract will not occur. For the thirteen week and twenty-six week periods ended August 4, 2018, the Company met certain performance metrics within the contract and recorded a small amount of revenue associated with performance bonuses.

Disaggregation of revenue

The following table provides information about disaggregated revenue by sales channel. All revenue illustrated below is included within our one reportable segment.

	Thirteen Weeks Ended August 4, 2018	Twenty-six Weeks Ended August 4, 2018
Brick and mortar stores	$ 66,715	$ 134,770
eCommerce sales	19,216	38,010
Other	1,487	539
Net sales	$ 87,418	$ 173,319

Amounts included within other revenue relate to revenues earned from our private label credit card, net of any revenue adjustments and accruals.

Table of Contents

Contract balances

The following table provides information about contract assets and liabilities from contracts with customers (in thousands):

	Contract liabilities (current)	Contract liabilities (non-current)
Contract Balances - February 4, 2018		
Right of return	$ 1,079	$ —
Friendship Rewards Program	3,501	—
Gift card revenue	4,986	—
Private label credit card	274	1,622
Total	$ 9,840	$ 1,622
Contract Balances - August 4, 2018		
Right of return	$ 1,304	$ —
Friendship Rewards Program	3,868	—
Gift card revenue	2,899	—
Private label credit card	274	1,485
Total	$ 8,345	$ 1,485

The Company recognized revenue of $1.5 million and $3.4 million in the thirteen week and twenty-six week periods ended August 4, 2018, respectively, related to contract liabilities recorded at the beginning of the period. Such revenues were comprised of the redemption and forfeiture of Friendship Rewards Program discount certificates, redemption of gift cards, and amortization of the PLCC signing bonus. The Company does not have any material contract assets as of August 4, 2018.

For the thirteen and twenty-six week periods ended August 4, 2018, the Company did not recognize any revenue resulting from changes in the estimated variable consideration to be received associated with performance obligations satisfied or partially satisfied in prior periods.

Transaction price allocated to remaining performance obligations

The following table includes the estimated revenue expected to be recognized in future periods related to performance obligations that are unsatisfied or partially unsatisfied as of August 4, 2018:

	Remainder of Fiscal 2018	Fiscal 2019	Thereafter
Private label credit card	137	274	1,348
Total	137	274	1,348

Contract Costs

The Company has not incurred any costs to obtain or fulfill a contract.

NOTE 7 — Earnings Per Share

The following table sets forth the calculation of basic and diluted earnings per share ("EPS") shown on the face of the accompanying consolidated statement of operations:

Table of Contents

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Numerator (in thousands):				
Net loss attributable to Christopher & Banks Corporation	$(7,426)	$(7,889)	$(12,745)	$(11,577)
Denominator (in thousands):				
Weighted average common shares outstanding - basic	37,458	37,156	37,381	37,123
Dilutive shares	—	—	—	—
Weighted average common and common equivalent shares outstanding - diluted	37,458	37,156	37,381	37,123
Net loss per common share:				
Basic	$(0.20)	$(0.21)	$(0.34)	$(0.31)
Diluted	$(0.20)	$(0.21)	$(0.34)	$(0.31)

Total stock options of approximately 4.3 million and 4.1 million were excluded from the shares used in the computation of diluted earnings per share for the thirteen week periods ended August 4, 2018 and July 29, 2017, as they were anti-dilutive. Total stock options of approximately 4.0 million and 4.1 million were excluded from the shares used in the computation of diluted earnings per share for the twenty-six week periods ended August 4, 2018 and July 29, 2017, as they were anti-dilutive.

NOTE 8 — Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value are categorized using defined hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair value measurements, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices included in Level 1 that are either directly or indirectly observable
Level 3 – Unobservable inputs that are significant to the fair value of the asset or liability.

Assets that are Measured at Fair Value on a Non-recurring Basis:

The following table summarizes certain information for non-financial assets for the twenty-six weeks ended August 4, 2018 and the fiscal year ended February 3, 2018, that are measured at fair value on a non-recurring basis in periods subsequent to an initial recognition period. The Company places amounts into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

	Twenty-six Weeks Ended	Fiscal Year Ended
Long-Lived Assets Held and Used (in thousands):	August 4, 2018	February 3, 2018
Carrying value	$ —	$ 318
Fair value measured using Level 3 inputs	$ —	$ —
Impairment charge	$ —	$ 318

All of the fair value measurements included in the table above were based on significant unobservable inputs (Level 3). The Company determines fair value for measuring assets on a non-recurring basis using a discounted cash flow approach as discussed in Note 1, Nature of Business and Significant Accounting Policies in our Form 10-K for the year ended February 3, 2018. In determining future cash flows, the Company uses its best estimate of future operating results, which requires the use of significant estimates and assumptions, including estimated sales, merchandise margin and expense levels, and the selection of an appropriate discount rate; therefore, differences in the estimates or assumptions could produce significantly different results. General economic uncertainty impacting the retail industry and continuation of recent trends in company performance makes it reasonably possible that additional long-lived asset impairments could be identified and recorded in future periods.

