

New York & Company, Inc.
Form 10-Q
June 10, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-Q

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

for the quarterly period ended May 3, 2008

OR

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

for the transition period from _____ to _____
COMMISSION FILE NUMBER: 1-32315

NEW YORK & COMPANY, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State of incorporation)

33-1031445
(I.R.S. Employer Identification No.)

**450 West 33rd Street
5th Floor
New York, New York 10001**
(Address of Principal Executive Offices,
including Zip Code)

(212) 884-2000
(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 No

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

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

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

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As of May 30, 2008, the registrant had 59,370,753 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 Operations

(Unaudited)

	Three months ended May 3, 2008	Three months ended May 5, 2007
(Amounts in thousands, except per share amounts)		
Net sales	\$ 270,069	\$ 274,186
Cost of goods sold, buying and occupancy costs	186,128	194,743
Gross profit	83,941	79,443
Selling, general and administrative expenses	72,575	70,525
Operating income	11,366	8,918
Interest expense, net of interest income of \$328 and \$459, respectively	124	261
Income from continuing operations before income taxes	11,242	8,657
Provision for income taxes	4,519	3,480
Income from continuing operations	6,723	5,177
Loss from discontinued operations, net of taxes		(4,375)
Net income	\$ 6,723	\$ 802
Basic earnings (loss) per share:		
Basic earnings per share from continuing operations	\$ 0.11	\$ 0.09
Basic loss per share from discontinued operations		(0.08)
Basic earnings per share	\$ 0.11	\$ 0.01
Diluted earnings (loss) per share:		
Diluted earnings per share from continuing operations	\$ 0.11	\$ 0.08
Diluted loss per share from discontinued operations		(0.07)
Diluted earnings per share	\$ 0.11	\$ 0.01
Weighted average shares outstanding:		
Basic shares of common stock	59,274	57,805
Diluted shares of common stock	61,232	60,869

See accompanying notes.

New York & Company, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	May 3, 2008	February 2, 2008	May 5, 2007
	(Unaudited)	(Audited)	(Unaudited)
	(Amounts in thousands, except per share amounts)		
Assets			
Current assets:			
Cash and cash equivalents	\$ 61,312	\$ 73,734	\$ 36,527
Accounts receivable	22,605	18,523	23,004
Income taxes receivable	3,108	11,730	
Inventories, net	119,685	103,923	124,351
Prepaid expenses	21,649	21,991	19,791
Other current assets	2,323	1,913	2,630
Current assets of discontinued operations	494	716	7,639
	<hr/>	<hr/>	<hr/>
Total current assets	231,176	232,530	213,942
Property and equipment, net	243,882	239,557	205,236
Intangible assets	14,843	14,843	14,843
Other assets	1,425	1,500	1,429
Non-current assets of discontinued operations	5	26	35,918
	<hr/>	<hr/>	<hr/>
Total assets	\$ 491,331	\$ 488,456	\$ 471,368
Liabilities and stockholders' equity			
Current liabilities:			
Current portion long-term debt	\$ 6,000	\$ 6,000	\$ 6,000
Accounts payable	77,842	77,177	73,534
Accrued expenses	53,708	53,618	49,517
Income taxes payable			2,478
Deferred income taxes	2,631	3,928	2,882
Current liabilities of discontinued operations	2,029	7,328	5,554
	<hr/>	<hr/>	<hr/>
Total current liabilities	142,210	148,051	139,965
Long-term debt, net of current portion	18,000	19,500	24,000
Deferred income taxes	3,410	3,747	1,923
Deferred rent	75,911	72,537	59,866
Other liabilities	4,671	4,660	613
Non-current liabilities of discontinued operations			2,087
	<hr/>	<hr/>	<hr/>
Total liabilities	244,202	248,495	228,454
Stockholders' equity:			
Common stock, voting, par value \$0.001; 300,000 shares authorized; 59,339, 59,286 and 58,043 shares issued and outstanding at May 3, 2008, February 2, 2008, and May 5, 2007, respectively	59	59	58
Additional paid-in capital	148,653	148,208	145,429
Retained earnings	98,697	91,974	97,633
Accumulated other comprehensive loss	(280)	(280)	(206)
	<hr/>	<hr/>	<hr/>
Total stockholders' equity	247,129	239,961	242,914
	<hr/>	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 491,331	\$ 488,456	\$ 471,368

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May 3, 2008	February 2, 2008	May 5, 2007
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See accompanying notes.

