

CHRISTOPHER & BANKS CORP
Form 10-Q
January 10, 2008

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 December 1, 2007

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)

(Mark One)

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Delaware
(State or other jurisdiction of
incorporation or organization)

06 - 1195422
(I.R.S. Employer
Identification Number)

2400 Xenium Lane North, Plymouth, Minnesota

(Address of principal executive offices)

55441

(Zip Code)

(763) 551-5000

(Registrant's telephone number, including area code)

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 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 Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

As of January 4, 2008, 35,574,772 shares of the registrant's common stock were outstanding.

CHRISTOPHER & BANKS CORPORATION

QUARTERLY REPORT ON FORM 10-Q

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CHRISTOPHER & BANKS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

| | December 1, 2007 | March 3, 2007 | November 25, 2006 |
|---|---------------------|------------------|----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 46,701,459 | \$ 53,991,398 | \$ 59,379,627 |
| Short-term investments | 48,300,000 | 48,275,000 | 53,800,000 |
| Accounts receivable | 6,811,678 | 4,481,624 | 6,523,830 |
| Merchandise inventories | 46,943,191 | 52,354,944 | 55,421,481 |
| Prepaid expenses | 11,497,446 | 10,666,421 | 2,589,165 |
| Income taxes receivable | | 2,076,717 | 2,064,032 |
| Other current assets | 4,582,421 | 3,257,919 | 2,605,962 |
| Total current assets | 164,836,195 | 175,104,023 | 182,384,097 |
| Property, equipment and improvements, net | 136,373,593 | 127,776,442 | 128,176,122 |
| Goodwill | 3,587,052 | 3,587,052 | 3,587,052 |
| Intangible assets | 495,630 | 575,281 | 602,572 |
| Other assets | 3,842,342 | 280,299 | 646,494 |
| Total assets | \$ 309,134,812 | \$ 307,323,097 | \$ 315,396,337 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 8,483,503 | \$ 16,287,931 | \$ 7,058,148 |
| Accrued salaries, wages and related expenses | 9,529,895 | 7,797,470 | 8,861,133 |
| Other accrued liabilities | 20,902,975 | 22,164,741 | 16,412,468 |
| Total current liabilities | 38,916,373 | 46,250,142 | 32,331,749 |
| Non-current liabilities: | | | |
| Deferred lease incentives | 22,336,658 | 23,646,261 | 21,896,081 |
| Deferred rent obligations | 11,673,329 | 10,678,341 | 10,581,792 |
| Other | 3,362,258 | 983,137 | |
| Total non-current liabilities | 37,372,245 | 35,307,739 | 32,477,873 |
| Commitments | | | |
| Stockholders equity: | | | |
| Preferred stock \$0.01 par value, 1,000,000 shares authorized, none outstanding | | | |
| Common stock \$0.01 par value, 74,000,000 shares authorized, 45,052,590, 45,038,310 and 44,982,810 shares issued and 35,574,772, 36,521,451 and 37,832,074 shares outstanding at December 1, 2007, March 3, 2007 and November 25, 2006, respectively | 450,526 | 450,383 | 449,828 |
| Additional paid-in capital | 109,766,765 | 106,806,885 | 105,561,337 |
| Retained earnings | 232,341,185 | 213,264,385 | 213,551,634 |
| Common stock held in treasury, 9,477,818, 8,516,859 and 7,150,736 shares at cost at December 1, 2007, March 3, 2007 and November 25, 2006, respectively | (109,712,282) | (94,756,437) | (68,976,084) |
| Total stockholders equity | 232,846,194 | 225,765,216 | 250,586,715 |
| Total liabilities and stockholders equity | \$ 309,134,812 | \$ 307,323,097 | \$ 315,396,337 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

| | Three Months Ended | |
|---|---------------------|----------------------|
| | December 1, 2007 | November 25, 2006 |
| Net sales | \$ 159,976,156 | \$ 139,265,259 |
| Costs and expenses: | | |
| Merchandise, buying and occupancy, exclusive of depreciation and amortization | 94,102,758 | 84,611,297 |
| Selling, general and administrative | 44,335,830 | 35,793,571 |
| Depreciation and amortization | 6,585,939 | 5,137,780 |
| Total costs and expenses | 145,024,527 | 125,542,648 |
| Operating income | 14,951,629 | 13,722,611 |
| Interest income | 1,163,225 | 1,353,399 |
| Income before income taxes | 16,114,854 | 15,076,010 |
| Income tax provision | 5,876,684 | 5,849,493 |
| Net income | \$ 10,238,170 | \$ 9,226,517 |
| Basic earnings per common share: | | |
| Net income | \$ 0.29 | \$ 0.24 |
| Basic shares outstanding | 35,447,855 | 37,743,349 |
| Diluted earnings per common share: | | |
| Net income | \$ 0.29 | \$ 0.24 |
| Diluted shares outstanding | 35,528,352 | 38,233,169 |
| Dividends per share | \$ 0.06 | \$ 0.06 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

| | Nine Months Ended | |
|---|---------------------|----------------------|
| | December 1, 2007 | November 25, 2006 |
| Net sales | \$ 450,475,105 | \$ 413,348,890 |
| Costs and expenses: | | |
| Merchandise, buying and occupancy, exclusive of depreciation and amortization | 271,613,686 | 241,975,934 |
| Selling, general and administrative | 124,041,825 | 107,985,828 |
| Depreciation and amortization | 17,391,107 | 15,136,518 |
| Total costs and expenses | 413,046,618 | 365,098,280 |
| Operating income | 37,428,487 | 48,250,610 |
| Interest income | 3,382,477 | 3,640,355 |
| Income before income taxes | 40,810,964 | 51,890,965 |
| Income tax provision | 15,508,167 | 20,133,695 |
| Net income | \$ 25,302,797 | \$ 31,757,270 |
| Basic earnings per common share: | | |
| Net income | \$ 0.71 | \$ 0.86 |
| Basic shares outstanding | 35,835,063 | 37,051,099 |
| Diluted earnings per common share: | | |
| Net income | \$ 0.70 | \$ 0.84 |
| Diluted shares outstanding | 35,925,734 | 37,617,374 |
| Dividends per share | \$ 0.18 | \$ 0.14 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