Fixed asset fair values were derived using a discounted cash flow ("DCF") model to estimate the present value of net cash flows that the asset or asset group is expected to generate. The key inputs to the DCF model generally included our forecasts of

Table of Contents

net cash generated from revenue, expenses and other significant cash outflows, such as capital expenditures, as well as an appropriate discount rate. In the case of assets for which the impairment was the result of restructuring activities, no future cash flows have been assumed as the assets will cease to be used and expected sale values are nominal.

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NOTE 9 — Legal Proceedings

We are subject, from time to time, to various claims, lawsuits or actions that arise in the ordinary course of business. We accrue for loss contingencies associated with outstanding litigation or legal claims for which management has determined it is probable that a loss contingency exists and the amount of the loss can be reasonably estimated. If we determine an unfavorable outcome is not probable or reasonably estimable, we do not accrue a potential loss contingency.

The ultimate resolution of legal matters can be inherently uncertain and, for some matters, we may be unable to predict the ultimate outcome, determine whether a liability has been incurred or make an estimate of the reasonably possible liability that could result from an unfavorable outcome because of these uncertainties. We do not, however, currently believe that the resolution of any pending matter will have a material adverse effect on our financial position, results of operations or liquidity.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended February 3, 2018 and our unaudited Condensed Consolidated Financial Statements and related Notes included in Item 1 of this Quarterly Report on Form 10-Q. Unless otherwise noted, transactions and other factors significantly impacting our financial condition, results of operations and liquidity are discussed in order of magnitude.

Executive Overview

We are a national specialty retailer featuring exclusively-designed, privately-branded women’s apparel and accessories. We offer our customer an assortment of unique, classic and versatile clothing that fits her everyday needs at a good value.

We operate an integrated, omni-channel platform that provides our customer the ability to shop when and where she wants, including online or at our retail and outlet stores. This approach allows our customers to browse, purchase, return, or exchange our merchandise through the channel that is optimal for her.

As of August 4, 2018, we operated 461 stores in 45 states, including 313 Missy, Petite, Women ("MPW") stores, 79 outlet stores, 36 Christopher & Banks ("CB") stores, and 33 C.J. Banks ("CJ") stores. Our CB brand offers unique fashions and accessories featuring exclusively designed assortments of women’s apparel in sizes 4 to 16 and in petite sizes 4P to 16P. Our C.J. Banks brand offers similar assortments of women’s apparel in sizes 14W to 26W. Our MPW concept and outlet stores offer an assortment of both CB and CJ apparel servicing the Missy, Petite and Women-sized customer in one location.

Strategic Priorities

Our overall business strategy is to build sustainable, long-term revenue growth and consistent profitability through the following strategic initiatives:

- Enhance the shopping experience;
- Deliver compelling promotions that support our financial goals;
- Leverage our omni-channel capabilities;
- Attract new customers and grow our customer file; and
- Optimize our cost structure.

Enhance the shopping experience

We are committed to ensuring that we consistently meet our customers' needs with a differentiated product assortment that fits her lifestyle at a recognizable value. Over the past twelve months, we have increased the flow of fashion offerings to entice her to shop more often. We are focused on ensuring that our assortment is easy to shop so that she can more easily see what is new and how to build her outfit.

Table of Contents

Deliver compelling promotions that support our financial goals
We intend to better leverage our data and tools to execute a marketing and promotional strategy that will drive traffic and conversion while expanding gross margins. We are committed to our value proposition that recognizes our customer is drawn to the style, quality and value that we offer. With the assistance of data analytics, we believe there is an opportunity to better leverage our data to drive fewer, more meaningful promotions. We will continue to analyze, test, react and refine our promotional strategy to ensure that we are providing the most attractive offers for our customer, which support our financial goals.

