New York & Company, Inc.
Form 10-Q
September 07, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

for the quarterly period ended July 29, 2006

OR

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

for the transition period from to .

COMMISSION FILE NUMBER: 1-32315

NEW YORK & COMPANY, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**33-1031445**
(State of incorporation)	(I.R.S. Employer Identification No.)
450 West 33rd Street	
5th Floor	
New York, New York 10001	**(212) 884-2000**
(Address of Principal Executive Offices, including Zip Code)	(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

As of August 25, 2006, the registrant had 56,310,934 shares of common stock outstanding.

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PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

New York & Company, Inc. and Subsidiaries
Condensed Consolidated Statements of Income
(Unaudited)

	Three months ended July 29, 2006	**Three months ended July 30, 2005**	**Six months ended July 29, 2006**	**Six months ended July 30, 2005**
	(Amounts in thousands, except per share amounts)			
Net sales	$ 264,858	$ 254,581	$ 531,995	$ 524,556
Cost of goods sold, buying and occupancy costs	189,277	172,563	377,311	344,228
Gross profit	75,581	82,018	154,684	180,328
Selling, general and administrative expenses	64,200	60,278	132,684	121,204
Operating income	11,381	21,740	22,000	59,124
Interest expense, net of interest income of $335, $611, $549, and $976, respectively	477	1,301	967	2,710
Income before income taxes	10,904	20,439	21,033	56,414
Provision for income taxes	4,405	8,189	8,477	22,684
Net income	$ 6,499	$ 12,250	$ 12,556	$ 33,730
Basic earnings per share	$ 0.12	$ 0.23	$ 0.23	$ 0.63
Diluted earnings per share	$ 0.11	$ 0.21	$ 0.21	$ 0.59
Weighted average shares outstanding:				
Basic shares of common stock	55,656	53,654	55,441	53,497
Diluted shares of common stock	59,852	57,197	59,798	56,935

See accompanying notes.

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New York & Company, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	July 29, 2006 (Unaudited) (Amounts in thousands, except per share amounts)	January 28, 2006 (Audited)	July 30, 2005 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 36,888	$ 57,436	$ 57,239
Accounts receivable	21,687	15,581	19,566
Inventories, net	102,526	109,656	100,977
Prepaid expenses	18,584	18,770	18,498
Other current assets	1,934	1,515	2,437
Total current assets	181,619	202,958	198,717
Property and equipment, net	181,949	159,388	135,351
Goodwill and intangible assets	43,141	41,702	40,857
Other assets	1,949	2,227	3,282
Total assets	$ 408,658	$ 406,275	$ 378,207
Liabilities and stockholders equity			
Current liabilities:			
Current portion, long-term debt	$ 6,000	$ 6,000	$
Accounts payable	68,944	90,980	66,572
Accrued expenses	49,770	55,261	52,285
Income taxes payable	587		
Deferred income taxes	3,006	3,016	1,636
Total current liabilities	128,307	155,257	120,493
Long-term debt, net of current portion	28,500	31,500	75,000
Deferred income taxes	3,403	4,723	3,017
Deferred rent and other liabilities	49,407	35,745	30,370
Total liabilities	209,617	227,225	228,880
Commitments and contingencies			
Stockholders equity:			
Common stock, voting, par value $0.001; 300,000 shares authorized; 55,938, 54,629 and 54,179 shares issued and outstanding at July 29, 2006, January 28, 2006, and July 30, 2005, respectively	56	55	54
Additional paid-in capital	133,924	126,490	121,763
Retained earnings	65,530	52,974	28,214
Accumulated other comprehensive loss	(469)	(469)	(704)
Total stockholders equity	199,041	179,050	149,327
Total liabilities and stockholders equity	$ 408,658	$ 406,275	$ 378,207

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See accompanying notes.

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New York & Company, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended July 29, 2006 (Amounts in thousands)	Six months ended July 30, 2005
Operating activities		
Net income	$ 12,556	$ 33,730
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,651	11,041
Amortization of deferred financing costs	138	578
Share-based compensation	790	486
Deferred income taxes	(1,330)	(3,833)
Changes in operating assets and liabilities:		
Accounts receivable	(8,400)	(6,497)
Inventories, net	7,130	(3,811)
Prepaid expenses	186	(602)
Accounts payable	(22,036)	(9,487)
Accrued expenses	(5,140)	423
Income taxes payable	587	
Other assets and liabilities	11,789	11,616
Net cash provided by operating activities	11,921	33,644
Investing activities		
Acquisition of Jasmine Company, Inc., net of cash acquired		(21,246)
Capital expenditures	(38,057)	(42,772)
Net cash used in investing activities	(38,057)	(64,018)
Financing activities		
Proceeds from public offering	2,294	
Payment of public offering costs	(439)	
Repayment of debt	(3,000)	(1,327)
Tax benefit from exercise of stock options	5,893	3,558
Proceeds from exercise of stock options	840	221
Net cash provided by financing activities	5,588	2,452
Net decrease in cash and cash equivalents	(20,548)	(27,922)
Cash and cash equivalents at beginning of period	57,436	85,161
Cash and cash equivalents at end of period	$ 36,888	$ 57,239
Supplemental disclosure of non-cash financing activities		
Issuance of common stock for the acquisition of Jasmine Company, Inc.	$	$ 8,050

See accompanying notes.

New York & Company, Inc.
Notes to Condensed Consolidated Financial Statements
July 29, 2006
(Unaudited)

1. Organization and Basis of Presentation

New York & Company, Inc. (together with its subsidiaries, collectively the Company) is a leading specialty retailer of fashion-oriented, moderately-priced women s apparel. The Company designs and sources its proprietary branded *New York & Company* merchandise sold exclusively through its national network of New York & Company retail stores. The target customers for the Company s *New York & Company* merchandise are fashion-conscious, value-sensitive women between the ages of 25 and 45. On July 19, 2005, the Company acquired Jasmine Company, Inc. (JasmineSola), a Boston-based, privately held women s retailer of upscale and contemporary apparel, footwear and accessories sold through its chain of *JasmineSola* branded retail stores. As of July 29, 2006, the Company operated 537 retail stores in 45 states, including 17 JasmineSola stores. Trademarks referenced in this Quarterly Report on Form 10-Q appear in italic type and are the property of the Company.

