CHRISTOPHER & BANKS CORP
Form 10-Q
November 30, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 28, 2017
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____to____
Commission File No. 001-31390
CHRISTOPHER & BANKS CORPORATION
(Exact name of registrant as specified in its charter)

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

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 24, 2017, there were 37,834,003 shares of the registrant's common stock outstanding.

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CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

| | October 28, 2017 | January 28, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 17,867 | $ 35,006 |
| Accounts receivable | 4,196 | 2,549 |
| Merchandise inventories | 51,431 | 36,834 |
| Prepaid expenses and other current assets | 4,638 | 3,485 |
| Income taxes receivable | 243 | 516 |
| Total current assets | 78,375 | 78,390 |
| Property, equipment and improvements, net | 50,374 | 55,332 |
| Other non-current assets: | | |
| Deferred income taxes | 296 | 321 |
| Other assets | 638 | 577 |
| Total other non-current assets | 934 | 898 |
| Total assets | $ 129,683 | $ 134,620 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 22,600 | $ 13,867 |
| Accrued salaries, wages and related expenses | 5,972 | 6,613 |
| Accrued liabilities and other current liabilities | 24,871 | 26,426 |
| Total current liabilities | 53,443 | 46,906 |
| Non-current liabilities: | | |
| Deferred lease incentives | 8,186 | 9,021 |
| Deferred rent obligations | 6,623 | 6,576 |
| Other non-current liabilities | 2,500 | 822 |
| Total non-current liabilities | 17,309 | 16,419 |
| Commitments and contingencies | — | — |
| Stockholders' equity: | | |
| Preferred stock — $0.01 par value, 1,000 shares authorized, none outstanding | — | — |
| Common stock — $0.01 par value, 74,000 shares authorized, 47,629 and 47,425 shares issued, and 37,838 and 37,634 shares outstanding at October 28, 2017 and January 28, 2017, respectively | 475 | 473 |
| Additional paid-in capital | 127,348 | 126,516 |
| Retained earnings | 43,819 | 57,017 |
| Common stock held in treasury, 9,791 shares at cost at October 28, 2017 and January 28, 2017 | (112,711 ) | (112,711 ) |
| Total stockholders' equity | 58,931 | 71,295 |
| Total liabilities and stockholders' equity | $ 129,683 | $ 134,620 |

See Notes to Condensed Consolidated Financial Statements

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

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|---|---|---|---|
| | October 28, 2017 | October 29, 2016 | October 28, 2017 | October 29, 2016 |
| Net sales | $98,468 | $106,668 | $273,642 | $296,625 |
| Merchandise, buying and occupancy costs | 65,229 | 67,447 | 185,237 | 189,543 |
| Gross profit | 33,239 | 39,221 | 88,405 | 107,082 |
| Other operating expenses: | | | | |
| Selling, general and administrative | 31,802 | 32,483 | 91,956 | 98,585 |
| Depreciation and amortization | 2,976 | 3,119 | 9,242 | 9,116 |
| Impairment of long-lived assets | — | — | 163 | 476 |
| Total other operating expenses | 34,778 | 35,602 | 101,361 | 108,177 |
| Operating (loss) income | (1,539) | 3,619 | (12,956) | (1,095) |
| Interest expense, net | (38) | (44) | (107) | (126) |
| Other income | — | — | — | 911 |
| (Loss) income before income taxes | (1,577) | 3,575 | (13,063) | (310) |
| Income tax provision | 45 | 82 | 136 | 249 |
| Net (loss) income | $(1,622) | $3,493 | $(13,199) | $(559) |
| | | | | |
| Basic (loss) income per share: | | | | |
| Net (loss) income | $(0.05) | $0.09 | $(0.36) | $(0.02) |
| Basic shares outstanding | 37,285 | 37,075 | 37,178 | 36,992 |
| | | | | |
| Diluted (loss) income per share: | | | | |
| Net (loss) income | $(0.05) | $0.09 | $(0.36) | $(0.02) |
| Diluted shares outstanding | 37,285 | 37,153 | 37,178 | 36,992 |