Leverage our omni-channel capabilities
Our omni-channel strategy is designed to provide our customers with a seamless shopping experience allowing her to shop when and where she wants. New flexible fulfillment options should also allow us to leverage our total inventory across channels to drive sales and lower costs. In January 2018, we launched buy online, ship to store. We are in the process of piloting buy online, ship from store and we will pilot buy online, pick up in store by the end of the fall season. Additionally, while we have a well established and growing eCommerce business, we see an opportunity to improve our website experience. This includes enhancing product recommendation capabilities, increasing site speed, and making it easier for her to create and access her account. We believe these enhancements will further improve her online experience and drive higher sales on our site.

Attract new customers and grow our customer file
We have a very loyal customer base that is highly engaged. The personalized customer service that our Associates provide is a differentiator for us and is a contributor to the loyalty our customers exhibit, with approximately 90% of our active customers participating in our loyalty rewards program. We look to drive increased spend with our current customers. To increase loyalty to our brand, we have been very focused on growing the number of private label credit card customers. During the second quarter, we saw a significant increase in the number of accounts activated. We also saw an increase in our customer loyalty penetration during the second quarter.

We are extremely focused on increasing our total customer file. We believe that leveraging digital marketing is one of the best ways to acquire new customers and we have shifted a greater mix of our marketing spend to digital.

Optimize our cost structure
We believe that we have an opportunity to continue to control and leverage our expenses as our business model evolves. In the second quarter, we signed a contract with a third party firm to leverage our non-merchandise procurement.

Performance Measures

Management evaluates our financial results based on the following key measures of performance:

Comparable sales
Comparable sales is a measure that highlights the sales performance of our store channel and eCommerce channel by measuring the changes in sales over the comparable, prior-year period of equivalent length.

Our comparable sales calculation includes merchandise sales for:
- Stores operating for at least 13 full months;
- Stores relocated within the same center; and
- eCommerce sales.

Our comparable sales calculation excludes:
- Stores converted to the MPW format for 13 full months post conversion.

We believe our eCommerce operations are interdependent with our brick-and-mortar store sales and, as such, we believe that reporting combined store and eCommerce comparable sales is a more appropriate presentation. Our customers are able to browse merchandise in one channel and consummate a transaction in a different channel. At the same time, our customers have the option to return merchandise to a store or our third-party distribution center, regardless of the original channel used for purchase.

Comparable sales measures vary across the retail industry. As a result, our comparable sales calculation is not necessarily comparable to similarly titled measures reported by other companies.

Table of Contents

Other performance metrics

To supplement our comparable sales performance measure, we also monitor changes in net sales, net sales per store, net sales per gross square foot, gross profit, gross margin rate, operating income, cash, inventory and liquidity.

Second Quarter Fiscal 2018 Results of Operations

The following table presents selected consolidated financial data for the second quarter of fiscal 2018 compared to the second quarter of fiscal 2017:

(dollars in thousands)	Thirteen Weeks Ended August 4, 2018	July 29, 2017
Net sales	$87,418	$86,618
Merchandise, buying and occupancy costs	62,546	61,990
Gross profit	24,872	24,628
Other operating expenses:		
Selling, general and administrative	29,675	29,179
Depreciation and amortization	2,518	3,167
Impairment of store assets	—	93
Total other operating expenses	32,193	32,439
Operating loss	(7,321)	(7,811)
Interest expense, net	(42)	(38)
Loss before income taxes	(7,363)	(7,849)
Income tax provision	63	40
Net loss	$(7,426)	$(7,889)

Rate trends as a percentage of net sales	Thirteen Weeks Ended August 4, 2018	July 29, 2017
Gross margin	28.5 %	28.4 %
Selling, general, and administrative	33.9 %	33.7 %
Depreciation and amortization	2.9 %	3.7 %
Operating loss	(8.4)%	(9.0)%

Second Quarter Fiscal 2018 Summary

- Net sales increased 0.9% compared to the same period last year primarily due to an increase in average unit retail, partly offset by a decrease in transactions;
- Comparable sales increased 0.8% following a 0.6% decrease in the same period last year;
- eCommerce sales increased 15.4% following a 22.1% increase in the same period last year;
- Gross margin rate remained flat compared to the same period last year due to a reduction in occupancy expense offset by increased product costs from our first quarter receipts. The product cost issue has been addressed for the balance of the year;
- Net loss aggregated to $7.4 million, a $0.20 loss per share, compared to a net loss of $7.9 million, or $0.21 per share, for the same period last year;
- As of August 4, 2018, we held $23.1 million of cash and cash equivalents, compared to $22.6 million as of July 29, 2017;
- On August 3, 2018, Christopher & Banks Corporation entered into a second amendment to its existing credit facility with Wells Fargo Bank to extend the term of the credit facility to August 3, 2023 and supplement the existing $50.0 million credit facility by adding a new $5.0 million revolving "first-in, last-out" tranche credit

facility.