| | Nine Months Ended | |
|---|---------------------|----------------------|
| | December 1, 2007 | November 25, 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 25,302,797 | \$ 31,757,270 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 17,391,107 | 15,136,518 |
| Deferred income taxes | (2,223,228) | (3,878,237) |
| Excess tax benefit related to stock-based compensation | (14,738) | (5,766,662) |
| Stock-based compensation expense | 1,788,292 | 3,855,639 |
| (Gain) loss on disposal of furniture, fixtures and equipment | 221,928 | 92,511 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in merchandise inventories | 5,411,753 | (17,550,106) |
| Increase in accounts receivable | (2,330,054) | (1,770,527) |
| Decrease in income taxes receivable | 2,091,455 | 3,730,055 |
| (Increase) decrease in prepaid expenses | (831,025) | 473,656 |
| Increase in other assets | (64,541) | (70,320) |
| Decrease in accounts payable | (7,876,176) | (3,553,659) |
| Increase (decrease) in accrued liabilities and income taxes payable | 470,658 | (656,723) |
| Increase (decrease) in deferred lease incentives | (500,116) | 93,212 |
| Increase in deferred rent obligations | 994,988 | 971,793 |
| Net cash provided by operating activities | 39,833,100 | 22,864,420 |
| Cash flows from investing activities: | | |
| Purchases of property, equipment and improvements | (26,868,274) | (24,223,274) |
| Purchases of short-term investments | (96,850,000) | (79,177,900) |
| Redemptions of short-term investments | 96,825,000 | 55,377,900 |
| Net cash used in investing activities | (26,893,274) | (48,023,274) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options | 1,156,993 | 30,017,846 |
| Dividends paid | (6,445,651) | (5,203,611) |
| Excess tax benefit related to stock-based compensation | 14,738 | 5,739,237 |
| Acquisition of common stock held in treasury | (14,955,845) | (8,399,990) |
| Net cash provided by (used in) financing activities | (20,229,765) | 22,153,482 |
| Net decrease in cash and cash equivalents | (7,289,939) | (3,005,372) |
| Cash and cash equivalents at beginning of period | 53,991,398 | 62,384,999 |
| Cash and cash equivalents at end of period | \$ 46,701,459 | \$ 59,379,627 |
| Supplemental cash flow information: | | |
| Income taxes paid | \$ 12,199,530 | \$ 21,307,134 |
| Purchases of equipment and improvements, accrued, not paid | \$ 71,748 | \$ 758,462 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CHRISTOPHER & BANKS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

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The unaudited condensed consolidated financial statements included in this Form 10-Q have been prepared by Christopher & Banks Corporation and subsidiaries (the Company) pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed, or omitted, pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended March 3, 2007.

The results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to present fairly the Company's financial position as of December 1, 2007 and November 25, 2006 and its results of operations and cash flows for the three and nine month periods ended December 1, 2007 and November 25, 2006. All such adjustments are of a normal recurring nature.

NOTE 2 CEO TRANSITION

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On August 30, 2007, the Company announced that its Board of Directors had appointed Lorna Nagler as President and Chief Executive Officer effective August 31, 2007. Ms. Nagler was also elected as a member of the Company's Board of Directors as of August 31, 2007. Ms. Nagler most recently served as President of Lane Bryant and has 29 years of experience in the women's apparel retail industry.

Matthew P. Dillon resigned as President and Chief Executive Officer, and as a member of the Company's Board of Directors, effective August 30, 2007. In the second quarter of fiscal 2008, the Company incurred a pre-tax charge of approximately \$2.1 million, or \$0.04 per diluted share, related to the transition of the CEO position from Mr. Dillon to Ms. Nagler.

NOTE 3 INCOME TAXES

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The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48), on March 4, 2007. FIN No. 48 prescribes a minimum recognition threshold and measurement process for recording uncertain tax positions in the financial statements. Additionally, FIN No. 48 provides guidance on derecognition, classification, accounting and disclosure related to uncertain tax positions. Implementation of FIN No. 48 resulted in an adjustment to the Company's liability for unrecognized tax benefits of approximately \$0.2 million with a corresponding increase to retained earnings. As of the date of adoption, the total amount of unrecognized tax benefits was \$3.4 million. Of that amount, approximately \$2.3 million represents the amount of unrecognized tax benefits that would, if recognized, favorably affect the Company's effective income tax rate in future periods.

The Company recognizes interest and penalties related to unrecognized tax benefits as components of income tax expense. At March 4, 2007, the Company had accrued \$0.7 million for the potential payment of interest and penalties.

The Company and its subsidiaries file income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. The Internal Revenue Service has completed their audit for tax years through fiscal 2006. The Company is not subject to state income tax examination by tax authorities for taxable years prior to fiscal 2004.

In the third quarter of fiscal 2008, the Company's effective tax rate was 36.5% compared to 38.8% in the third quarter of fiscal 2007. The decrease in effective tax rate resulted from an adjustment to the Company's liability for unrecognized tax benefits as the statute of limitations with respect to the Company's tax returns expired in a number of states and other tax jurisdictions in which the Company operates.

NOTE 4 SHORT-TERM INVESTMENTS

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Short-term investments consisted of the following:

| Description | December 1, 2007 | March 3, 2007 | November 25, 2006 |
|--|---------------------|------------------|----------------------|
| Tax advantaged auction rate securities | \$ 48,300,000 | \$ 48,275,000 | 51,800,000 |
| U.S. Government debt securities | | | 2,000,000 |
| | \$ 48,300,000 | \$ 48,275,000 | \$ 53,800,000 |

As of December 1, 2007, the Company's tax advantaged auction rate securities consisted solely of investments in student loans. These securities are rated AAA by the credit rating service providers of Standard & Poor's and/or Moody's Investors Service. In addition, these securities are fully insured by private insurers or guaranteed by the United States Department of Education and are collateralized by the underlying student loans. As of January 10, 2008, management is not aware of any failed auctions of such student loan auction rate securities.

NOTE 5 MERCHANDISE INVENTORIES

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Merchandise inventories consisted of the following:

| Description | December 1, 2007 | March 3, 2007 | November 25, 2006 |
|--------------------------|---------------------|------------------|----------------------|
| Merchandise - in store | \$ 43,885,126 | \$ 40,466,577 | \$ 48,798,797 |
| Merchandise - in transit | 3,058,065 | 11,888,367 | 6,622,684 |
| | \$ 46,943,191 | \$ 52,354,944 | \$ 55,421,481 |

The Company purchased approximately 19% and 17% of its merchandise from its largest overseas supplier during the first nine months of fiscal 2008 and 2007, respectively.