See Notes to Condensed Consolidated Financial Statements

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CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(in thousands)
(unaudited)

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|---|---|---|---|
| | October 28, 2017 | October 29, 2016 | October 28, 2017 | October 29, 2016 |
| Net (loss) income | $ (1,622) | $ 3,493 | $ (13,199) | $ (559) |
| Other comprehensive income, net of tax | — | — | — | — |
| Comprehensive (loss) income | $ (1,622) | $ 3,493 | $ (13,199) | $ (559) |

See Notes to Condensed Consolidated Financial Statements

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CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

| | Thirty-Nine Weeks Ended | |
|---|---|---|
| | October 28, 2017 | October 29, 2016 |
| Cash flows from operating activities: | | |
| Net loss | $(13,199) | $ (559) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 9,242 | 9,116 |
| Impairment of long-lived assets | 163 | 476 |
| Deferred income taxes, net | 25 | 18 |
| Gain from company-owned life insurance | — | (911) |
| Amortization of premium on investments | — | 10 |
| Amortization of financing costs | 47 | 47 |
| Deferred lease-related liabilities | (866) | (817) |
| Stock-based compensation expense | 859 | 565 |
| Loss on disposal of assets | — | 1 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,648) | 326 |
| Merchandise inventories | (14,597) | (11,604) |
| Prepaid expenses and other assets | (1,260) | (543) |
| Income taxes receivable | 273 | (88) |
| Accounts payable | 8,640 | 123 |
| Accrued liabilities | (2,089) | 2,912 |
| Other liabilities | 1,743 | 164 |
| Net cash used in operating activities | (12,667) | (764) |
| Cash flows from investing activities: | | |
| Purchases of property, equipment and improvements | (4,447) | (8,770) |
| Proceeds from company-owned life insurance | — | 911 |
| Maturities of available-for-sale investments | — | 3,005 |
| Net cash used in investing activities | (4,447) | (4,854) |
| Cash flows from financing activities: | | |
| Exercise of stock options | — | 17 |
| Shares redeemed for payroll taxes | (25) | (23) |
| Net cash used in financing activities | (25) | (6) |
| Net decrease in cash and cash equivalents | (17,139) | (5,624) |
| Cash and cash equivalents at beginning of period | 35,006 | 31,506 |
| Cash and cash equivalents at end of period | $17,867 | $ 25,882 |
| Supplemental cash flow information: | | |
| Interest paid | $107 | $ 143 |
| Income taxes (refunded) paid | $(263) | $ 102 |
| Accrued purchases of equipment and improvements | $288 | $ 267 |

See Notes to Condensed Consolidated Financial Statements

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CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
NOTE 1 — Basis of Presentation

The unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared by Christopher & Banks Corporation and its subsidiaries (collectively referred to as “Christopher & Banks”, “the Company”, “we” or “us”) pursuant to the current rules and regulations of the United States ("U.S.") Securities and Exchange Commission. Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been omitted, pursuant to such rules and regulations. These unaudited condensed consolidated financial statements, except the condensed consolidated balance sheet as of January 28, 2017 derived from the Company's audited financial statements, should be read in conjunction with the audited financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

The results of operations for the interim period shown in this report are not necessarily indicative of results to be expected for the full fiscal year. In the opinion of management, the information contained herein reflects all adjustments, consisting only of normal adjustments, except as otherwise stated in these notes, considered necessary to present fairly our financial position, results of operations, and cash flows as of October 28, 2017, and October 29, 2016 and for all periods presented.

