CHRISTOPHER & BANKS CORP
Form 10-K
March 18, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 2, 2019
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the period from to
Commission File No. 001-31390
CHRISTOPHER & BANKS CORPORATION
(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). YES NO

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

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 ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the Common Stock, par value $0.01 per share, held by non-affiliates of the registrant as of August 4, 2018, was approximately $31.1 million based on the closing price of such stock as quoted on the New York Stock Exchange ($0.9442) on such date.

The number of shares outstanding of the registrant’s Common Stock, par value $0.01 per share, was 38,334,473 shares as of March 15, 2019 (excluding treasury shares of 10,026,098).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s Proxy Statement for the Annual Meeting of Stockholders to be held (the “Proxy Statement”) are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

Overview

Christopher & Banks Corporation is a national specialty retailer featuring exclusively-designed, privately-branded women’s apparel and accessories. We offer our customers an assortment of classic and versatile clothing for her everyday needs at a good value. Our merchandise is developed for women of all sizes, typically age 50 and older with an income level from moderate to above average.

We operate an integrated, omni-channel business platform that is designed to provide customers a seamless retail experience with the ability to shop when and where they want, including our retail stores, outlet stores, and website. This allows our customers to browse, purchase, return, or exchange our merchandise through the channel that is optimal for her.

Unless otherwise noted, the use of the terms “the Company”, “we”, “us” and “our” in this Annual Report on Form 10-K ("Annual Report") refers to Christopher & Banks Corporation and its wholly owned subsidiaries, Christopher & Banks, Inc. and Christopher & Banks Company.

Our Brand

Christopher & Banks Corporation was incorporated in 1986 to acquire Braun’s Fashions, Inc., which had operated as a family-owned business since 1956. We became a publicly traded corporation in 1992 and, in July 2000, our stockholders approved a company name change from Braun’s Fashions Corporation to Christopher & Banks Corporation. Christopher & Banks caters to missy and petite sized customers. In 2000, we introduced our women’s plus sized collection under the name C.J. Banks.

We offer merchandise assortments that reflect a balance of novelty and basic core items, at affordable prices. We emphasize comfort and easy care in relevant fashions with a consistent fit. To differentiate ourselves from our competitors, our buyers, working in conjunction with our product development teams and suppliers, strive to create a merchandise assortment of coordinated outfits, the majority of which are manufactured exclusively for us under our proprietary Christopher & Banks® and C.J. Banks® names.

Our Store Formats

Our Christopher and Banks (“CB”) stores offer merchandise assortments in women’s apparel and accessories for missy sizes 4 to 16 and petite sizes 4P to 16P.

Our C.J. Banks (“CJ”) stores offer merchandise assortments in similar women’s apparel and accessories for women’s sizes 14W to 26W.

Our Missy, Petite, Women (“MPW”) and outlet stores, and our website offer merchandise assortments from both Christopher and Banks and C.J. Banks in all three size ranges resulting in greater opportunity to service our customers and improve our sales productivity.

Our Vision

Our vision is to be our customer's trusted brand by delivering style and value every day.

Our Mission

Our mission is to provide her with the style and versatility that reflects who she is, the lasting quality and affordable value that she expects, and the personalized attention that she deserves.

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Our Strategy

Our overall business strategy is to significantly improve our operating results and thereby begin the path towards sustainable, long-term revenue growth and consistent profitability through the following strategic initiatives:

- Enhance the customer shopping experience;
- Improve marketing and promotional effectiveness;
- Leverage omni-channel capabilities;
- Build loyalty and grow our file;
- Optimize our real estate portfolio; and
- Right-size our cost structure.

Enhance the Customer Shopping Experience

We are committed to enhancing our customer's shopping experience by providing a well curated product assortment that is presented in a way that is easier for her to shop. We are focused on improving the flow and depth of our inventory buys which are intended to help her build an outfit and drive units per transaction. Additionally, we have recently launched a new Style and Selling model to support our store associates in providing even better service and, more importantly, driving sales.

Improve Marketing and Promotional Effectiveness

Our goals include executing disciplined markdown management, leveraging improved analytics to inform what types and depth of promotions and targeted offers are used and to increase our return on our marketing investments.

Leverage Omni-Channel Capabilities

Our integrated, omni-channel strategy is designed to provide customers with a seamless retail experience, allowing her to shop whenever, however and wherever she chooses. In January of 2018, we launched “Buy online ship to store,” and in November of 2018, we launched “Buy online ship from store.” We currently are fulfilling eCommerce orders from 170 of our stores. We plan on launching “Buy online pick up in store” during the first quarter of fiscal 2019. These flexible fulfillment options not only serve a customer need, they allow us to better leverage our inventory across our chain.

Build Loyalty and Grow our Customer File

We have a very loyal customer base that is highly engaged. Our uniquely designed product, our value positioning and our customer service are key differentiators for us and contribute to the loyalty of our customers with approximately 90% of our active customers participating in our loyalty rewards program.

We continue to focus on maximizing the benefits of our customer relationship management (“CRM”) database, Friendship Rewards Loyalty Program (“Friendship Rewards”), and private-label credit card program to strengthen engagement with our customers. Our Friendship Rewards program, in conjunction with our CRM system, allows us to personalize communications and customize our offers. We continue to leverage our direct and digital marketing channels to encourage additional customer visits and increased spending per visit.

To grow our existing customer file, we intend to reallocate our marketing spend in an effort to drive acquisition of new customers, reactivate lapsed customers, and also capitalize on market disruptions. In addition, we intend to refresh our Friendship Rewards program and to continue to leverage that program. Finally, we plan to capitalize on our unique positioning in the market to drive engagement with customers on a grass roots level.

Optimize our Real Estate Portfolio

Between 2011 and 2015 we consolidated our store formats and reduced our store count by 33% in an effort to improve store productivity. Additionally, approximately 44% of our stores have a lease action arising within 12 months and 57% within 24 months. This should provide us with flexibility to close underperforming stores and the opportunity to renegotiate occupancy costs where applicable.

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Right-size our Cost Structure

We intend to take a holistic approach in driving cost reductions. To help us in accomplishing this we have hired a third-party, non-merchandise procurement specialist to assist us in analyzing relationships and negotiating cost reductions. In addition, we intend to continue to aggressively negotiate rent reductions, optimize our marketing spend, review and reduce our corporate overhead and reduce our shipping and fulfillment expense.

Our Merchandise

Our merchandise assortments include mostly exclusive designs of women's apparel, generally consisting of casual clothing, everyday basics, wear-to-work, leisure / active wear, and seasonal sleepwear in missy, petite and women sizes. The Company also offers a selection of jewelry and accessories to complement our customer's wardrobe.

While each store offers a base merchandise assortment, store assortments vary to reflect individual store demands, sales levels, and local market preferences. We design our products and merchandise them in our stores and through our website in a coordinated manner intended to drive the number of units per transaction. On average, our customers purchase 2 to 3 items per transaction.

Our Operations

All of the Company operations are located in the United States ("U.S."). Merchandise selection, pricing and promotions, procurement and sourcing, marketing and advertising, and labor deployment across all channels are centrally managed at our corporate headquarters. In addition, functional support capabilities (e.g. human resources, finance, legal) are also performed at our corporate location. We also have field operations that support our retail teams. Our retail stores have procedures for transaction processing, customer experience, merchandise display, inventory management, asset protection, and staff training.

