CHRISTOPHER & BANKS CORP
Form 10-K
May 02, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended March 3, 2007

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 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 Number)
2400 Xenium Lane North, Plymouth, Minnesota	**55441**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value $0.01 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES x NO **o**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES o NO x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x **Accelerated filer o** **Non-accelerated filer 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

The aggregate market value of the Common Stock, par value $0.01 per share, held by non-affiliates of the registrant as of August 26, 2006, was approximately $925,148,775 based on the closing price of such stock as quoted on the New York Stock Exchange ($25.00) on such date.

The number of shares outstanding of the registrant s Common Stock, par value $0.01 per share, was 36,202,105 as of April 20, 2007 (excluding treasury shares of 8,841,918).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement for the Annual Meeting of Stockholders to be held August 1, 2007 (the Proxy Statement) are incorporated by reference into Part III.

CHRISTOPHER & BANKS CORPORATION

2007 ANNUAL REPORT ON FORM 10-K

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PART I

ITEM 1.

BUSINESS

General

Christopher & Banks Corporation is a Minneapolis-based retailer of women s specialty apparel, which operates retail stores through its wholly-owned subsidiaries, Christopher & Banks, Inc., Christopher & Banks Company and Christopher & Banks Services Company, collectively referred to as Christopher & Banks or the Company. As of April 20, 2007, the Company operated 790 stores in 45 states, including 526 Christopher & Banks stores, 226 C.J. Banks stores and 38 Acorn stores. The Company s Christopher & Banks stores offer distinctive fashions featuring exclusively designed, coordinated assortments of sportswear in sizes four to 16. The Company s C.J. Banks stores offer similar assortments of women s specialty apparel in sizes 14W and up. Acorn stores offer upscale women s fashions along with complementary jewelry and accessories under private and branded labels.

During the fiscal year ended March 3, 2007 (fiscal 2007), the Company opened 22 new Christopher & Banks stores, 40 new C.J. Banks stores and 16 new Acorn stores. The Company closed five stores during fiscal 2007. The Company plans to grow its store base in fiscal 2008 by approximately 70 stores, including opening approximately 40 new C.J. Banks stores, 25 new Christopher & Banks stores and five new Acorn stores.

Effective January 1, 2007, the Company s Board of Directors appointed Matthew P. Dillon President and Chief Executive Officer of the Company. Mr. Dillon previously served as the Company s President and Chief Merchandising Officer. The Board of Directors also elected Mr. Dillon as an additional Class 2 director concurrent with his promotion to Chief Executive Officer. The Company s former Chief Executive Officer, Joseph E. Pennington, resigned as Chief Executive Officer and as a member of the Company s Board of Directors on December 31, 2006. After December 31, 2006, Mr. Pennington will continue to be employed by the Company as a non-officer employee in an advisory role through August 31, 2008.

The Company s business strategy is to consistently provide a well focused apparel assortment in order to satisfy its target customer s expectations for style, value and versatility. To differentiate itself from its competitors, the Company s internal design group creates a diverse merchandise assortment which is manufactured exclusively for the Company under its proprietary Christopher & Banks and C.J. Banks brand names. In its Acorn stores, the Company currently sells private label, as well as branded apparel and accessories.

Target Customer

The target customer for Christopher & Banks and C.J. Banks is a segment of the female baby boomer demographic generally ranging in age from 40 to 60. Company research indicates this target customer has average annual household income of approximately $80,000. Further, this customer desires versatile fashions which are suitable for both work and leisure activities. Due to her busy lifestyle, management believes this customer prefers the convenience of shopping in regional malls.

The target customer of the Company s Acorn stores is a more affluent female baby boomer with household income of approximately $80,000 and up. This target customer seeks more fashion forward merchandise to fit her active, multifaceted lifestyle.

Merchandise Assortment

Substantially all merchandise offered in the Company s stores is developed by the Company s buyers, working in conjunction with the Company s product design group. The Company also has a technical design group which establishes technical specifications for the Company s merchandise and inspects merchandise on a test basis for uniformity of size, color and overall manufacturing quality.

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In fiscal 2007, the Company s merchandise primarily included sportswear generally consisting of knit tops, shirtings, novelty jackets, sweaters, skirts, denim bottoms and bottoms of other fabrications. The Company s Acorn stores sell a variety of accessories in addition to sportswear.

Sweaters comprised approximately 23% of the Company s sales in fiscal 2007, compared to approximately 30% and 34% in fiscal 2006 and 2005, respectively. In fiscal 2008, the Company plans to continue to shift merchandise receipts away from its sweater category and expand its offering in other merchandise categories.