NOTE 6 PROPERTY, EQUIPMENT AND IMPROVEMENTS, NET

Property, equipment and improvements, net consisted of the following:

| Description | Estimated Useful Life | December 1, 2007 | March 3, 2007 | November 25, 2006 |
|--|---|------------------|----------------|-------------------|
| Land | | \$ 1,596,898 | \$ 1,596,898 | \$ 1,596,898 |
| Corporate office, distribution center and related building improvements | 25 years | 11,856,863 | 11,663,704 | 11,594,204 |
| Store leasehold improvements | Term of related lease, typically 10 years | 92,834,115 | 87,288,395 | 81,947,965 |
| Store furniture and fixtures | Three to 10 years | 107,502,097 | 101,486,350 | 95,394,673 |
| Point of sale hardware and software | Five years | 9,840,905 | 8,625,579 | 8,421,081 |
| Corporate office and distribution center furniture, fixtures and equipment | Seven years | 2,902,305 | 2,751,805 | 2,664,462 |
| Computer hardware and software | Three to five years | 8,331,174 | 5,771,237 | 5,191,478 |
| Construction in progress | | 16,239,065 | 5,429,824 | 11,725,924 |
| | | 251,103,422 | 224,613,792 | 218,536,685 |
| Less accumulated depreciation and amortization | | 114,729,829 | 96,837,350 | 90,360,563 |
| Net property, equipment and improvements | | \$ 136,373,593 | \$ 127,776,442 | \$ 128,176,122 |

The Company reviews long-lived assets with definite lives at least annually, or whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. This review includes the evaluation of individual underperforming stores and assessing the recoverability of the carrying value of the improvements and equipment related to these stores. In the third quarter of fiscal 2008, the Company recorded an impairment charge of approximately \$915,000 related to the improvements and equipment at three underperforming stores.

NOTE 7 GOODWILL

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The Company recognizes the excess cost of an acquired entity over the net amount assigned to assets acquired and liabilities assumed as goodwill. Goodwill will be tested for impairment on an annual basis in the fourth quarter and between annual tests whenever impairment is indicated. Fair values are calculated based on an estimate of future cash flows, compared to the corresponding carrying value of the acquired entity, including goodwill. Impairment losses will be recognized whenever the implied fair value is less than the carrying value of the related asset. There were no impairments or other changes to the recorded amounts of goodwill for the periods presented.

NOTE 8 INTANGIBLE ASSETS

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Intangible assets consisted of the following:

| | December 1, 2007 | March 3, 2007 | November 25, 2006 |
|--------------------------|---------------------|------------------|----------------------|
| Customer lists | \$ 830,000 | \$ 830,000 | \$ 830,000 |
| Accumulated amortization | (334,370) | (254,719) | (227,428) |
| | \$ 495,630 | \$ 575,281 | \$ 602,572 |

Aggregate amortization expense for the nine months ended December 1, 2007 was \$79,651. Estimated aggregate amortization expense for fiscal 2008 and the next five fiscal years is as follows:

| | |
|-------------|------------|
| Fiscal 2008 | \$ 100,278 |
| Fiscal 2009 | 82,500 |
| Fiscal 2010 | 82,500 |
| Fiscal 2011 | 82,500 |
| Fiscal 2012 | 82,500 |
| Fiscal 2013 | 82,500 |

The straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefit obtained by the Company in each reporting period.

NOTE 9 ACCRUED LIABILITIES

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Other accrued liabilities consisted of the following:

| Description | December 1, 2007 | March 3, 2007 | November 25, 2006 |
|---|---------------------|------------------|----------------------|
| Gift card, certificate and store credit liabilities | \$ 8,411,824 | \$ 13,174,041 | \$ 7,351,350 |
| Accrued income, sales and other taxes payable | 3,202,595 | 2,499,410 | 3,063,606 |
| Accrued occupancy related expenses | 2,612,302 | 640,985 | 922,250 |
| Other accrued liabilities | 6,676,254 | 5,850,305 | 5,075,262 |
| | \$ 20,902,975 | \$ 22,164,741 | \$ 16,412,468 |

NOTE 10 STOCK-BASED COMPENSATION

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The Company accounts for stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standard (SFAS) No. 123R, Share-Based Payment (SFAS 123R), which was adopted February 26, 2006 using the modified prospective transition method. Under this transition method, stock-based compensation expense recognized for share-based awards includes: (a) compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of February 25, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all stock-based compensation awards granted subsequent to February 25, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R.

Total pre-tax compensation expense related to stock-based awards for the three months ended December 1, 2007 and November 25, 2006 was approximately \$847,000 and \$1.6 million, respectively. For the nine months ended December 1, 2007 and November 25, 2006, pre-tax stock-based compensation expense totaled approximately \$1.8 and \$3.9 million, respectively. The decrease in stock-based compensation expense in the third quarter and first nine months of fiscal 2008, compared to the same periods in fiscal 2007, was evenly attributable to lower expense associated with performance-based restricted stock and the impact of awards granted in January 2004 which became fully vested by the end of fiscal 2007 and had no expense under SFAS 123R in fiscal 2008. Stock-based compensation expense is included in merchandise, buying and occupancy expenses for the Company's buying and distribution employees and in selling, general and administrative expenses for all other employees.

Methodology Assumptions

The Company uses the Black-Scholes option-pricing model to value the Company's stock options for grants to its employees and non-employee directors. Using this option-pricing model, the fair value of each stock option award is estimated on the date of grant. The fair value of the Company's stock option awards, which are generally subject to pro-rata vesting, is expensed on a straight-line basis over the vesting period of the stock options. The expected volatility assumption is based on the historical volatility of the Company's stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience. The expected term assumption incorporates the contractual term of an option grant, as well as the vesting period of an award. The risk-free interest rate is based on the implied yield on a U.S. Treasury constant maturity with a remaining term equal to the expected term of the option granted.

The weighted average assumptions relating to the valuation of the Company's stock option grants for the three and nine month periods ended December 1, 2007 and November 25, 2006 were as follows:

| | Three Months Ended | | Nine Months Ended | |
|-------------------------|---------------------|----------------------|---------------------|----------------------|
| | December 1, 2007 | November 25, 2006 | December 1, 2007 | November 25, 2006 |
| Expected dividend yield | 1.79% | 0.86% | 1.38% | 0.83% |
| Expected volatility | 45.14% | 48.40% | 44.79% | 46.77% |
| Risk-free interest rate | 4.15% | 4.71% | 4.49% | 4.95% |
| Expected term in years | 4.75 | 3.87 | 4.20 | 3.51 |

Stock-Based Compensation Activity

The following table presents a summary of the Company's stock option activity for the nine months ended December 1, 2007:

| | Number of Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value | Weighted Average Fair Value | Weighted Average Remaining Contractual Life |
|----------------------------------|------------------------|--|---------------------------------|-----------------------------------|---|
| Outstanding, beginning of period | 2,072,876 | \$ 19.44 | \$ 1,430,937 | \$ 6.85 | |
| Vested | 1,765,038 | 19.30 | 1,420,157 | 6.69 | |
| Unvested | 307,838 | 20.24 | 10,780 | 7.78 | |
| Granted | 423,200 | 15.73 | 572,983 | 5.87 | |
| Exercised | (112,530) | 10.28 | 498,687 | 4.20 | |
| Canceled - Vested | (278,242) | 21.41 | 11,262 | 6.25 | |
| Canceled - Unvested (Forfeited) | (82,014) | 18.80 | | 7.08 | |
| Outstanding, end of period | 2,023,290 | 18.93 | 1,335,203 | 6.87 | 5.66 |
| Vested | 1,465,103 | 19.63 | 762,220 | 7.05 | 4.32 |
| Unvested | 558,187 | 17.07 | 572,983 | 6.40 | 9.19 |
| Exercisable, end of period | 1,465,103 | 19.63 | 762,220 | 7.05 | 4.32 |

The Company may also grant shares of restricted stock to its employees and non-employee members of its Board of Directors. Restricted stock awards are independent of option grants and are subject to forfeiture if employment or service terminates prior to the lapse of the restrictions. In addition, certain of the Company's restricted stock awards are performance based and are subject to forfeiture if the defined performance conditions are not achieved. The Company values the restricted shares based on the closing price of the Company's common stock on the date of grant. The resulting expense is recorded on a straight line basis over the vesting period of the restricted award.