New York & Company, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended May 3, 2008	Three months ended May 5, 2007
(Amounts in thousands)		
Operating activities		
Net income	\$ 6,723	\$ 802
Less: Loss from discontinued operations, net of taxes		(4,375)
	<u>6,723</u>	<u>5,177</u>
Income from continuing operations	6,723	5,177
Adjustments to reconcile net income to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	10,397	8,723
Amortization of deferred financing costs	44	69
Share-based compensation expense	330	442
Deferred income taxes	(1,634)	(1,608)
Changes in operating assets and liabilities:		
Accounts receivable	(4,082)	(9,218)
Income taxes receivable	8,622	
Inventories, net	(15,762)	(22,095)
Prepaid expenses	342	(208)
Accounts payable	665	10,580
Accrued expenses	90	(9,676)
Income taxes payable		(6,226)
Deferred rent	3,374	6,033
Other assets and liabilities	(411)	(301)
	<u>8,698</u>	<u>(18,308)</u>
Net cash provided by (used in) operating activities of continuing operations	8,698	(18,308)
Investing activities		
Capital expenditures	(14,679)	(11,537)
	<u>(14,679)</u>	<u>(11,537)</u>
Net cash used in investing activities of continuing operations	(14,679)	(11,537)
Financing activities		
Repayment of debt	(1,500)	(1,500)
Proceeds from exercise of stock options	11	123
Excess tax benefit from exercise of stock options	104	3,061
Other		(36)
	<u>(1,385)</u>	<u>1,648</u>
Net cash (used in) provided by financing activities of continuing operations	(1,385)	1,648
Cash flows from discontinued operations		
Operating cash flows	(5,278)	(3,201)
Investing cash flows		(75)
Financing cash flows		
	<u>(5,278)</u>	<u>(3,276)</u>
Net cash used in discontinued operations	(5,278)	(3,276)
Net decrease in cash and cash equivalents	(12,644)	(31,473)
Cash and cash equivalents at beginning of period (including cash at discontinued operations of \$223 and \$206, respectively)	73,957	68,064

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	Three months ended May 3, 2008	Three months ended May 5, 2007
Cash and cash equivalents at end of period (including cash at discontinued operations of \$1 and \$64, respectively)	\$ 61,313	\$ 36,591

See accompanying notes.

New York & Company, Inc.

Notes to Condensed Consolidated Financial Statements

May 3, 2008

(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 retail stores and E-commerce store at *www.nyandcompany.com*. The target customers for the Company's New York & Company merchandise are fashion-conscious, value-sensitive women between the ages of 25 and 45. As of May 3, 2008, the Company operated 586 New York & Company stores in 44 states.

The accompanying condensed consolidated financial statements include the accounts for New York & Company, Inc. and Lerner New York Holding, Inc. ("Lerner Holding") and its wholly-owned subsidiaries, which include Lerner New York, Inc. (and its wholly-owned subsidiaries, including the discontinued business at Jasmine Company, Inc.), Lernco, Inc. and Nevada Receivable Factoring, Inc. On a stand-alone basis, without the consolidation of Lerner Holding and its subsidiaries, New York & Company, Inc. has no significant independent assets or operations. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the accompanying 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. Certain amounts in the prior period have been reclassified to conform to the current period presentation.

The condensed consolidated financial statements as of May 3, 2008 and May 5, 2007 and for the thirteen weeks ("three months") ended May 3, 2008 and May 5, 2007 are unaudited and are presented pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). Accordingly, these unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the 52-week fiscal year ended February 2, 2008 ("fiscal year 2007"), which were filed with the Company's Annual Report on Form 10-K with the SEC on April 8, 2008. The 52-week fiscal year ending January 31, 2009 is referred to herein as "fiscal year 2008." The Company's fiscal year is a 52 or 53 week year that ends on the Saturday closest to January 31.

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. Discontinued Operations

On October 18, 2007, the Company announced its decision to close all stores operated by the Company's subsidiary, Jasmine Company, Inc. ("JasmineSola"), by the end of the fourth quarter of fiscal year 2007. JasmineSola was a women's retailer of upscale and contemporary apparel, footwear and accessories sold through its chain of JasmineSola branded stores. The Company decided to exit the JasmineSola business after a thorough assessment and analysis. This decision enabled the Company to focus financial and management resources on its New York & Company brand. As of February 2, 2008, the Company, as planned, completed the closure of all of the Company's JasmineSola stores and substantially completed all other exit procedures. As a result, the Company's financial statements reflect JasmineSola as discontinued operations for all periods presented in accordance with Statement

New York & Company, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

May 3, 2008

(Unaudited)

2. Discontinued Operations (Continued)

of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144").

In accordance with SFAS No. 144 and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), the Company recorded a \$35.2 million non-cash charge in October 2007 related to the impairment of JasmineSola assets, including \$17.2 million of trademarks, \$11.1 million of goodwill, and \$6.9 million of property and equipment. In accordance with SFAS No. 146, "Accounting for Costs Associated With Exit or Disposal Activities," the Company recorded charges during the third and fourth quarters of fiscal year 2007 of \$5.8 million for lease termination costs and \$1.3 million for severance costs. As of February 2, 2008, approximately \$3.4 million of lease termination accruals and \$0.8 million of severance accruals are included in current liabilities of discontinued operations on the consolidated balance sheet. As of May 3, 2008, approximately \$0.4 million of exit related accruals are included in current liabilities of discontinued operations on the consolidated balance sheet.