Merchandise Strategy

The Company has developed a variety of strategies and programs to distinguish itself from its competitors. Major elements of its merchandising strategy include:

Strong Visual Merchandise Presentation. The Company relies heavily on attracting mall traffic through appealing visual presentation. Front-of-store displays, supplemented with lifestyle graphics, are carefully designed to draw customers into its stores. To keep its fashions fresh, the Company introduces six different color stories each year. Merchandise from each color story is featured in the Company s stores for approximately 12 to 16 weeks. Each color story is displayed in the front of the store for approximately two months. Remaining merchandise from the color story is then moved to the back of the store for liquidation.

Direct Import Program. During fiscal 2007, the Company directly imported approximately 75% of its total merchandise purchases. The Company anticipates that direct imports, as a percent of total purchases, will be approximately the same in fiscal 2008. Management believes direct importing allows Christopher & Banks to obtain high quality merchandise at a lower cost and gives the Company ability to bring product to market expediently.

Private Brand Clothing Christopher & Banks, *C.J. Banks*. The use of private brand clothing produced exclusively for the Company creates a unique store identity and establishes a competitive point of difference. The Company s design staff, guided by its merchants, continually develops new designs for the Company s private brand merchandise. The Company uses its proprietary names exclusively for its private brand clothing. Sales of private brand clothing comprised substantially all of the Company s sales in fiscal 2007 and 2006. The Company anticipates private brand clothing will account for substantially all of its sales again in fiscal 2008.

Quality Assurance. The Company employs a variety of quality control measures including color, fabric and construction analysis and sizing verification, to ensure that all merchandise meets the Company s quality standards.

Systems and Inventory Management

The Company s merchandise and financial information systems are updated daily with information from the Company s point-of-sale (POS) registers. In fiscal 2008, the Company plans to upgrade its POS hardware to provide enhanced functionality and improved communications ability.

In order to accommodate current and planned growth, the Company intends to invest in various information technology tools and systems. In fiscal 2008, the Company plans to implement an enhanced data warehouse analytics tool and a new planning and allocation system.

The Company also utilizes a cost-effective program to efficiently deliver merchandise on a daily basis from the Company s distribution center to each of its stores, which ensures a consistent flow of fresh merchandise to the stores and enables the Company to keep the aging of its inventory current. The Company s inventory turnover, which is calculated by dividing sales by average retail inventory, was 3.5, 3.8 and 3.9 times in fiscal 2007, 2006 and 2005, respectively.

Store Expansion

The Company plans to expand its store base by approximately 70 new stores in fiscal 2008. Of these new stores, approximately 40 will be C.J. Banks stores, 25 will be Christopher & Banks stores and five will be Acorn stores. The majority of the new stores will be located in states where the Company currently operates.

Development of New Concepts

The Company intends to continue to evaluate different growth vehicles and new opportunities as it deems appropriate. Accordingly, in fiscal 2001 the Company launched its C.J. Banks concept. These stores serve the women s large size market by offering coordinated assortments of exclusively designed sportswear in sizes 14W and up. In connection with this strategy, the Company developed a new C.J. Banks store prototype which is similar to, but slightly larger than, its Christopher & Banks store design. The Company has rapidly expanded the C.J. Banks concept and as of April 20, 2007 the Company operated 226 C.J. Banks stores in 35 states.

On November 1, 2004, the Company acquired the assets and assumed certain liabilities of Gilmore Brothers Inc., a privately-held women s specialty retailer operating stores under the name Acorn. Acorn stores offer upscale women s fashions along with complementary jewelry and accessories under private and branded labels. The Company believes the acquisition provides a differentiated yet complementary third retail concept to its business, which will enhance its growth potential. As of April 20, 2007, the Company operated 38 Acorn stores in 14 states.

Product Line Extensions

The Company intends to test product line extensions in certain of its locations which, if successful, could be expanded to a larger group of stores. In March 2007, the Company tested a collection of CBK Sport product in 168 Christopher & Banks stores. A second delivery of CBK Sport product is planned for May 2007 and in September 2007 the Company plans a delivery to a majority of its Christopher & Banks stores.

The Company plans to test accessories consisting primarily of handbags and small leather goods in certain of its Christopher & Banks locations in the fall of 2007. In October 2007, the Company plans to test petite sizes in certain of its Christopher & Banks stores. Test merchandise will include best selling styles across most of its merchandise categories, with an emphasis on woven bottoms.