Recently issued accounting pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance under Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 supersedes existing revenue recognition requirements and provides a new comprehensive revenue recognition model that requires entities to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers, Deferral of the Effective Date, which defers the effective date of the new revenue recognition standard by one year. As a result, ASU 2014-09 is effective retrospectively for fiscal years and interim periods within those years beginning after December 15, 2017. We do not believe the adoption of this standard will have a material impact on our consolidated financial statements. The new revenue standard will require the Company to recognize gift card breakage proportional to actual gift card redemptions. We plan to adopt this ASU under the modified retrospective approach beginning in the first quarter of fiscal 2018 which includes a cumulative adjustment to retained earnings. As interpretations of the new guidance continue to evolve in the fourth quarter of fiscal 2017, we will monitor developments and will finalize conclusions on our revenue recognition policy, disclosure requirements and changes that may be necessary to our internal controls over financial reporting.

In February 2016, the FASB issued ASU 2016-02, Leases, which requires that any lease arrangements longer than twelve months result in an entity recognizing an asset and liability on its balance sheet. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The provisions of this new guidance are to be applied using a modified retrospective approach, with elective reliefs, which requires application of the new guidance for all periods presented. The Company is currently evaluating the guidance and its impact on our consolidated financial statements and the related internal controls over financial reporting. The Company expects the adoption of this standard will have a material impact on its consolidated balance sheet for recognition of lease-related assets and liabilities. We will adopt the ASU beginning in the first quarter of fiscal 2019.
In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 addresses simplification of several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as

either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The adoption of ASU 2016-09 did not have a material impact on the Company's consolidated financial statements mostly due to the impact of the tax valuation allowance.

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

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NOTE 2 — Merchandise Inventories and Sources of Supply

Merchandise inventories consisted of the following (in thousands):

| | October 28, 2017 | January 28, 2017 |
|---|---|---|
| Merchandise - in store/eCommerce | $ 44,367 | $ 28,584 |
| Merchandise - in transit | 7,064 | 8,250 |
| Total merchandise inventories | $ 51,431 | $ 36,834 |

There have been no material changes to our ratio of imports to total merchandise purchases or concentration of supplier purchases in the thirty-nine weeks ended October 28, 2017 compared to the fiscal 2016 year ended January 28, 2017.

NOTE 3 — Property, Equipment and Improvements, Net

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

| Description | October 28, 2017 | January 28, 2017 |
|---|---|---|
| Land | $ 1,597 | $ 1,597 |
| Corporate office, distribution center and related building improvements | 12,753 | 12,700 |
| Store leasehold improvements | 49,281 | 49,450 |
| Store furniture and fixtures | 69,405 | 69,598 |
| Corporate office and distribution center furniture, fixtures and equipment | 4,900 | 4,880 |
| Computer and point of sale hardware and software | 33,868 | 32,313 |
| Construction in progress | 1,795 | 1,321 |
| Total property, equipment and improvements, gross | 173,599 | 171,859 |
| Less accumulated depreciation and amortization | (123,225 ) | (116,527 ) |
| Total property, equipment and improvements, net | $ 50,374 | $ 55,332 |

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. In conjunction with an impairment analysis, the Company determined that improvements and equipment at certain under-performing stores and at stores identified for closure were impaired. As a result, the Company recorded no long-lived asset impairment during the thirteen week periods ended October 28, 2017 and October 29, 2016. The Company recorded approximately $0.2 million and $0.5 million for long-lived asset impairments during the thirty-nine week periods ended October 28, 2017 and October 29, 2016, respectively.

NOTE 4 — Accrued Liabilities

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

| | October 28, 2017 | January 28, 2017 |
|---|---|---|
| Gift card and store credit liabilities | $ 4,535 | $ 7,414 |
| Accrued Friendship Rewards Program loyalty liability | 3,763 | 3,770 |
| Accrued income, sales and other taxes payable | 2,403 | 1,239 |
| Accrued occupancy-related expenses | 3,217 | 3,614 |
| Sales return reserve | 2,055 | 943 |
| eCommerce obligations | 5,156 | 3,190 |
| Other accrued liabilities | 3,742 | 6,256 |

| | | |
|---|---|---|
| Total accrued liabilities and other current liabilities | $ 24,871 | $ 26,426 |

NOTE 5 — Credit Facility

The Company is party to an amended and restated credit agreement (the "Credit Facility") with Wells Fargo Bank, N.A. (“Wells Fargo”), as lender. The Credit Facility was most recently amended and extended on September 8, 2014. The current expiration date is September 8, 2019.