Our Stores

As of February 2, 2019, we operated 455 stores in 45 states. The following table illustrates the change in store count and store format for the past five fiscal years:

Store Count Rollforward	2018	2017	2016	2015	2014
Stores as beginning of year	463	484	518	518	560
Opened	10	1	9	42	23
Closed	(14)	(16)	(27)	(19)	(21)
Conversions	(4)	(6)	(16)	(23)	(44)
Stores at end of year	455	463	484	518	518

Stores by Format	2018	2017	2016	2015	2014
MPW	312	314	318	314	216
Outlet	80	78	82	77	44
Christopher and Banks	33	37	43	67	173
C.J. Banks	30	34	41	60	85
Total Stores	455	463	484	518	518

We continue to evaluate converting the remaining CB stores and CJ stores to MPW stores. MPW stores provide a unified store format that simplifies merchandising and allocation processes, promotes cross shopping among sizes, enhances the customer experience, and enables more economies of scale across functions.

Our Website

Our website at www.christopherandbanks.com provides customers the ability to browse our offerings, locate our stores, and order merchandise online. Our website is designed to be an extension of our brand and is key to our developing omni-channel strategy. The online merchandise assortment consists of a combination of exclusive styles as well as special sizes and lengths. We offer online customers the option to return items in our stores.

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Competition

The women's retail apparel business is highly competitive and includes regional, national and international department stores, specialty stores, boutique stores, catalog companies, off-price and online retailers. Many of these competitors have greater name recognition and some of these competitors may have greater financial, marketing and other resources compared to us. We compete in the specialty retail space by offering unique, classic and versatile clothing that fits her everyday needs at a good value. We believe our visual merchandise presentation, attentive customer service and physical store locations complement our compelling value proposition.

Global Sourcing and Products

We utilize a broad base of manufacturers located primarily in China, Indonesia and Vietnam with some domestic manufacturing. We believe we produce goods at the level of quality that our customers desire, at a competitive cost. For the most recently completed fiscal year, our ten largest suppliers accounted for approximately 67% of the merchandise we purchased, and our two largest suppliers accounted for 16% and 10% of our goods, respectively.

We purchase our merchandise using individual purchase orders and, therefore, are not subject to long-term production contracts with any of our vendors, manufacturers, or buying agents. We intend to continue our efforts to optimize our purchasing power with consideration for the potential risk of limiting our manufacturing flexibility.

We may take ownership of product either in the foreign country where the factory is located, at a designated point of entry into the United States, or at our distribution center depending on the specific terms of the sale. Most of our sourcing activities are performed by a single-shared sourcing and procurement function. We believe that this function, working in concert with our key supply chain partners, will deliver high quality apparel and accessories at a lower cost while providing the opportunity to minimize freight costs through consolidation. We believe that the decision to centralize our sourcing and procurement operations has helped us mitigate the impact of higher sourcing costs.

Typical lead times for delivery of our merchandise are 90 to 150 days from the date of order placement, however we have some ability to expedite the sourcing of merchandise in those cases where we see an opportunity to garner incremental sales on those items that have resonated with our customer. In addition, we will make purchases domestically when demand warrants.

Although we expect the cost of cotton and synthetics to remain relatively stable in fiscal 2019, our average unit cost may change based on other factors, including overall mix of fashion versus core merchandise, fluctuations in transportation costs and potential changes in tariffs. To the extent that we cannot offset increases in the cost of goods with other cost reductions or efficiencies, we may be forced to sell the product at higher prices, which is subject to customer receptivity.

Merchandise Distribution

We distribute most of our products that are sold in our stores and online from our distribution center located in Plymouth, Minnesota. New merchandise is generally received each weekday at our corporate distribution center. After arrival, merchandise is sorted and packaged for shipment to individual stores or to our third party eCommerce fulfillment center or is held for future store or eCommerce replenishment. Merchandise is generally pre-ticketed with price and related informational tags at the point of manufacture.

Merchandise is typically shipped to our stores via third-party delivery services multiple times per week, providing our stores with a steady flow of new inventory.

Merchandise sold through our eCommerce channel is fulfilled directly to the customer through either our third-party service provider or from one of our stores. In fiscal year 2019, we intend to launch the ability for a customer to buy online and to pick up merchandise in the store.

Information Technology

Our information technology strategy is intended to provide a platform for an integrated, omni-channel retail experience. Our information systems are designed to enable us to obtain, analyze, and take action on information in a timely fashion. We are committed to leveraging technology to maintain effective financial and operational controls.

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We continue to make investments in capabilities that will allow us to better manage the flow of product. Existing and anticipated system enhancements are intended to allow our teams to analyze store-level data to tailor the merchandise assortment to the demographics of the surrounding community. We expect these insights will lead to improved merchandise assortments thereby generating higher unit velocity and improved average unit retail, which should translate into higher merchandise margins.

We are committed to evolving change management and portfolio management processes and standards to improve the security of our data and our customers' information as well as to maintain effective financial and operational controls. We have established an information security infrastructure and methodology which can adapt to the evolving needs of the business in an effort to ensure the appropriate safeguarding of assets and secure, reliable customer transactions.

In fiscal 2018 and 2017, we leveraged omni-channel capability investments to further enable us to address multiple customer touch points to drive spend and build brand affinity.

Employees

As of February 2, 2019, we employed approximately 3,700 associates, approximately 32% of whom were full-time employees and the balance of whom were part-time employees. The number of part-time employees fluctuates during peak selling periods. Approximately 190 of our associates are employed at our corporate office and distribution center facility, with the majority of the associate population employed in our store field organization. We have no collective bargaining agreements covering any of our employees, have never experienced a work stoppage and are unaware of any efforts or plans to organize our employees. We consider relations with our employees to be good.

Trademarks and Service Marks

We are the owner of certain registered and common law trademarks and service marks (collectively referred to as "Marks").

Our wholly owned subsidiary, Christopher & Banks Company, is the owner of the federally registered Marks "christopher & banks®," which is our predominant private brand, and "cj banks®," our private brand for women sizes 14W to 26W.

Our rights in the Marks are important to our business and are recognized in the women's retail apparel industry. Accordingly, we intend to maintain our Marks and the related registrations and applications. United States trademark registrations are for a term of ten years and are renewable every ten years as long as the trademarks are used in the regular course of trade. We are not aware of any claims of infringement or other challenges to our rights to use any registered Marks in the United States.

Seasonality

Our quarterly results may fluctuate significantly depending on a number of factors, including general economic conditions, consumer confidence, customer response to our seasonal merchandise mix, timing of new store openings, adverse weather conditions, and shifts in the timing of certain holidays and promotional events.

Working Capital

We fund our business operations through a combination of cash and cash equivalents and cash flows generated from operations. In addition, our revolving credit facilities are available for additional working capital needs, for general corporate purposes and investment opportunities.

Effective inventory management is critical to our success. We employ various methods to manage inventory levels including demand forecasting, optimal allocations, and various forms of inventory replenishment. We seek to minimize markdowns through effective inventory management.

