UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 29, 2009

or

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

For the transition period from to .

Commission File Number 001-31390

CHRISTOPHER & BANKS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**06 - 1195422**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)
2400 Xenium Lane North, Plymouth, Minnesota	**55441**
(Address of principal executive offices)	**(Zip Code)**

(763) 551-5000

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **YES x NO o**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **YES o NO o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	**Accelerated filer x**
Non-accelerated filer o (Do not check if a smaller reporting company)	**Smaller reporting company o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **YES o NO x**

As of September 25, 2009, 35,997,260 shares of the registrant s common stock were outstanding.

Table of Contents

CHRISTOPHER & BANKS CORPORATION

QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands)

(Unaudited)

	August 29, 2009	February 28, 2009	August 30, 2008
ASSETS			
Current assets:			
Cash and cash equivalents	$ 83,384	$ 78,814	$ 84,037
Short-term investments	16,400		
Accounts receivable	3,728	3,921	4,311
Merchandise inventories	38,285	38,828	51,532
Prepaid expenses	2,768	1,938	12,176
Income taxes receivable	7,750	18,747	1,117
Current deferred tax asset	3,779	3,795	5,104
Other current assets	2,650		
Total current assets	158,744	146,043	158,277
Property, equipment and improvements, net	109,751	120,347	131,772
Long-term investments		16,400	18,536
Deferred tax asset	6,597	4,328	6,338
Other assets	326	3,024	342
Total assets	$ 275,418	$ 290,142	$ 315,265
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 16,121	$ 19,806	$ 11,290
Accrued salaries, wages and related expenses	8,860	9,588	9,192
Other accrued liabilities	18,290	22,103	27,357
Other current liabilities	487	487	
Total current liabilities	43,758	51,984	47,839
Non-current liabilities:			
Deferred lease incentives	21,443	23,506	24,191
Deferred rent obligations	9,869	10,318	10,880
Other	3,969	4,110	4,450
Total non-current liabilities	35,281	37,934	39,521
Commitments			

Stockholders equity:						
Preferred stock $0.01 par value, 1,000 shares authorized, none outstanding						
Common stock $0.01 par value, 74,000 shares authorized, 45,788, 45,258 and 45,324 shares issued and 35,997, 35,467 and 35,520 shares outstanding at August 29, 2009, February 28, 2009 and August 30, 2008, respectively		458		453		453
Additional paid-in capital		112,606		111,763		111,511
Retained earnings		196,027		200,720		229,814
Common stock held in treasury, 9,791 shares at cost at August 29, 2009 and February 28, 2009, and 9,804 shares at cost at August 30, 2008		(112,712)		(112,712)		(112,859)
Accumulated other comprehensive income (loss)						(1,014)
Total stockholders equity		196,379		200,224		227,905
Total liabilities and stockholders equity	$	275,418	$	290,142	$	315,265

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

Table of Contents

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended	
	August 29, 2009	**August 30, 2008**
Net sales	$ 101,182	$ 128,451
Costs and expenses:		
Merchandise, buying and occupancy	66,152	78,714
Selling, general and administrative	32,220	40,241
Depreciation and amortization	6,286	6,697
Total costs and expenses	104,658	125,652
Operating income (loss)	(3,476)	2,799
Other income	228	586
Income (loss) from continuing operations before income taxes	(3,248)	3,385
Income tax provision (benefit)	(1,116)	1,347
Income (loss) from continuing operations	(2,132)	2,038
Loss from discontinued operations, net of income tax		(1,202)
Net income (loss)	$ (2,132)	$ 836
Basic earnings (loss) per share:		
Continuing operations	$ (0.06)	$ 0.06
Discontinued operations		(0.03)
Earnings (loss) per basic share	$ (0.06)	$ 0.02
Basic shares outstanding	35,176	35,099
Diluted earnings (loss) per share:		
Continuing operations	$ (0.06)	$ 0.06
Discontinued operations		(0.03)
Earnings (loss) per diluted share	$ (0.06)	$ 0.02
Diluted shares outstanding	35,176	35,122
Dividends per share	$ 0.06	$ 0.06