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The Credit Facility provides the Company with revolving credit loans of up to $50.0 million in the aggregate, subject to a borrowing base formula based primarily on eligible credit card receivables, inventory and real estate, as such terms are defined in the Credit Facility, and up to $10.0 million of which may be drawn in the form of standby and documentary letters of credit.

Borrowings under the Credit Facility will generally accrue interest at a rate ranging from 1.50% to 1.75% over the London Interbank Offered Rate ("LIBOR") or 0.50% to 0.75% over the Wells Fargo Prime Rate based on the amount of Average Daily Availability for the Fiscal Quarter immediately preceding each Adjustment Date, as such terms are defined in the Credit Facility. The Company has the ability to select between the LIBOR or prime based rate at the time of the cash advance. The Credit Facility has an unused commitment fee of 0.25%.

The Credit Facility contains customary events of default and various affirmative and negative covenants. The sole financial covenant contained in the Credit Facility requires the Company to maintain Availability at least equal to the greater of (a) ten percent (10%) of the borrowing base or (b) $3.0 million. In addition, the Credit Facility permits the payment of dividends to the Company's stockholders if certain financial conditions are met. The Company was in compliance with all covenants and other financial provisions as of October 28, 2017.

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

The Company had no revolving credit loan borrowings under the Credit Facility during each of the thirty-nine week periods ended October 28, 2017, and October 29, 2016. The total Borrowing Base at October 28, 2017 was approximately $48.1 million. As of October 28, 2017, the Company had open on-demand letters of credit of approximately $2.3 million. Accordingly, after reducing the Borrowing Base for the open letters of credit and the required minimum availability of the greater of $3.0 million, or 10.0% of the Borrowing Base, the net availability of revolving credit loans under the Credit Facility was approximately $40.9 million at October 28, 2017.

NOTE 6 — Income Taxes

The Company's liability for unrecognized tax benefits associated with uncertain tax positions is recorded within other non-current liabilities. There has been no material change in the reserve for unrecognized tax benefits since the end of the previous year. The Company recognizes interest and penalties related to unrecognized tax benefits as components of income tax expense.

The Company and its subsidiaries are subject to U.S. federal income taxes and the income tax obligations of various state and local jurisdictions. Periods after fiscal 2013 remain subject to examination by the Internal Revenue Service. With few exceptions, the Company is not subject to state income tax examination by tax authorities for taxable years prior to fiscal 2012. As of October 28, 2017, the end of the third quarter of fiscal 2017, the Company had no other ongoing audits in various jurisdictions and does not expect the liability for unrecognized tax benefits to significantly increase or decrease in the next twelve months.

As of October 28, 2017, the possibility of future cumulative losses still exists. Accordingly, the Company has continued to maintain a valuation allowance against its net deferred tax assets. A small deferred tax asset was allowed related to certain tax benefits. The Company has federal and state net operating loss ("NOL") carryforwards which will reduce future taxable income. Approximately $36.2 million in net federal tax benefits are available from these federal loss carryforwards. An additional $1.2 million is available in net tax credit carryforwards. The state loss carryforwards will result in net state tax benefits of approximately $2.5 million.