Properties

The Company has developed a prototype store design which is currently used for approximately 95% of its Christopher & Banks and C.J. Banks store locations and approximately 60% of its Acorn stores. These store designs are regularly modified and updated. The store designs provide an open and inviting environment, which enables the Company to deliver a focused merchandise presentation to its customers. The Company typically completes a major or minor remodeling of each store on a ten-year cycle. However, during the interim, carpet replacement, painting and other minor improvements are made as needed. The Company completed ten store remodels in fiscal 2007 and plans to complete 25 store remodels in fiscal 2008.

Store Operations

The Company manages its stores in a manner that encourages participation by the store manager and employees in the execution of the Company s business and operational strategies. Managers are eligible for Company incentive awards based upon exceeding planned store sales volume goals. The Company has begun a field-training program that is designed to enhance selling and management skills of its associates through a customized program that is scheduled to be completed in the second half of fiscal 2008.

Purchasing/Sources of Supply

Direct imports accounted for approximately 75% of the Company s total merchandise purchases in fiscal 2007. During fiscal 2007, the Company purchased approximately 98% of its merchandise from 150 vendors and the Company s ten largest vendors provided approximately 48% of the Company s purchases. In addition, purchases from the Company s largest overseas supplier accounted for approximately 17% of total purchases, compared to 31% in fiscal 2006.

In fiscal 2008, management plans to continue to make changes to its merchandise assortment and further diversify its vendor base. Although the Company believes that its relationship with its largest vendor is good, there can be no assurance that this relationship can be maintained in the future or that the vendor will continue to supply merchandise to the Company. If there should be any significant disruption in the supply of merchandise from this vendor, 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 and results of operations. The Company intends to directly import approximately 75% of its purchases again in fiscal 2008.

Marketing

Historically, the Company has not engaged in significant television, radio or print advertising. Instead, the Company has relied heavily on mall traffic to draw customers into its locations. Beginning in fiscal 2008, the Company plans to expand its marketing efforts, with marketing related spending increasing to approximately 1% of sales.

During fiscal 2007, the Company sent periodic informational e-mail messages to customers primarily regarding new product arrivals and features. Beginning in October 2006, the Company began utilizing an outside service provider to build a Customer Relationship Management (CRM) database containing customer contact information and purchase history. The Company also began testing direct mail campaigns for Christopher & Banks and C.J. Banks customers as direct mail offers were sent to selected customers two times during the second half of fiscal 2007. As of March 3, 2007, the Company had collected information for approximately 1.4 million customers in its CRM program. In fiscal 2008, the Company anticipates that it will expand the number of direct mail pieces sent to its customers. Management expects that the largest portion of its marketing expenditures in fiscal 2008 will relate to contacting customers in its CRM database via direct mail.

The Acorn stores acquired from Gilmore Brothers, Inc. use direct mail and a preferred customer program to maintain contact with its customers. The Company intends to continue these programs in its Acorn stores.

The Company maintains websites at www.christopherandbanks.com, www.cjbanks.com and www.acornstores.com. The websites contain information about the Company s merchandise assortment, business and history, investor relations, employment opportunities and store locations. Historically, the Company has not offered on-line purchasing of merchandise or gift cards through its websites.

In late fiscal 2008, the Company plans to begin selling its merchandise on-line with the launch of an e-commerce business. The Company believes that an e-commerce enabled website will provide a customer service for those who prefer shopping through this channel. Further, management believes the e-commerce channel will drive incremental customer traffic to its stores and strengthen its brands. In addition, the e-commerce channel will make the Company s products available to customers in areas of the United States where the Company does not currently operate stores.

The Company s website references above are for textual reference only and are not intended to incorporate the Company s websites into this Annual Report on Form 10-K. The Company makes available free of charge, on or through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

Seasonality

The Company s quarterly results may fluctuate significantly depending on a number of factors including timing of new store openings, adverse weather conditions, shifts in the timing of certain holidays and customer response to the Company s seasonal merchandise mix.

Competition

The women s retail apparel business is highly competitive. The Company believes that the principal bases upon which it competes are unique merchandise selection, quality garment construction, store location, visual merchandise presentation and customer service. The Company competes with a broad range of national and regional retail chains that sell similar merchandise, including department stores and specialty stores. Many of these competitors are larger and have greater financial resources than the Company. The Company believes that its unique merchandise assortments, strong visual presentation, product quality, and customer service enable the Company to compete effectively.

Employees

As of April 20, 2007, the Company had approximately 2,200 full-time and 4,700 part-time employees. The number of part-time employees increases during peak selling periods. None of the Company s employees are represented by a labor union or are subject to a collective bargaining agreement. The Company has never experienced a work stoppage and considers its relationship with its employees to be good.