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

Table of Contents

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Six Months Ended August 29, 2009	Six Months Ended August 30, 2008
Net sales	$ 221,549	$ 283,846
Costs and expenses:		
Merchandise, buying and occupancy	141,609	165,449
Selling, general and administrative	68,364	83,806
Depreciation and amortization	12,597	13,104
Total costs and expenses	222,570	262,359
Operating income (loss)	(1,021)	21,487
Other income	343	1,413
Income (loss) from continuing operations before income taxes	(678)	22,900
Income tax provision (benefit)	(232)	9,114
Income (loss) from continuing operations	(446)	13,786
Loss from discontinued operations, net of income tax		(1,678)
Net income (loss)	$ (446)	$ 12,108
Basic earnings (loss) per share:		
Continuing operations	$ (0.01)	$ 0.39
Discontinued operations		(0.05)
Earnings (loss) per basic share	$ (0.01)	$ 0.34
Basic shares outstanding	35,134	35,086
Diluted earnings (loss) per share:		
Continuing operations	$ (0.01)	$ 0.39
Discontinued operations		(0.05)
Earnings (loss) per diluted share	$ (0.01)	$ 0.34
Diluted shares outstanding	35,134	35,112
Dividends per share	$ 0.12	$ 0.12

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

Table of Contents

CHRISTOPHER & BANKS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended August 29, 2009	Six Months Ended August 30, 2008
Cash flows from operating activities:		
Net income (loss)	$ (446)	$ 12,108
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	12,597	13,205
Impairment of store assets		1,221
Deferred income taxes	(2,246)	(1,207)
Stock-based compensation expense	848	1,154
Loss on disposal of furniture, fixtures and equipment	130	348
Gain on investments	(150)	
Changes in operating assets and liabilities:		
Sales of trading securities	200	
Decrease in accounts receivable	193	912
(Increase) decrease in merchandise inventory	543	(7,691)
Increase in prepaid expenses and other current assets	(972)	(579)
Decrease in prepaid income taxes	10,997	3,914
Decrease in other assets	133	6
Decrease in accounts payable	(2,405)	(4,091)
Decrease in accrued liabilities	(4,541)	(885)
Decrease in deferred lease incentives	(2,063)	(663)
Decrease in deferred rent obligations	(449)	(840)
Increase (decrease) in other liabilities	(141)	728
Net cash provided by operating activities	12,228	17,640
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(3,411)	(12,873)
Sales of investments		5,000
Net cash used in investing activities	(3,411)	(7,873)
Cash flows from financing activities:		
Dividends paid	(4,247)	(4,222)
Net cash used in financing activities	(4,247)	(4,222)
Net increase in cash and cash equivalents	4,570	5,545
Cash and cash equivalents at beginning of period	78,814	78,492
Cash and cash equivalents at end of period	$ 83,384	$ 84,037

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

6

Table of Contents

CHRISTOPHER & BANKS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements included in this Form 10-Q have been prepared by Christopher & Banks Corporation and its subsidiaries (the Company) pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed, or omitted, pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s Annual Report on Form 10-K for the fiscal year ended February 28, 2009.

The results of operations for the interim periods reflected in this report are not necessarily indicative of results to be expected for the full fiscal year. In the opinion of management, the information contained herein reflects all adjustments, consisting only of normal adjustments except as otherwise stated in these notes, necessary to present fairly the Company s financial position as of August 29, 2009 and August 30, 2008, and its results of operations and cash flows for the three and six month periods ended August 29, 2009 and August 30, 2008. The Company has evaluated subsequent events through October 8, 2009, the date of issuance of the Company s unaudited condensed consolidated financial statements and determined that no such events occurred requiring disclosure in its unaudited condensed consolidated financial statements.

Recently Adopted Accounting Pronouncements

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-2 delays the effective date of the application of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157), to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized at fair value in the financial statements on a nonrecurring basis. The Company adopted FSP 157-2 effective March 1, 2009. See Note 12, Fair Value Measurements, for additional disclosures required under FSP 157-2 for non-financial assets and liabilities recognized or disclosed at fair value in the Company s consolidated financial statements. Other than such disclosures, the adoption of FSP 157-2 did not have a material impact on the Company s consolidated financial statements as reported herein.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP-EITF No. 03-6-1). Under FSP-EITF 03-6-1, unvested share-based payment awards that contain rights to receive non-forfeitable dividends (whether paid or unpaid) are considered participating securities and should be included in the two-class method of computing earnings per share. FSP-EITF 03-6-1 was adopted by the Company effective March 1, 2009 and impacted the Company s calculation of earnings per share beginning in the first quarter of the fiscal year ending February 27, 2010 (Fiscal 2010). See Note 11, Earnings per Share, for further disclosure regarding the impact of the adoption of FSP-EITF 03-6-1.

