UNITED STATES DISTRICT COURT

EASTERN DISTRICT OF MISSOURI

EASTERN DIVISION

IBEW LOCAL 98 PENSION FUND, Individually and on Behalf of All Others Similarly Situated, Plaintiff, vs. CPI CORP., RENATO CATALDO, DALE E. HEINS and DAVID M. MEYER, Defendants.	No. <u>CLASS ACTION</u> COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS <u>DEMAND FOR JURY TRIAL</u>

INTRODUCTION

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the common stock of CPI Corp. ("CPI" or the "Company") between April 20, 2010 and December 21, 2011, inclusive (the "Class Period"), against CPI and certain of its officers and/or directors for violations of the Securities Exchange Act of 1934 (the "1934 Act").

2. CPI is a holding company engaged, through its wholly owned subsidiaries, in selling and manufacturing professional portrait photography of young children, individuals and families and other related products and services. The Company also offers wedding photography and videography services and products through its subsidiary, Bella Pictures Holdings, LLC ("Bella").

3. During the Class Period, defendants issued materially false and misleading statements regarding the Company's business and financial results. Defendants represented that the Company's initiatives to grow the business were working, that it was well positioned for growth and that its stock was a "good investment" when it was trading at $22 per share. As a result of defendants' false statements, CPI stock traded at artificially inflated prices during the Class Period, reaching a high of $31.91 per share on May 12, 2010.

4. On December 22, 2011, the Company announced its financial results for its third fiscal quarter ended November 12, 2011.[1] The Company reported a net loss of ($7.25) million or ($1.03) diluted earnings per share ("EPS") for the third quarter, down from a loss of ($7.71) million during the same quarter of 2010. The Company further reported that net sales declined 11% to $95.0 million, due in significant part to the Company's comparable store sales declines, offset by cost reductions and one-time costs associated with the opening of certain Portrait Gallery studio locations. The results also meant that CPI had failed its leverage ratio test for its revolving credit

[1] CPI's fiscal year ends the first Saturday in February.

facility. CPI had to obtain an amendment to its credit agreement or it would have failed. As a result, CPI will have to stop its dividend.

5. On this news, CPI stock collapsed $3.30 per share to close at $1.98 per share on December 22, 2011, a one-day decline of nearly 63% on volume of 4.8 million shares.

6. The true facts, which were known by defendants but concealed from the investing public during the Class Period, were as follows:

(a) CPI's business was performing much worse than defendants acknowledged and was deteriorating;

(b) CPI's initiatives to grow the business, including Kiddie Kandids and the Bella acquisition, were not working at the levels represented by defendants;

(c) CPI's stock was not a "good investment" and the Company's stock buy-back was intended solely to project false confidence in the Company's prospects; and

(d) CPI's cash flows would continue to deteriorate due to poor revenue growth such that CPI's capital structure was not as strong as defendants represented.

7. As a result of defendants' false statements and omissions, CPI common stock traded at artificially inflated prices during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down nearly 94% from their Class Period high.

JURISDICTION AND VENUE

8. Jurisdiction is conferred by §27 of the 1934 Act. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act, 15 U.S.C. §§78j(b) and 78t(a), and SEC Rule 10b-5, 17 C.F.R. §240.10b-5.

9. Venue is proper in this District pursuant to §27 of the 1934 Act. CPI is headquartered in St. Louis, Missouri, and many of the false and misleading statements were disseminated within this District.

10. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

PARTIES

11. Plaintiff IBEW Local 98 Pension Fund purchased the common stock of CPI during the Class Period as set forth in the certification attached hereto and was damaged as the result of defendants' wrongdoing as alleged in this complaint.

12. Defendant CPI is a holding company engaged, through its wholly-owned subsidiaries and partnerships, in selling and manufacturing professional portrait photography of individuals and families and other related products and services. The Company's principal executive offices are located at 1706 Washington Avenue, St. Louis, Missouri.

13. Defendant Renato Cataldo ("Cataldo") is, and at all relevant times has been, the Company's Chief Executive Officer ("CEO") and President.

14. Defendant Dale E. Heins ("Heins") is, and at all relevant time has been, the Company's Chief Financial Officer ("CFO") and Senior Vice President, Finance.