The operating results of JasmineSola, which are being presented as discontinued operations, are as follows:

	Three months ended May 3, 2008	Three months ended May 5, 2007
	<u> </u>	<u> </u>
	(Amounts in thousands)	
Net sales	\$	\$ 9,776
	<u> </u>	<u> </u>
Loss from discontinued operations before income taxes		(7,317)
Income tax benefit		(2,942)
	<u> </u>	<u> </u>
Loss from discontinued operations, net of tax	\$	\$ (4,375)
	<u> </u>	<u> </u>

3. 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. Except when the effect would be anti-dilutive at the continuing operations level, diluted earnings per share are calculated based on the weighted average number of outstanding shares of common stock plus the dilutive effect, using the treasury stock

New York & Company, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

May 3, 2008

(Unaudited)

3. Earnings Per Share (Continued)

method, of stock options as if they were exercised and unvested restricted stock as if it were vested. A reconciliation between basic and diluted earnings per share is as follows:

	Three months ended May 3, 2008	Three months ended May 5, 2007
	(Amounts in thousands, except per share amounts)	
Income from continuing operations	\$ 6,723	\$ 5,177
Loss from discontinued operations, net of taxes		(4,375)
Net income	\$ 6,723	\$ 802
<i>Basic earnings (loss) per share</i>		
<i>Weighted average shares outstanding:</i>		
Basic shares of common stock	59,274	57,805
Basic earnings per share from continuing operations	\$ 0.11	\$ 0.09
Basic loss per share from discontinued operations		(0.08)
Basic earnings per share	\$ 0.11	\$ 0.01
<i>Diluted earnings (loss) per share</i>		
<i>Weighted average shares outstanding:</i>		
Basic shares of common stock	59,274	57,805
Plus impact of stock options and restricted stock, net	1,958	3,064
Diluted shares of common stock	61,232	60,869
Diluted earnings per share from continuing operations	\$ 0.11	\$ 0.08
Diluted loss per share from discontinued operations		(0.07)
Diluted earnings per share	\$ 0.11	\$ 0.01

The calculation of diluted earnings per share for the three months ended May 3, 2008 and May 5, 2007 exclude options to purchase 1,807,085 and 993,585 shares, respectively, due to their anti-dilutive effect.

4. Share-Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") published SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123-R"). SFAS No. 123-R retains certain of the requirements of the original SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") and requires that the cost resulting from all share-based payment transactions be treated as compensation and recognized in the consolidated financial statements. The Company adopted SFAS No. 123-R in December 2004, utilizing the modified

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prospective method. Prior to the Company's adoption of SFAS No. 123-R, the Company followed SFAS No. 123 and treated all forms of share-based payments as compensation recognized in the consolidated statement of income. Therefore,

New York & Company, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

May 3, 2008

(Unaudited)

4. Share-Based Compensation (Continued)

the adoption of SFAS No. 123-R did not have a material impact on the Company's consolidated financial statements.

The Company recorded share-based compensation expense in the amount of \$0.3 million and \$0.4 million for the three months ended May 3, 2008 and May 5, 2007, respectively.

The Company issued 53,399 shares of common stock upon exercise of stock options during the three months ended May 3, 2008.

5. Pension Plan

The Company sponsors a single-employer defined benefit pension plan (the "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 is set to expire on August 31, 2008. The Company anticipates that the collective bargaining agreement with Local 1102 will be extended.

The plan provides retirement benefits for union employees, consisting of non-management store associates, who have attained the age of 21 and completed 1,000 or more 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 pension 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 May 3, 2008	Three months ended May 5, 2007
	(Amounts in thousands)	
Service cost	\$ 91	\$ 90
Interest cost	139	137
Expected return on plan assets	(181)	(179)
Net periodic benefit cost	\$ 49	\$ 48

6. Income Taxes

The effective tax rate for both the three months ended May 3, 2008 and May 5, 2007 was 40.2%.

The Company files U.S. federal income tax returns and income tax returns in various state and local jurisdictions. The Company is subject to U.S. federal income tax examinations for the 2006 tax year and each year thereafter and state and local income tax examinations for the 2003 tax year and each year thereafter.

At February 2, 2008, the Company reported a total liability of \$4.3 million for unrecognized tax benefits, including interest and penalties, all of which would impact the Company's effective tax rate if

New York & Company, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

May 3, 2008

(Unaudited)

6. Income Taxes (Continued)

reversed. There were no material changes to the liability for unrecognized tax benefits during the three months ended May 3, 2008. The Company does not anticipate any significant increases or decreases to the balance of unrecognized tax benefits during the next twelve months.

The Company accrues interest and penalties related to unrecognized tax benefits in income tax expense.

7. Long-Term Debt and Credit Facilities

The Company's credit facilities currently consist of a term loan, of which \$24.0 million was outstanding at May 3, 2008, and a \$90.0 million revolving credit facility (which includes a sub-facility available for issuance of letters of credit of up to \$75.0 million), both having a maturity date of March 17, 2012.

As of May 3, 2008, the Company had availability under its revolving credit facility of \$74.1 million, net of letters of credit outstanding of \$6.8 million, as compared to availability of \$66.4 million, net of letters of credit outstanding of \$8.9 million, as of May 5, 2007.

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 1.25% 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 commercial letters of credit at a rate of 0.625% per year and on standby letters of credit at a rate of between 1.00% and 1.25% per year, depending upon the Company's financial performance, plus a monthly fee on a proportion of the unused commitments under that facility at a rate of 0.20% per year. The term loan bears interest at a floating rate equal to the Eurodollar rate plus 2.50% per year. If any default were to exist under the revolving credit facility and for so long as such default were to continue, at the option of the agent or lenders, the monthly fee on outstanding standby letters of credit may increase to 3.25% per year, interest on the revolving loans may increase to 3.25% 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.