Available Information

Our investor relations website is located at www.christopherandbanks.com. Through this website, we make available free of charge, our Annual Reports, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”), as soon as reasonably practicable after we file such material with, or furnish it to, the U.S. Securities and Exchange Commission (“SEC”).

Our Corporate Governance Guidelines, Code of Conduct, and our Board of Directors' committee charters are also available free of charge at our investor relations website.

ITEM 1A. RISK FACTORS

Our business is subject to a variety of risks. Thus, an investment in our stock is also subject to risk. The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements that are contained in this Annual Report, as well as certain of our other filings made or to be made with the SEC. Any of the following risks and uncertainties could materially adversely affect our business, financial condition, results of operations, liquidity, cash flows, the trading price of our stock and/or the outcome of matters with respect to which forward-looking statements are made in this Annual Report.

The risk factors have been separated into four groups: (1) Macroeconomic and Industry Risks; (2) Operational Risks; (3) Capital Risks; and (4) Legal and Regulatory Risks. Based upon information currently known to us, the Company believes that the following information identifies the most significant risk factors affecting our Company and our securities. The risk factors described below should not be construed as an exhaustive list of all the risks we face nor are they listed in order of the likelihood that the risk may occur or the severity of the impact if the risk should occur. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this Annual Report.

We operate in a continually changing business environment and new risk factors emerge from time to time. There can be no assurance that we have identified, assessed and appropriately addressed all risks affecting our business operations. Additional risks and uncertainties could adversely affect our business, operational results, financial position, liquidity and cash flows.

1. MACROECONOMIC AND INDUSTRY RISKS

General economic conditions in the U.S. may adversely affect our business.

All of our stores are located within the U.S., making us highly susceptible to macroeconomic conditions and consumer confidence in the United States. Apparel retailing is a volatile industry that is highly dependent upon the overall level of consumer spending and consumer confidence. Because apparel typically is a discretionary purchase, declines in consumer spending may have a more negative effect on apparel retailers than on other retailers.

In addition, there is a risk that consumer sentiment may decline as a result of market disruptions caused by severe or unseasonable weather conditions, natural disasters, public health concerns, terrorist activities, political crises or other major events or the prospect of these events. Such macroeconomic and other factors could have a negative effect on consumer spending in the U.S., which in turn could have a material effect on our business, operational results, financial position and cash flows.

The ability to attract customers to our stores depends heavily on customer traffic at malls and centers in which our stores are located.

The majority of our stores are located in shopping malls and other retail centers. Sales at these stores are derived in considerable part from the volume of traffic generated in those malls or retail centers and surrounding areas. The continued decrease in traffic at malls and shopping centers where our stores are located and/or, the closing of anchor stores important to driving mall traffic could result in lower sales and leave us with excess inventory. In such circumstances, we may have to respond by increasing markdowns or initiating marketing promotions to reduce excess inventory, which could adversely impact our financial results, business and cash flows.

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We are subject to risks associated with leasing all of our store locations.

We currently lease all of our store locations. Our leases range from month-to-month to approximately ten years in length. A number of our leases have early termination provisions that apply if we do not achieve specified sales levels, such that we or the landlord may terminate the lease or alternatively we may seek to re-negotiate rent if we do not achieve such sales levels. The leases for approximately 44% of our store base expire between February 3, 2019 and January 29, 2020, including those leases which are month-to-month. We believe that, over the last few years, we have generally been able to negotiate favorable rental rates. Going forward we may need to close additional stores if we fail to achieve certain sales levels or we may not be able to renew our leases on as favorable terms or terms which we deem acceptable. In addition, some landlords may choose to rent to another entity that is prepared to pay higher rents. As a result, we may need to pay higher occupancy costs or close stores, which could adversely impact our financial performance, results of operations, liquidity and cash flows. In addition, economic conditions could negatively impact the Company's retail landlords, particularly class C & D quality malls where the majority of our brick-and-mortar stores are located. That, in turn, could affect their ability to maintain their shopping centers, including a high level of sustained occupancy, and otherwise perform their obligations, which could negatively impact customer traffic, our sales, results of operations, liquidity and cash flows.

We have, and will continue to have, significant lease obligations. If an existing or future store is not profitable, and we decide to close it, we may nonetheless be committed to fulfill our obligations under the applicable lease including paying the base rent for the balance of the lease term. Additionally, continued consolidation in the commercial retail real estate market could affect our ability to successfully negotiate favorable rental terms for our stores in the future and could concentrate our leases with fewer landlords who may then be in a position to dictate unfavorable terms to us due to their significant negotiating leverage. If we are unable to enter into new leases or renew existing leases on terms acceptable to us or be released from our obligations under leases for stores that could have a material effect on our business, operational results, financial condition and cash flows.

Fundamental shifts in the retail industry and the competitive environment could impact our revenues, operational results and market share.

The women's specialty retail apparel business is highly competitive. We believe we compete primarily with department stores, specialty stores, discount stores, mass merchandisers, and on line businesses that sell women's apparel. Many of our competitors are significantly larger with greater resources available to them, may offer a broader selection of merchandise than we do, and have greater brand recognition and comparatively lower costs of operations. They also may be able to adapt to changes in customer preferences more quickly, as well as respond faster to economic, operational, regulatory or organizational changes. In addition to competing for sales, we compete for favorable store locations, lease terms and qualified associates. Increased competition in any of these areas could result in higher costs, which could reduce our revenue and gross margins.

In addition, the growth and prominence of fast-fashion and value-fashion retailers and expansion of off-price retailers have fundamentally shifted customers' expectations of affordable pricing of apparel. The rise of these retailers as well as the shift in shopping preferences away from brick-and-mortar stores to the direct channel, where online-only businesses or those with robust direct channel capabilities can facilitate competitive entry and comparison shopping in our brands, have increased the difficulty of maintaining or gaining market share. The Company's execution of its own omni-channel strategy to adapt to these changes, in relation to its competitors' actions as well as to our customers' adoption of new technology, presents a specific risk. Further, unanticipated changes in pricing and other practices of the Company's competitors, including promotional activity, such as free shipping and pricing pressures, could have a material adverse effect on our business, operational results, financial position and cash flows.

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Changes in U.S. trade policies, including the imposition of tariffs on apparel or accessories and a potential resulting trade war, could have a material adverse impact on our business.

Most of our merchandise is produced in foreign countries, primarily in China, making the price and availability of our merchandise susceptible to international trade risks and other international conditions. The imposition of tariffs, duties, border adjustment taxes or other trade restrictions by the United States could also result in the adoption of new or increased tariffs or other trade restrictions by other countries. Recently, the current U.S. administration and China have imposed significant tariffs on goods imported from the other's country, and have threatened the imposition of additional tariffs in retaliation, which could apply to apparel and accessories. If the current administration follows through with such tariffs, or if additional tariffs or trade restrictions are implemented by the United States or other countries, the resulting trade barriers could have a significant adverse impact on our business as we may not be able to successfully shift production to factories located outside of China.

We are not able to predict future trade policy of the United States or of any foreign countries in which we purchase goods, or the terms of any renegotiated trade agreements, or their impact on our business. The adoption and expansion of trade restrictions and tariffs, quotas and embargoes, the occurrence of a trade war, or other governmental action related to tariffs or trade agreements or policies, has the potential to adversely impact demand for our products, our costs, our customers, our suppliers and the world economy, which in turn could have a material adverse effect on our business, operational results, financial position, liquidity and cash flows.