15. Defendant David M. Meyer ("Meyer") is, and at all relevant time has been, the Company's Executive Chairman.

16. The defendants referenced above in ¶¶13-15 are referred to herein as the "Individual Defendants."

17. The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of CPI's quarterly reports, press releases and

presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. They were provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company, and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein.

FRAUDULENT SCHEME AND COURSE OF BUSINESS

18. Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about CPI. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of CPI common stock was a success, as it: (i) deceived the investing public regarding CPI's prospects and business; (ii) artificially inflated the price of CPI common stock; and (iii) caused plaintiff and other members of the Class to purchase CPI common stock at inflated prices.

BACKGROUND

19. CPI, through its subsidiaries, engages in the manufacture and sale of professional portrait photography of young children, individuals, and families. It also offers portrait products, portrait choices, ordering options, and service offerings with digital capabilities. The Company's PictureMe Portrait Studio® ("PMPS") brand focuses on the sale of packages and portrait collections, the Sears Portrait Studio brand focuses on portrait solutions that provide various selections, customization, and enhanced studio experience, and the Kiddie Kandids brand focuses on various contemporary and traditional baby, young children, and family photographic styles while offering

portrait collections and specialty product portraits. In addition, the Company offers wedding photographer services and the production of digital negative compact discs, prints, and various combinations of albums, as well as provides pre-wedding engagement photography and wedding video services. Further, the Company operates portrait studios in Walmart stores and supercenters under the PMPS name in the United States, Walmart Portrait Studios in Canada and Estudios Fotografia de Walmart in Mexico. At the beginning of 2010, CPI entered into a license agreement with Toys "R" Us to operate photo studios in certain Babies "R" Us stores under the Kiddie Kandids name. The Company has had a long-term agreement with Sears to operate professional portrait studios under the Sears Portrait Studios name. CPI also has a lease and license agreement with Walmart.

20. CPI is located in St. Louis, Missouri.

DEFENDANTS' FALSE AND MISLEADING STATEMENTS ISSUED DURING THE CLASS PERIOD

21. On April 20, 2010, CPI issued a press release announcing its financial results for its fourth fiscal quarter and year ended February 6, 2010. The Company reported net income of $21.7 million, or $3.07 diluted EPS for the fiscal 2009 fourth quarter, compared with $9.5 million, or $1.47 diluted EPS reported for the fourth quarter of fiscal 2008. Additionally, the PMPS brand comparable store sales increased 6% year-over-year for the fourth quarter. The Company further reported net sales decreased 9% to $422.4 million for fiscal 2009. The release stated in part:

> "We are extremely pleased with our finish to the fiscal year, particularly in light of continuing difficult industry conditions," said Renato Cataldo, president and chief executive officer. "Even as we drove productivity gains and improved margins, we also increased our value proposition to customers and raised customer satisfaction levels. Our stabilizing top-line and improved cost structure and customer service capabilities position us to generate higher earnings in fiscal 2010 and beyond." Commenting on the new agreement with Toys "R" Us and purchase of certain Kiddie Kandids, LLC assets, Mr. Cataldo said, "We expect the opening of Kiddie Kandids studio locations to bring large additional gains in sales and earnings over the next two years and to broaden significantly our customer base and host relationships."

*   *   *

"We are excited to embark on our new relationship with Toys "R" Us," said Renato Cataldo, president and chief executive officer. "The Kiddie Kandids studios leverage very well our digital platform and operating capabilities, and Babies "R" Us is an ideal venue for reaching more families with our portrait photography services. We have already made significant preparations for the integration and expect a smooth and expeditious launch of the studios."

