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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 August 3, 2019

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

RTW RETAILWINDS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State of incorporation)	**33-1031445** (I.R.S. Employer Identification No.)
330 West 34th Street **9th Floor** **New York, New York 10001** (Address of Principal Executive Offices, including Zip Code)	**(212) 884-2000** (Registrant's Telephone Number, Including Area Code)

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	RTW	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐	Smaller reporting company ☒ Emerging growth company ☐

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

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

As of August 30, 2019, the registrant had 65,275,823 shares of common stock outstanding.

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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. Such statements are subject to various risks and uncertainties that could cause actual results to differ materially. These include, but are not limited to: (i) the Company's dependence on eCommerce and mall traffic for its sales, and the continued reduction in the volume of mall traffic; (ii) the Company's ability to anticipate and respond to fashion trends; (iii) the impact of general economic conditions and their effect on consumer confidence and spending patterns; (iv) changes in the cost of raw materials, distribution services or labor; (v) the potential for economic conditions to negatively impact the Company's merchandise vendors and their ability to deliver products; (vi) the Company's ability to open and operate stores successfully; (vii) seasonal fluctuations in the Company's business; (viii) competition in the Company's market, including promotional and pricing competition; (ix) the Company's ability to retain, recruit and train key personnel; (x) the Company's reliance on third parties to manage some aspects of its business; (xi) the Company's reliance on foreign sources of production; (xii) the Company's ability to protect its trademarks and other intellectual property rights; (xiii) the Company's ability to maintain, and its reliance on, its information technology infrastructure; (xiv) the effects of government regulation; (xv) the control of the Company by its largest stockholder and any potential change of ownership; (xvi) the impact of tariff increases or new tariffs; and (xvii) other risks and uncertainties as described in the Company's documents filed with the SEC, including its most recent Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q.

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.

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PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RTW Retailwinds, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

(Amounts in thousands, except per share amounts)	Three months ended August 3, 2019	Three months ended August 4, 2018	Six months ended August 3, 2019	Six months ended August 4, 2018
Net sales	$ 201,894	$ 216,370	$ 402,857	$ 435,199
Cost of goods sold, buying and occupancy costs	142,259	146,996	280,580	295,864
Gross profit	59,635	69,374	122,277	139,335
Selling, general and administrative expenses	67,208	66,317	132,300	132,803
Operating (loss) income	(7,573)	3,057	(10,023)	6,532
Interest income, net of interest expense of $100, $67, $166, and $290, respectively	(261)	(217)	(576)	(195)
Loss on extinguishment of debt	—	—	—	239
(Loss) income before income taxes	(7,312)	3,274	(9,447)	6,488
Provision for income taxes	178	207	292	335
Net (loss) income	$ (7,490)	$ 3,067	$ (9,739)	$ 6,153
Basic (loss) earnings per share	$ (0.12)	$ 0.05	$ (0.15)	$ 0.10
Diluted (loss) earnings per share	$ (0.12)	$ 0.05	$ (0.15)	$ 0.09
Weighted average shares outstanding:				
Basic shares of common stock	64,337	63,749	64,265	63,638
Diluted shares of common stock	64,337	66,244	64,265	65,824

RTW Retailwinds, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive (Loss) Income

(Unaudited)

(Amounts in thousands)	Three months ended August 3, 2019	Three months ended August 4, 2018	Six months ended August 3, 2019	Six months ended August 4, 2018
Comprehensive (loss) income	$ (7,437)	$ 3,102	$ (9,634)	$ 6,223

See accompanying notes.