Instability in the shipping industry or a shortage of qualified truck drivers could increase our costs, result in delays in the receipt or loss of merchandise and adversely impact our results of operations.

While we do not rely on a single ocean carrier company to transport our goods, disruption or instability among transportation carriers could result in reduced capacity, increased rates, delay in the receipt of or the loss of goods. This, in turn, could increase our costs, result in lost sales or sales at lower margins negatively impacting our operations, financial results, cash flows and liquidity. In addition, a shortage of qualified truck drivers has impacted the trucking industry, causing delays and increases in prices. While the Company transports most of its imports by rail, the driver shortage could make it more difficult to hire trucks to transport rail shipments to us. If that were to occur, it would likely increase our costs, and possibly delay receipt of merchandise which in turn could lead to lost sales and sales at lower margins negatively impacting our operations, financial results, cash flows and liquidity.

Extreme and/or unseasonable weather conditions in the United States could have a disproportionate effect on our business, results of operations and cash flows.

Extreme weather conditions in the areas in which our stores are located could negatively affect our business, financial condition, results of operation and cash flows. For example, inclement weather or extreme conditions can make it difficult for our customers to travel to our stores, result in temporary store closures and/or reduced hours of operation and may cause a disruption in the shipment or receipt of merchandise. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our merchandise offerings incompatible with those unseasonable conditions in the affected areas. Such unseasonable weather conditions could have an adverse effect on our sales, financial condition, results of operations and cash flows.

Acts of terrorism, natural disasters, acts of war, other catastrophes or political unrest could have a material adverse effect on our business.

The threat, or actual acts, of terrorism continue to be a significant risk to the global economy. Terrorism and potential military responses, political unrest, natural disasters, pandemics and other health issues have disrupted or could in the future disrupt commerce, impact our ability to operate our stores, offices or distribution centers in the affected areas or impact our ability to provide critical functions or services necessary to the operation of our business. A disruption of commerce, or an inability to recover critical functions or services from such a disruption, could interfere with the production, shipment or receipt of our merchandise in a timely manner or increase our costs to do so, which could have a material adverse impact on our business, operational results, financial position and cash flows. In addition, any of the above disruptions could undermine consumer confidence, which could negatively impact consumer spending or customer traffic, and thus have an adverse effect on our operational results.

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Our ability to mitigate the adverse impact of any of the above disruptions also depends, in part, upon the effectiveness of our planning and response. However, we cannot be certain that our plans will be adequate or implemented properly in the event of an actual disaster or other catastrophic situation.

Costs of raw materials, commodities, transportation or labor may rise resulting in an increase in component and delivery costs, and overall product costs, all of which could erode margins and impact our profitability.

The raw materials and labor used to manufacture our products, and our transportation and contract manufacturing labor costs are subject to availability constraints and price volatility. The results of our business operations could suffer due to significant increases or volatility in the prices of certain commodities, including but not limited to cotton, synthetics and other items used in the production of our apparel, as well as increases in fuel, oil, natural gas or labor costs as well as shortages of skilled labor. Price increases of these items or other inflationary pressures may result in significant cost increases for our raw materials, product components and finished products, as well as increases in the cost of distributing merchandise to our retail locations. To the extent that we cannot offset increases in the cost of goods with other cost reductions or efficiencies or the sale of products at higher prices and with the desired level of gross margin, it could have a negative effect on our gross profits. Additionally, substantially increased uncertainty with respect to trade relations, such as the imposition of unilateral tariffs on imported products, could result in trade wars, higher barriers and tariffs, and higher product costs, all of which could have a material adverse effect on our business, operational results, financial position, cash flows and liquidity.

2. OPERATIONAL RISKS

Improving our store productivity will be largely dependent upon the performance of our missy, petite and women’s format (“MPW stores”) including our outlet stores.

Improving the performance of our existing stores and optimizing our store productivity is critical to improving our sales and returning to profitability. Over the past several years, the Company has opened a number of outlet stores and converted existing C&B and C.J. Banks’ stores into MPW stores such that approximately 86% of our stores (including outlets) at fiscal year-end were in the MPW format. If we are unable to improve the overall performance and store productivity of the MPW stores, our revenues, margins, liquidity, cash flows and results of operations could be adversely affected.

Our business underwent a number of leadership changes in fiscal 2018 resulting in changes to our strategies and tactical initiatives. If we do not successfully implement and adapt to these changes, it could have a material adverse effect on our business.

Keri L. Jones joined the Company as Chief Executive Officer in mid-March 2018. In July of 2018 we hired a new Chief Financial Officer and a new Chief Merchandising Officer, and in December 2018 a new Chief Stores Officer. In connection with these changes in management, there have been (and likely will be additional) changes to the Company’s operations and also to some of our key strategies and tactical initiatives. If we do not successfully implement and adapt to these changes they may not lead to the desired improvement in our business and results of operation. This in turn, could have a material adverse effect on our business.

If we are unable to increase sales and achieve and sustain an acceptable level of gross margin, it could have a material adverse impact on our business, profitability and liquidity.

For the recently completed fiscal year, total sales, comparable stores sales and gross margin rate were below our expectations. Our ability to reverse this trend is subject to a variety of challenges. If we cannot increase our comparable store sales and improve our gross margin rate; it could have a material adverse effect on our results of operations, cash flows, liquidity and financial condition.

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Our fiscal 2019 plan to improve the Company's financial performance is dependent upon our ability to successfully implement our strategic and tactical initiatives.

The Company's fiscal 2019 operational plan contemplates growth in comparable store sales; improved selling, general and administrative expense leverage; and gross margin rate improvement intended to result in improved financial results as compared to fiscal 2018. We plan to achieve this through a variety of initiatives, including enhancing and simplifying her shopping experience, executing a disciplined promotional strategy, continuing to expand our omni-channel capabilities, building our customer base and reducing our cost structure. Our ability to achieve this plan depends upon a variety of factors, including a number of factors that are beyond our control. If we are unable to successfully implement and execute the strategic and tactical initiatives underlying our fiscal 2019 plan, our results of operations, financial condition, cash flows and liquidity could be adversely affected.

Our sales and results of operations could be adversely affected if we fail to attract, retain or recruit key personnel as well as attract, develop and retain qualified employees.

Our performance is highly dependent on attracting and retaining qualified employees, including our new executives, and other key personnel. A significant amount of turnover of management employees with specific knowledge relating to our operations and industry could result in a loss of organizational focus and an inability to identify or properly execute key strategies and tactical initiatives. Also, if we are unable to attract and retain a sufficient number of qualified sales associates at acceptable wage levels that may impair our efficiency and effectiveness in serving our customers and in generating sales. That, in turn, could adversely impact our results of operations, financial condition, cash flows and liquidity.

We may be unable to maintain our brand image, engage new and existing customers or gain market share.

Our ability to maintain our brand image and reputation is integral to our business as well as the implementation of strategies to expand it. Maintaining, promoting and growing our brand will depend largely on the success of our merchandising and marketing efforts and our ability to provide a consistent, high-quality customer experience that retains existing customers and attracts a sufficient level of new customers to shop our brand, both in-store and online. In addition, our business and results of operations could be adversely affected if we fail to achieve these objectives for any of our brands. Our ability to address the challenges of declining store traffic at our brick-and-mortar stores, in a highly promotional, low growth environment may impact our ability to maintain or gain market share and also impact our sales, business, operational results, financial position and cash flows.