22. After releasing its financial results on April 20, 2010, CPI hosted a conference call to discuss its fourth fiscal quarter 2009 results with investors, media representatives and analysts, during which defendant Heins represented the following:

> Needless to say, we are extremely pleased with our fiscal 2009 fourth-quarter and full-year results. In the face of continuing difficult industry conditions which have ravaged competitors, we achieved nearly flat same-store sales as adjusted for certain items on a consolidated basis in Q4, substantially boosted earnings and cash flow with earnings-per-share more than doubling to $3.07 per diluted share in Q4, and significantly improving our balance sheet and reducing net debt by $35.9 million since the start of the last fiscal year to $46.2 million as of last week.
>
> *   *   *
>
> Among the highlights of the year were the following. We stabilized our topline performance, despite continuing difficult industry conditions. We improved productivity and reduce costs by more than 14% versus the prior year. ***We made significant advancements on our customer acquisition and retention programs and continue to drive increasing enrollments and rates in our loyalty plans, which bode well for future sales***. We made additional progress on our extended demographic outreach, including the – to develop new revenue streams that leverage our digital platform beyond the traditional customer base of mothers with small children, including through mobile photography focused on weddings and other special events. And we launched a new e-commerce platform and initiated a process of upgrading and improving our sign-ups and order conversion and online transaction averages.
>
> *   *   *
>
> Yes, clearly the focus in the last 12 months in particular was to get the debt down. And that's what we've done. A lot of it was voluntary. A lot of it wasn't required. I think with the debt to a point that it's obviously very manageable, it's no longer viewed in this market as being highly leveraged, and we are at a little over 1X in terms of EBITDA to leverage.
>
> So this Board is looking at the options. Right now I would tell you I think they are very focused on shareholder value and looking for ways to return shareholder value. Clearly I don't have a lot of needs for that cash this year. I'll have

> CapEx requirements, our maintenance CapEx as – last year it was a little over $5 million. It's going to be a little higher this year, maybe $6.0 million, $6.5 million. You can add the CapEx we kind of talked about what Kiddie Kandids, maybe some other growth type capital – you're looking at no more than $10 million.
>
> So there again I am still left with a lot of cash that we need something to do with, and this Board is going to, I believe, look at the options, look at buybacks, look at the dividend policy, and I think some decisions will be made there in the next few months.

23. Based on these statements, CPI's stock increased $4.31 per share to close at $25.12 per share on April 21, 2010, a one-day increase of more than 20% on high volume.

24. On May 10, 2010, CPI declared a second quarter cash dividend of $0.25 per share, an increase of 56% from the Company's regular quarterly dividend. The release stated in part:

> Commenting on the dividend, David Meyer, Chairman of the Board said: "We are pleased to announce a significant increase in our regular dividend in recognition of the Company's substantially enhanced earning power and cash flow. As part of our broader program to create shareholder value, we will closely monitor tax law changes as they relate to dividends and ensure our dividend policy remains an effective and efficient means of delivering value to shareholders."

25. On May 12, 2010, CPI stock reached its Class Period high, closing at $31.91 per share.

26. On June 8, 2010, CPI issued a press release announcing its financial results for its first fiscal quarter ended May 1, 2010. The Company reported first quarter 2010 net income of $6.5 million, or $0.91 diluted EPS, and a net sales increase of 2% to $95.5 million for the quarter. The release stated in part:

> "Our strong first quarter earnings performance is testament to the Company's progress in stabilizing the top-line while continuing to drive strong productivity gains and cost reductions across the organization," said Renato Cataldo, president and chief executive officer. "We are on track for substantial earnings gains in 2010 and believe we can drive positive sales comparisons by the end of the year. We also continue to expect the Kiddie Kandids operations to be strongly accretive to earnings and have made good progress on our store rollout opening 123 locations as of June 7, 2010."

27. After releasing its financial results on June 8, 2010, CPI hosted a conference call to discuss its first fiscal quarter 2010 results with investors, media representatives and analysts, during which defendant Heins represented the following:

> We also continue to be very optimistic about the prospects for our Kiddie Kandids operations. Our studio rollout is progressing well with 123 locations now open as of yesterday, and rapidly building sales and average – average sale and sitting volumes. Although the ramp-up of these new stew [sic] studios will entail some earnings dilution in our second and third fiscal quarters, we expect the Kiddie Kandids operations to be strongly accretive to full-year results on the strength of anticipated fourth quarter performance. ***Overall, we believe we are very well positioned for significant growth in earnings and cash flow in 2010 beyond***.