The Company's credit facilities contain certain covenants, including restrictions on the Company's ability to pay dividends on its common stock, incur additional indebtedness and to prepay, redeem, defease or purchase other debt. Subject to such restrictions, the Company may incur more debt for working capital, capital expenditures, stock repurchases, acquisitions and for other purposes. The terms of the Company's credit facilities also subject it to certain maintenance covenants until the Company's existing term loan is paid in full, which require the Company to maintain a fixed charge coverage ratio of not less than 1.00 to 1.00 and a leverage ratio of not greater than 2.75 to 1.00. Should the Company fully repay its existing term loan, the Company will no longer be subject to the maximum leverage ratio and will only be subject to the minimum fixed charge coverage ratio in the event that the Company's borrowing availability under its revolving credit facility falls below \$10.0 million. These ratios are not necessarily comparable to other similarly titled ratios of other companies due to inconsistencies in the method of calculation. The Company is currently in compliance with the financial covenants referred to above.

New York & Company, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

May 3, 2008

(Unaudited)

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

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 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.

8. New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP guidance requiring the use of fair value, establishes a framework for measuring fair value, and expands the disclosure about such fair value measurements. The application of SFAS No. 157 as it relates to financial assets and financial liabilities is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On February 12, 2008, the FASB issued FSP FAS 157-2, "Effective Date of FASB Statement No. 157," which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company's adoption of SFAS No. 157 on February 3, 2008 for all financial assets and liabilities and any other assets and liabilities that are recognized or disclosed at fair value on a recurring basis did not impact the Company's consolidated financial statements. The Company is currently evaluating the impact that the adoption of SFAS No. 157 for nonfinancial assets and liabilities measured at fair value on a non-recurring basis may have on its financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires recognition of the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and requires companies to recognize changes in that funded status in comprehensive income (loss) in the year in which the changes occur. SFAS No. 158 also requires measurement of the funded status of a plan as of the date of the statement of financial position. SFAS No. 158 is effective for recognition of the funded status of benefit plans for fiscal years ending after December 15, 2006 and is effective for the measurement date provisions for fiscal years ending after December 15, 2008. The adoption of the recognition provisions of this Statement at February 3, 2007 did not have an impact on the Company's financial position and results of operations. The Company does not anticipate that the adoption of the measurement date provisions of this Statement will have a material impact on its financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with US GAAP for non-governmental entities. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, the meaning of "Present Fairly in Conformity with

New York & Company, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

May 3, 2008

(Unaudited)

8. New Accounting Pronouncements (Continued)

GAAP." Any effect of applying the provisions of SFAS No. 162 is to be reported as a change in accounting principle in accordance with FASB Statement No. 154, "Accounting Changes and Error Corrections." The Company is currently evaluating the impact that the adoption of this Statement, once effective, will have on its financial position and results of operations.

9. Fair Value Measurements

As described in footnote 8, "New Accounting Pronouncements," on February 3, 2008 the Company adopted SFAS No. 157 for financial assets and liabilities and any other assets and liabilities that are recognized or disclosed at fair value on a recurring basis. SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP guidance requiring the use of fair value, establishes a framework for measuring fair value, and expands the disclosure about such fair value measurements. SFAS No. 157 establishes a three-level fair value hierarchy that requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data and require the reporting entity to develop its own assumptions.

As of May 3, 2008, the carrying amount of the Company's long-term debt approximates its fair value due to the variable interest rate it carries, and as such it is classified within level 2 of the fair value hierarchy.

10. Legal Matters

On March 25, 2008, a class action claim was filed in the Superior Court of the State of California for the County of Alameda captioned *Jannika Schakow v. New York & Company, Inc.* The case was dismissed and refiled on April 29, 2008 in the Superior Court of the State of California for the County of Contra Costa captioned *Jannika Schakow v. Lerner New York, Inc. and New York & Company, Inc.* The class action seeks relief for, among other things, meal and rest periods allegedly not provided or permitted to certain eligible employees in California. The Company is reviewing the matter and is presently unable to determine its liability, if any, with regard to the claim.

On March 25, 2008, a class action claim was filed in the Superior Court of the State of California for the County of San Diego captioned *Leslie Johnson v. New York & Company, Inc.* The class action seeks relief for, among other things, collection of customers' personal information in a manner that is allegedly in violation of California law. The Company is reviewing the matter and is presently unable to determine its liability, if any, with regard to the claim.