RTW Retailwinds, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Amounts in thousands, except per share amounts)	August 3, 2019 (Unaudited)	February 2, 2019*	August 4, 2018 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 83,320	$ 95,542	$ 94,758
Accounts receivable	9,526	9,879	11,831
Inventories, net	89,349	82,803	82,124
Prepaid expenses	12,361	16,921	17,233
Other current assets	1,897	1,818	2,018
Total current assets	196,453	206,963	207,964
Property and equipment, net	56,669	63,791	68,331
Operating lease assets	218,230	—	—
Intangible assets	16,719	16,813	16,969
Other assets	817	1,311	1,618
Total assets	$ 488,888	$ 288,878	$ 294,882
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	$ 78,617	$ 77,050	$ 73,310
Accrued expenses	66,840	68,585	73,641
Current operating lease liabilities	40,383	—	—
Income taxes payable	—	375	—
Total current liabilities	185,840	146,010	146,951
Non-current operating lease liabilities	207,168	—	—
Deferred rent	—	25,090	26,066
Other liabilities	28,097	31,165	33,649
Total liabilities	421,105	202,265	206,666
Stockholders' equity:			
Common stock, voting, par value $0.001; 300,000 shares authorized; 67,123, 66,649 and 66,271 shares issued and 65,292, 64,818 and 64,440 shares outstanding at August 3, 2019, February 2, 2019 and August 4, 2018, respectively	67	67	66
Additional paid-in capital	186,313	185,020	184,243
Retained deficit	(112,678)	(92,450)	(90,527)
Accumulated other comprehensive loss	(834)	(939)	(481)
Treasury stock at cost; 1,831 shares at August 3, 2019, February 2, 2019 and August 4, 2018	(5,085)	(5,085)	(5,085)
Total stockholders' equity	67,783	86,613	88,216
Total liabilities and stockholders' equity	$ 488,888	$ 288,878	$ 294,882

* Derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2019.

See accompanying notes.

RTW Retailwinds, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Amounts in thousands)	Six months ended August 3, 2019	Six months ended August 4, 2018
Operating activities		
Net (loss) income	$ (9,739)	$ 6,153
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	9,520	10,715
Non-cash lease expense	22,313	—
Loss from impairment charges	407	486
Amortization of intangible assets	94	156
Amortization of deferred financing costs	15	41
Write-off of unamortized deferred financing costs	—	239
Share-based compensation expense	1,352	1,186
Changes in operating assets and liabilities:		
Accounts receivable	685	513
Inventories, net	(6,546)	2,374
Prepaid expenses	(603)	(786)
Accounts payable	1,567	3,221
Accrued expenses	(2,020)	(2,835)
Income taxes payable	(375)	(28)
Deferred rent	—	(1,151)
Operating lease liabilities	(23,478)	—
Other assets and liabilities	(2,070)	(2,025)
Net cash (used in) provided by operating activities	(8,878)	18,259
Investing activities		
Capital expenditures	(2,708)	(1,626)
Insurance recoveries	267	184
Net cash used in investing activities	(2,441)	(1,442)
Financing activities		
Principal payment on capital lease obligations	(844)	(1,046)
Shares withheld for payment of employee payroll taxes	(59)	(171)
Repayment of long-term debt	—	(11,750)
Net cash used in financing activities	(903)	(12,967)
Net (decrease) increase in cash and cash equivalents	(12,222)	3,850
Cash and cash equivalents at beginning of period	95,542	90,908
Cash and cash equivalents at end of period	$ 83,320	$ 94,758

See accompanying notes.

RTW Retailwinds, Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholders' Equity

(Unaudited)

	Common Stock		Treasury Stock		Additional		Accumulated Other	
(Amounts in thousands)	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Deficit	Comprehensive Loss	Total
Balance at May 5, 2018	64,162	$ 66	1,831	$ (5,085)	$ 183,777	$ (93,594)	$ (516)	$ 84,648
Issuance of common stock upon exercise of stock appreciation rights	16	—	—	—	—	—	—	—
Restricted stock issued and vesting of units	271	—	—	—	—	—	—	—
Restricted stock forfeits and shares withheld for employee payroll taxes	(9)	—	—	—	(78)	—	—	(78)
Share-based compensation expense	—	—	—	—	544	—	—	544
Net income	—	—	—	—	—	3,067	—	3,067
Minimum pension liability adjustment, net of tax	—	—	—	—	—	—	35	35
Comprehensive income, net of tax	—	—	—	—	—	3,067	35	3,102
Balance at August 4, 2018	64,440	$ 66	1,831	$ (5,085)	$ 184,243	$ (90,527)	$ (481)	$ 88,216