28. On August 31, 2010, CPI issued a press release announcing its financial results for its second fiscal quarter ended July 24, 2010. For the second fiscal quarter of 2010, the Company reported a net loss of ($1.8) million, or ($0.25) diluted EPS, compared with a net loss of ($3.4) million, or ($0.49) diluted EPS reported for the second quarter of fiscal 2009, and that second fiscal quarter 2010 sales declined to $76.4 million. The release stated in part:

> "Despite experiencing top-line weakness in both our major brands in our fiscal second quarter, historically our slowest period of the year, we were pleased with our bottom line results and continue to expect substantial earnings gains in fiscal 2010," said Renato Cataldo, president and chief executive officer. "We are making considerable progress on our internal growth and productivity initiatives, the restarted Kiddie Kandids operations are exceeding plan, and we are well-positioned for the upcoming busy season."

29. After releasing its financial results on August 31, 2010, CPI hosted a conference call to discuss its second fiscal quarter 2010 results with investors, media representatives and analysts, during which defendant Heins represented the following:

> We are encouraged , however, by the customer response to our ongoing outreach and customer retention programs which continue to drive improved customer satisfaction and retention at Wal-Mart and improve new customer acquisition trends at Sears, despite cyclically low birth rates. We are also pleased with our progress on several internal initiatives to drive further gains and sales and labor productivity through improved associate selection, scheduling, and performance management. As a result, we continue to expect strong bottom line earnings gains for the full year.

> We also are very delighted with the performance of our new Kiddie Kandids operation. Our studio rollout is almost complete with 149 locations opened as of yesterday, and the brand is exceeding plan both in revenues and bottom line contribution. ***Early results suggest that the Babies 'R Us venue is everything we hoped it would be, and we see Kiddie Kandids as a brand becoming a major sales and profit contributor to the Company over the next few years***.
>
> * * *
>
> The Board has indicated what we think is a moderate buyback program, in terms of roughly $20 million of value at current stock prices, and that will just happen over the course of time as we see the opportunities to buy things based on what's going on in the broader markets. If the broader markets are going in the toilet, we would probably be less inclined to buy, and see where the stock goes until it gets to a point where we think it's appropriate, but it's going to be **–** ***we think the stock is a good investment***, ***and we will be buying over the next year***.

30. On December 21, 2010, CPI issued a press release announcing its financial results for its third fiscal quarter ended November 13, 2010. The Company reported a net loss of ($7.7) million, or ($1.05) diluted EPS for the third quarter and that net sales decreased 1% to $106.2 million from the $107.3 million reported in the fiscal 2009 third quarter. The release stated in part:

> "Top-line results in the third quarter underperformed our expectations, and the holiday season overall will be tough as our customers continue to be disproportionately affected by difficult economic conditions and rising gas prices," said Renato Cataldo, President and Chief Executive Officer, commenting on results. Continuing, Mr. Cataldo said, "We are, nevertheless, encouraged by our sittings trends which, although still negative, have improved markedly year over year. Service levels and customer retention continue to show significant improvement, and declines in new customer counts are abating. In addition, we continue to identify opportunities to wring out costs and improve operational execution, and we successfully tested several promising new marketing vehicles and programs in the period including in connection with our mobile photography initiative. Although full year earnings will be significantly pressured by holiday sales declines, our continued strong cash flows have allowed us to reduce our debt balance to the lowest levels in many years, and we believe we are very well positioned strategically."

31. After releasing its financial results on December 21, 2010, CPI hosted a conference call to discuss its third fiscal quarter 2010 results with investors, media representatives and analysts, during which defendant Heins represented the following:

> We've made strong progress in our customer acquisition and retention programs. Customer retention numbers are improving, especially in our PictureMe

Portrait studios where loyalty enrollment is increasing rapidly. Both Sears Portrait Studios and PictureMe Portrait Studios are experiencing strong year-over-year gains in customer satisfaction scores.

* * *

Although we now expect full year EBITDA to decline year-over-year as a result of the holiday sales declines, we are very encouraged about fiscal 2011. We expect the further leveling of sittings in our major brands on the strength of our upgraded acquisition and retention offers and successes to date. We expect to wring out several million dollars more of additional costs based on opportunities already identified. We expect the Kiddie Kandids operations, already substantially accretive as expected, to report large sequential improvements in EBITDA as we lap our ramp-up phase, and improve execution on the fundamentals, enhance customer awareness, and expand into additional locations.