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

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NOTE 7 — Earnings Per Share

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

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|---|---|---|---|
| | October 28, 2017 | October 29, 2016 | October 28, 2017 | October 29, 2016 |
| Numerator (in thousands): | | | | |
| Net (loss) income attributable to Christopher & Banks Corporation | $ (1,622 ) | $ 3,493 | $(13,199) | $(559 ) |
| Denominator (in thousands): | | | | |
| Weighted average common shares outstanding - basic | 37,285 | 37,075 | 37,178 | 36,992 |
| Dilutive shares | — | 78 | — | — |
| Weighted average common and common equivalent shares outstanding - diluted | 37,285 | 37,153 | 37,178 | 36,992 |
| Net (loss) income per common share: | | | | |
| Basic | $ (0.05 ) | $ 0.09 | $(0.36 ) | $(0.02) |
| Diluted | $ (0.05 ) | $ 0.09 | $(0.36 ) | $(0.02) |

Total stock options of approximately 2.6 million and 3.2 million were excluded from the shares used in the computation of diluted earnings per share for the thirteen week periods ended October 28, 2017 and October 29, 2016, as they were anti-dilutive. Total stock options of approximately 2.6 million and 2.8 million were excluded from the shares used in the computation of diluted earnings per share for the thirty-nine week periods ended October 28, 2017 and October 29, 2016, respectively, as they were anti-dilutive.

NOTE 8 — Fair Value Measurements

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

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

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

The following table summarizes certain information for non-financial assets for the thirty-nine weeks ended October 28, 2017 and the fiscal year ended January 28, 2017, that are measured at fair value on a non-recurring basis in periods subsequent to an initial recognition period. The Company places amounts into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

| | Thirty-Nine Weeks Ended | Fiscal Year Ended |
|---|---|---|
| Long-Lived Assets Held and Used (in thousands): | October 28, 2017 | January 28, 2017 |
| Carrying value | $ 163 | $ 877 |

| | | |
|---|---|---|
| Fair value measured using Level 3 inputs | $ — | $ 91 |
| Impairment charge | $ 163 | $ 786 |

All of the fair value measurements included in the table above were based on significant unobservable inputs (Level 3). The Company determines fair value for measuring assets on a non-recurring basis using a discounted cash flow approach as discussed in Note 1, Nature of Business and Significant Accounting Policies in our Form 10-K for the year ended January 28, 2017. In determining future cash flows, the Company uses its best estimate of future operating results, which requires the use of significant estimates and assumptions, including estimated sales, merchandise margin and expense levels, and the selection of an appropriate discount rate; therefore, differences in the estimates or assumptions could produce significantly different results.

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General economic uncertainty impacting the retail industry and the continuation of recent trends in company performance makes it reasonably possible that additional long-lived asset impairments could be identified and recorded in future periods.

The fair value measurement of the long-lived assets encompasses the following significant unobservable inputs:

| Unobservable Inputs | Range Fiscal 2016 |
|---|---|
| Weighted Average Cost of Capital (WACC) | 16% |
| Annual sales growth | 0% to 7% |

n
NOTE 9 — Legal Proceedings

The Company is subject, from time to time, to various claims, lawsuits or actions that arise in the ordinary course of business. We accrue for loss contingencies associated with outstanding litigation or legal claims for which management has determined it is probable that a loss contingency exists and the amount of the loss can be reasonably estimated.

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

In connection with a preliminary settlement of pre-litigation employment claims reached in February 2017, we established a loss contingency of $1.475 million as of January 28, 2017. In connection therewith, on April 13, 2017, a complaint was filed in State Circuit Court in the Fifteenth Judicial Circuit in Palm Beach County, Florida (the “Florida Circuit Court”) by three named plaintiffs in a purported class action asserting claims on behalf of current and former store managers. The named plaintiffs principally alleged that they and other similarly situated store managers were improperly classified as exempt employees and thus not compensated for overtime work as required under applicable federal and state law. On May 4, 2017, the Company entered into a settlement agreement with the named plaintiffs and the proposed class. On May 8, 2017, the Florida Circuit Court issued an order approving the class settlement. As approved by the Florida Circuit Court, certain current and former store managers are eligible to receive payments in connection with time worked in prior years. The settlement of the lawsuit is not an admission by us of any wrongdoing.