	Common Stock		Treasury Stock		Additional		Accumulated Other	
(Amounts in thousands)	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Deficit	Comprehensive Loss	Total
Balance at May 4, 2019	64,844	$ 67	1,831	$ (5,085)	$ 185,692	$ (105,188)	$ (887)	$ 74,599
Issuance of common stock upon exercise of stock appreciation rights	4	—	—	—	—	—	—	—
Restricted stock issued and vesting of units	453	—	—	—	—	—	—	—
Restricted stock forfeits and shares withheld for employee payroll taxes	(9)	—	—	—	(21)	—	—	(21)
Share-based compensation expense	—	—	—	—	642	—	—	642
Net loss	—	—	—	—	—	(7,490)	—	(7,490)
Minimum pension liability adjustment, net of tax	—	—	—	—	—	—	53	53
Comprehensive loss, net of tax	—	—	—	—	—	(7,490)	53	(7,437)
Balance at August 3, 2019	65,292	$ 67	1,831	$ (5,085)	$ 186,313	$ (112,678)	$ (834)	$ 67,783

See accompanying notes.

RTW Retailwinds, Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholders' Equity (Continued)

(Unaudited)

(Amounts in thousands)	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balance at February 3, 2018	64,065	$ 66	1,831	$ (5,085)	$ 183,228	$ (90,797)	$ (551)	$ 86,861
Adoption of ASC Topic 606—Revenue Recognition	—	—	—	—	—	(5,883)	—	(5,883)
Issuance of common stock upon exercise of stock appreciation rights	41	—	—	—	—	—	—	—
Restricted stock issued and vesting of units	352	—	—	—	—	—	—	—
Restricted stock forfeits and shares withheld for employee payroll taxes	(18)	—	—	—	(171)	—	—	(171)
Share-based compensation expense	—	—	—	—	1,186	—	—	1,186
Net income	—	—	—	—	—	6,153	—	6,153
Minimum pension liability adjustment, net of tax	—	—	—	—	—	—	70	70
Comprehensive income, net of tax	—	—	—	—	—	6,153	70	6,223
Balance at August 4, 2018	64,440	$ 66	1,831	$ (5,085)	$ 184,243	$ (90,527)	$ (481)	$ 88,216

(Amounts in thousands)	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balance at February 2, 2019	64,818	$ 67	1,831	$ (5,085)	$ 185,020	$ (92,450)	$ (939)	$ 86,613
Adoption of ASC Topic 842—Lease Accounting	—	—	—	—	—	(10,489)	—	(10,489)
Issuance of common stock upon exercise of stock appreciation rights	14	—	—	—	—	—	—	—
Restricted stock issued and vesting of units	478	—	—	—	—	—	—	—
Restricted stock forfeits and shares withheld for employee payroll taxes	(18)	—	—	—	(59)	—	—	(59)
Share-based compensation expense	—	—	—	—	1,352	—	—	1,352
Net loss	—	—	—	—	—	(9,739)	—	(9,739)
Minimum pension liability adjustment, net of tax	—	—	—	—	—	—	105	105
Comprehensive loss, net of tax	—	—	—	—	—	(9,739)	105	(9,634)
Balance at August 3, 2019	65,292	$ 67	1,831	$ (5,085)	$ 186,313	$ (112,678)	$ (834)	$ 67,783

See accompanying notes.

RTW Retailwinds, Inc.

Notes to Condensed Consolidated Financial Statements

August 3, 2019

(Unaudited)

1. Organization and Basis of Presentation

RTW Retailwinds, Inc. (together with its subsidiaries, the "Company") is a specialty women's omni-channel and digitally enabled retailer with a multi-brand lifestyle platform providing curated fashion solutions that are versatile, on-trend, and stylish at a great value. The specialty retailer, first incorporated in 1918, operates 413 retail and outlet locations in 35 states and a substantial and growing eCommerce business. The Company's portfolio includes branded merchandise from New York & Company, Fashion to Figure, Happy x Nature, Uncommon Sense and collaborations with Eva Mendes, Gabrielle Union and Kate Hudson. The Company's branded merchandise is sold at its retail locations and online at *www.nyandcompany.com*, *www.fashiontofigure.com*, *www.happyxnature.com*, *www.uncommonsense.com*, and through its rental subscription businesses at *www.nyandcompanycloset.com* and *www.fashiontofigurecloset.com*. The target customers for the Company's merchandise are women between the ages of 25 and 49.