The accompanying condensed consolidated financial statements include the accounts for New York & Company, Inc. and all of its subsidiaries, including Lerner New York Holding, Inc. (Lerner Holding); Lerner New York, Inc.; Lernco, Inc.; Nevada Receivable Factoring, Inc. and JasmineSola. On a stand alone basis, without the consolidation of its subsidiaries, New York & Company, Inc. has no significant independent assets or operations. All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements as of July 29, 2006 and July 30, 2005 and for the thirteen weeks (three months) and twenty-six weeks (six months) ended July 29, 2006 and July 30, 2005 are unaudited and are presented pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended January 28, 2006 (fiscal year 2005), which were filed with the Company s Annual Report on Form 10-K with the SEC on April 7, 2006. The fiscal year ending February 3, 2007 is referred to herein as fiscal year 2006. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly the financial condition, results of operations and cash flows for the interim periods.

Due to seasonal variations in the retail industry, the results of operations for any interim period are not necessarily indicative of the results expected for the full fiscal year.

2. Public Offering of Common Stock

On January 25, 2006, the Company completed a public offering of 8,050,000 shares of common stock, including the underwriters over-allotment option, of which 130,000 shares were offered by the Company and 7,920,000 shares were offered by certain selling stockholders at a price to the public of $18.50 per share. Upon consummation of the public offering on January 31, 2006, net proceeds of $2.3 million and $139.8 million were distributed to the Company and selling stockholders, respectively.

The net proceeds received by the Company were used to pay the fees and expenses of the offering, as well as for general corporate purposes.

New York & Company, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
July 29, 2006
(Unaudited)

3. Acquisition

On July 19, 2005, the Company entered into a Stock Purchase Agreement to acquire all of the outstanding common stock of JasmineSola for $22.5 million in cash and 350,000 shares of New York & Company, Inc. common stock, $0.001 par value, valued at $8.1 million based upon the closing stock price of New York & Company, Inc. on July 19, 2005. In addition, the Company will issue up to 200,000 shares of its common stock as additional consideration for the acquisition of JasmineSola contingent upon the achievement of certain growth targets over the three full fiscal years following the acquisition. These contingent shares, if issued, will be recorded as an adjustment to the purchase price and goodwill.

The Company is currently engaged in an arbitration proceeding relating to the Stock Purchase Agreement, which could result in a future adjustment to the purchase price and a corresponding adjustment to goodwill.

The acquisition was accounted for under the purchase method of accounting with a full basis adjustment. The purchase price allocation resulted in goodwill of $11.1 million and indefinite lived intangible assets related to trademarks of $17.2 million.

4. Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share are calculated based on the weighted average number of shares of common stock outstanding plus the dilutive effect of stock options as if they were exercised. A reconciliation between basic and diluted earnings per share is as follows:

	Three months ended July 29, 2006	**Three months ended July 30, 2005**	**Six months ended July 29, 2006**	**Six months ended July 30, 2005**
	(Amounts in thousands, except per share amounts)			
Net income	$ 6,499	$ 12,250	$ 12,556	$ 33,730
Basic EPS				
Weighted-average shares outstanding:				
Basic shares of common stock	55,656	53,654	55,441	53,497
Basic EPS	$ 0.12	$ 0.23	$ 0.23	$ 0.63
Diluted EPS				
Weighted-average shares outstanding:				
Basic shares of common stock	55,656	53,654	55,441	53,497
Plus impact of stock options	4,196	3,543	4,357	3,438
Diluted shares of common stock	59,852	57,197	59,798	56,935
Diluted EPS	$ 0.11	$ 0.21	$ 0.21	$ 0.59

The calculation of diluted earnings per share for the three and six months ended July 29, 2006 excludes options to purchase 886,836 and 855,336 shares, respectively, due to their antidilutive effect.

New York & Company, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
July 29, 2006
(Unaudited)

5. Share-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) published SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS 123-R). SFAS 123-R retains certain requirements of the original SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123) and requires all forms of share-based payment to employees, including employee stock options, to be treated as compensation and recognized in the consolidated statement of income. The Company adopted SFAS 123-R in December 2004, utilizing the modified prospective method. Prior to the Company s adoption of SFAS 123-R, the Company followed SFAS 123 and treated all forms of share-based payments as compensation recognized in the consolidated statement of income. Therefore, the adoption of SFAS 123-R did not have a material impact on the Company s consolidated financial statements.

In connection with the consummation of the public offering on January 31, 2006, BSMB/NYCG, LLC, an affiliate of Bear Stearns Merchant Banking and the controlling stockholder of the Company, realized a cash return in excess of 3.0 times its investment in the Company; as such, 2,777,311 options to purchase common stock issued pursuant to grants under the Company s stock option plan vested and became immediately exercisable.

The Company recorded share-based compensation expense in the amount of $0.2 million and $0.3 million for the three months ended July 29, 2006 and July 30, 2005, respectively, and $0.8 million and $0.5 million for the six months ended July 29, 2006 and July 30, 2005, respectively. Included in the $0.8 million of share-based compensation expense for the six months ended July 29, 2006 is $0.2 million of expense related to the 2,777,311 stock options that vested on January 31, 2006.

The Company issued 1,308,084 shares of common stock upon exercise of stock options during the six months ended July 29, 2006.

6. Pension Plan

The Company sponsors a single-employer defined benefit pension plan covering substantially all union employees. Employees covered by collective bargaining agreements are primarily non-management store associates, representing approximately 10% of the Company s total employees. The Company s collective bargaining agreement with the Local 1102 unit of the Retail, Wholesale and Department Store Union (RWDSU) AFL-CIO that was set to expire in August 2005 is under renegotiation. A signed extension agreement is in effect until November 30, 2006.

New York & Company, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
July 29, 2006
(Unaudited)

6. Pension Plan (Continued)

The plan provides retirement benefits for union employees who have attained the age of 18 and completed 425 hours of service in the twelve-month period following the date of employment. The plan provides benefits based on length of service. The Company s funding policy for the plan is to contribute annually the amount necessary to provide for benefits based on accrued service. The Company does not anticipate the need for a material contribution to the plan for the remainder of the current fiscal year. Net periodic benefit cost includes the following components:

	Three months ended July 29, 2006	Three months ended July 30, 2005	Six months ended July 29, 2006	Six months ended July 30, 2005
	(Amounts in thousands)			
Service cost	$ 99	$ 73	$ 166	$ 146
Interest cost	135	130	270	273
Expected return on plan assets	(179)	(187)	(359)	(375)
Net periodic benefit cost	$ 55	$ 16	$ 77	$ 44

7. Income Tax Provision

The income tax provisions for interim periods are based upon management s estimate of the Company s annualized effective tax rate. Effective tax rates differ from statutory federal income tax rates primarily due to provisions for state and local taxes.