Further, the use of social media by the Company and consumers has also increased the risk that the Company's image and reputation could be negatively impacted. The availability of information, reviews and opinions on social media is immediate, as is its impact. The opportunity for dissemination of information, including inaccurate and inflammatory information and opinion, is nearly infinite. Even if we react quickly and appropriately to negative social media about us or our brands, our reputation and customers' perception of our brands could be negatively impacted. Damage to the brand image and reputation of the Company in any aspect of its operations could have a material adverse effect on our business, operational results, financial position and cash flows.

Our business depends on effective marketing, advertising and promotional programs.

Customer traffic and demand for our merchandise is influenced by our advertising, marketing, promotional and social media activities, the name recognition and reputation of our brands, and the location and service offered in our stores. Although we use marketing, advertising and promotional programs to attract customers through various media, including social media, our competitors may spend more or use different approaches, which could provide them with a competitive advantage. If our marketing, advertising and promotional expenses increase, if our programs become less effective than that of our competitors, or if we do not adequately leverage technology and data analytic capabilities needed to generate concise and effective competitive insight, our business, operational results, financial position and cash flows could be adversely impacted.

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Customer tastes and fashion apparel trends tend to change rapidly. Our ability to anticipate or react to changing consumer preferences in a timely and accurate manner and offer a compelling product at an attractive price impacts our sales, gross margins, financial condition, results of operations, cash flows and liquidity.

Our success depends on our ability to consistently gauge and respond on a timely basis to fashion trends and customer preferences. Forecasting consumer demand for our merchandise and allocating the right amount and sizes of such merchandise to individual stores and to our eCommerce business can be challenging. In addition, our merchandise assortment differs from season to season. This may involve changes in our overall mix of fashion versus core merchandise which in turn may impact our overall product cost as the average unit cost of fashion product is generally higher than that of core product. Because the lead times required for many of our design and purchase decisions must be made well in advance of the applicable selling season, we are vulnerable to changes in consumer trends, preferences, price shifting, and the optimal selection and timing of merchandise purchases.

If we are unable to successfully identify or react to changing styles or trends or misjudge the market for our products or any new product lines, our sales and gross margins may be lower and the Company may be faced with a significant amount of unsold finished goods inventory. In response, the Company may be forced to increase its marketing promotions or price markdowns, which could have a material adverse effect on our financial condition, results of operations, cash flows and liquidity.

On the other hand, if we underestimate demand for our merchandise, we may experience inventory shortages, resulting in missed sales opportunities and lost revenues.

There are risks associated with our eCommerce business.

We sell merchandise over the Internet through our web site, www.christopherandbanks.com, which represents a growing percentage of our overall net sales. The successful operation of our eCommerce business depends on our ability to maintain the continuous operation of our eCommerce website and our fulfillment operations, and to provide a shopping experience that will generate both orders and return visits to our site. Our eCommerce operations are subject to numerous risks, including:

- disruption to the Internet;
- unanticipated operating problems;
- rapid technological change;
- the successful implementation of, and costs to implement, new systems and upgrades including those related to the operation of our website platform;
- inability to maintain efficient and uninterrupted order-taking and fulfillment processes;
- reliance on third parties with respect to the operation of the website, order fulfillment and customer service and such third parties' infrastructure;
- diversion of sales from our stores;
- liability for online content;
- lack of compliance with, or violations of, applicable state or federal laws and regulations;
- increased or unfavorable governmental regulation of eCommerce (which may include regulation of privacy, data protection, eCommerce payment services, content, accessibility and other related subjects);
- credit card fraud;
- the ability to process credit card transactions;
- system failures or disruptions and security breaches and the costs to address and remedy such failures, disruptions or breaches;
- computer viruses or malware;
- lack of sufficient levels of inventory of product or sizes to meet online demand; and

- untimely delivery of our merchandise to our customers by third parties.

If we fail to successfully address and respond to these risks, it could negatively impact our brand and reputation and have a material adverse effect on our eCommerce sales, operating results, financial position, liquidity and cash flows. There also can be no assurance that our eCommerce operations will meet our sales and profitability plans, and the failure to do so also could negatively impact our revenues, earnings, cash flows and liquidity.

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If we are unable to successfully implement and optimize our omni-channel retail strategy, our financial results would be adversely affected.

We are committed to growing our business through our omni-channel retail strategy. Our omni-channel initiatives include exploring additional ways to develop an omni-channel shopping experience, including further direct channel integration, use of advance analytics, customer personalization, and the assessment and implementation of emerging technologies. These initiatives involve significant investments in information technology systems, operational changes, and employee resources. Our goal is to offer our customers seamless access to our brands and merchandise whenever and wherever she chooses to shop. In that regard, the Company in fiscal 2018 implemented “buy on-line, ship to store”, and “buy anywhere, ship from store” and intends to launch “buy on-line pick up in store” this fiscal year.

Our success in the omni-channel arena also depends on our ability to anticipate and implement innovations in sales and marketing strategies to appeal to existing and potential customers who increasingly rely on multiple channels to meet their shopping needs and on our third-party service provider's ability to adapt to and implement system improvements in response. In addition, our competitors are also investing in omni-channel programs, some of which may be more successful than our own. Failing to successfully implement and optimize our omni-channel retail strategy or if we do not realize our expected return on our investment in these initiatives could have a material adverse effect on our business, operational results, financial position and cash flows.

Our reliance on foreign sources of production poses various risks.

Because a significant portion of our merchandise is produced overseas, primarily in China, Indonesia and Vietnam, we are subject to the additional risks of doing business in foreign markets and importing merchandise from abroad, such as:

- the ability to find qualified vendors and access products in a timely and efficient manner;
- delays in the delivery of cargo;
- new and additional U.S. government initiatives may be proposed or implemented that may have an impact on the trading status of certain countries and may include retaliatory duties, tariffs or other trade sanctions that, if enacted, could increase the cost of products purchased from suppliers in such countries or restrict the importation of products from such countries;
- violation of applicable laws or regulations including but not limited to violations under the U.S. Foreign Corrupt Practices Act or similar laws or regulations by us, our subsidiaries or our local agents;
- the adoption of new legislation or regulations in the U.S or foreign countries that make it more difficult, more costly or impossible to continue our foreign activities;
- financial or political instability in any of the countries in which our merchandise is manufactured;
- significant fluctuations in the value of the dollar against foreign currencies or restrictions on the transfer of funds;
- supply chain security initiatives undertaken by the United States or foreign governments that delay or impede the delivery of imports and the normal flow of product;
- delayed receipt or non-delivery of goods due to the failure of suppliers to comply with applicable import regulations;
- delayed receipt or non-delivery of goods due to labor strikes or unexpected or significant port congestion at United States or foreign ports;
- potential recalls or cancellations of orders for any merchandise that does not meet our quality standards;
- inability to meet our production needs due to labor shortages; and
- natural disasters, extreme weather, political or military conflicts, terrorism, disease epidemics and public health related concerns, which could result in closed factories, reduced workforces, scarcity of raw materials and embargoing or increased scrutiny (and the resulting delays) of goods produced in affected areas.