32. CPI's stock price retreated on this news, dropping from more than $30 per share to less than $21 per share, but continued to be artificially inflated as defendants concealed the extent of CPI's deteriorating business.

33. On April 19, 2011, CPI issued a press release announcing its financial results for the Company's fourth fiscal quarter and year ended February 5, 2011. The Company reported net income of $14.9 million, or $2.06 diluted EPS for the fourth quarter of fiscal 2010, and that net sales for the fourth quarter of fiscal 2010 decreased 8% to $128.9 million. The Company further reported net income of $11.9 million, or $1.64 diluted EPS for fiscal 2010. The press release stated in part:

Commenting on the fourth quarter, Renato Cataldo, CPI's President and Chief Executive Officer said, "Although we are disappointed with our fiscal 2010 fourth quarter results which reflected very difficult industry and broader economic conditions in the period, we are pleased with the underlying fundamentals of our business. Amid a difficult operating environment in 2010, we improved service levels, loyalty plan enrollment and sales productivity, reduced operating costs, strengthened our balance sheet, solidified our host relationships, re-launched the Kiddie Kandids brand in 171 locations including 21 mall-based locations and 20 expansion stores, and substantially expanded our event and on-location photography capabilities with the acquisition of Bella Pictures, a potential game-changer as we seek to transform our relationships with customers."

Continuing, Mr. Cataldo said, "Looking ahead to 2011, we expect continued top-line challenges, especially in view of the higher food and energy prices and job insecurity that are weighing especially heavily on our core customer. We are, nevertheless, encouraged about our prospects to sustain solid profitability and cash

> generation over the next year based on already identified cost reductions and operating income improvement expected from the Kiddie Kandids operations."

34. After releasing its financial results on April 19, 2011, CPI hosted a conference call to discuss its fourth quarter and fiscal year 2010 results with investors, media representatives and analysts, during which defendant Heins represented the following:

> Notwithstanding our disappointing fourth-quarter results, 2010 was a year of substantial progress for the Company. We extended our relationship with Wal-Mart with a new six-year agreement. We restarted the Kiddie Kandids operation in 130 Babies R Us stores and 21 mall locations and opened 20 new locations generating collectively nearly $20 million in sales.
>
> We strengthened our balance sheet, reducing net debt by $15 million to $44 million, even as we increased the dividend by 56% and repurchased $7 million of stock. We entered a new credit facility in 2010 which improved our liquidity and overall financial flexibility while lowering our financing costs.
>
> We upgraded our field management team, instituted new talent management practices, and improved service levels. We realized over $10 million of cost savings through corporate cost-cutting, improved scheduling and labor management practices, and planned consolidation. We augmented our mobile photography capabilities and substantially expanded our demographic reach through the acquisition of Bella Pictures, a leading national provider of winning photography and videography services.

35. On June 7, 2011, CPI issued a press release announcing the Company's financial results for its first fiscal quarter of 2011. The Company reported net income of $0.7 million, or $0.11 diluted EPS, and a net sales decrease of 7% to $88.6 million. The release stated in part:

> Commenting on the first quarter, Renato Cataldo, President and Chief Executive Officer said, "As expected, our top line was significantly pressured in the period given continuing economic and industry headwinds and relatively difficult first-quarter sales comparables. We are, however, pleased with our profit performance, which adjusted for unusual items, held up reasonably well as we continue to drive improved operating efficiencies." Continuing, Mr. Cataldo said, "Barring a worsening economic environment, we expect to generate strong year-over-year gains in Adjusted EBITDA in the second half of the year on the strength of identified cost savings ($15 million over the full year), promising new customer acquisition/cross-selling programs, and substantially easier second-half sales comparables."