In April 2009, the FASB issued FSP No. 107-1 and Accounting Principles Board (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1 and APB-21). FSP 107-1 and APB 28-1 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments in interim as well as in annual financial statements. This standard also amends APB Opinion No. 28, Interim Financial Reporting, to require disclosures in all interim financial statements. This standard is effective for interim and annual financial periods ending after June 15, 2009. The Company adopted FSP 107-1 and APB 28-1 effective May 31, 2009. The adoption of this standard did not have a material impact on the Company s consolidated financial statements as reported herein.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS No. 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The standard is based on the same principles as those that currently exist in the auditing standards. This standard is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The Company adopted SFAS No. 165 effective May 31, 2009. The adoption of this standard did not have a material impact on the Company s consolidated financial statements as reported herein.

Recently Issued Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 14 (SFAS No. 166). SFAS No. 166 was issued to improve the relevance and comparability of the information that a reporting entity provides in its financial statements about a transfer of

Table of Contents

financial assets, the effects of such a transfer on its financial position, financial performance and cash flows, and requires the reporting entity to provide information as to a transferor s continuing involvement, if any, in transferred financial assets. SFAS No. 166 is effective for the Company s fiscal year beginning February 28, 2010. The Company is in the process of evaluating the impact, if any, SFAS No. 166 will have on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, FASB Accounting Standards Codification (Codification) as the single source of authoritative nongovernmental generally accepted accounting principles in the United States (GAAP) to be launched on July 1, 2009. The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered non-authoritative. However, SEC accounting and reporting standards will continue to be authoritative for SEC reporting entities. The Codification is effective for the Company in its third fiscal quarter of fiscal 2010. The Codification is for disclosure purposes only and the Codification will not impact the Company s financial position, results of operations or cash flows.

NOTE 2 DISCONTINUED OPERATIONS

In July 2008, the Company announced its decision to exit its Acorn business when the Company concluded, after a comprehensive review and evaluation, that the concept had not demonstrated the potential to deliver an acceptable long-term return on the Company s investment. The Company closed all of its Acorn stores by December 31, 2008, allowing the Company to focus its resources on its two core brands, christopher & banks and cj banks.

The operating results of all Acorn stores have been presented as discontinued operations, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), in the Condensed Consolidated Statement of Operations for the three and six month periods ended August 30, 2008. There was no activity relating to the Company s discontinued Acorn operations during the three and six month periods ended August 29, 2009.

The operating results of the discontinued operations for the three and six month periods ended August 30, 2008 are summarized below (in thousands).

	Three Months Ended August 30, 2008		Six Months Ended August 30, 2008	
Net sales	$	3,186	$	7,433
Loss before income tax benefit	$	(1,997)	$	(2,787)
Income tax benefit		(795)		(1,109)
Loss from discontinued operations	$	(1,202)	$	(1,678)

Income taxes have been allocated to continuing and discontinued operations based on the methodology required by Financial Accounting Interpretation No. 18, Accounting for Income Taxes in Interim Periods (FIN No. 18). Income taxes allocated to the results of discontinued operations are determined on the basis of a computation of taxes with and without the impact of results from discontinued operations; the difference in taxes between these computations is allocated to discontinued operations.

NOTE 3 SHORT-TERM INVESTMENTS

As of August 29, 2009, the Company had approximately $16.4 million of short-term investments, which consisted solely of $19.3 million of auction rate securities (ARS) at cost, less a fair value adjustment of approximately $2.9 million. The fair value of the ARS was determined utilizing a discounted cash flow method based on market rates and an estimated period of time the ARS are expected to be held.

Table of Contents

Substantially all of the Company s ARS are collateralized by student loans. As of August 29, 2009, a majority of its ARS had AAA (Standard & Poor s), Aaa (Moody s), or AAA (Fitch) credit ratings. As of August 29, 2009, the repayment of approximately 80% of the student loans, which serve as collateral for the ARS held by the Company, was substantially backed by the United States government. Until February 2008, the ARS market was liquid and auctions for ARS held by the Company did not fail. However, beginning in February 2008, auctions for the ARS held by the Company began to fail and have continued to fail up to and as of the date of this report.