Any of the foregoing factors, or a combination of them, could increase our costs or result in our inability to obtain sufficient quantities of merchandise, thereby negatively impacting our sales, gross profit, operating income, financial condition and liquidity.

It is also possible that restrictions on or the inability of our suppliers to access credit may cause them or their factors to extend less favorable terms to us, which could adversely affect our cash flows, gross margins, financial condition and liquidity. Additionally, delays by our vendors in supplying our inventory needs could cause us to incur more expensive transportation charges, which may adversely affect our margins.

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A significant portion of our merchandise is ordered through a small number of suppliers and our business could suffer if we needed to replace them.

We do not own or operate any manufacturing facilities. Instead we depend on independent third parties to manufacture our merchandise. For the most recently completed fiscal year, our ten largest suppliers accounted for approximately 67% of the merchandise we purchased, and we purchased 16% and 10% of our goods, respectively, from our two largest suppliers.

We generally maintain non-exclusive relationships with the suppliers that manufacture our merchandise, and we compete with other companies for production facilities. As a result, we have no contractual assurances of continued supply or pricing, and any supplier, including our key suppliers, could discontinue selling to us at any time. Moreover, a key supplier may not be able to supply our inventory needs due to capacity constraints, financial instability or other factors beyond our control, or we could decide to stop using a supplier due to quality or other performance or cost issues. If we determine to cease doing business with one or more of our key suppliers or if a key supplier becomes unable to supply desired merchandise in sufficient quantities on acceptable terms, we could experience delays in the receipt of inventory until alternative supply arrangements are secured; such delays could result in lost sales and adversely affect our financial condition, results of operations, cash flows and liquidity.

If third parties with whom we do business do not adequately perform, or are unable or unwilling to perform, their functions, we might experience disruptions in our business, resulting in decreased profits, or losses, and damage to our reputation.

We depend upon independent third parties, both domestic and foreign, for the manufacture of all of the goods that we sell. The inability of a manufacturer to ship orders in a timely manner or to meet our standards could have a material adverse impact on our business.

We are party to contracts, transactions and business relationships with various third parties, including vendors, suppliers, service providers and lenders, pursuant to which such third parties have performance, payment and other obligations to us. In some cases, the Company depends upon such third parties to provide essential products, services or other benefits in order to operate the Company’s business in the ordinary course.

Adverse economic, industry or market conditions could result in an increased risk to the Company associated with the potential financial distress or insolvency of such third parties. Failure by any of these third parties to perform these functions effectively, properly and timely, or any disruption in our business relationships with any of these third parties, could negatively impact our operations, profitability, cash flows and reputation.

Our business and reputation could suffer if one or more of our suppliers or the factories they use fails to comply with applicable laws, follow acceptable labor practices or is accused of such non-compliance.

Our success depends, in part, on the suppliers of our goods and the factories that they use to operate in compliance with applicable laws and regulations and to comply with our vendor code of conduct. Each of our purchase orders requires adherence to accepted labor practices, applicable laws and compliance with our vendor code of conduct. However, we do not supervise or control our suppliers or the factories that produce the merchandise we sell or their labor and business practices. We rely on the staff of third-party auditing services and our non-exclusive buying agents to periodically visit and monitor the operations of a number of our independent factories to, among other things, assess compliance with our vendor code of conduct and applicable laws. Moreover, apparel companies can, in some cases, be held jointly liable for the wrongdoings of the suppliers of their products. In addition, we cannot control the public’s perceptions of such suppliers or factories, even if they are compliant with applicable law but are nonetheless viewed in a negative light by the public. Their failure to comply with our vendor code of conduct, applicable laws or to otherwise avoid creating negative consumer perceptions about their manufacturing methods and work environment, could damage our reputation, interrupt or disrupt the shipment of products, result in a decrease in customer traffic to our stores and website, and adversely affect our sales and consequently our results of operations.

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There are risks relating to the operation of the ports through which our goods are shipped and to the transportation of our merchandise to our distribution center, to our eCommerce fulfillment center, to our stores, and to our eCommerce customers.

The vast majority of our products are shipped by ocean from overseas. There are risks associated with a disruption in the operation of ports through which our products are shipped, which are primarily ports on the West Coast. If that were to occur, we are likely to experience delays in the receipt of products, and we or our suppliers may have to find alternative shipping methods, possibly at greater expense and costs as shipping by air is significantly more expensive. Similarly shipping to alternate destinations in the United States could lead to increased lead times and overall costs for our products. We currently rely upon independent third-party transportation providers for substantially all of our merchandise shipments, including shipments to our distribution center, our stores, our eCommerce fulfillment center and our eCommerce customers. Our use of outside delivery services for shipments is subject to a variety of risks which may impact a shipper's ability to provide delivery services that adequately meet our shipping needs at an acceptable cost. If we change shipping companies, we could face logistical difficulties that could adversely impact deliveries and we would incur costs and expend resources in connection with such a change. Moreover, we may not be able to obtain terms as favorable as those received from the independent third-party transportation providers we currently use, which would increase our costs. If we were to experience any of these risks, it could adversely affect our costs, results of operations, gross profit, financial condition and cash flows.

We depend on a single facility to conduct our operations and distribute our merchandise. Our business could suffer a material adverse effect if this facility’s operations was shut down or severely disrupted.

Our corporate headquarters, data center and our only distribution facility are located in one facility in Plymouth, Minnesota which facility is more than 45 years old. Our distribution facility supplies merchandise to our retail stores and our third party eCommerce fulfillment center. Any serious disruption to our distribution facility or a facility closure for any reason, could delay shipments to stores and our eCommerce fulfillment center and result in inventory shortages which could negatively impact our sales, results of operations and cash flows. In addition, our main data center and all of our senior management, including critical resources dedicated to merchandising, operations, marketing, finance, information technology and administrative functions, are located at our corporate headquarters. In the event of a disaster or other calamity impacting our corporate facility or data center, our management and staff would have to find and operate out of other suitable locations and/or rely on alternative sources for computer, telecommunications and data storage systems. We have little experience operating essential functions away from our main corporate office and are uncertain what effect operating such satellite facilities might have on business, personnel and results of operations.

Although we maintain business interruption and property insurance, we cannot be assured that our insurance coverage will be sufficient or that any insurance proceeds will be timely paid to us if our distribution center or corporate office were shut down for any unplanned reason.

We are heavily dependent on our information technology systems and our ability to maintain and upgrade these systems from time-to-time and operate them in a secure manner.

The efficient operation of our business is heavily dependent on our information technology systems (“IT systems”). In particular, we rely (i) on point-of-sale terminals, which provide information to our host analysis systems used to track sales and inventory; (ii) on our eCommerce website through which we sell merchandise to our customers and (iii) on a third party to process payroll for our employees. Although our data is backed up and securely stored off-site, our main data center is located at our headquarters in Plymouth, Minnesota. The data center and our operations are vulnerable to damage or interruption due to a variety of factors.