The following table presents a summary of the Company's restricted stock activity for the nine months ended December 1, 2007:

| | Number of Shares | Aggregate Intrinsic Value | Weighted Average Fair Value |
|---------------------------------|------------------------|---------------------------------|-----------------------------------|
| Unvested, beginning of period | 53,717 | \$ 865,918 | \$ 20.04 |
| Granted | 121,900 | 1,965,028 | 15.35 |
| Vested | (9,917) | 159,862 | 19.01 |
| Canceled - Unvested (Forfeited) | (22,250) | 358,670 | 18.64 |
| Unvested, end of period | 143,450 | 2,312,414 | 16.35 |

NOTE 11 LONG-TERM DEBT

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The Company maintains an Amended and Restated Revolving Credit Facility with Wells Fargo Bank, National Association (the Wells Fargo Revolver) which expires on June 30, 2008. The Wells Fargo Revolver provides the Company with revolving credit loans and letters of credit of up to \$50.0 million, subject to a borrowing base formula based on inventory levels.

Loans under the Wells Fargo Revolver bear interest at Wells Fargo s floating rate, 7.50% as of December 1, 2007, plus 0.25%. Interest is payable monthly in arrears. The Wells Fargo Revolver carries a facility fee of 0.25% based on the unused portion as defined in the agreement. Facility fees totaled \$6,011 for the nine months ended December 1, 2007. The credit facility is collateralized by the Company s equipment, general intangibles, inventory, inventory letters of credit and letter of credit rights.

The Company had no revolving credit loan borrowings under the Wells Fargo Revolver during the first nine months of fiscal 2008. Historically, the Wells Fargo Revolver has been utilized by the Company only to open letters of credit to facilitate the import of merchandise. The borrowing base at December 1, 2007 was \$39.5 million. As of December 1, 2007, the Company had outstanding letters of credit in the amount of \$14.9 million. Accordingly, the availability of revolving credit loans under the Wells Fargo Revolver was \$24.6 million at December 1, 2007.

The Wells Fargo Revolver contains certain restrictive covenants including restrictions on incurring additional indebtedness and limitations on certain types of investments, as well as requiring the maintenance of certain financial covenants. As of December 1, 2007, the most recent measurement date, the Company was in compliance with all covenants of the Wells Fargo Revolver.

NOTE 12 STOCKHOLDERS EQUITY

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In fiscal 2007, the Company's Board of Directors authorized a stock repurchase program enabling the Company to purchase up to \$40.0 million of its common stock, subject to market conditions. During fiscal 2007, the Company repurchased 1,732,123 shares at a total cost, including commissions, of approximately \$34.2 million. In March 2007, the Company completed the repurchase program by purchasing an additional 325,059 shares of its common stock for a total cost, including commissions, of \$5.8 million, bringing the total number of shares repurchased under this program to 2,057,182 at a total cost, including commissions, of approximately \$40.0 million.

In May 2007, the Company's Board of Directors authorized another stock repurchase program enabling the company to purchase up to \$20 million of its common stock, subject to market conditions. As of December 1, 2007, the Company had repurchased 635,900 shares of its common stock for a total cost, including commissions, of approximately \$9.1 million.

The common stock repurchased under these two programs is being held in treasury and has reduced the number of shares of the Company's common stock outstanding by approximately 7%. All of the Company's share repurchases were executed in the open market and no shares were repurchased from related parties. In addition, all of the Company's share repurchases were executed in accordance with the safe harbor provision of Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

In fiscal 2007, the Company's Board of Directors authorized an increase in the Company's quarterly cash dividend to \$0.06 per share of common stock, effective beginning with the October 2006 dividend payment. The dividend rate was previously \$0.04 per share of common stock. The Company has declared and paid a dividend each quarter since its first declaration in fiscal 2004.

NOTE 13 NET INCOME PER SHARE

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Basic earnings per share (EPS) is computed based on the weighted average number of shares of common stock outstanding during the applicable periods, while diluted EPS is computed based on the weighted average number of common and common equivalent shares (dilutive stock options) outstanding. The Company s reconciliation of earnings per share includes the individual share effects of all securities affecting earnings per share which consist solely of the effects of dilution from awards granted under the Company s stock-based compensation plans.

The following is a reconciliation of the number of shares and per share amounts used in the basic and diluted EPS computations:

| | Three Months Ended | | | |
|--|--------------------|-------------------------|-------------------|-------------------------|
| | December 1, 2007 | | November 25, 2006 | |
| | Shares | Net Income Per Share | Shares | Net Income Per Share |
| Basic | 35,447,855 | \$ 0.29 | 37,743,349 | \$ 0.24 |
| Effect of dilution from stock-based compensation plans | 80,497 | | 489,820 | |
| Diluted | 35,528,352 | \$ 0.29 | 38,233,169 | \$ 0.24 |

| | Nine Months Ended | | | |
|--|-------------------|-------------------------|-------------------|-------------------------|
| | December 1, 2007 | | November 25, 2006 | |
| | Shares | Net Income Per Share | Shares | Net Income Per Share |
| Basic | 35,835,063 | \$ 0.71 | 37,051,099 | \$ 0.86 |
| Effect of dilution from stock-based compensation plans | 90,671 | (0.01) | 566,275 | (0.02) |
| Diluted | 35,925,734 | \$ 0.70 | 37,617,374 | 0.84 |

Stock options of 1,815,600 and 1,643,100 were excluded from the shares used in the computation of diluted EPS for the three and nine months ended December 1, 2007 as they were anti-dilutive. Stock options of 114,000 and 124,700 were excluded from the shares used in the computation of diluted EPS for the three and nine months ended November 25, 2006, respectively, as they were anti-dilutive.