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," "could," "may," "plan," "project," "predict" 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 and the potential lack of availability of suitable store locations on acceptable terms;

seasonal fluctuations in the Company's business;

the Company's ability to anticipate and respond to fashion trends, develop new merchandise 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 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 Company's ability to service any debt it incurs from time to time as well as its ability to maintain the requirements that the agreements related to such debt impose upon the Company;

the susceptibility of the Company's business to extreme and/or unseasonable weather conditions;

the Company's ability to retain, recruit and train 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, including federal and state minimum wage rates;

the potential impact of national and international security concerns on the retail environment, including any possible military action, terrorist attacks or other hostilities;

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the Company's reliance on foreign sources of production, including the disruption of imports by labor disputes, political instability, legal and regulatory matters, duties, taxes, other charges and quotas on imports, local business practices, potential delays in shipping and related pricing impacts and political issues and fluctuation in currency and exchange rates;

the potential impact of natural disasters and health concerns relating to outbreaks of widespread diseases, particularly on manufacturing operations of the Company's vendors;

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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 new or 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 technology infrastructure;

the effects of government regulation;

the control of the Company by its sponsors and any potential change of ownership of those 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 8, 2008.

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 and E-commerce store at www.nyandcompany.com. The target customers for the Company's New York & Company merchandise are fashion-conscious, value-sensitive women between the ages of 25 and 45. As of May 3, 2008, the Company operated 586 New York & Company stores in 44 states.

On October 18, 2007, the Company announced its decision to close all of its 23 JasmineSola stores by the end of the fourth quarter of fiscal year 2007. JasmineSola was a women's retailer of upscale and contemporary apparel, footwear and accessories sold through the Company's chain of JasmineSola branded stores. The Company decided to exit the JasmineSola business after a thorough assessment and analysis. This decision enabled the Company to focus financial and management resources on its New York & Company brand. As of February 2, 2008, the Company, as planned, completed the closure of all of the Company's JasmineSola stores and substantially completed all other exit procedures. As a result, the Company's financial statements reflect JasmineSola as discontinued operations for all periods presented. Unless otherwise noted, all financial and store operating data, presented in this Quarterly Report on Form 10-Q relate to the New York & Company business.

Net sales for the three months ended May 3, 2008 decreased 1.5% to \$270.1 million, as compared to \$274.2 million for the three months ended May 5, 2007. Comparable store sales decreased 6.6% for the three months ended May 3, 2008, as compared to a comparable store sales decrease of 0.7% for the three months ended May 5, 2007. Income from continuing operations for the three months ended May 3, 2008 increased to \$6.7 million, or \$0.11 per diluted share, as compared to \$5.2 million, or \$0.08 per diluted share, for the three months ended May 5, 2007. For a discussion of the more significant factors impacting these results, see "Results of Operations" below.

Capital spending for the three months ended May 3, 2008 was \$14.7 million, as compared to \$11.5 million for the three months ended May 5, 2007. The \$14.7 million of capital spending represents \$9.6 million related to the construction of new stores and the remodeling of existing stores and \$5.1 million related to non-store capital projects, which principally represent information technology enhancements

including, among other projects, a new POS system being implemented across the chain and the upgrade of the Company's existing merchandise planning system. The Company expects to complete the implementation/upgrade of these systems during fiscal year 2008 and 2009. During the three months ended May 3, 2008, the Company opened 10 new stores, closed two stores, and completed two remodels, ending the period operating 586 stores, as compared to 545 stores as of May 5, 2007. Total selling square footage as of May 3, 2008 was 3.347 million, as compared to 3.276 million as of May 5, 2007.

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 the fourth quarter. Seasonal fluctuations also affect inventory levels. The Company must carry a significant amount of inventory, especially before the holiday season selling period.

The Company's business is impacted by economic conditions which affect the level of consumer spending on the merchandise the Company offers. These economic factors include interest rates, economic growth, wage rates, unemployment levels, energy prices, consumer confidence and consumer spending, among others. Consumer preferences and economic conditions may change from time to time in the markets in which the Company operates and may negatively impact the Company's net sales and profitability. As economic conditions change, there can be no assurance that future trends and fluctuations in economic factors will not have a material adverse effect on the Company's financial condition and results of operations. The Company's strategy is to focus on its customers, current fashion trends, merchandise testing, value pricing and responsive inventory management to enable it to react quickly to changes as they occur.

General

Net Sales. Net sales consist of sales from comparable and non-comparable stores and the Company's E-commerce store. 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. Beginning in February 2008, sales from the Company's E-commerce store are included in comparable store sales. 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. In addition, in a year with 53 weeks, sales in the last week of the year are not included in determining comparable store sales. Net sales from the sale of merchandise at the Company's stores are recognized when the customer takes possession of the merchandise and the purchases are paid for, primarily with either cash or credit card. Net sales from the sale of merchandise at the Company's E-commerce store are recognized when the merchandise is shipped to the customer. 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 such amount as revenue 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 is 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.

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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 months ended May 3, 2008 and May 5, 2007:

	Three months ended May 3, 2008	Three months ended May 5, 2007
Net sales	100.0%	100.0%
Cost of goods sold, buying and occupancy costs	68.9%	71.0%
Gross profit	31.1%	29.0%
Selling, general and administrative expenses	26.9%	25.7%
Operating income	4.2%	3.3%
Interest expense, net	%	0.1%
Income from continuing operations before income taxes	4.2%	3.2%
Provision for income taxes	1.7%	1.3%
Income from continuing operations	2.5%	1.9%
Loss from discontinued operations, net of taxes	%	(1.6)%
Net income	2.5%	0.3%

Three months ended May 3, 2008	Three months ended May 5, 2007
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(Dollars in thousands,
except square foot data)

Selected operating data:

Comparable store sales decrease	(6.6)%	(0.7)%
Net sales per average selling square foot(1)	\$ 81	\$ 84
Net sales per average store(2)	\$ 464	\$ 507
Average selling square footage per store(3)	5,711	6,010

- (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.