The reliability and capacity of our IT systems (including third-party hardware and software systems or services) are critical to our continued operations. Despite our precautionary efforts, our IT systems, as well as those of our services providers, are vulnerable to damage or interruption from a variety of sources, including natural or man-made disasters, technical malfunctions, inadequate systems capacity, power outages, computer viruses, malicious human acts, security breaches and similar disruptive problems, which may require significant investment to fix or replace, and we may suffer loss of critical data and interruptions or delays to our operations.

Any disruption in the operation of our IT systems, our inability to maintain sufficient staffing levels, the loss of key employees knowledgeable about such systems or our failure to continue to effectively integrate, monitor and enhance such systems could interrupt our operations resulting in the temporary loss of or ability to access data or interfere with our ability to sell goods at our stores, which could result in reduced sales and affect our operations and financial performance. In addition, any interruption in the operation of our website could cause us to lose sales due to the temporary inability of customers to purchase merchandise through our website.

Periodically, we improve and upgrade portions of our IT systems and the functionality of our Internet website in an effort to ensure they meet our evolving business and security needs and are adequate to handle business growth. If we are unable to effectively maintain, operate, secure and timely upgrade our IT systems and our website, our business, financial condition and results of operations could be materially and adversely affected. While we believe that we are diligent in selecting vendors, systems and third party providers to assist us in maintaining the integrity of our IT systems, we realize that there are risks and no assurance can be provided that future disruptions, service outages and failures or unauthorized intrusions will not occur. Any failure, interruption or compromise of these systems could have a material adverse effect on our business, results of operation and cash flows.

We are subject to cyber security risks and may incur additional expenses in order to mitigate such risks or in response to unauthorized access to our data. In addition, an incident in which we or our third-party service providers fail to protect our customers' or employee’s information against a security breach could result in costly government enforcement actions and monetary damages against us from private litigation. Such an incident could otherwise damage our reputation, harm our business and adversely impact our results of operations, financial condition and liquidity.

The Company and our third-party service providers, which manage portions of the Company’s data, are subject to cyber security risks. The nature of our business involves the receipt and transmission, and in some cases storage by us or third parties on our behalf, of customers’ personal information, shopping preferences and our customers’ credit card information, in addition to employee information and the Company’s financial and strategic data. The protection of our customers’ data, as well as confidential Company data is vitally important to the Company. The Company and its third-party service providers employ systems and/or websites that are intended to protect the storage and/or transmission of proprietary or confidential information by us and these third-party service providers. While the Company has implemented measures to prevent and detect security breaches and cyber incidents and to monitor its computer network, any failure of these measures and any failure of third parties that assist the Company in managing its data could adversely affect the Company's business, financial condition and results of operations.

Although the Company expects our third-party service providers to implement and use reasonable security measures to protect the proprietary and confidential information once it is received by them, we cannot control these service providers and cannot guarantee that a security breach will not occur in the future either at their location or within their systems.

Because the techniques used to obtain unauthorized access to data, disable or degrade storage service, or sabotage systems evolve and change frequently and may be difficult to detect, we and the service providers we use may be unable to anticipate these techniques or implement adequate preventive measures. Unauthorized parties may also attempt to gain access to our systems or facilities, or those of third parties acting on our behalf, through fraud, trickery or other forms of deceiving our employees or those of our third-party providers. Despite our preventative efforts and those of our third-party service providers, we may be vulnerable to targeted or random security breaches, privacy or denial of service attacks, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events which could expose us and our third-party service providers to a risk of loss or misuse of proprietary and confidential information, litigation and potential liability. Cyber security attacks may be targeted at us, our third-party service providers, or our customers. Actual or anticipated attacks may cause us to incur significant additional expense, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants. Any cyber security or security breaches, including any breaches that result in theft, transfer or unauthorized disclosure of customer, employee or company information, or our lack of compliance with information security and privacy laws and regulations, may result in significant legal and financial exposure, including claims for unauthorized purchases with stolen credit card information, impersonation or other similar fraud claims, and considerable other additional expenses. Although we maintain cyber-security insurance there can be no assurance that our insurance coverage will cover the particular cyber incident at issue or that such coverage will be sufficient, or that insurance proceeds will be paid to us in a timely manner.

Consumer awareness and sensitivity to privacy breaches and cyber security threats is prevalent. Any misappropriation of confidential or personally identifiable information gathered, stored or used by us or our service providers, be it intentional or accidental, could have a material impact on the operation of our business, including severely damaging our reputation and our relationships with our customers, employees and investors. Should customers lose confidence in our ability to protect their information, they may discontinue shopping in our stores or on our website.

Our ability to maintain the value of our trademarks impacts our business and financial performance.

We believe that our “christopher & banks”, “cj banks” and related trademarks are important to our success. Even though we take actions to protect our trademarks and other proprietary rights, we cannot be sure that we will be successful or that others will not imitate or infringe upon our intellectual property rights. In addition, we cannot assure that others will not seek to block the sale of our products as infringements of their trademark and proprietary rights. If we cannot adequately protect our existing and future trademarks or prevent infringement of them, our business and financial performance could suffer.

3. CAPITAL RISKS

The sufficiency and availability of our sources of liquidity may be affected by a variety of factors.

The sufficiency and availability of our sources of liquidity may be affected by a variety of factors, including, without limitation: (i) the level of our operating cash flows, which is impacted by our overall sales and gross margins, general economic conditions and the level of consumer discretionary spending; (ii) our capital expenditures; and (iii) our ability to maintain borrowing availability and to comply with applicable covenants contained in our amended and restated credit agreement ("the Credit Facility").

Our ability to return to profitability and to generate positive cash flows is dependent upon many factors, including favorable economic conditions and consumer confidence and our ability to successfully execute our financial plan and strategic and tactical initiatives in order to improve overall sales levels and gross margins. There can be no assurance that our cash flows from operations will be sufficient at all times to support our Company without additional financing or credit availability. An inability to generate sufficient cash flows could have important consequences. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- limit the amount of orders our vendors will produce, or their factors will allow them to produce for us, or result in their imposing unfavorable business terms or possibly refusing to do future business with us;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- limit our ability to borrow money or to invest in our business operations;
- make it more difficult for us to open new stores or improve existing stores; and
- require us to incur significant additional indebtedness.

Should we be unable in the future to borrow under the Credit Facility, it is possible, depending on the cause of our inability to borrow, that we may not have sufficient cash resources for our operations. If that were to occur, our liquidity would be significantly impaired, which would have a material adverse effect on our business, financial condition and results of operations.

Our amended revolving credit agreement contains various covenants that impose restrictions that may affect our ability to operate our businesses.

The amended revolving credit agreement contains various affirmative and negative covenants that, subject to certain exceptions, restrict the ability of the Company and its subsidiaries to, among other things, have liens on their property, change the nature of their business, transact business with affiliates or sell or convey certain of their assets to any one person. In addition, the agreement contains a financial covenant that requires the Company to maintain certain financial ratios related to its borrowing base. The ability of the Company and its subsidiaries to comply with these provisions may be affected by our operating results as well as events beyond our control. Failure to comply with these covenants could result in an event of default, which, if not cured or waived, could cause our lenders to restrict or eliminate access to funds under the Credit Facility.

Access to additional financing from the capital markets may be limited.