8. Long-Term Debt and Credit Facilities

On January 4, 2006, the Company s credit facilities were amended to include: (i) an additional $37.5 million term loan facility maturing on March 17, 2009 bearing interest at the Eurodollar rate plus 2.50% (January 4, 2006 term loan), (ii) an extension of the term of the Company s existing $90.0 million revolving credit facility to March 17, 2009 (contains a sub-facility available for issuance of letters of credit of up to $75.0 million), and (iii) a reduction of certain interest rates under the revolver by as much as 50 basis points, depending upon the Company s financial performance. Using the $37.5 million of proceeds from the January 4, 2006 term loan plus $38.0 million of cash on-hand, the Company prepaid in full the $75.0 million term loan entered into on March 16, 2004 (March 16, 2004 term loan), which was bearing interest at the Eurodollar rate plus 5.00%, and $0.5 million in fees related to the refinancing. In connection with the prepayment of the March 16, 2004 term loan, $0.9 million of unamortized deferred financing costs were written-off in the fourth quarter of fiscal year 2005.

As of July 29, 2006, the Company had availability under its revolving credit facility of $44.7 million, net of letters of credit outstanding of $9.7 million, as compared to availability of $40.5 million, net of letters of credit outstanding of $14.5 million, as of July 30, 2005.

The revolving loans under the credit facilities bear interest, at the Company s option, either at a floating rate equal to the Eurodollar rate plus a margin of between 1.00% and 2.00% per year, depending upon the Company s financial performance, or the Prime rate. The Company pays the lenders under the

New York & Company, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
July 29, 2006
(Unaudited)

8. Long-Term Debt and Credit Facilities (Continued)

revolving credit facility a monthly fee on outstanding letters of credit at a rate of between 1.00% and 1.50% per year, depending upon the Company s financial performance. The Company pays the lenders under the revolving credit facility a monthly fee on a proportion of the unused commitments under that facility at a rate of between 0.25% and 0.50% per year, depending upon the Company s financial performance. The term loan bears interest at a floating rate equal to the Eurodollar rate plus 2.50% per year. For so long as any default under the revolving credit facility continues, at the option of the agent or lenders, interest on the revolving loans may increase to 4.00% per year above the Eurodollar rate for all Eurodollar rate loans and 2.00% per year above the Prime rate for all Prime rate loans, and interest on the term loan may increase to the Eurodollar rate plus 4.50% per year.

The Company s credit facilities contain certain covenants, including restrictions on its ability to pay dividends on its common stock, incur additional indebtedness and to prepay, redeem or repurchase other debt. Subject to such restrictions, the Company may incur more debt for working capital, capital expenditures, acquisitions and for other purposes. The terms of the Company s credit facilities also subject it to certain maintenance covenants in the event its borrowing availability under its revolving credit facility, plus cash on-hand, falls below $40.0 million. These covenants include maintaining a minimum trailing twelve-month EBITDA (as defined in the Company s amended and restated credit agreement) and a maximum leverage ratio. This ratio and the calculation of EBITDA under the amended and restated credit agreement are not necessarily comparable to other similarly titled ratios and measurements of other companies due to inconsistencies in the method of calculation. In addition, in the event that the Company s borrowing availability under its revolving credit facility, plus cash on-hand, falls below $50.0 million and it fails to maintain a minimum trailing twelve-month EBITDA, then the outstanding principal amount of the $37.5 million term loan must be prepaid down to $25.0 million, subject to certain restrictions. The Company is currently in compliance with the financial covenants referred to above.

The lenders have been granted a pledge of the common stock of Lerner Holding and certain of its subsidiaries, and a first priority security interest in substantially all other tangible and intangible assets of New York & Company, Inc. and certain of its subsidiaries, as collateral for the Company s obligations under the credit facilities. In addition, New York & Company, Inc. and certain of its subsidiaries have fully and unconditionally guaranteed the credit facilities, and such guarantees are joint and several.

9. New Accounting Pronouncements

In October 2005, the FASB issued FSP No. FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period. The FSP concluded that rental costs associated with ground or building operating leases that are incurred during a construction period should be recognized as rental expense. The rental costs should be included in income from continuing operations. The guidance does not change application of the maximum guarantee test in EITF Issue No. 97-10, The Effect of Lessee Involvement in Asset Construction. The guidance in this FSP shall be applied in the first reporting period beginning after December 15, 2005. Retrospective application in accordance with FASB Statement No. 154, Accounting Changes and Error Corrections, is permitted but not required; as such, the Company adopted the provisions of the FSP beginning in February 2006 and is applying them prospectively. The Company

New York & Company, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
July 29, 2006
(Unaudited)

9. New Accounting Pronouncements (Continued)

currently anticipates that the adoption of this pronouncement will result in approximately $3.0 million of additional rent expense in the current fiscal year, which prior to the adoption of this pronouncement would have been capitalized and amortized into depreciation expense on a straight-line basis over the lease term, commencing on a store s opening date. For the three months ended July 29, 2006, $1.1 million of rent expense was recognized during the construction periods for stores, resulting in an after-tax charge to earnings of $0.7 million, or $0.01 per diluted share. For the six months ended July 29, 2006, $2.0 million of rent expense was recognized during the construction periods for stores, resulting in an after-tax charge to earnings of $1.2 million, or $0.02 per diluted share.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. This Interpretation clarifies the accounting for uncertain tax positions recognized in a company s financial statements in accordance with the provisions of FASB Statement No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition of uncertain positions, financial statement classification, accounting for interest and penalties, accounting in interim periods, disclosure, and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact that the adoption of this Interpretation will have on its financial position and results of operations.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTORS

(Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)