The condensed consolidated financial statements as of August 3, 2019 and August 4, 2018 and for the 13 weeks ("three months") and 26 weeks ("six months") ended August 3, 2019 and August 4, 2018 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 52-week fiscal year ended February 2, 2019 ("fiscal year 2018"), which were filed with the Company's Annual Report on Form 10-K with the SEC on April 17, 2019. The 52-week fiscal year ending February 1, 2020 is referred to herein as "fiscal year 2019." The Company's fiscal year is a 52- or 53-week year that ends on the Saturday closest to January 31.

The Company identifies its operating segments according to how its business activities are managed and evaluated. Its operating segments have been aggregated and are reported as one reportable segment based on the similar nature of products sold, production process, distribution process, target customers and economic characteristics. All of the Company's revenues are generated in the United States.

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. All significant intercompany balances and transactions have been eliminated in consolidation. Certain totals that appear in this Quarterly Report on Form 10-Q may not equal the sum of the components due to rounding.

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. New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which is a comprehensive new lease standard that amends various aspects of existing accounting guidance for leases. The core principle of ASU 2016-02 requires lessees to present the assets and liabilities that arise from leases on their balance sheets. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years and requires modified retrospective adoption with a cumulative effect adjustment to the opening retained earnings balance. The Company

RTW Retailwinds, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

August 3, 2019

(Unaudited)

2. New Accounting Pronouncements (Continued)

adopted ASU 2016-02 as of February 3, 2019 (the first day of fiscal year 2019). Please refer to Note 3, "Leases," for further information regarding the adoption of ASU 2016-02.

In February 2018, the FASB issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"), which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company adopted ASU 2018-02 as of February 3, 2019. The adoption of ASU 2018-02 did not have a material impact on the Company's financial position or results of operations.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU 2016-13 requires entities to measure expected losses over the life of the asset and recognize an allowance for estimated credit losses upon recognition of the financial instrument. A modified-retrospective adoption with a cumulative effect adjustment to retained earnings is required. The new standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the adoption of this new standard. However, the Company does not expect there to be a material impact to its financial position or results of operations upon adoption of ASU 2016-13.

In August 2018, the FASB issued ASU 2018-15, "Intangibles-Goodwill and Other-Internal-Use-Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract" ("ASU 2018-15"). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. A modified-retrospective adoption with a cumulative effect adjustment to retained earnings is required. This new guidance will be effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the adoption of this new standard. However, the Company does not expect there to be a material impact to its financial position or results of operations upon adoption of ASU 2018-15.

3. Leases

The Company leases retail business locations, office facilities, office equipment, and automotive equipment under various non-cancelable operating leases expiring in various years through 2031. Leases on retail business locations typically specify minimum rentals plus common area maintenance charges, real estate taxes, other landlord charges and possible additional rentals based upon a percentage of sales. Most of the retail business location leases previously had an original term of 10 years and some provide renewal options at rates specified in the leases. The Company's lease agreements do not contain any material residual value guarantees. As of August 3, 2019, approximately 70% of its store

RTW Retailwinds, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

August 3, 2019

(Unaudited)

3. Leases (Continued)

leases could be terminated by the Company within two years, providing the Company with operating flexibility. The Company leases office space for its corporate headquarters at 330 West 34th Street, New York, New York. The lease for the corporate headquarters expires in 2030.

As previously disclosed in Note 2, the Company adopted ASU 2016-02 on February 3, 2019, using the transition option to recognize a cumulative adjustment to the opening retained earnings balance and without adjustment to prior periods. As permitted under the guidance, the Company has elected the package of transition practical expedients which allows the Company to carry forward its identification of contracts that are or contain leases, its historical lease classification, and indirect costs for existing leases. In addition, the Company has elected the practical expedient to separate its lease components from non-lease components. The Company has elected to not record short-term leases on its consolidated balance sheet. Short-term leases are leases with a term of twelve months or less ("short-term leases"). Instead, the Company recognizes short-term leases on a straight-line basis over the related lease term and does not record a related right-of-use asset or lease liability. The Company has not elected to apply the hindsight practical expedient.