Trademarks and Service Marks

The Company, through its wholly-owned subsidiary, Christopher & Banks Company, is the owner of the federally registered trademark and service mark Christopher & Banks, which is its predominant private brand, and C.J. Banks, its large size private brand. The Company uses the name Acorn for the stores it acquired from Gilmore Brothers, Inc., though it does not hold a federally registered trademark or service mark for that name. Common law rights have been established by the Company in other trademarks and service marks which it considers to be of lesser importance. Christopher & Banks believes its primary marks are important to its business and are recognized in the women s retail apparel industry. Accordingly, the Company intends to maintain its marks and the related registrations. Management is not aware of any challenges to the Company s right to use its marks in the United States.

ITEM 1A.
RISK FACTORS

Forward Looking Information and Risk

Information contained in this Form 10-K contains certain forward-looking statements which reflect the current view of the Company with respect to future events and financial performance. Wherever used, terminology such as may , will , expect , intend , plan , anticipate , estir
continue , or the negative thereof, or other variations thereon or comparable terminology reflect such forward-looking statements.

There are certain important factors that could cause results to differ materially from those anticipated by some of these forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty. The factors, among others, that could cause actual results to differ materially include: changes in general economic conditions, including recessionary effects which may affect consumers spending and debt levels; the Company s ability to execute its business plan including the successful expansion of its Christopher & Banks, C.J. Banks and Acorn concepts; the Company s ability to open new stores on favorable terms and the timing of such store openings; the availability of quality store sites; the acceptance of the Company s merchandising strategies by its target customers; the ability of the Company to anticipate fashion trends and consumer preferences; the loss of one or more of the Company s key executives; the ability to hire and train qualified managerial employees and address management succession; continuity of a relationship with or purchases from major vendors, particularly those from whom the Company imports merchandise; increases in the cost of merchandise; timeliness of vendor production and deliveries; competitive pressures on sales and pricing; increases in other costs which cannot be recovered through improved pricing of merchandise; and the adverse effect of weather conditions from time to time on consumers ability or desire to purchase new clothing. Since the Company relies heavily on sourcing from foreign vendors, there are risks and uncertainties including transportation delays related to ocean, air and ground shipments, political instability, work stoppages, changes in import and export controls including quota restrictions and the expiration thereof. The Company assumes no obligation to publicly update or revise its forward looking statements to reflect events or circumstances that may arise after the date of this Form 10-K.

Certain Additional Risk Factors:

Investors in the Company should consider the following risk factors as well as the other information contained herein.

The Company s efforts to select optimal retail store locations do not assure that its stores will succeed.

The success of individual retail stores will depend to a great extent on locating them in desirable shopping venues in markets where the Company s target customers shop. The success of individual stores may depend on the success of the shopping malls or lifestyle centers in which they are located. In addition, the demographic and other marketing data the Company relies on in determining the location of its stores cannot predict future consumer preferences and buying trends with complete accuracy. As a result, retail stores the Company opens may not be profitable or may be less successful than anticipated.

The ability of the Company to effectively manage its growth is subject to factors beyond its control.

The Company s continued growth depends on its ability to open and operate stores successfully and to manage the Company s planned expansion. During fiscal 2008, the Company plans to open approximately 70 new stores, including approximately 25 Christopher & Banks stores, 40 C.J. Banks stores, and five Acorn stores. The Company s planned expansion is dependent upon a number of factors, including locating suitable store sites, negotiating favorable lease terms, sourcing sufficient levels of inventory, hiring and training qualified management and other employees and integrating new stores into its existing operations. There can be no assurance that the Company will achieve its planned expansion or that such expansion will be profitable or that the Company will be able to manage its growth effectively.

The Company s success is dependent on predicting and responding to changing customer preferences.

The Company s future success will depend on its ability to continually select the right merchandise assortment, maintain appropriate inventory levels and creatively present merchandise in a way that is appealing to its customers. Consumer preferences cannot be predicted with certainty, as they continually change and vary from region to region. On average, the Company begins the design process for its apparel six to seven months before merchandise is available to its customers and the Company typically begins to make purchase commitments four to five months in advance. These lead times make it difficult for the Company to respond quickly to changing consumer preferences and amplify the consequences of any misjudgments it might make in anticipating customer preferences. Consequently, if the Company misjudges its customers merchandise preferences or purchasing habits, its sales may decline significantly, and the Company may be required to mark down certain products to significantly lower prices to sell excess inventory, which would result in lower margins.

Fluctuations in comparable store sales results may adversely affect the Company s stock price.