NOTE 14 RECENT ACCOUNTING PRONOUNCEMENTS

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In September 2006, the Financial Accounting Standards Boards (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measures (SFAS No. 157), which is effective for fiscal years beginning after November 15, 2007. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands fair value measurement disclosures. The Company is currently evaluating the impact of adopting SFAS No. 157, but does not anticipate it will have a material effect on its financial position, results of operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to measure many financial instrument and certain other assets and liabilities at fair value on an instrument-by-instrument basis under a fair value option. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year. The Company is currently evaluating the impact of adopting SFAS No. 159, but does not anticipate it will have a material effect on its financial position, results of operations or cash flows.

ITEM 2.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(Unaudited)

The following management's discussion and analysis of financial condition and results of operations (MD&A) should be read in conjunction with the consolidated financial statements and notes included in Item 1 of this Form 10-Q.

Executive Summary Key Performance Indicators:

The Company's management evaluates the following items, which are considered key performance indicators, in assessing the Company's performance:

Same-store sales

The Company's same-store sales data is calculated based on the change in net sales for stores that have been open for more than 13 full months and includes stores, if any, that have been relocated within the same mall, though the Company typically does not expand or relocate stores within a mall. Stores where square footage has been changed by more than 25% are excluded from the same-store sales calculation. Stores closed during the year are included in the same-store sales calculation only for the full months of the year the stores were open.

Management considers same-store sales to be an important indicator of the Company's performance. Same-store sales results are important in achieving leveraging of costs, including store payroll, store occupancy, depreciation and other general and administrative expenses. Positive same-store sales above a certain level contribute to greater leveraging of costs while negative same-store sales contribute to deleveraging of costs. Same-store sales also have a direct impact on the Company's total net sales, cash and cash equivalents and working capital.

Merchandise, buying and occupancy costs, exclusive of depreciation and amortization

Merchandise, buying and occupancy costs, exclusive of depreciation and amortization, measure whether the Company is appropriately optimizing the price of its merchandise. Merchandise, buying and occupancy costs include the cost of merchandise, markdowns, shrink, freight into and out from the Company's distribution center, buyer and distribution center salaries, buyer travel, rent and other occupancy related costs, various merchandise design and development costs, miscellaneous merchandise expenses and other costs related to the Company's distribution network. Any inability to obtain acceptable levels of initial markups or any significant increase in the Company's markdowns could have an adverse effect on the Company's results of operations. In addition, an inability to locate suitable store sites or to negotiate favorable lease terms

could also negatively impact the Company's results of operations.

Operating income

The Company's management views operating income as a key indicator of the Company's success. The key drivers of operating income are same-store sales, merchandise, buying and occupancy costs and the Company's ability to control operating costs.

Store productivity

Store productivity, including sales per square foot, average unit retail price, number of transactions per store and number of units per transaction, is evaluated by management in assessing the operational performance of the Company.

Inventory turnover

The Company's management evaluates inventory turnover as a measure of how productively inventory is bought and sold. Inventory turnover is important as it can signal slow moving inventory, which can be critical in determining the need to take markdowns on merchandise.

Cash flow and liquidity

Management evaluates cash flow from operations, investing activities and financing activities in determining the sufficiency of the Company's cash position. Cash flow from operations has historically been sufficient to cover the Company's requirements for liquidity.

Executive Overview:

Christopher & Banks Corporation is a Minneapolis-based retailer of women's specialty apparel, which operates stores through its wholly-owned subsidiaries: Christopher & Banks, Inc., Christopher & Banks Company and Christopher & Banks Services Company, collectively referred to as the Company. As of December 1, 2007, the Company operated 841 stores in 45 states, including 546 Christopher & Banks stores, 256 C.J. Banks stores and 39 Acorn stores. The Company's Christopher & Banks stores offer distinctive fashions featuring exclusively designed, coordinated assortments of sportswear and sweaters in sizes four to 16. The Company's C.J. Banks stores offer similar assortments of women's specialty apparel in sizes 14 and up. The Company's Acorn stores offer upscale women's fashions along with complementary jewelry and accessories under private and branded labels.

In the first nine months of fiscal 2008, the Company opened 24 new Christopher & Banks stores, 38 new C.J. Banks stores and four new Acorn stores. The Company closed two Christopher & Banks stores and one Acorn store during the first nine months of the year. In the fourth quarter of fiscal 2008, the Company anticipates it will open approximately four additional new stores, for a total of approximately 70 fiscal 2008 new store openings. The Company also plans to close six Christopher & Banks stores and two Acorn stores in the fourth quarter. In fiscal 2009, the Company expects to open 30 to 40 new stores and plans to close approximately 10 underperforming stores.

On August 30, 2007, the Company announced that its Board of Directors had appointed Lorna Nagler as President and Chief Executive Officer effective August 31, 2007. Ms. Nagler was also elected as a member of the Company's Board of Directors as of August 31, 2007. Ms. Nagler most recently served as President of Lane Bryant and has 29 years of experience in the women's apparel retail industry.

Matthew P. Dillon resigned as President and Chief Executive Officer, and as a member of the Company's Board of Directors, effective August 30, 2007. In the second quarter of fiscal 2008, the Company incurred a pre-tax charge of approximately \$2.1 million, or \$0.04 per diluted share, related to the transition of the CEO position from Mr. Dillon to Ms. Nagler.

On June 18, 2007, the Company announced that Susan Connell would join the Company as Executive Vice President and Chief Merchandise Officer effective July 9, 2007. Ms. Connell is responsible for overseeing product development, sourcing and other merchandising activities for the Company's three retail concepts. Prior to joining the Company, Ms. Connell was Senior Vice President - General Merchandising Manager with Lane Bryant.

On May 25, 2007, the Company's Board of Directors authorized a one-year stock repurchase program enabling the Company to repurchase up to \$20 million of its common stock, subject to market conditions. As of December 1, 2007, the Company had repurchased 635,900 shares of its common stock for a total cost, including commissions, of approximately \$9.1 million.

Critical Accounting Policies and Estimates:

The Company's critical accounting policies are more fully described in Note 1 of the notes to consolidated financial statements contained within the Company's Annual Report on Form 10-K for the fiscal year ended March 3, 2007. Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America.

On an ongoing basis, the Company evaluates its estimates, including those related to customer product returns, inventories, income taxes, medical and workers' compensation claims and contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There has been no material changes in the Company's critical accounting policies during the nine months ended December 1, 2007.