This Quarterly Report on Form 10-Q includes forward-looking statements. Certain matters discussed in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report on Form 10-Q are forward-looking statements intended to qualify for safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Some of these statements can be identified by terms and phrases such as anticipate, believe, intend, estimate, expect, continue, coul and similar expressions and include references to assumptions that the Company believes are reasonable and relate to its future prospects, developments and business strategies. Factors that could cause the Company s actual results to differ materially from those expressed or implied in such forward-looking statements, include, but are not limited to those discussed under the heading Item 3. Quantitative and Qualitative Disclosures About Market Risk in this Quarterly Report on Form 10-Q and:

- the Company s ability to open and operate stores successfully;
- seasonal fluctuations in the Company s business;
- the Company s ability to anticipate and respond to fashion trends and launch new product lines successfully;
- general economic conditions, consumer confidence and spending patterns;
- the Company s dependence on mall traffic for its sales;
- the susceptibility of the Company s business to extreme and/or unseasonable weather conditions;
- the Company s ability to retain and recruit key personnel;
- the Company s reliance on third parties to manage some aspects of its business;
- changes in the cost of raw materials, distribution services or labor;
- the Company s reliance on foreign sources of production;
- the potential impact of natural disasters and health concerns relating to outbreaks of widespread diseases, particularly on manufacturing operations of the Company s vendors;
- the ability of the Company s manufacturers to manufacture and deliver products in a timely manner while meeting its quality standards;
- the Company s ability to successfully integrate acquired businesses into its existing business;
- the Company s reliance on manufacturers to maintain ethical business practices;
- the Company s ability to protect its trademarks and other intellectual property rights;
- the Company s ability to maintain, and its reliance on, its information systems infrastructure;
- the Company s dependence on the success of its brand;

- competition in the Company s market, including promotional and pricing competition;
- the Company s reliance on the effective use of customer information;
- the effects of government regulation;

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- the control of the Company by its sponsors; and
- risks and uncertainties as described in the Company s documents filed with the SEC, including its Annual Report on Form 10-K, as filed on April 7, 2006.

The Company undertakes no obligation to revise the forward-looking statements included in this Quarterly Report on Form 10-Q to reflect any future events or circumstances. The Company s actual results, performance or achievements could differ materially from the results expressed or implied by these forward-looking statements.

Overview

The Company is a leading specialty retailer of fashion-oriented, moderately-priced women s apparel. The Company designs and sources its proprietary branded *New York & Company* merchandise sold exclusively through its national network of New York & Company retail stores. The target customers for the Company s *New York & Company* merchandise are fashion-conscious, value-sensitive women between the ages of 25 and 45. On July 19, 2005, the Company acquired JasmineSola, a Boston-based, privately held women s retailer of upscale and contemporary apparel, footwear and accessories sold through its chain of *JasmineSola* branded retail stores. As of July 29, 2006, the Company operated 537 retail stores in 45 states, including 17 JasmineSola stores.

The Company views the retail apparel market as having two principal selling seasons: spring (first and second quarter) and fall (third and fourth quarter). The Company s business experiences seasonal fluctuations in net sales and operating income, with a significant portion of its operating income typically realized during its first and fourth quarters. Seasonal fluctuations also affect inventory levels. The Company must carry a significant amount of inventory, especially before the holiday season selling period.

Net sales for the three months ended July 29, 2006 increased 4.0% to $264.9 million, as compared to $254.6 million for the three months ended July 30, 2005. Net sales for the six months ended July 29, 2006 increased 1.4% to $532.0 million, as compared to $524.6 million for the same period last year. Comparable store sales decreased 4.0% for the three months ended July 29, 2006, as compared to a comparable store sales increase of 0.4% for the three months ended July 30, 2005. Comparable store sales decreased 6.7% for the six months ended July 29, 2006, as compared to a comparable store sales increase of 2.3% for the same period last year. Net income for the three months ended July 29, 2006 decreased to $6.5 million, or $0.11 per diluted share, as compared to $12.3 million, or $0.21 per diluted share, for the three months ended July 30, 2005. Net income for the six months ended July 29, 2006 decreased to $12.6 million, or $0.21 per diluted share, as compared to $33.7 million, or $0.59 per diluted share, for the six months ended July 30, 2005. For a discussion of the more significant factors impacting these results, see Results of Operations below.

During the six months ended July 29, 2006, the Company opened 24 new stores, including two JasmineSola stores, closed six stores and completed 19 remodels, ending the period operating 537 stores in 45 states, as compared to 506 stores as of July 30, 2005. Total selling square footage as of July 29, 2006 was 3.280 million, as compared to 3.237 million as of July 30, 2005. Capital spending for the six months ended July 29, 2006 was $38.1 million, as compared to $42.8 million for the six months ended July 30, 2005. The $38.1 million of capital spending represents $35.0 million related to the construction of new stores and the remodeling of existing stores and $3.1 million related to non-store capital projects, which principally represent information technology enhancements.

The Company s balance sheet at July 29, 2006 included $36.9 million in cash and $53.3 million of working capital, as compared to $57.2 million in cash and $78.2 million of working capital at July 30, 2005. The decrease in working capital compared to last year was primarily the result of the Company using $38.0 million of cash on-hand plus $37.5 million of proceeds from the January 4, 2006 term loan to prepay in full a $75.0 million term loan plus $0.5 million of fees incurred in connection with the refinancing. At July 29, 2006, the Company s inventory was $102.5 million, as compared to $101.0 million of inventory at July 30, 2005.

The Company recently signed a three year agreement with Accretive Commerce for integrated e-commerce operations. Under the agreement, Accretive Commerce will provide an end to end suite of direct commerce services, including integration of a new e-commerce platform (in alliance with Art Technology Group, Inc.), order management, order fulfillment, customer care, and channel management services. The Company intends to begin selling merchandise through its e-commerce internet site later this year.

General

Net Sales. Net sales consist of sales from comparable and non-comparable stores. A store is included in the comparable store sales calculation after it has completed 13 full fiscal months of operation from the store s original opening date or once it has been reopened after remodeling. Non-comparable store sales include stores which have not completed 13 full fiscal months of operations, sales from closed stores, and sales from stores closed or in temporary locations during periods of remodeling. Net sales are recorded when the customer takes possession of the merchandise and the purchases are paid for, primarily with either cash or credit card. A reserve is provided for projected merchandise returns based on prior experience.

The Company issues gift cards which do not contain provisions for expiration or inactivity fees. The portion of the dollar value of gift cards that ultimately is not used by customers to make purchases is known as breakage. The Company estimates gift card breakage and records those amounts as revenues as gift cards are redeemed. The Company s estimate of gift card breakage is based on analysis of historical redemption patterns as well as the remaining balance of gift cards for which the Company believes the likelihood of redemption to be remote.