As part of the settlement, the Company contributed $1.475 million into a settlement fund in the second fiscal quarter of 2017. Following approval of the settlement, opt-in notices were sent to the members of the class. After the opt-in period concluded, settlement checks were mailed to the class members who opted in, which represented approximately 58% of the class members. On November 16, 2017, the Company received approximately $339,000 from the settlement administrator representing the remainder of the settlement fund after payment of all submitted claims and related settlement fund costs and expenses.

NOTE 10 — Segment Reporting

In the table below, Retail Operations includes activity generated by the Company’s retail store locations (Missy Petite Women ("MPW"), Outlets, Christopher & Banks, and C.J. Banks stores) as well as the eCommerce business. Retail

Operations only includes net sales, merchandise gross margin and direct store expenses with no allocation of corporate overhead as that is the information used by the chief operating decision maker to evaluate performance and to allocate resources. The Corporate/Administrative balances include supporting administrative activity at the corporate office and distribution center facility and are included to reconcile the amounts to the condensed consolidated financial statements.

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Business Segment Information
(in thousands)

| | Retail Operations | Corporate/ Administrative | Consolidated |
|---|---|---|---|
| Thirteen Weeks Ended October 28, 2017 | | | |
| Net sales | $ 98,468 | $ — | $ 98,468 |
| Depreciation and amortization | 2,327 | 649 | 2,976 |
| Impairment of long-lived assets | — | — | — |
| Operating income (loss) | 12,008 | (13,547 ) | (1,539 ) |
| Thirteen Weeks Ended October 29, 2016 | | | |
| Net sales | $ 106,668 | $ — | $ 106,668 |
| Depreciation and amortization | 2,484 | 635 | 3,119 |
| Impairment of long-lived assets | — | — | — |
| Operating income (loss) | 16,890 | (13,271 ) | 3,619 |
| Thirty-Nine Weeks Ended October 28, 2017 | | | |
| Net sales | $ 273,642 | $ — | $ 273,642 |
| Depreciation and amortization | 7,278 | 1,964 | 9,242 |
| Impairment of long-lived assets | 163 | — | 163 |
| Operating income (loss) | 25,960 | (38,916 ) | (12,956 ) |
| Total assets | 100,708 | 28,975 | 129,683 |
| Thirty-Nine Weeks Ended October 29, 2016 | | | |
| Net sales | $ 296,625 | $ — | $ 296,625 |
| Depreciation and amortization | 7,231 | 1,885 | 9,116 |
| Impairment of long-lived assets | 476 | — | 476 |
| Operating income (loss) | 40,410 | (41,505 ) | (1,095 ) |
| Total assets | 107,251 | 45,092 | 152,343 |

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

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended January 28, 2017 and our unaudited Condensed Consolidated Financial Statements and related Notes included in Item 1 of this Quarterly Report on Form 10-Q. Unless otherwise noted, transactions and other factors significantly impacting our financial condition, results of operations and liquidity are discussed in order of magnitude.

### Executive Overview

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

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

As of October 28, 2017, we operated 472 stores in 45 states, including 321 Missy, Petite, Women ("MPW") stores, 79 outlet stores, 37 Christopher & Banks ("CB") stores, and 35 C.J. Banks ("CJ") stores. Our CB brand offers unique fashions and accessories featuring exclusively designed assortments of women's apparel in sizes 4 to 16 and in petite sizes 4P to 16P. Our C.J. Banks brand offers similar assortments of women's apparel in sizes 14W to 26W. Our MPW concept and outlet stores offer an assortment of both CB and CJ apparel servicing the Missy, Petite and Women-sized customer in one location.

### Strategic Priorities

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

- Offer a differentiated product assortment;
- Increase customer loyalty, acquire new customers, and recapture lapsed customers; and
- Leverage our omni-channel capabilities.