Results of Operations:

The following table sets forth, for the periods indicated, certain items from the Company's condensed consolidated statement of income expressed as a percentage of net sales:

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------|-------------------------|---------------------|----------------------|
| | December 1, 2007 | November 25, 2006 | December 1, 2007 | November 25, 2006 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Merchandise, buying and occupancy costs, exclusive of depreciation and amortization | 58.9 | 60.8 | 60.3 | 58.5 |
| Selling, general and administrative expenses | 27.7 | 25.7 | 27.5 | 26.1 |
| Depreciation and amortization | 4.1 | 3.6 | 3.9 | 3.7 |
| Operating income | 9.3 | 9.9 | 8.3 | 11.7 |
| Interest income | 0.7 | 0.9 | 0.8 | 0.9 |
| Income before income taxes | 10.0 | 10.8 | 9.1 | 12.6 |
| Income tax provision | 3.6 | 4.2 | 3.5 | 4.9 |
| Net income | 6.4% | 6.6% | 5.6% | 7.7% |

Three Months Ended December 1, 2007 Compared to Three Months Ended November 25, 2006

Net Sales. Net sales for the three months ended December 1, 2007 were \$160.0 million, an increase of \$20.7 million or 15%, from \$139.3 million for the three months ended November 25, 2006. The increase in net sales resulted from an increase in the number of stores operated by the Company combined with a 9% increase in same-store sales. The Company operated 841 stores at December 1, 2007, compared to 778 stores at November 25, 2006. The Company's same-store sales were calculated by comparing the 13-week period ended December 1, 2007 to the 13-week period ended December 2, 2006. The resulting 9% increase in same-store sales was primarily attributable to an approximate 14% increase in transaction value, partially offset by an approximate 6% decline in the number of transactions per average store. Sales during the third quarter were driven in part by strong customer response to the Company's first-ever, two-day Friends and Family event. Management believes sales in the third quarter of fiscal 2008 were negatively affected by the generally challenging and highly promotional women's specialty apparel retail environment. In the third quarter, same-store sales for the Company's stores opened in fiscal 2005, 2006 and 2007 increased approximately 11%, while the mature base of stores, opened in fiscal 2004 and earlier, posted a same-store sales increase of approximately 8%.

Merchandise, Buying and Occupancy Costs, exclusive of depreciation and amortization. Merchandise, buying and occupancy costs, exclusive of depreciation and amortization, were \$94.1 million, or 58.9% of net sales, during the third quarter of fiscal 2008, compared to \$84.6 million, or 60.8% of net sales, during the same period in fiscal 2007, resulting in approximately 190 basis points of positive leverage. The majority of this positive leverage was due to improved merchandise margins resulting from a decreased level of markdowns necessary to clear inventory as the Company's customers responded positively to its casual lifestyle assortment in the third quarter. In addition, positive leverage of occupancy costs contributed approximately 80 basis points to the overall positive leverage of merchandise, buying and occupancy costs. Also, the Company recorded virtually no bonus expense related to its merchandise staff in the third quarter of fiscal 2008. In the third quarter of fiscal 2007, the Company reversed approximately \$1.0 million of previously accrued bonuses for its merchandising staff which positively impacted merchandise, buying and occupancy expenses in the third quarter last year by approximately 70 basis points.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three months ended December 1, 2007 were \$44.3 million, or 27.7% of net sales, compared to \$35.8 million, or 25.7% of net sales, for the three months ended November 25, 2006, resulting in approximately 200 basis points of negative leverage. Major components of the negative leverage included 140 basis points of negative leverage of bonus expense related to its corporate staff in the third quarter of fiscal 2008. In the third quarter of fiscal 2007, the Company reversed approximately \$1.5 million of previously accrued bonuses for its corporate management employees which positively impacted selling, general and administrative expenses in the third quarter last year by approximately 110 basis points. With the 9% increase in same-store sales in the third quarter of fiscal 2008, the Company achieved positive leverage in most other expense categories. However, much of the positive leverage was offset by 70 basis points of negative leverage from an increased level of marketing related expense, 40 basis points of negative leverage related to higher medical claims and 30 basis points of negative leverage resulting from contract computer service expenses pertaining to various information technology related projects.

Depreciation and Amortization. Depreciation and amortization was \$6.6 million, or 4.1% of net sales, in the third quarter of fiscal 2008, compared to \$5.1 million, or 3.6% of net sales, in the third quarter of fiscal 2007. The increase in the amount of depreciation and amortization expense was a result of capital expenditures made by the Company over the past year. The Company opened 66 new stores in the first nine months of fiscal 2008 and 78 new stores in all of fiscal 2007. In addition, the Company recorded an impairment charge of approximately \$915,000 on assets at three underperforming stores in the third quarter of fiscal 2008.

Operating Income. As a result of the foregoing factors, operating income for the three months ended December 1, 2007 was \$15.0 million, or 9.3% of net sales, compared to operating income of \$13.7 million, or 9.9% of net sales, for the three months ended November 25, 2006.

Interest Income. For the three months ended December 1, 2007, interest income decreased to \$1.2 million from \$1.4 million for the three months ended November 25, 2006. The decrease resulted from a lower average balance of cash equivalents and short term investments in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007.

Income Taxes. Income tax expense in the third quarter of fiscal 2008 was \$5.9 million, with an effective tax rate of 36.5%, compared to \$5.8 million, with an effective tax rate of 38.8%, in the third quarter of fiscal 2007. The decreased effective tax rate resulted from an adjustment to the Company's liability for unrecognized tax benefits as the statute of limitations with respect to the Company's tax returns expired in a number of states and other tax jurisdictions in which the Company operates.

Net Income. As a result of the foregoing factors, net income for the three months ended December 1, 2007 was \$10.2 million, or 6.4% of net sales, and \$0.29 per diluted share, compared to net income of \$9.2 million, or 6.6% of net sales, and \$0.24 per diluted share, for the three months ended November 25, 2006.

Nine months Ended December 1, 2007 Compared to Nine months Ended November 25, 2006

Net Sales. Net sales for the nine months ended December 1, 2007 were \$450.5 million, an increase of \$37.2 million or 9%, from \$413.3 million for the nine months ended November 25, 2006. The increase in net sales was due to an increase in the number of stores operated by the Company, combined with a 3% increase in same-store sales. The Company operated 841 stores at December 1, 2007, compared to 778 stores at

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November 25, 2006. Management believes that sales were negatively impacted in the first quarter by adverse weather conditions in a significant portion of the Company's comparative-store base in April. Sales during the second quarter were driven in part by increased promotional activity in June and July to clear excess inventory.

In the third quarter of fiscal 2008, same-store sales were positively impacted by the Company's first-ever, two-day Friends and Family event. Management believes sales in all three quarters of fiscal 2008 were negatively affected by the generally challenging and highly promotional women's specialty apparel retail environment.