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	Three months ended May 3, 2008		Three months ended May 5, 2007	
	Store Count	Selling Square Feet	Store Count	Selling Square Feet
Store count and selling square feet:				
Stores open, beginning of period	578	3,327,450	536	3,236,540
New stores	10	42,139	11	52,297
Closed stores	(2)	(14,122)	(2)	(13,263)
Net impact of remodeled stores on selling square feet		(8,761)		
Stores open, end of period	586	3,346,706	545	3,275,574

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Three Months Ended May 3, 2008 Compared to Three Months Ended May 5, 2007

Net Sales. Net sales for the three months ended May 3, 2008 decreased 1.5% to \$270.1 million, as compared to \$274.2 million for the three months ended May 5, 2007. The decrease is attributable to a decrease in comparable store sales partially offset by an increase in net sales from new store openings not yet included in comparable store sales. Comparable store sales decreased 6.6% for the three months ended May 3, 2008, compared to a 0.7% decrease for the three months ended May 5, 2007. In the comparable store base, average dollar sales per transaction increased by 7.1%, while the number of transactions per average store decreased by 12.8%, as compared to the same period last year.

Gross Profit. Gross profit increased \$4.5 million to \$83.9 million, or 31.1% of net sales, for the three months ended May 3, 2008, as compared to \$79.4 million, or 29.0% of net sales, for the three months ended May 5, 2007. The 210 basis point increase in gross profit as a percentage of net sales during the three months ended May 3, 2008 is the result of a 430 basis point improvement in merchandise margin, consistent with the Company's strategy to improve margin through disciplined inventory control and targeted well planned promotions, partially offset by a 220 basis point increase in buying and occupancy costs as a percentage of net sales. The increase in buying and occupancy costs as a percentage of net sales is primarily due to the impact of negative comparable store sales combined with an increase in real estate costs related to new and remodeled stores.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$2.1 million to \$72.6 million, or 26.9% of net sales, for the three months ended May 3, 2008, as compared to \$70.5 million, or 25.7% of net sales, for the three months ended May 5, 2007. This increase was largely due to the effect of increased store expenses necessary to support 41 additional stores in operation since May 5, 2007. As a percentage of net sales, selling, general and administrative expenses increased by 120 basis points, primarily due to the decrease in comparable store sales, partially offset by the impact of the Company's ongoing cost savings initiatives. On an average store basis, selling, general and administrative expenses declined by 4.3% during the three months ended May 3, 2008, as compared to the three months ended May 5, 2007.

Operating Income. For the reasons discussed above, operating income increased \$2.4 million to \$11.4 million, or 4.2% of net sales, for the three months ended May 3, 2008, as compared to \$8.9 million, or 3.3% of net sales, for the three months ended May 5, 2007.

Interest Expense, Net. Net interest expense decreased to \$0.1 million for the three months ended May 3, 2008, as compared to \$0.3 million for the three months ended May 5, 2007. The decrease in net interest expense for the three months ended May 3, 2008, as compared to the three months ended May 5, 2007, is primarily related to a decrease in borrowings and fluctuations in interest rates.

Provision for Income Taxes. The effective tax rate for the three months ended May 3, 2008 and May 5, 2007 was 40.2%.

Income from continuing operations. For the reasons discussed above, income from continuing operations increased \$1.5 million to \$6.7 million, or 2.5% of net sales, for the three months ended May 3, 2008, as compared to \$5.2 million, or 1.9% of net sales, for the three months ended May 5, 2007.

Loss from discontinued operations, net of taxes. Loss from discontinued operations, net of taxes represents the Company's discontinued JasmineSola business.

Non-GAAP Financial Measure

The Company has provided a non-GAAP financial measure to adjust income from continuing operations for the three months ended May 3, 2008 and May 5, 2007. This information reflects, on a

non-GAAP adjusted basis, the Company's income from continuing operations 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 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, income from continuing operations, as an indicator of the Company's operating performance, and cash flows from operating activities of continuing operations, 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 Income from Continuing Operations to EBITDA

	Three months ended May 3, 2008		Three months ended May 5, 2007	
	Amounts in thousands	As a % of net sales	Amounts in thousands	As a % of net sales
Income from continuing operations	\$ 6,723	2.5%	\$ 5,177	1.9%
Add back:				
Interest expense, net	124	%	261	0.1%
Provision for income taxes	4,519	1.7%	3,480	1.3%
Depreciation and amortization	10,397	3.9%	8,723	3.1%
EBITDA	\$ 21,763	8.1%	\$ 17,641	6.4%

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 technology 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 May 3, 2008.