Net Sales

Net sales (in thousands):	Thirteen Weeks Ended August 4, 2018	July 29, 2017	% Change
Net sales	$87,418	$86,618	0.9 %

15

Table of Contents

The components of the 0.9% net sales increase in the second quarter fiscal 2018 compared to the second quarter of fiscal 2017 were as follows:

Sales driver change components	Thirteen Weeks Ended August 4, 2018
Number of transactions	(5.2)%
Units per transaction	0.3 %
Average unit retail	5.2 %
Other sales	0.6 %
Total sales driver change	0.9 %

Comparable sales	Thirteen Weeks Ended August 4, 2018
Comparable sales	0.8 %

Net sales increased primarily due to a 5.2% increase in average unit retail, offset by a decline in transactions, including the effects of a 2.5% decline in store count. Average unit retail expansion coupled with eCommerce sales growth more than offset continued weakness in store traffic.

To supplement our comparable sales measure, we also monitor changes in other store sales metrics as illustrated in the table below:

Store metrics	Thirteen Weeks Ended August 4, 2018
Net sales per store % change	0.1 %
Net sales per square foot % change	— %

Net sales per store and net sales per square foot for the second quarter of fiscal 2018 remained flat compared to the same period last year.

Store count, openings, closings, and square footage for our stores were as follows:

	Store Count						Square Footage [1]	
Stores by Format	May 5, 2018	Open	Close	MPW Conversions	August 4, 2018	Avg Store Count	August 4, 2018	May 5, 2018
MPW	314	—	(1)	—	313	314	1,225	1,225
Outlet	79	—	—	—	79	79	309	310
Christopher and Banks	36	—	—	—	36	36	119	119
C.J. Banks	33	—	—	—	33	33	120	120
Total Stores	462	—	(1)	—	461	462	1,773	1,774

(1) Square footage presented in thousands

Average store count in the second quarter of fiscal 2018 was 462 stores compared to an average store count of 474 stores in the second quarter of fiscal 2017, a decrease of 2.5%. Average square footage in the second quarter of fiscal 2018 decreased 2.5% compared to the second quarter of fiscal 2017.

Table of Contents

Gross Profit

Gross profit	Thirteen Weeks Ended August 4, 2018	July 29, 2017	Change
Gross profit	$24,872	$24,628	$244
Gross margin rate as a percentage of net sales	28.5 %	28.4 %	0.1 %

Gross margin rate remained flat to last year due to a reduction in occupancy expense offset by increased product costs from our first quarter receipts. The product cost issue has been addressed for the balance of the year.

Selling, General, and Administrative (“SG&A”) Expenses

Selling, general, and administrative	Thirteen Weeks Ended August 4, 2018	July 29, 2017	Change
Selling, general, and administrative	$29,675	$29,179	$496
SG&A rate as a percentage of net sales	33.9 %	33.7 %	0.2 %

SG&A increased by $0.5 million, mainly due to increases in professional services of $0.5 million, marketing expenses of $0.4 million, severance expense of $0.3 million and medical expenses of $0.2 million. These SG&A expense increases were partially offset by savings in store operational expenses of $0.5 million and in insurance and taxes of $0.3 million. As a percent of net sales, SG&A increased approximately 20 basis points.

Depreciation and Amortization (“D&A”)

Depreciation and amortization	Thirteen Weeks Ended August 4, 2018	July 29, 2017	Change
Depreciation and amortization	$2,518	$3,167	$(649)
D&A rate as a percentage of net sales	2.9 %	3.7 %	(0.8)%

Depreciation and amortization expense decreased primarily due to the sale-leaseback of the corporate facility and a decrease in average store count.

Impairment of Store Assets

Impairment of Store Assets	Thirteen Weeks Ended August 4, 2018	July 29, 2017	Change
Impairment of Store Assets	$ —	$ 93	$ (93)

There were no non-cash impairment charges relating to long-lived assets for the thirteen weeks ended August 4, 2018 compared to an impairment charge of $0.1 million in the same period last year related to long-lived assets at a small number of store locations.

Operating Loss

Thirteen Weeks Ended

Operating loss	August 4, 2018	July 29, 2017	Change
Operating loss	$(7,321)	$(7,811)	$490
Operating loss rate as a percentage of net sales	(8.4)%	(9.0)%	0.6 %

Our operating loss decreased in the second quarter of fiscal 2018 compared to the second quarter of fiscal 2017 primarily due to an increase in net sales of $0.8 million and a decline in depreciation and amortization expenses of $0.6 million, partly offset by a SG&A increase of $0.5 million.