Cost of Goods Sold, Buying and Occupancy Costs. Cost of goods sold, buying and occupancy costs are comprised of direct inventory costs for merchandise sold, distribution, payroll and related costs for design, sourcing, production, merchandising, planning and allocation personnel, and store occupancy and related costs.

Gross Profit. Gross profit represents net sales less cost of goods sold, buying and occupancy costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses include selling, store management and corporate expenses, including payroll and employee benefits, employment taxes, management information systems, marketing, insurance, legal, store pre-opening and other corporate level expenses. Store pre-opening expenses include store level payroll, grand opening event marketing, travel, supplies and other store opening expenses.

Results of Operations

The following tables summarize the Company s results of operations as a percentage of net sales and selected store operating data for the three and six months ended July 29, 2006 and July 30, 2005:

	Three months ended July 29, 2006	Three months ended July 30, 2005	Six months ended July 29, 2006	Six months ended July 30, 2005
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold, buying and occupancy costs	71.5 %	67.8 %	70.9 %	65.6 %
Gross profit	28.5 %	32.2 %	29.1 %	34.4 %
Selling, general and administrative expenses	24.2 %	23.7 %	25.0 %	23.1 %
Operating income	4.3 %	8.5 %	4.1 %	11.3 %
Interest expense, net	0.2 %	0.5 %	0.2 %	0.5 %
Income before income taxes	4.1 %	8.0 %	3.9 %	10.8 %
Provision for income taxes	1.6 %	3.2 %	1.5 %	4.4 %
Net income	2.5 %	4.8 %	2.4 %	6.4 %

	Three months ended July 29, 2006	Three months ended July 30, 2005	Six months ended July 29, 2006	Six months ended July 30, 2005
	(Dollars in thousands, except square foot data)			
Selected operating data:				
Total net sales growth	4.0 %	4.9 %	1.4 %	6.0 %
Comparable store sales increase / (decrease)	(4.0)%	0.4 %	(6.7)%	2.3 %
Net sales per average selling square foot(1)	$ 81	$ 79	$ 163	$ 163
Net sales per average store(2)	$ 496	$ 515	$ 1,008	$ 1,068
Average selling square footage per store(3)	6,108	6,398	6,108	6,398

(1) Net sales per average selling square foot is defined as net sales divided by the average of beginning and end of period selling square feet.

(2) Net sales per average store is defined as net sales divided by the average of beginning and end of period number of stores.

(3) Average selling square footage per store is defined as end of period selling square feet divided by end of period number of stores.

	Three months ended July 29, 2006		Three months ended July 30, 2005		Six months ended July 29, 2006		Six months ended July 30, 2005	
	Store Count	Selling Square Feet	Store Count	Selling Square Feet	Store Count	Selling Square Feet	Store Count	Selling Square Feet
Store count and selling square feet:								
Stores open, beginning of period	530	3,282,333	482	3,196,211	519	3,254,465	476	3,189,770
New stores	10	43,317	13	59,508	24	107,629	21	92,416
Acquired stores			14	38,760			14	38,760
Closed stores	(3)	(17,409)	(3)	(16,404)	(6)	(35,556)	(5)	(27,048)
Net impact of remodeled stores on selling square feet		(28,166)		(40,604)		(46,463)		(56,427)
Stores open, end of period	537	3,280,075	506	3,237,471	537	3,280,075	506	3,237,471

Three Months Ended July 29, 2006 Compared to Three Months Ended July 30, 2005

Net Sales. Net sales for the three months ended July 29, 2006 increased 4.0% to $264.9 million, as compared to $254.6 million for the three months ended July 30, 2005. The increase is attributable to a $19.9 million, or 161.5%, increase in non-comparable store sales, primarily driven by new stores and acquired JasmineSola stores. The increase in non-comparable store sales was offset by a $9.6 million, or 4.0%, decrease in comparable store sales. In the comparable store base, average dollar sales per transaction were flat and the number of transactions per average store decreased 4.0%, as compared to the same period last year.

Gross Profit. Gross profit decreased $6.4 million to $75.6 million, or 28.5% of net sales, for the three months ended July 29, 2006, as compared to $82.0 million, or 32.2% of net sales, for the three months ended July 30, 2005. The decrease in gross profit is primarily attributable to the decrease in comparable store sales and an increase in merchandise markdowns for the three months ended July 29, 2006, as compared to the same period last year. In addition, buying and occupancy costs increased as a percentage of net sales primarily due to increases in real estate costs related to the impact of new stores opened since July 30, 2005 combined with the impact of lower comparable store sales. Also contributing to the increase in buying and occupancy costs is the recognition of rental expense during the construction period for new stores beginning in February 2006, with the adoption of FSP No. FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $3.9 million to $64.2 million, or 24.2% of net sales, for the three months ended July 29, 2006, as compared to $60.3 million, or 23.7% of net sales, for the three months ended July 30, 2005. As a percentage of net sales, selling, general and administrative expenses increased for the three months ended July 29, 2006, as compared to the three months ended July 30, 2005, due in large part to the decrease in comparable store sales. The increase in selling, general and administrative expenses for the three months ended July 29, 2006 is primarily due to higher store selling expenses as a result of new stores opened since July 30, 2005.

Operating Income. The decrease in gross profit and higher selling, general and administrative expenses, as explained above, resulted in a $10.3 million decrease in operating income to $11.4 million, or 4.3% of net sales, for the three months ended July 29, 2006, as compared to $21.7 million, or 8.5% of net sales, for the three months ended July 30, 2005.

Interest Expense, Net. Net interest expense decreased $0.8 million to $0.5 million, or 0.2% of net sales, for the three months ended July 29, 2006, as compared to $1.3 million, or 0.5% of net sales, for the three months ended July 30, 2005. The decrease in net interest expense is due to a reduction in borrowings and interest rates obtained through the Company s prepayment of a $75.0 million term loan on January 4, 2006 using proceeds from a new $37.5 million term loan facility plus cash on-hand.

Provision for Income Taxes. The effective tax rate for the three months ended July 29, 2006 was 40.4%, as compared to 40.1% for the three months ended July 30, 2005.