Based on current market conditions, management believes that it is likely that auctions related to the Company s ARS will continue to be unsuccessful for the near term. Unsuccessful auctions have limited the Company s ability to access these funds. Management anticipates the liquidity of the ARS will continue to be restricted until there is a successful auction, such time as another market for the ARS develops, the ARS are called by the issuer or they are redeemed as described below.

All of the ARS owned by the Company were purchased through UBS Financial Services, Inc., a subsidiary of UBS AG (UBS) and are held, for the benefit of the Company, by UBS. In November 2008, the Company accepted a settlement offer from UBS to restore liquidity to its clients who hold ARS. The settlement grants the Company certain ARS rights. These ARS rights provide the Company the ability to redeem its ARS at par during a two-year time period beginning June 30, 2010. During this time, the Company may choose to continue to hold some, or all, of its ARS and earn interest or sell some, or all, of its ARS to UBS at par plus accrued interest. The ARS rights are not transferable, tradable or marginable and will not be listed or quoted on any securities or exchange or any electronic communications network. As the Company has the ability and intent to redeem its ARS at June 30, 2010, it reclassified the ARS to short-term investments as of August 29, 2009.

Upon acceptance of the settlement offer, the Company classified its ARS as trading securities and elected, pursuant to SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159), to record the ARS rights at fair value on a recurring basis utilizing significant unobservable inputs in accordance with SFAS No. 157, Fair Value Measurements (SFAS No. 157).

The fair value of the ARS rights was estimated utilizing the Black-Scholes option pricing model and the forward contract method. As of August 29, 2009, the fair value of the ARS rights was determined to be approximately $2.7 million and the ARS rights were recorded within other current assets on the consolidated financial statements.

Prior to acceptance of the UBS settlement offer, the Company classified its ARS as available-for-sale securities. As of August 30, 2008, the Company had approximately $18.5 million of long-term investments consisting solely of $19.5 million of ARS, less a valuation allowance of $1.0 million, which reflected management s estimate of fair value given the current lack of liquidity of these investments, while taking into account the current credit quality of the underlying securities.

NOTE 4 MERCHANDISE INVENTORIES AND SOURCES OF SUPPLY

Merchandise inventories consisted of the following (in thousands):

	August 29,	February 28,	August 30,

Description		2009		2009		2008
Merchandise - in store	$	34,444	$	35,280	$	39,960
Merchandise - in transit		3,841		3,548		11,572
	$	38,285	$	38,828	$	51,532

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

Table of Contents

Although the Company has positive relationships with these two vendors, there can be no assurance that these relationships can be maintained in the future or that the vendors will continue to supply merchandise to the Company. If there should be any significant disruption in the supply of merchandise from these vendors, management believes that it will be able to shift production to other suppliers so as to continue to secure the required volume of merchandise. Nevertheless, it is possible that any significant disruption in supply could have a material adverse impact on the Company s financial position or results of operations.

In the six months ended August 30, 2008, the Company purchased approximately 42% of its merchandise through one buying agent (the Agent). The Company and the Agent terminated their sourcing arrangement effective as of the end of December 2008. As a result, the Company did not purchase any merchandise through the Agent in the first six months of fiscal 2010.

NOTE 5 PROPERTY, EQUIPMENT AND IMPROVEMENTS, NET

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

Description	Estimated Useful Life	August 29, 2009	February 28, 2009	August 30, 2008
Land		$ 1,597	$ 1,597	$ 1,597
Corporate office, distribution center and related building improvements	25 years	12,012	12,020	12,015
Store leasehold improvements	Term of related lease, typically 10 years	94,262	95,251	100,131
Store furniture and fixtures	Three to 10 years	112,705	113,697	116,741
Point of sale hardware and software	Five years	14,959	15,173	15,483
Computer hardware and software	Three to five years	21,160	21,123	12,051
Corporate office and distribution center furniture, fixtures and equipment	Seven years	3,605	3,634	3,141
Construction in progress		3,461	1,432	8,956
		263,761	263,927	270,115
Less accumulated depreciation and amortization		154,010	143,580	138,343
Net property, equipment and improvements		$ 109,751	$ 120,347	$ 131,772

As of August 29, 2009 and February 28, 2009, construction in progress consisted primarily of store-related information technology system projects. As of August 30, 2008, construction in progress consisted primarily of capital expenditures related to new stores which opened in the second and third quarters of fiscal 2009.