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

	May 3, 2008	February 2, 2008	May 5, 2007
(Amounts in thousands)			
Cash and cash equivalents (including cash at discontinued operations of \$1, \$223 and \$64, respectively)	\$ 61,313	\$ 73,957	\$ 36,591
Working capital	\$ 88,966	\$ 84,479	\$ 73,977

	Three months ended May 3, 2008	Three months ended May 5, 2007
(Amounts in thousands)		
Net cash provided by (used in) operating activities of continuing operations	\$ 8,698	\$ (18,308)
Net cash used in investing activities of continuing operations	\$ (14,679)	\$ (11,537)
Net cash (used in) provided by financing activities of continuing operations	\$ (1,385)	\$ 1,648
Net cash used in discontinued operations	\$ (5,278)	\$ (3,276)
Net decrease in cash and cash equivalents	\$ (12,644)	\$ (31,473)

Operating Activities of Continuing Operations

Net cash provided by operating activities of continuing operations was \$8.7 million for the three months ended May 3, 2008, as compared to net cash used in operating activities of continuing operations of \$18.3 million for the three months ended May 5, 2007. The increase in net cash provided by operating activities for the three months ended May 3, 2008, as compared to the three months ended May 5, 2007, is primarily related to the increase in income from continuing operations, and changes in accounts receivable, income taxes receivable, inventory, prepaid expenses, accrued expenses, and income taxes payable, partially offset by changes in accounts payable, deferred rent, and other assets and liabilities.

Investing Activities of Continuing Operations

Net cash used in investing activities of continuing operations was \$14.7 million for the three months ended May 3, 2008, as compared to \$11.5 million of net cash used in investing activities of continuing operations for the three months ended May 5, 2007. These amounts primarily reflect capital expenditures related to the construction of new stores, the remodeling of existing stores and non-store capital projects, which principally represent information technology enhancements including, among other projects, a new POS system being implemented across the chain and the upgrade of the Company's existing merchandise planning system. The Company expects to complete the implementation/upgrade of these systems during fiscal year 2008 and 2009.

The Company opened 10 new stores and completed two remodels in the three months ended May 3, 2008, as compared to opening 11 new stores in the three months ended May 5, 2007. The Company currently plans to open 25 to 30 stores, close approximately 12 stores and remodel approximately 12 stores in fiscal year 2008, ending the fiscal year with 591 to 596 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 of Continuing Operations

Net cash used in financing activities of continuing operations was \$1.4 million for the three months ended May 3, 2008, as compared to net cash provided by financing activities of continuing operations of \$1.6 million for the three months ended May 5, 2007. Net cash used in financing activities of continuing operations for the three months ended May 3, 2008 primarily consists of a \$1.5 million quarterly payment against the Company's outstanding term loan and \$0.1 million of proceeds from the exercise of stock options and the related tax benefit to the Company. Net cash provided by financing activities of continuing operations for the three months ended May 5, 2007 primarily consists of a \$1.5 million quarterly payment against the Company's outstanding term loan and \$3.2 million of proceeds from the exercise of stock options and the related tax benefit to the Company.

Discontinued Operations Cash Flows

Net cash used in discontinued operations was \$5.3 million for the three months ended May 3, 2008, as compared to net cash used in discontinued operations of \$3.3 million for the three months ended May 5, 2007. Net cash used in discontinued operations for the three months ended May 3, 2008 consisted primarily of lease termination payments and the payment of other exit related liabilities. Net cash used in discontinued operations for the three months ended May 5, 2007 consisted primarily of cash used in the operations of the discontinued JasmineSola business.

Long-Term Debt and Credit Facilities

The Company's credit facilities currently consist of a term loan, of which \$24.0 million was outstanding at May 3, 2008, and a \$90.0 million revolving credit facility (which includes a sub-facility available for issuance of letters of credit of up to \$75.0 million), both having a maturity date of March 17, 2012.

As of May 3, 2008, the Company had availability under its revolving credit facility of \$74.1 million, net of letters of credit outstanding of \$6.8 million, as compared to availability of \$66.4 million, net of letters of credit outstanding of \$8.9 million, as of May 5, 2007.

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 1.25% 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 commercial letters of credit at a rate of 0.625% per year and on standby letters of credit at a rate of between 1.00% and 1.25% per year, depending upon the Company's financial performance, plus a monthly fee on a proportion of the unused commitments under that facility at a rate of 0.20% per year. The term loan bears interest at a floating rate equal to the Eurodollar rate plus 2.50% per year. If any default were to exist under the revolving credit facility and for so long as such default were to continue, at the option of the agent or lenders, the monthly fee on outstanding standby letters of credit may increase to 3.25% per year, interest on the revolving loans may increase to 3.25% 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.

The Company's credit facilities contain certain covenants, including restrictions on the Company's ability to pay dividends on its common stock, incur additional indebtedness and to prepay, redeem, defease or purchase other debt. Subject to such restrictions, the Company may incur more debt for working capital, capital expenditures, stock repurchases, acquisitions and for other purposes. The terms of the Company's credit facilities also subject it to certain maintenance covenants until the Company's existing term loan is paid in full, which require the Company to maintain a fixed charge coverage ratio of not less than 1.00 to 1.00 and a leverage ratio of not greater than 2.75 to 1.00. Should the Company fully repay its existing term loan, the Company will no longer be subject to the maximum leverage ratio and will only be subject to the minimum fixed charge coverage ratio in the event that the Company's borrowing availability under its revolving credit facility falls below \$10.0 million. These ratios are not necessarily comparable to other similarly titled ratios of other companies due to inconsistencies in the method of calculation. 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 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.