Net Income. For the reasons discussed above, net income decreased $5.8 million to $6.5 million, or 2.5% of net sales, for the three months ended July 29, 2006, as compared to $12.3 million, or 4.8% of net sales, for the three months ended July 30, 2005.

Six Months Ended July 29, 2006 Compared to Six Months Ended July 30, 2005

Net Sales. Net sales for the six months ended July 29, 2006 increased 1.4% to $532.0 million, as compared to $524.6 million for the six months ended July 30, 2005. The increase is attributable to a $41.0 million, or 206.6%, increase in non-comparable store sales, primarily driven by new stores and acquired JasmineSola stores. The increase in non-comparable store sales was offset by a $33.6 million, or 6.7%, decrease in comparable store sales. In the comparable store base, average dollar sales per transaction decreased 1.1% and the number of transactions per average store decreased 5.6%, as compared to the same period last year.

Gross Profit. Gross profit decreased $25.6 million to $154.7 million, or 29.1% of net sales, for the six months ended July 29, 2006, as compared to $180.3 million, or 34.4% of net sales, for the six months ended July 30, 2005. The decrease in gross profit is primarily attributable to the decrease in comparable store sales and an increase in merchandise markdowns for the six months ended July 29, 2006, as compared to the same period last year. In addition, buying and occupancy costs increased as a percentage of net sales primarily due to increases in real estate costs related to the impact of new stores opened since July 30, 2005 combined with the impact of lower comparable store sales. Also contributing to the increase in buying and occupancy costs is the recognition of rental expense during the construction period for new stores beginning in February 2006, with the adoption of FSP No. FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $11.5 million to $132.7 million, or 25.0% of net sales, for the six months ended July 29, 2006, as compared to $121.2 million, or 23.1% of net sales, for the six months ended July 30, 2005. As a percentage of net sales, selling, general and administrative expenses increased for the six months ended July 29, 2006, as compared to the six months ended July 30, 2005, due in large part to the decrease in comparable store sales. The increase in selling, general and administrative expenses for the six months ended July 29, 2006 is primarily due to higher store selling expenses as a result of new stores opened since July 30, 2005.

Operating Income. The decrease in gross profit and higher selling, general and administrative expenses, as explained above, resulted in a $37.1 million decrease in operating income to $22.0 million, or 4.1% of net sales, for the six months ended July 29, 2006, as compared to $59.1 million, or 11.3% of net sales, for the six months ended July 30, 2005.

Interest Expense, Net. Net interest expense decreased $1.7 million to $1.0 million, or 0.2% of net sales, for the six months ended July 29, 2006, as compared to $2.7 million, or 0.5% of net sales, for the six months ended July 30, 2005. The decrease in net interest expense is due to a reduction in borrowings and interest rates obtained through the Company s prepayment of a $75.0 million term loan on January 4, 2006 using proceeds from a new $37.5 million term loan facility plus cash on-hand.

Provision for Income Taxes. The effective tax rate for the six months ended July 29, 2006 was 40.3%, as compared to 40.2% for the six months ended July 30, 2005.

Net Income. For the reasons discussed above, net income decreased $21.1 million to $12.6 million, or 2.4% of net sales, for the six months ended July 29, 2006, as compared to $33.7 million, or 6.4% of net sales, for the six months ended July 30, 2005.

Non-GAAP Financial Measure

The Company has provided a non-GAAP financial measure to adjust net income for the three and six months ended July 29, 2006 and July 30, 2005. This information reflects, on a non-GAAP adjusted basis, the Company s net income before interest expense, net; provision for income taxes; and depreciation and amortization (EBITDA). The calculation for EBITDA is provided to enhance the user s understanding of the Company s operating results. EBITDA is provided because management believes it is an important

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measure of financial performance commonly used to determine the value of companies and to define standards for borrowing from institutional lenders. The non-GAAP financial information should be considered in addition to, not as an alternative to, net income, as an indicator of the Company s operating performance, and cash flows from operating activities, as a measure of the Company s liquidity, as determined in accordance with accounting principles generally accepted in the United States. The Company may calculate EBITDA differently than other companies.

Reconciliation of Net Income to EBITDA

	Three months ended July 29, 2006 Amounts in thousands	As a % of net sales	Three months ended July 30, 2005 Amounts in thousands	As a % of net sales	Six months ended July 29, 2006 Amounts in thousands	As a % of net sales	Six months ended July 30, 2005 Amounts in thousands	As a % of net sales
Net income	$ 6,499	2.5 %	$ 12,250	4.8 %	$ 12,556	2.4 %	$ 33,730	6.4 %
Add back:								
Interest expense, net	477	0.2 %	1,301	0.5 %	967	0.2 %	2,710	0.5 %
Provision for income taxes	4,405	1.6 %	8,189	3.2 %	8,477	1.5 %	22,684	4.4 %
Depreciation and amortization	7,975	3.0 %	5,595	2.2 %	15,651	2.9 %	11,041	2.1 %
EBITDA	$ 19,356	7.3 %	$ 27,335	10.7 %	$ 37,651	7.0 %	$ 70,165	13.4 %

Liquidity and Capital Resources

The Company s primary uses of cash are to fund working capital, operating expenses, debt service and capital expenditures related primarily to the construction of new stores, remodeling of existing stores and development of the Company s information systems infrastructure. Historically, the Company has financed these requirements from internally generated cash flow. The Company intends to fund its ongoing capital and working capital requirements, as well as debt service obligations, primarily through cash flows from operations, supplemented by borrowings under its credit facilities, if needed. The Company is in compliance with all debt covenants as of July 29, 2006.

The following tables contain information regarding the Company s liquidity and capital resources:

	July 29, 2006	January 28, 2006	July 30, 2005
	(Amounts in thousands)		
Cash and cash equivalents	$ 36,888	$ 57,436	$ 57,239
Working capital	$ 53,312	$ 47,701	$ 78,224

	Six months ended July 29, 2006	Six months ended July 30, 2005
	(Amounts in thousands)	
Net cash provided by operating activities	$ 11,921	$ 33,644
Net cash used in investing activities	$ (38,057)	$ (64,018)
Net cash provided by financing activities	$ 5,588	$ 2,452

Operating Activities

Net cash provided by operating activities was $11.9 million for the six months ended July 29, 2006, as compared to net cash provided by operating activities of $33.6 million for the six months ended July 30, 2005. The decrease in cash flow provided by operating activities for the six months ended July 29, 2006, as

compared to the six months ended July 30, 2005, is primarily related to the decrease in net income, and changes in accounts receivable, accounts payable and accrued expenses, partially offset by changes in inventory, prepaid expenses, income taxes payable and other assets and liabilities. Cash provided by other assets and liabilities for the six months ended July 29, 2006 and July 30, 2005 includes $12.1 million and $10.9 million of landlord allowances, respectively.