The Company s comparable store sales results have fluctuated in the past on a monthly, quarterly and annual basis, and are expected to continue to fluctuate in the future. A variety of factors affect comparable store sales results, including changes in fashion trends, changes in the Company s merchandise mix, calendar shifts of holiday periods, actions by competitors, weather conditions and general economic conditions. Past comparable store sales results are not an indicator of future results, and there can be no assurance that the Company s comparable store sales results will not decrease in the future. The Company s comparable store sales results are likely to have a significant effect on the market price of the Company s common stock.

The Company competes with many retail stores and chains that are larger and have greater financial resources.

The retail apparel industry is highly competitive. The Company competes with national and local department stores, specialty and discount store chains and independent retail stores that market similar lines of merchandise. Many competitors are significantly larger and have substantially greater financial, marketing and other resources and enjoy greater national, regional and local name recognition than does the Company. Depth of selection in sizes, colors and styles of merchandise, merchandise procurement and pricing, ability to anticipate fashion trends and consumer preferences, inventory control, reputation, quality of merchandise, store design and location, brand recognition and customer service are all important factors in competing successfully in the retail industry.

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The Company relies on a single distribution center.

The Company relies on one distribution center, located in Plymouth, Minnesota, to receive and distribute merchandise to all of its stores. Any significant interruption in the operation of the distribution center due to natural disasters, accidents, system failures or other unforeseen causes could delay or impair the Company s ability to distribute merchandise to its stores which could have a negative impact on sales.

Changes in general economic conditions may adversely affect results.

The Company s business fluctuates according to changes in consumer preferences, which are dictated in part by fashion and season. In addition, certain economic conditions affect the level of consumer spending on merchandise offered by the Company, including, among others, unemployment levels, business conditions, interest rates and consumer confidence in future economic conditions. Consumer preference and economic conditions may differ or change from time to time in each market in which the Company operates and negatively affect the Company s net sales and profitability.

The Company relies on foreign sources of production and so is exposed to possible delays, increased costs or reduced supplies.

The Company directly imported approximately 75% of its total merchandise purchases in fiscal 2007. This reliance on sourcing from foreign countries may cause the Company to be exposed to certain risks. Import restrictions, including tariffs and quotas, and changes in such restrictions, could affect the import of apparel and might result in increased costs, delays in merchandise receipts or reduced supplies of apparel available to the Company and could possibly have an adverse effect on the Company s business, financial condition and/or results of operations.

The Company s merchandise flow could also be adversely affected by political or financial instability in any of the countries where its merchandise is manufactured or by changes in the United States governmental policies toward such foreign countries. In addition, merchandise receipts could be delayed due to interruptions in air, ocean and ground shipments.

The Company s business will be adversely affected if it is unable to hire and retain talented personnel.

The Company s success and ability to properly manage its growth depends to a significant extent both upon the performance of its current executive and senior management team and its ability to attract, hire, motivate and retain additional qualified management personnel in the future. The Company s inability to recruit and retain such additional personnel, or the loss of the services of any of its executive officers, could have a material adverse impact on the Company s business, financial condition and results of operations.

The Company s stock price is volatile.

The market price of the Company s common stock has fluctuated substantially in the past and there can be no assurance that the market price of the common stock will not continue to fluctuate significantly.

Future announcements or management discussions concerning the Company or its competitors, sales and profitability results, quarterly variations in operating results or monthly comparable store net sales, changes in earnings estimates by analysts or changes in accounting policies, among other factors, could cause the market price of the common stock to fluctuate substantially. In addition, stock markets, in general, have experienced price and volume volatility in recent years. This volatility has had a substantial effect on the market prices of securities of many public companies for reasons frequently unrelated to the operating performance of the specific companies.

ITEM 1B.
UNRESOLVED STAFF COMMENTS

There are no matters which are required to be reported under Item 1B.

ITEM 2.
PROPERTIES

Store Locations

The Company s Christopher & Banks and C.J. Banks stores are located primarily in regional shopping malls in mid-sized cities and suburban areas, which offer high-traffic by potential walk-in customers. All of the Company s stores are company-owned. Approximately 85% of the Company s stores are located in enclosed regional malls that typically have numerous specialty stores and two or more general merchandise chains or department stores as anchor tenants. The rest of the Company s Christopher & Banks and C.J. Banks stores are located in lifestyle, community and strip shopping centers. The Company attempts to locate its stores strategically within each mall or shopping center to attract walk-in customers through attractive visual displays and the use of lifestyle graphics. Most of the Company s 38 Acorn stores are located in upscale lif