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 estimates 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 Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). Long-lived assets are evaluated for recoverability in accordance with SFAS No. 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 sum of 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 three months ended May 3, 2008 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 to the New York & Company trademarks and historically the JasmineSola trademarks and goodwill associated with the acquisition of JasmineSola on July 19, 2005, which were initially valued at \$14.8 million, \$17.2 million and \$11.1 million, respectively. The trademarks were initially valued using the "relief from royalty method" and were determined to have indefinite lives by an independent appraiser. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired.

The Company tests for impairment of goodwill and other intangible assets at least annually in the fourth quarter, or more frequently if events or circumstances indicate that the asset may be impaired, by comparing the fair value with the carrying amount for each individual asset. Goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is to identify a potential impairment by comparing the fair value of a reporting unit with its carrying amount, including the goodwill assigned to the reporting unit. The estimate of fair value of a reporting unit is determined using a discounted cash flow model. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not deemed to be impaired and the second step of the impairment test is not performed. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The

second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

The impairment test for other intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying value. The estimates of fair value of intangible assets not subject to amortization, specifically trademarks, are determined using the "relief from royalty method." If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

The calculation of estimated fair values used in the evaluation of goodwill and other intangible assets requires estimates of future cash flows, growth rates, discount rates and other variables, that are based on historical experience, knowledge, and market data. If actual experience differs materially from management's estimates or if changes in strategic direction occur, an impairment charge may be required. Management's estimates may be affected by factors such as those outlined in the section of this report entitled MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTORS. An impairment loss could have a material adverse impact on the Company's results of operations. In connection with the decision to exit the JasmineSola business, during the third quarter of fiscal year 2007, the Company recorded non-cash impairment charges of \$17.2 million and \$11.1 million related to the JasmineSola trademarks and goodwill, 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. The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" an interpretation of FASB Statement No. 109" in the first quarter of fiscal year 2007. This Interpretation prescribes a comprehensive model of how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Under this Interpretation, the Company recognizes a tax benefit when a tax position is more-likely-than-not to be sustained upon examination, based solely on its technical merits. The Company measures the recognized tax benefit as the largest amount of tax benefit that has greater than a 50% likelihood of being realized upon the ultimate settlement with a taxing authority. The Company reverses a previously recognized tax benefit if it determines that the tax position no longer meets the more-likely-than-not threshold of being sustained. The Company accrues interest and penalties related to unrecognized tax benefits in income tax expense.

Adoption of New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP guidance requiring the use of fair value, establishes a framework for measuring fair value, and expands

the disclosure about such fair value measurements. The application of SFAS No. 157 as it relates to financial assets and financial liabilities is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On February 12, 2008, the FASB issued FSP FAS 157-2, "Effective Date of FASB Statement No. 157," which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company's adoption of SFAS No. 157 on February 3, 2008 for all financial assets and liabilities and any other assets and liabilities that are recognized or disclosed at fair value on a recurring basis did not impact the Company's consolidated financial statements. The Company is currently evaluating the impact that the adoption of SFAS No. 157 for nonfinancial assets and liabilities measured at fair value on a non-recurring basis may have on its financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires recognition of the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and requires companies to recognize changes in that funded status in comprehensive income (loss) in the year in which the changes occur. SFAS No. 158 also requires measurement of the funded status of a plan as of the date of the statement of financial position. SFAS No. 158 is effective for recognition of the funded status of benefit plans for fiscal years ending after December 15, 2006 and is effective for the measurement date provisions for fiscal years ending after December 15, 2008. The adoption of the recognition provisions of this Statement at February 3, 2007 did not have an impact on the Company's financial position and results of operations. The Company does not anticipate that the adoption of the measurement date provisions of this Statement will have a material impact on its financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with US GAAP for non-governmental entities. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, the meaning of "Present Fairly in Conformity with GAAP." Any effect of applying the provisions of SFAS No. 162 is to be reported as a change in accounting principle in accordance with FASB Statement No. 154, "Accounting Changes and Error Corrections." The Company is currently evaluating the impact that the adoption of this Statement, once effective, 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 operations 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 \$0.2 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. Since July 2005, China has been slowly increasing the value of the Chinese Yuan, which is now linked 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) *Evaluation of disclosure controls and procedures.* The Company carried out an evaluation, as of May 3, 2008, under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that all information required to be filed in this Quarterly Report on Form 10-Q was (i) recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission's rules and forms (ii) and that the disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Principal Executive and Principal Financial Officers, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in internal control over financial reporting.* There has been no change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15 or 15d-15 that occurred during the Company's last fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 4T. CONTROLS AND PROCEDURES

(a) Not Applicable.

**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 8, 2008.

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 8, 2008.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

- 31.1 Certification by the Chairman and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 10, 2008.
- 31.2 Certification by the President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 10, 2008.
- 32.1 Written Statement of the Chairman and Chief Executive Officer and the President and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 10, 2008.

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: *President and Chief Financial Officer*
(Principal Financial Officer)

Date: June 10, 2008

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