Investing Activities

Cash used in investing activities was $38.1 million for the six months ended July 29, 2006, as compared to $64.0 million of cash used in investing activities for the six months ended July 30, 2005. Cash used in investing activities for the six months ended July 29, 2006 represents capital expenditures primarily related to the construction of new stores and the remodeling of existing stores. Cash used in investing activities for the six months ended July 30, 2005 represents $42.8 million of capital expenditures primarily related to the construction of new stores and the remodeling of existing stores and $21.2 million used to acquire JasmineSola.

The Company opened 24 new stores and completed 19 remodels in the six months ended July 29, 2006, as compared to 21 new stores and 29 remodels in the six months ended July 30, 2005. The Company plans to open approximately 50 to 60 stores, including eight to ten JasmineSola stores, in fiscal year 2006, ending the year operating approximately 568 stores. The Company s future capital requirements will depend primarily on the number of new stores it opens, the number of existing stores it remodels and the timing of these expenditures.

Financing Activities

Net cash provided by financing activities was $5.6 million for the six months ended July 29, 2006, as compared to net cash provided by financing activities of $2.5 million for the six months ended July 30, 2005. Net cash provided by financing activities for the six months ended July 29, 2006 represents proceeds of $2.3 million from the public offering of common stock, consummated on January 31, 2006; the payment of $0.4 million in fees and expenses related to the offering; quarterly payments against the $37.5 million January 4, 2006 term loan totaling $3.0 million; and $6.7 million of proceeds from the exercise of stock options and the related tax benefit to the Company. Net cash provided by financing activities for the six months ended July 30, 2005 resulted primarily from the tax benefit related to the exercise of stock options offset by the repayment of debt outstanding under the terminated JasmineSola credit facility.

Long-Term Debt and Credit Facilities

On January 4, 2006, the Company s credit facilities were amended to include: (i) an additional $37.5 million term loan facility maturing on March 17, 2009 bearing interest at the Eurodollar rate plus 2.50%, (ii) an extension of the term of the Company s existing $90.0 million revolving credit facility to March 17, 2009 (contains a sub-facility available for the issuance of letters of credit of up to $75.0 million), and (iii) a reduction of certain interest rates under the revolver by as much as 50 basis points, depending upon the Company s financial performance. Using the $37.5 million of proceeds from the January 4, 2006 term loan plus $38.0 million of cash on-hand, the Company prepaid in full the $75.0 million March 16, 2004 term loan, which was bearing interest at the Eurodollar rate plus 5.00%, and $0.5 million in fees related to the refinancing. In connection with the prepayment of the March 16, 2004 term loan, $0.9 million of unamortized deferred financing costs were written-off in the fourth quarter of fiscal year 2005.

As of July 29, 2006, the Company had availability under its revolving credit facility of $44.7 million, net of letters of credit outstanding of $9.7 million, as compared to availability of $40.5 million, net of letters of credit outstanding of $14.5 million, as of July 30, 2005.

The revolving loans under the credit facilities bear interest, at the Company s option, either at a floating rate equal to the Eurodollar rate plus a margin of between 1.00% and 2.00% per year, depending upon the Company s financial performance, or the Prime rate. The Company pays the lenders under the revolving credit facility a monthly fee on outstanding letters of credit at a rate of between 1.00% and 1.50% per year, depending upon the Company s financial performance. The Company pays the lenders under the revolving credit facility a monthly fee on a proportion of the unused commitments under that facility at a rate of between 0.25% and 0.50% per year, depending upon the Company s financial performance. The term loan bears interest at a floating rate equal to the Eurodollar rate plus 2.50% per year. For so long as any default under the revolving credit facility continues, at the option of the agent or lenders, interest on the revolving loans may increase to 4.00% per year above the Eurodollar rate for Eurodollar rate loans and 2.00% per year above the Prime rate for all Prime rate loans, and interest on the term loan may increase to the Eurodollar rate plus 4.50% per year.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that impact the amounts reported on the Company s consolidated financial statements and related notes. On an ongoing basis, management evaluates its estimates and judgments, including those related to inventories, long-lived assets, goodwill and other intangible assets. Management bases its estimate and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ materially from these judgments. Management believes the following estimates and assumptions are most significant to reporting the Company s results of operations and financial position.

Inventory Valuation. Inventories are principally valued at the lower of average cost or market, on a weighted average cost basis, using the retail method. The Company records a charge to cost of goods sold, buying and occupancy costs for all inventory on-hand when a permanent retail price reduction is reflected in its stores. In addition, management makes estimates and judgments regarding, among other things, initial markup, markdowns, future demand and market conditions, all of which significantly impact the ending inventory valuation. If actual future demand or market conditions are different than those projected by management, future period merchandise margin rates may be unfavorably or favorably affected. Other significant estimates related to inventory include shrink and obsolete and excess inventory which are also based on historical results and management s operating projections.

Impairment of Long-Lived Assets. The Company evaluates long-lived assets in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). Long-lived assets are evaluated for recoverability in accordance with SFAS 144 whenever events or changes in circumstances indicate that an asset may have been impaired. In evaluating an asset for recoverability, the Company estimates the future cash flow expected to result from the use of the asset and eventual disposition. If the expected future undiscounted cash flow is less than the carrying amount of the asset, an impairment loss, equal to the excess of the carrying amount over the fair value of the asset, is recognized. An impairment loss could have a material adverse impact on the Company s financial condition and results of operations. The Company s evaluation for the six months ended July 29, 2006 resulted in no material asset impairment charge.

Goodwill and Other Intangible Assets. SFAS No. 142, Goodwill and Other Intangible Assets, prohibits the amortization of goodwill and intangible assets with indefinite lives. The Company s intangible assets relate primarily to the New York & Company and JasmineSola trademarks and the goodwill associated with the acquisition of JasmineSola on July 19, 2005. The trademarks were initially valued using the relief from royalty method and were determined to have indefinite lives by an independent appraiser. The Company tests for impairment of intangible assets annually as required by this Statement. Management s estimate of future cash flow is based on historical experience, knowledge, and market data.