Offer a differentiated product assortment
We are committed to ensuring we consistently meet our customers' needs with a differentiated merchandise assortment that fits her lifestyle at a recognizable value. We have increased the flow of our fashion offerings to provide a more versatile assortment so customers shop more frequently and buy more when they visit. To further support the newness of our merchandise presentations, we increased inventory turnover to keep merchandise fresh and current.

Increase customer loyalty, acquire new customers, and recapture lapsed customers
We have a very loyal customer base that is highly engaged. The personalized customer service that our Associates provide is a differentiator for us and is a contributor to the loyalty our customers exhibit, with approximately 90% of our active customers participating in our loyalty rewards program.

We continue to be focused 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.

We continue to focus our attention on re-engaging former customers that stopped shopping in the recent past through targeted communications. We also have increased investments in digital paid media to gain new customers and brand awareness. We continue to use store-based grass root events to capitalize on the strong relationships between our store associates and customers.

Earlier this year, we launched a “refer a friend” program to incentivize customers to introduce their friends to our brand. To further strengthen our customer relationships, we recently implemented personalization capabilities on our eCommerce site and in our emails.

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Leverage Our Omni-Channel Capabilities
Our integrated, omni-channel strategy is designed to provide customers a seamless retail experience together with the ability to shop when and where they want, including retail stores, outlet stores, online and mobile. Our investments in this strategy enable us to address multiple customer touch points to drive spend and build brand affinity by providing a comprehensive view of our customer and our merchandise assortment and depth.

We continue to grow eCommerce by leveraging our new platform launched in fiscal 2016, including improving personalization and enhanced site experiences. New omni-channel capabilities, including new fulfillment functionality, store grading and localized assortment planning, will support improved management of the receipt, allocation, and distribution of merchandise.

In the second quarter of fiscal 2017, we launched our “find in store” feature online in our effort to provide more convenience to our customers. We believe that providing more visibility into store inventory will help drive traffic to our stores where our associates can provide personalized service and outfitting recommendations, and ultimately lead to increased customer spend. We intend to test omni-channel fulfillment including both ship to and pick up in store in early 2018.

Performance Measures

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

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

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

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

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

As we continue to execute our MPW format conversions, we have made changes to the base store population that comprises comparable stores, as illustrated in the table below:

| | October 28, 2017 | | | October 29, 2016 | | |
|---|---|---|---|---|---|---|
| Stores by Format | Total Store Count | Comparable Sales Stores | % of Comparable Sales Stores | Total Store Count | Comparable Sales Stores | % of Comparable Sales Stores |
| MPW | 321 | 301 | 94 % | 314 | 293 | 93 % |
| Outlet | 79 | 79 | 100 % | 82 | 67 | 82 % |
| Christopher and Banks | 37 | 37 | 100 % | 55 | 55 | 100 % |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| C.J. Banks | 35 | 35 | 100 | % | 53 | 53 | 100 | % |
| Total Stores | 472 | 452 | 96 | % | 504 | 468 | 93 | % |

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

To supplement our comparable sales performance measure, we also monitor changes in net sales per store and net sales per gross square foot for the entire store base.

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Third Quarter Fiscal 2017 Results of Operations

The following table presents selected consolidated financial data for the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016:

| (dollars in thousands) | Thirteen Weeks Ended October 28, 2017 | October 29, 2016 |
|---|---|---|
| Net sales | $ 98,468 | $ 106,668 |
| Merchandise, buying and occupancy costs | 65,229 | 67,447 |
| Gross profit | 33,239 | 39,221 |
| Other operating expenses: | | |
| Selling, general and administrative | 31,802 | 32,483 |
| Depreciation and amortization | 2,976 | 3,119 |
| Impairment of store assets | — | — |
| Total other operating expenses | 34,778 | 35,602 |
| Operating (loss) income | (1,539 ) | 3,619 |
| Interest expense, net | (38 ) | (44 ) |
| (Loss) income before income taxes | (1,577 ) | 3,575 |