Merchandise, Buying and Occupancy Costs, exclusive of depreciation and amortization. Merchandise, buying expenses and occupancy costs, exclusive of depreciation and amortization, were \$271.6 million, or 60.3% of net sales, during the first nine months of fiscal 2008, compared to \$242.0 million, or 58.5% of net sales, during the same period in fiscal 2007, resulting in approximately 180 basis points of negative leverage. The negative leverage was a result of lower merchandise margins in the first and second quarters related to higher markdowns taken to clear excess inventory. This was partially offset by higher merchandise margins in the third quarter resulting from a decreased level of markdowns necessary to clear inventory as the Company's customers responded positively to its casual lifestyle assortment.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the nine months ended December 1, 2007 were \$124.0 million, or 27.5% of net sales, compared to \$108.0 million, or 26.1% of net sales, for the nine months ended November 25, 2006, resulting in approximately 140 basis points of negative leverage. Major components of the negative leverage included approximately \$2.1 million of CEO transition expenses and a combination of increased professional fees, expenses related to new systems installations, increased marketing-related expenses and an increase in staff at the Company's corporate headquarters. This was partially offset by positive leverage gained from decreases in stock-based compensation expense. For the nine month periods ended December 1, 2007 and November 25, 2006, pre-tax stock-based compensation expense totaled approximately \$1.8 million and \$3.9 million, respectively.

Depreciation and Amortization. Depreciation and amortization was \$17.4 million, or 3.9% of net sales, in the first nine months of fiscal 2008, compared to \$15.1 million, or 3.7% of net sales, in the first nine months of fiscal 2007. The increase in the amount of depreciation and amortization expense was a result of capital expenditures made during the past year. The Company opened 66 new stores in the first nine months of fiscal 2008 and 78 new stores in all of fiscal 2007. In addition, the Company recorded an impairment charge of approximately \$915,000 on assets at three underperforming stores in the third quarter of fiscal 2008.

Operating Income. As a result of the foregoing factors, operating income for the nine months ended December 1, 2007 was \$37.4 million, or 8.3% of net sales, compared to operating income of \$48.3 million, or 11.7% of net sales, for the nine months ended November 25, 2006.

Interest Income. For the nine months ended December 1, 2007, interest income decreased to approximately \$3.4 million from \$3.6 million for the nine months ended November 25, 2006. The decrease resulted from a lower average balance of cash equivalents and short term investments in the first nine months of fiscal 2008 compared to the first nine months of fiscal 2007.

Income Taxes. Income tax expense in the first nine months of fiscal 2008 was \$15.5 million, with an effective tax rate of 38.0%, compared to \$20.1 million, with an effective tax rate of 38.8%, in the first nine months of fiscal 2007. The decreased effective tax rate resulted from an adjustment to the company's liability for unrecognized tax benefits as the statute of limitations with respect to the Company's tax returns expired in a number of states and other tax jurisdictions in which the Company operates.

Net Income. As a result of the foregoing factors, net income for the nine months ended December 1, 2007 was \$25.3 million, or 5.6% of net sales, and \$0.70 per diluted share, compared to net income of \$31.8 million, or 7.7% of net sales, and \$0.84 per diluted share, for the nine months ended November 25, 2006.

Stock-Based Compensation Expense:

Total pre-tax compensation expense related to stock-based awards for the three months ended December 1, 2007 and November 25, 2006 was approximately \$847,000 and \$1.6 million, respectively. For the nine months ended December 1, 2007 and November 25, 2006, pre-tax stock-based compensation expense totaled approximately \$1.8 and \$3.9 million, respectively. The decrease in stock-based compensation expense in the third quarter and first nine months of fiscal 2008, compared to the same periods in fiscal 2007, was a result of lower expense associated with performance-based restricted stock, a reversal of expense related to forfeited stock options and restricted stock awards originally granted to the Company's former CEO and the impact of awards granted in January 2004 which became fully vested by the end of fiscal 2007 and had no expense under SFAS 123R in fiscal 2008. Stock-based compensation expense was included in merchandise, buying and occupancy expenses for the Company's buying and distribution employees and in selling, general and administrative expenses for all other employees.

Liquidity and Capital Resources:

The Company's principal on-going cash requirements are to finance the construction of new stores and the remodeling of certain existing stores, to make other capital expenditures, to purchase merchandise inventories and to fund other working capital requirements. Merchandise purchases vary on a seasonal basis, peaking in the fall. As a result, the Company's cash requirements historically reach their peak in October or November. Conversely, cash balances reach their peak in January after the holiday season is completed.

Net cash provided by operating activities totaled \$39.8 million for the first nine months of fiscal 2008, an increase of \$16.9 million from \$22.9 million for the first nine months of fiscal 2007. Significant fluctuations in the Company's working capital accounts included a \$7.9 million decrease in accounts payable and a \$5.4 million decrease in merchandise inventories. The declines in inventory and accounts payable were both a result of the Company's efforts to reduce inventories in the first nine months of fiscal 2008, which resulted in a 17% decline in total inventory per store as of December 1, 2007 when compared to total inventory per store as of March 3, 2007. The remainder of the change in cash provided by operating activities was a result of net income, depreciation expense, stock-based compensation expense and various other changes in the Company's other operating assets and liabilities.

Net cash used in investing activities included \$26.9 million of capital expenditures. The Company opened 66 new stores and completed three major store remodels during the nine months ended December 1, 2007. Net cash of \$20.2 million was used in financing activities during the first nine months of fiscal 2008 as the Company paid three quarterly cash dividends, together totaling approximately \$6.4 million, and repurchased approximately \$15.0 million of its common stock.

The Company plans to fund approximately \$5 million of capital expenditures during the fourth quarter of fiscal 2008 to open approximately four additional new stores and to make various capital investments in its information systems. A portion of the capital expenditures will also be incurred for stores scheduled to open in the first quarter of fiscal 2009. The Company expects its cash and short-term investments, combined with cash flows from operations, to be sufficient to meet its capital expenditure, working capital and other requirements for liquidity during the remainder of fiscal 2008 and throughout fiscal 2009.

The Company maintains an Amended and Restated Revolving Credit Facility with Wells Fargo Bank, National Association (the Wells Fargo Revolver) which expires on June 30, 2008. The Wells Fargo Revolver provides the Company with revolving credit loans and letters of credit of up to \$50.0 million, subject to a borrowing base formula based on inventory levels.

Loans under the Wells Fargo Revolver bear interest at Wells Fargo's floating rate, 7.50% as of December 1, 2007, plus 0.25%. Interest is payable monthly in arrears. The Wells Fargo Revolver carries a facility fee of 0.25% based on the unused portion as defined in the agreement. Facility fees totaled \$6,011 for the nine months ended December 1, 2007. The credit facility is collateralized by the Company's equipment, general intangibles, inventory, inventory letters of credit and letter of credit rights. The Company had no revolving credit loan borrowings under the Wells Fargo Revolver during the first nine months of fiscal 2008. Historically, the Wells Fargo Revolver has been utilized by the Company only to open letters of credit to facilitate the import of merchandise.

The borrowing base at December 1, 2007 was \$39.5 million. As of December 1, 2007, the Company had outstanding letters of credit in the amount of \$14.9 million. Accordingly, the availability of revolving credit loans under the Wells Fargo Revolver was \$24.6 million at December 1, 2007.