These estimates can be affected by factors such as those outlined in Special Note Regarding Forward-Looking Statements and Risk Factors. An impairment loss could have a material adverse impact on the Company s financial condition and results of operations. The fair value assigned to the JasmineSola trademarks and goodwill is $17.2 million and $11.1 million, respectively.

Income Taxes. Income taxes are calculated in accordance with SFAS No. 109, Accounting for Income Taxes, which requires the use of the liability method. Deferred tax assets and liabilities are recognized based on the difference between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Inherent in the measurement of deferred balances are certain judgments and interpretations of enacted tax laws and published guidance with respect to applicability to the Company s operations. Deferred tax assets are believed to be fully realizable as management expects future taxable income will be sufficient to recover the asset values and, as such, no related valuation allowance has been provided for.

New Accounting Pronouncements

In October 2005, the FASB issued FSP No. FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period. The FSP concluded that rental costs associated with ground or building operating leases that are incurred during a construction period should be recognized as rental expense. The rental costs should be included in income from continuing operations. The guidance does not change application of the maximum guarantee test in EITF Issue No. 97-10, The Effect of Lessee Involvement in Asset Construction. The guidance in this FSP shall be applied in the first reporting period beginning after December 15, 2005. Retrospective application in accordance with FASB Statement No. 154, Accounting Changes and Error Corrections, is permitted but not required; as such, the Company adopted the provisions of the FSP beginning in February 2006 and is applying them prospectively. The Company currently anticipates that the adoption of this pronouncement will result in approximately $3.0 million of additional rent expense in the current fiscal year, which prior to the adoption of this pronouncement would have been capitalized and amortized into depreciation expense on a straight-line basis over the lease term, commencing on a store s opening date. For the three months ended July 29, 2006, $1.1 million of rent expense was recognized during the construction periods for stores, resulting in an after-tax charge to earnings of $0.7 million, or $0.01 per diluted share. For the six months ended July 29, 2006, $2.0 million of rent expense was recognized during the construction periods for stores, resulting in an after-tax charge to earnings of $1.2 million, or $0.02 per diluted share.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. This Interpretation clarifies the accounting for uncertain tax positions recognized in a company s financial statements in accordance with the provisions of FASB Statement No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition of uncertain positions, financial statement classification, accounting for interest and penalties, accounting in interim periods, disclosure, and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact that the adoption of this Interpretation will have on its financial position and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rates. The Company s market risks relate primarily to changes in interest rates. The Company s credit facilities carry floating interest rates that are tied to the Eurodollar rate and the Prime rate and therefore, the consolidated statements of income and the consolidated statements of cash flows will be exposed to changes in interest rates. A 1.0% interest rate increase would increase interest expenses by approximately $0.3 million annually. The Company historically has not engaged in interest rate hedging activities.

Currency Exchange Rates. The Company historically has not been exposed to currency exchange rate risks with respect to inventory purchases as such expenditures have been, and continue to be, denominated in U.S. Dollars. The Company purchases some of its inventory from suppliers in China, for which the Company pays U.S. Dollars. In July 2005, China announced that it would increase the value of the Chinese Yuan and abandon its fixed exchange rate against the U.S. Dollar to now link to a basket of world-currencies. If the exchange rate of the Chinese Yuan to the U.S. Dollar continues to increase, the Company may experience fluctuations in the cost of inventory purchased from China and the Company would adjust its supply chain accordingly.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Disclosure Controls and Procedures.* The Company s management, with the participation of the Company s Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report. Based on such evaluation, the Company s Principal Executive Officer and Principal Financial Officer have concluded that, as of the end of such period, the Company s disclosure controls and procedures are effective.

(b) *Internal Controls Over Financial Reporting.* There have not been any changes in the Company s internal controls over financial reporting (as such term is defined in Rules 13a 15(f) and 15d 15(f) under the Securities Exchange Act of 1934, as amended) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

PART II.

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes in the Company s legal proceedings from what was reported in its Annual Report on Form 10-K filed with the SEC on April 7, 2006.

ITEM 1A. RISK FACTORS

There have been no material changes in the Company s risk factors from what was reported in its Annual Report on Form 10-K filed with the SEC on April 7, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

In accordance with the Company s notice and proxy statement dated May 18, 2006, the Company held its Annual Meeting of Stockholders on June 21, 2006. Holders of 53,533,046 shares of the Company s common stock were present in person or by proxy, representing approximately 96.6% of the Company s 55,406,321 shares outstanding on the record date. The matters set forth below were submitted to a vote of the Company s stockholders:

(a) The election of eleven directors of the Company to hold office until the next Annual Meeting of Stockholders or until their respective successors are duly elected and qualified. The following persons were elected as members of the Board of Directors:

Name of Nominee	Votes For	Votes Withheld
Bodil M. Arlander	46,071,878	7,461,168
Philip M. Carpenter III	46,757,581	6,775,465
Richard P. Crystal	44,950,558	8,582,488
M. Katherine Dwyer	52,405,286	1,127,760
David H. Edwab	52,404,262	1,128,784
John D. Howard	44,558,398	8,974,648
Louis Lipschitz	52,406,808	1,126,238
Edward W. Moneypenny	52,406,978	1,126,068
Richard L. Perkal	46,071,558	7,461,488
Arthur E. Reiner	52,227,905	1,305,141
Ronald W. Ristau	44,904,570	8,628,476

(b) The proposal to ratify the selection of Ernst & Young LLP to serve as the Company s independent registered public accounting firm for the fiscal year ending February 3, 2007:

Votes For	Votes Against	Abstentions
53,454,799	74,953	3,294

(c) The proposal to approve the adoption of the 2006 Long-Term Incentive Plan:

Votes For	Votes Against	Abstentions	Broker Non-Votes
38,549,135	12,289,377	10,993	2,683,541

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed with this report and made a part hereof.

31.1 Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.

31.2 Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.

32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

NEW YORK & COMPANY, INC.	
/s/ RONALD W. RISTAU	
By:	Ronald W. Ristau
Its:	*Chief Operating Officer and*
	Chief Financial Officer
	(Principal Financial Officer)
Dated:	September 7, 2006