Table of Contents

Interest expense, net

Interest expense, net	Thirteen Weeks Ended August 4, 2018	July 29, 2017	Change
Interest expense, net	$(42)	$ (38)	$ (4)

The change in interest expense, net is not material.

Income Tax Provision

Income tax provision	Thirteen Weeks Ended August 4, 2018	July 29, 2017	Change
Income tax provision	$63	$ 40	$ 23

Income tax expense recorded for the thirteen weeks ended August 4, 2018 was $63 thousand compared to income tax expense of $40 thousand for the same period of fiscal 2017. Our effective tax rate was (0.9)% for the thirteen weeks ended August 4, 2018 compared to (0.5)% in the same period last year.

Net earnings

Net loss	Thirteen Weeks Ended August 4, 2018	July 29, 2017	Change
Net loss	$(7,426)	$(7,889)	$463
Net loss rate as a percentage of net sales	(8.5)%	(9.1)%	0.6 %

Our net loss decrease in the second quarter of fiscal 2018 compared to our net loss in the second quarter of 2017 was primarily due to an increase in net sales and a decline in depreciation and amortization expenses, partly offset by an increase in SG&A.

First Half Fiscal 2018 Results of Operations

The following table presents selected consolidated financial data for the first twenty-six weeks of fiscal 2018 compared to the first twenty-six weeks of fiscal 2017:

Table of Contents

(dollars in thousands)	Twenty-six Weeks Ended August 4, 2018	July 29, 2017
Net sales	$173,319	$175,173
Merchandise, buying and occupancy costs	121,103	120,007
Gross profit	52,216	55,166
Other operating expenses:		
Selling, general and administrative	59,422	60,153
Depreciation and amortization	5,334	6,266
Impairment of store assets	—	163
Total other operating expenses	64,756	66,582
Operating loss	(12,540)	(11,416)
Interest expense, net	(99)	(69)
Loss before income taxes	(12,639)	(11,485)
Income tax provision	106	92
Net loss	$(12,745)	$(11,577)

Rate trends as a percentage of net sales	Twenty-six Weeks Ended August 4, 2018	July 29, 2017
Gross margin	30.1 %	31.5 %
Selling, general, and administrative	34.3 %	34.3 %
Depreciation and amortization	3.1 %	3.6 %
Operating loss	(7.2)%	(6.5)%

First Half Fiscal 2018 Summary

- Net sales decreased 1.1% compared to the same period last year primarily due to a decline in transactions, including a decrease in average store count, partly offset by an increase in average unit retail;
- Comparable sales decreased 0.9% following a 4.1% decrease in the same period last year;
- eCommerce sales increased 9.1% following an 18.1% increase in the same period last year;
- Gross margin rate decreased 140 basis points compared to the same period last year largely driven by an increase in product costs, which have been addressed for the balance of the year, and additional markdowns due to higher beginning of period inventory due to lower than anticipated sales;
- Net loss aggregated to $12.7 million, a $0.34 loss per share, compared to a net loss of $11.6 million, or $0.31 per share, for the same period last year.

Net Sales

Net sales (in thousands):	Twenty-six Weeks Ended August 4, 2018	July 29, 2017	% Change
Net sales	$173,319	$175,173	(1.1)%

The components of the 1.1% net sales decrease in the first half of fiscal 2018 compared to the first half of fiscal 2017 were as follows:

Twenty-six
Weeks

Sales driver change components	Ended August 4, 2018
Number of transactions	(5.3)%
Units per transaction	(2.2)%
Average unit retail	5.5 %
Other sales	0.9 %
Total sales driver change	(1.1)%

Table of Contents

Comparable sales	Twenty-six Weeks Ended August 4, 2018
Comparable sales	(0.9)%

Net sales decreased primarily due to a 5.3% decrease in transactions, including the effects of a 2.9% decrease in average store count, partly offset by an increase in average unit retail of 5.5%. Sales performance improved as the weather became more seasonal during the latter part of the first quarter and the first part of the second quarter as customers responded favorably to spring merchandise.

To supplement our comparable sales measure, we also monitor changes in other store sales metrics as illustrated in the table below:

Store metrics	Twenty-six Weeks Ended August 4, 2018
Net sales per store % change	(0.7)%
Net sales per square foot % change	(1.1)%

Net sales per store and net sales per square foot decreased mainly due to a decline in transactions partly offset by an increase in average unit retail.

Store count, openings, closings, and square footage for our stores were as follows:

Store Count		Square Footage [1]
February 3,	MPW	