The Wells Fargo Revolver contains certain restrictive covenants including restrictions on incurring additional indebtedness and limitations on certain types of investments, as well as requiring the maintenance of certain financial covenants. As of December 1, 2007, the most recent measurement date, the Company was in compliance with all covenants of the Wells Fargo Revolver.

Merchandise Sourcing:

The Company directly imported approximately 81% of its total merchandise purchases in the first three quarters of fiscal 2008. Substantially all of its remaining merchandise purchases were made from domestic importers. This reliance on sourcing from foreign countries may cause the Company to be exposed to certain risks as indicated below and as discussed in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended March 3, 2007.

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 results of operations. The Company's merchandise flow could also be adversely affected by political 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.

A substantial portion of the Company's directly imported merchandise is manufactured in Southeast Asia. The majority of these goods are produced in China, Hong Kong, Indonesia and Singapore. The Company is not currently importing merchandise produced in the Middle East.

The Company purchased approximately 19% and 17% of its merchandise from its largest overseas supplier during the first nine months of fiscal 2008 and 2007, respectively. Although the Company believes that its relationship with this particular 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 can shift production to other suppliers so as to continue to secure the required volume of product. Nevertheless, there is some risk that any such disruption in supply could have a material adverse impact on the Company's financial position and results of operations.

Quarterly Results and 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.

Inflation:

Although the operations of the Company are influenced by general economic conditions, the Company does not believe that inflation had a material effect on the results of operations during the quarters and nine-month periods ended December 1, 2007 and November 25, 2006.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The market risk inherent in the Company's financial instruments and in its financial position represents the potential loss arising from adverse changes in interest rates. The Company's results of operations could be negatively impacted by decreases in interest rates on its short-term investments.

The Company is potentially exposed to market risk from changes in interest rates relating to its Wells Fargo Revolver. Loans under the Wells Fargo Revolver bear interest at Wells Fargo's floating rate, 7.50% as of December 1, 2007, plus 0.25%. However, the Company had no revolving credit loan borrowings under the Wells Fargo Revolver during the first nine months of fiscal 2008 and, given its existing liquidity position, does not expect to utilize the Wells Fargo Revolver in the near future except for its continuing use of the import letter of credit facility.

All of the Company's purchase obligations placed with foreign suppliers are denominated in U.S. dollars. Therefore, the Company has minimal exposure to foreign currency exchange risks. The Company does not hedge against foreign currency risks and believes that its foreign currency exchange risk is not significant.

The Company does not have any derivative financial instruments and does not hold any such instruments for trading purposes.

ITEM 4.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, the Company's management has evaluated the effectiveness and design of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in applicable rules and forms, and (ii) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) Internal Controls Over Financial Reporting.

There have not been any changes in the Company's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended December 1, 2007 that have materially affected, or are reasonably likely to

materially affect, the Company's internal controls over financial reporting.

PART II.

ITEM 1.

LEGAL PROCEEDINGS

There are no material legal proceedings pending against the Company.

ITEM 1A.

RISK FACTORS

In addition to the other information set forth in this Quarterly Report on Form 10-Q, the factors discussed in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended March 3, 2007 should be carefully considered as they could materially affect the Company's business, financial condition or future results. The risks described in the Company's Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial may also materially adversely affect the Company's future business, financial condition and/or results of operations.

ITEM 2.

UNREGISTERED SALES OF EQUITY

SECURITIES AND USE OF PROCEEDS

In May 2007, the Company's Board of Directors authorized a stock repurchase program enabling the company to purchase up to \$20 million of its common stock, subject to market conditions. As of December 1, 2007, the Company had repurchased 635,900 shares of its common stock for a total cost, including commissions, of approximately \$9.1 million.

The following table sets forth information concerning purchases made by the Company of its common stock for the third quarter of fiscal 2008:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of a Publicly Announced Program | Approximate Dollar Value of Shares that May Yet be Purchased Under the Program |
|--------------------------|---|-------------------------------------|---|---|
| Fiscal September: | | | | |
| September 2, 2007 - | | | | |
| September 29, 2007 | 150,000 | \$12.23 | 486,100 | \$13,031,000 |

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Fiscal October:

September 30, 2007 -

| | | | | |
|------------------|--------|---------|---------|--------------|
| November 3, 2007 | 75,000 | \$13.35 | 561,100 | \$12,030,000 |
|------------------|--------|---------|---------|--------------|

Fiscal November:

November 4, 2007 -

| | | | | |
|------------------|--------|---------|---------|--------------|
| December 1, 2007 | 74,800 | \$15.60 | 635,900 | \$10,863,000 |
|------------------|--------|---------|---------|--------------|

All of the Company's share repurchases were executed in accordance with the safe harbor provisions of Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

ITEM 3.

**DEFAULTS UPON
SENIOR SECURITIES**

There has been no default with respect to any indebtedness of the Company.

ITEM 4.

**SUBMISSION OF MATTERS TO
A VOTE OF SECURITY HOLDERS**

There were no matters submitted to a vote of security holders for the period ended December 1, 2007.

ITEM 5.

OTHER INFORMATION

None.

ITEM 6.

EXHIBITS

(a) The following exhibits are filed with this report:

- | | |
|------|---|
| 10.1 | Separation Agreement and Release between the Company and Matthew Dillon, dated August 30, 2007 (incorporated herein by reference as Exhibit 10.1 to Current Report on Form 8-K, filed September 27, 2007) |
| 10.2 | Employment Agreement by and between the Company and Lorna Nagler, dated August 30, 2007 (incorporated herein by reference as Exhibit 10.1 to Current Report on Form 8-K, filed September 7, 2007) |
| 10.3 | |

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Restricted Stock Agreement by and between the Company and Lorna Nagler dated August 31, 2007 (incorporated herein by reference as Exhibit 10.2 to Current Report on Form 8-K, filed September 7, 2007)

- 10.4 Amendment No. 3 to Christopher & Banks Corporation 2005 Stock Incentive Plan (incorporated herein by reference as Exhibit 10.1 to Current Report on Form 8-K, filed October 10, 2007)
- 31.1* Certification of Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2* Certification of Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2* Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed with this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHRISTOPHER & BANKS CORPORATION

Dated: January 10, 2008

By /s/ LORNA NAGLER

Lorna Nagler
President and Chief Executive Officer
(Principal Executive Officer)

Dated: January 10, 2008

By /s/ ANDREW K. MOLLER

Andrew K. Moller
Executive Vice President
and Chief Financial Officer
(Principal Financial Officer)

CHRISTOPHER & BANKS CORPORATION

QUARTERLY REPORT ON FORM 10-Q

INDEX TO EXHIBITS

| Exhibit No. | Description |
|--------------------|---|
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