36. After releasing its financial results on June 7, 2011, CPI hosted a conference call to discuss its first fiscal quarter 2011 results with investors, media representatives and analysts, during which defendant Heins represented the following:

> As we look ahead we expect little support from the economy and therefore expect the top line to continue to be challenged for most of the year. ***Nevertheless, we remain confident of our ability to generate solid profitability and free cash flow for the full year***. We have implemented aggressive cost reductions and operational changes that we believe will yield approximately $15 million in cost savings in 2011 and even greater annualized savings moving forward. Kiddie Kandids is poised for substantial profitability gains in the year as our field managers and studio staff achieve greater mastery of our outreach and selling programs to leverage Babies R Us strong foot traffic within our target demographics.

37. On August 31, 2011, CPI issued a press release announcing its financial results for the Company's second fiscal quarter ended July 23, 2011. The Company reported a second quarter 2011 net loss of ($6.3) million, or ($0.89) diluted EPS, and that net sales for the second quarter of fiscal 2011 decreased 7% to $70.9 million. The net loss included a $1.7 million charge for impairments, severance costs and litigation. The release stated in part:

> "As expected, we had a tough second quarter on a comparable sales basis which, despite cost cuts, reduced adjusted EBITDA for the core business by $2.6 million. As a result of easier comparisons in late third quarter and fourth quarter and tangible progress on several promising revenue and cost initiatives, we continue to expect favorable year-over-year EBITDA comparisons in the fourth quarter and for the full second half," said Renato Cataldo, chief executive officer. Continuing, Mr. Cataldo said, "Despite facing continuing economic and industry headwinds, we are optimistic about our ability to stabilize and grow our top-line even as we continue to reduce cash flow break-evens to weather any further declines in our core business. We recently soft-launched a new photography service that leverages our Bella photographer network and broader digital capture and fulfillment capabilities with very encouraging results. We are positioning Bella for rapid growth in the fragmented $7 billion wedding market. And, on the strength of our national scope, we are forging new strategic relationships that could yield a step-change in the business."

38. After releasing its financial results on August 31, 2011, CPI hosted a conference call to discuss its second fiscal quarter 2011 results with investors, media representatives and analysts, during which defendant Heins represented the following:

So, just based on those factors from last year, we kind of look at it as assuming we do nothing, which obviously we are going to do something, ***we should have a significant improvement just from the – just from those easier comps***.

On top of that, we are initiating a whole host of new initiatives, some of which we think can have some impact, particularly during the holidays and begin to I would say expand our customer reach.

39. Then, on December 22, 2011, the Company announced its financial results for its third fiscal quarter ended November 12, 2011. The Company reported a net loss of ($7.25) million or ($1.03) diluted EPS for the third quarter, down from a loss of ($7.71) million during the same quarter of fiscal 2010. The Company further reported that net sales declined 11% to $95.0 million, due in significant part to the Company's comparable store sales declines, offset by cost reductions and one-time costs associated with the opening of certain Portrait Gallery studio locations. The release stated in part:

"Third quarter and early holiday season sales underperformed our expectations due in large part to less effective marketing offers," said Renato Cataldo, chief executive officer. "We are responding by aggressively retooling our studio sales and marketing programs for the new year, and we expect to generate substantially improved results in the coming quarters. On a more positive note, we are exceeding our cost reduction goals and also making significant progress on our business expansion initiatives."

* * *

On December 16, 2011, the Company entered into an amendment to the Credit Agreement (the "Amendment") which included the following terms:

- A suspension of the leverage ratio test (as defined, Total Funded Debt to EBITDA) for the quarter ended November 12, 2011;
- A reduction of the revolving commitment under the Credit Agreement from $105 million to $90 million; and
- Suspension of dividend and other restricted payments, including share repurchases, until the Company presents evidence of its compliance with its debt covenants.

If the leverage ratio test for the quarter ended November 12, 2011 had not been suspended, the Company would not have been in compliance with this covenant. The Company is currently evaluating long-term financing alternatives,

> which may include further amendment to the Credit Agreement. Until such time as financing alternatives and/or amendments are formalized, the balance outstanding under the revolving credit facility ($73.5 million as of November 12, 2011 and $65.0 million as of December 21, 2011) has been classified as current in the consolidated balance sheet. While there is no certainty, the Company expects to resolve the compliance matters at which point we believe the debt will no longer be classified as current.