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 the asset may not be recoverable in accordance with SFAS No. 144. The Company recorded no impairments of long-lived assets in the three and six month periods ended August 29, 2009. However, the general economic uncertainty affecting the retail industry makes it reasonably possible that the Company may identify and record long-lived asset impairments in future periods.

Table of Contents

NOTE 6 ACCRUED LIABILITIES

Other accrued liabilities consisted of the following (in thousands):

Description		August 29, 2009		February 28, 2009		August 30, 2008
Gift card, certificate and store credit liabilities	$	7,753	$	11,434	$	8,433
Accrued merchandise inventory receipts not yet invoiced		3,749		3,008		9,523
Accrued income, sales and other taxes payable		2,287		1,877		2,434
Accrued workers compensation liability		774		1,601		2,450
Accrued occupancy-related expenses		734		693		1,632
Other		2,993		3,490		2,885
	$	18,290	$	22,103	$	27,357

The Company moved from a self insured to a fully insured workers compensation insurance program effective March 1, 2009. The accrual balance at August 29, 2009 represents the estimated remaining liability under the self insured program.

NOTE 7 CREDIT FACILITY

The Company maintains an Amended and Restated Revolving Credit Facility (the Credit Facility) with Wells Fargo Bank, National Association (Wells Fargo) which expires on June 30, 2011. The Credit Facility provides the Company with revolving credit loans and letters of credit of up to $50 million, in the aggregate, subject to a borrowing base formula based on inventory levels.

Loans under the Credit Facility bear interest at the prime rate minus 0.25%. As of August 29, 2009, the prime rate was 3.25%. The Credit Facility also provides the Company with the ability to borrow under the Credit Facility at an interest rate tied to the London Interbank Market Offered Rate (LIBOR). Advances under the LIBOR option would be tied to the one, three, or six month LIBOR rate based on the length of time the corresponding advance is outstanding.

Interest under the Credit Facility is payable monthly in arrears. The Credit Facility carries a facility fee of 0.25%, based on the unused portion of the facility as defined in the agreement, a collateral monitoring fee and a guarantee service charge. For the six months ended August 29, 2009, fees and charges related to the Credit Facility totaled $27,663. Borrowings under the Credit Facility are collateralized by the Company s equipment, intangible assets, inventory, inventory letters of credit and letter of credit rights. The Company had no revolving credit loan borrowings under the Credit Facility during the first six months of fiscal 2010 or fiscal 2009. Historically, the Credit Facility has been utilized by the Company only to open letters of credit to facilitate the import of merchandise. The borrowing base at August 29, 2009 was $26.0 million. The Company had no outstanding letters of credit as of August 29, 2009. Accordingly, the availability of revolving credit loans under the Credit Facility was $26.0 million at August 29, 2009.

The Credit Facility contains certain restrictive covenants, including restrictions on incurring additional indebtedness and limitations on certain types of investments, as well as requiring the maintenance of certain financial covenants. As of August 29, 2009, the most recent measurement date, the Company was in compliance with all of the restrictive covenants under the Credit Facility.

NOTE 8 STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with the provisions of SFAS No. 123R, Share-Based Payment (SFAS 123R). Under this 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 August 29, 2009 and August 30, 2008 was approximately $374,000 and $524,000, respectively. For the six months ended August 29, 2009 and August 30, 2008, pre-tax stock-based compensation expense totaled approximately $848,000 and $1.2 million, respectively. 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.

Table of Contents

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 six month periods ended August 29, 2009 and August 30, 2008 were as follows:

	Three Months Ended		**Six Months Ended**	
	August 29, 2009	**August 30, 2008**	**August 29, 2009**	**August 30, 2008**
Expected dividend yield	4.4%	2.6%	5.0%	2.3%
Expected volatility	71.5%	52.0%	68.7%	49.3%
Risk-free interest rate	2.3%	3.0%	2.1%	2.7%
Expected term in years	4.2	3.4	4.6	4.4

Stock-Based Compensation Activity

The following table presents a summary of the Company s stock option activity for the six months ended August 29, 2009:

	Number	**Weighted Average**	**Aggregate Intrinsic**	**Weighted**	**Weighted Average Remaining**

NOTE 8 STOCK-BASED COMPENSATION