Changes in the credit and capital markets, including market disruptions, limited liquidity and interest rate fluctuations, may increase the cost of financing or restrict the Company's access to potential sources of future liquidity. As a result of general unpredictability in the global financial markets, there can be no assurance that our liquidity will not be affected or that our capital resources will at all times be sufficient to satisfy our liquidity needs. Although we believe that our existing cash and cash equivalents, cash provided by operations, and our availability under our amended revolving credit agreement, will be adequate to satisfy our capital needs for the foreseeable future, any renewed tightening of the credit or capital markets could make it more difficult for us to access funds, enter into an agreement for new indebtedness or obtain funding through the issuance of our securities. Our amended Credit Facility has covenants and restrictions which, if not met, may limit our ability to access funds.

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While we have availability under our Credit Facility to bolster our liquidity, we may need additional capital to fund our operations, particularly if our cash flows from operating activities were to decrease or if the Credit Facility were unavailable or used to capacity. The sale of additional equity securities or convertible debt securities in order to improve our liquidity could result in additional dilution to our stockholders. If we borrow under our Credit Facility or incur other debt, our expenses will increase and we could be subject to additional restrictions that may limit our operating flexibility. Newly issued securities may have rights, preferences and privileges that are senior or otherwise superior to those of our common stock. There is no assurance that equity or debt financing will be available in amounts or on terms acceptable to us. Without sufficient liquidity, we will be more vulnerable to any future downturns in our business or the general economy. Future increases in interest rates or other tightening of the credit markets, or future turmoil in the financial markets, could make it more difficult for us to access funds, to refinance our indebtedness (if necessary), to enter into agreements for new indebtedness, or to obtain funding through the issuance of our securities. Also, if we are unable to obtain credit on commercially reasonable terms in the future that could adversely impact our liquidity and results of operations.

We may incur additional indebtedness in the future, which may require us to use a substantial portion of our cash flows to service debt and limit our financial and operating flexibility in important ways.

We may incur additional indebtedness in the future. Any borrowings under any future debt financing will require interest payments and need to be repaid or refinanced, could require us to divert funds identified for other purposes to debt service and would create additional cash demands and could impair our liquidity position and add financial risk for us. Diverting funds identified for other purposes for debt service may adversely affect our business and growth prospects. If we cannot generate sufficient cash flows from operations to service our debt, we may need to refinance our debt, dispose of assets or issue equity to obtain necessary funds. We do not know whether we would be able to take any of these actions on a timely basis, on terms satisfactory to us, or at all.

Our stock price may be volatile.

The Company’s stock price has experienced volatility over time and this volatility may continue, in part due to factors such as those discussed in this Item 1A of this Annual Report. Stock volatility may adversely affect stockholder confidence, as well as associate morale and retention for those associates who receive equity grants as part of their compensation packages, which could have a material adverse effect on our business, operational results, financial position and cash flows.

Future announcements or disclosure by us or others could affect the market price for our common stock, including but not limited to:

- our ability to accomplish our tactical initiatives or operating goals and to do so in accordance with the timing estimates we have publicly announced;
- the performance of third-party contract manufacturers and suppliers;
- actual or anticipated variations in our results of operations or those of our competitors;
- sales of common stock or other securities by us or our stockholders in the future;
- additions or departures of key management or personnel;
- the trading volume of our common stock;
- changes in earnings estimates or recommendations by securities analysts, failure to obtain or maintain analyst coverage of our common stock or our failure to achieve analyst earnings estimates;
- decreases in market valuations of other retailers; and
- general market conditions and other factors unrelated to our operating performance or the operating performance of our competitors.

In addition, the stock market has experienced price and volume fluctuations that have affected the market price of many retail and other stocks that have been unrelated or disproportionate to the operating performance of these companies. This volatility could affect the price at which shares of our stock could be sold. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of such company's securities. Such litigation could result in substantial costs, divert our management's attention and resources and have a material adverse effect on our business, operational results, financial position and cash flows.

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4. LEGAL AND REGULATORY RISKS

If our long-lived assets become impaired, we may need to record significant non-cash impairment charges.

Periodically, we review our long-lived assets for impairment whenever economic events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If an individual store location is unable to generate sufficient future cash flows, we may be required to record a partial or full impairment of that store's assets. In addition, significant negative industry or general economic trends, disruptions to our business and unexpected significant changes or planned changes in our use of the assets (such as store relocations or closures) may also result in impairment charges. Any such impairment charges, if significant, could adversely affect our financial position and results of operations.

Laws on privacy continue to evolve and further limits on how we collect or use customer information could adversely affect our business.

We collect and store customer information primarily for marketing purposes and to improve the services we provide. The use or retention of certain customer information is subject to applicable privacy laws. As privacy, data protection and information security laws, are interpreted and applied, compliance costs may increase, particularly in the context of providing adequate data protection and adequate data transfer mechanisms. Individual states are increasingly adopting or revising privacy, data protection and information security laws, that could have significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of customer and/or employee information, and some of our current or future business plans. New legislation or regulation, and the interpretation and application of existing laws and regulations, could increase our costs of compliance, technology and business operations and could reduce revenues from certain business initiatives. Moreover, the application of existing or new laws to existing technology and practices can be uncertain and may lead to additional compliance risk and cost.

In recent years, there has been increasing regulatory enforcement and litigation activity in the area of privacy, data protection and information security in the United States. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory and/or governmental investigations and/or actions, litigation, fines, sanctions, ongoing regulatory monitoring customer attrition, which could have a material adverse impact on our business, operational results, financial position and cash flows. In addition to the extent our or our business partners' security procedures and protection of customer information prove to be insufficient or inadequate, we may become subject to litigation or other claims, which could expose us to liability and cause damage to our reputation, brand, results of operations and liquidity.

A failure to comply with the Payment Card Industry Data Security Standards could adversely affect our business, financial condition and results of operations.

We are highly dependent on the use of credit and debit cards to complete sale transactions in our stores and through our website, and because of such use are subject to the Payment Card Industry Data Security Standards ("PCI Standards"). If we or our business partners fail to comply with the PCI Standards or to adequately protect sensitive customer information, we may become subject to fines or limitations on our ability to accept credit or debit cards, which could adversely affect our sales, operating income, brand and reputation. Also, any changes we may be required to make to our private label credit card program in the future could adversely affect the promotional financing arrangements available to our credit card customers and therefore our operating results.

Changes in accounting rules and regulations could adversely affect our results of operations, financial condition and cash flows.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regards to a wide range of matters that are relevant to our business are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change or increase volatility of our reported or expected financial performance or financial condition. See Note 1, “Nature of Business and Significant Accounting Policies,” in the Notes to our Consolidated Financial Statements included herein for a description of recently issued accounting pronouncements, and “Critical Accounting Policies,” included herein which discusses accounting policies considered to be important to our operational results and financial condition. These and other future changes to accounting rules or regulations could have an adverse impact on our business, operational results, financial position and cash flows.

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Union attempts to organize our employees could negatively affect our business.

None of our employees are currently subject to a collective bargaining agreement. It is possible unions may attempt to organize all or part of our employee base at certain stores or within certain regions. Responding to such organization attempts may distract management and employees and may have a negative financial impact on individual stores, or on our business as a whole.

We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to compliance initiatives.

As a public company, we incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), as well as rules subsequently implemented by the SEC and the New York Stock Exchange ("NYSE"), have imposed various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and changes