40. On this news, CPI's stock plummeted $3.30 per share to close at $1.98 per share on December 22, 2011, a one-day decline of nearly 63% on volume of 4.8 million shares.

41. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) CPI's business was performing much worse than defendants acknowledged and was deteriorating;

(b) CPI's initiatives to grow the business, including Kiddie Kandids and the Bella acquisition, were not working at the levels represented by defendants;

(c) CPI's stock was not a "good investment" and the Company's stock buy-back was intended solely to project false confidence in the Company's prospects; and

(d) CPI's cash flows would continue to deteriorate due to poor revenue growth such that CPI's capital structure was not as strong as defendants represented.

42. As a result of defendants' false statements, CPI stock traded at artificially inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down nearly 94% from their Class Period high.

LOSS CAUSATION/ECONOMIC LOSS

43. During the Class Period, as detailed herein, the defendants made false and misleading statements and engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of CPI common stock and operated as a fraud or deceit on Class Period purchasers

of CPI common stock by misrepresenting the Company's business and prospects. Later, when the defendants' prior misrepresentations and fraudulent conduct became apparent to the market, the price of CPI common stock fell precipitously, as the prior artificial inflation came out of the price over time. As a result of their purchases of CPI common stock during the Class Period, plaintiff and other members of the Class suffered economic loss, *i.e*., damages, under the federal securities laws.

NO SAFE HARBOR

44. CPI's verbal "Safe Harbor" warnings accompanying its oral forward-looking statements ("FLS") issued during the Class Period were ineffective to shield those statements from liability.

45. The defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer of CPI who knew that the FLS was false. None of the historic or present tense statements made by defendants were assumptions underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by defendants expressly related to or stated to be dependent on those historic or present tense statements when made.

CLASS ACTION ALLEGATIONS

46. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired CPI common stock during the Class Period (the "Class"). Excluded from the Class are defendants and their families, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

47. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. CPI has over 7 million shares of stock outstanding, owned by hundreds of persons.

48. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) whether the 1934 Act was violated by defendants;

(b) whether defendants omitted and/or misrepresented material facts;

(c) whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) whether defendants knew or deliberately disregarded that their statements were false and misleading;

(e) whether the price of CPI common stock was artificially inflated; and

(f) the extent of damage sustained by Class members and the appropriate measure of damages.

49. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

50. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

51. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

52. Plaintiff incorporates ¶¶1-51 by reference.

53. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

54. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) employed devices, schemes and artifices to defraud;

(b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of CPI common stock during the Class Period.

55. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for CPI common stock. Plaintiff and the Class would not have purchased CPI common stock at the prices they paid, or at all, if they had been aware that the market price had been artificially and falsely inflated by defendants' misleading statements.

COUNT II

For Violation of §20(a) of the 1934 Act Against All Defendants

56. Plaintiff incorporates ¶¶1-55 by reference.

57. The Individual Defendants acted as controlling persons of CPI within the meaning of §20(a) of the 1934 Act. By virtue of their positions with the Company, and ownership of CPI stock, the Individual Defendants had the power and authority to cause CPI to engage in the wrongful conduct complained of herein. CPI controlled the Individual Defendants and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;

B. Awarding plaintiff and the members of the Class damages, including interest;

C. Awarding plaintiff reasonable costs and attorneys' fees; and

D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: January ___, 2012

SHAMBERG, JOHNSON & BERGMAN, CHTD.
LYNN R. JOHNSON – KS #07041
DOUGLAS R. BRADLEY – KS#23046

____
LYNN R. JOHNSON

2600 Grand Boulevard, Suite 550
Kansas City, MO 64108
Telephone: 816/474-0004
816/474-0003 (fax)

Liaison Counsel

ROBBINS GELLER RUDMAN
& DOWD LLP
DARREN J. ROBBINS
DAVID C. WALTON
JAMES I. JACONETTE
655 West Broadway, Suite 1900
San Diego, CA 92101
Telephone: 619/231-1058
619/231-7423 (fax)

MARINO, CONROY & COYLE LLC
STEVEN F. MARINO
301 Wharton Street
Philadelphia, PA 19147
Telephone: 215/462-3200
215/462-4763 (fax)

Counsel for Plaintiff