Adoption of ASU 2016-02 resulted in the recording of operating lease assets and operating lease liabilities of approximately $238.1 million and $268.4 million, respectively, as of February 3, 2019. The difference between the additional lease assets and lease liabilities primarily represents adjustments for initial direct costs, tenant allowances, deferred rent, and the initial right-of-use asset impairment amounts associated with stores with fixed assets that were previously impaired. The adoption of this standard did not materially impact the Company's condensed consolidated statements of operations or condensed consolidated statements of cash flows.

In accordance with the new lease standard, the disclosure of the impact of the cumulative effect adjustment to the opening balance of retained deficit on the Company's condensed consolidated balance sheet on February 3, 2019 was as follows:

	February 2, 2019 (As reported)	Effect of ASU 2016-02 Adoption	February 3, 2019 (As amended)
		(Amounts in thousands)	
Retained deficit	$ (92,450)	$ (10,489)	$ (102,939)

The $10.5 million cumulative effect adjustment primarily represents impairment charges to the right-of-use asset associated with stores with fixed assets that were previously impaired.

Although the adoption of ASU 2016-02 did not have a material impact on the operating results for the six months ended August 3, 2019, the Company could however experience a material non-cash impact to operating income (loss) as the result of future impairments of the right-of-use asset depending on store performance, among other factors.

RTW Retailwinds, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

August 3, 2019

(Unaudited)

3. Leases (Continued)

Lease Assets and Liabilities

The following table discloses supplemental balance sheet information for the Company's leases:

	Classification	August 3, 2019 (amounts in thousands)
Assets		
Operating lease assets	Operating lease assets	$ 218,230
Finance lease assets	Property and equipment, net	4,639
Total lease assets		$ 222,869
Liabilities		
Current		
Operating	Current operating lease liabilities	$ 40,383
Finance	Accrued expenses	1,452
Non-current		
Operating	Non-current operating lease liabilities	207,168
Finance	Other liabilities	1,475
Total lease liabilities		$ 250,478

Lease Cost

The components of lease expense were as follows:

	Classification	Three months ended August 3, 2019	Six months ended August 3, 2019
		(amounts in thousands)	
Operating lease cost—stores(1)	Occupancy costs	$ 18,653	$ 35,952
Operating lease cost—office space and equipment	SG&A	2,408	4,800
Finance lease costs:			
Amortization of leased assets	Occupancy costs/SG&A	356	712
Interest on lease liabilities	Interest expense	31	64
Total lease cost		$ 21,448	$ 41,528

(1) Includes $4.9 million of short-term lease costs and $1.0 million of variable lease costs for the three months ended August 3, 2019. Includes $8.5 million of short-term lease costs and $2.1 million of variable lease costs for the six months ended August 3, 2019.

RTW Retailwinds, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

August 3, 2019

(Unaudited)

3. Leases (Continued)

Maturity of Lease Liabilities

The following table summarizes the maturity of lease liabilities as of August 3, 2019:

Fiscal Year	Operating leases	Finance leases
	(amounts in thousands)	
2019	$ 26,620	$ 812
2020	54,019	1,365
2021	43,847	705
2022	37,103	160
2023	34,578	—
Thereafter	113,064	—
Total lease obligations	$ 309,231	$ 3,042
Less: Interest	61,680	115
Present value of lease liabilities	$ 247,551	$ 2,927

The table above does not include $6.8 million of short-term lease commitments.

Lease Term and Discount Rate

The following table discloses the weighted-average remaining lease term and weighted-average discount rate for the Company's leases, excluding short-term leases:

	August 3, 2019
Weighted-average remaining lease term (years)	
Operating leases	7.2
Finance leases	2.2
Weighted-average discount rate	
Operating leases	6.1%
Finance leases	3.2%

The discount rate is the rate implicit in the lease unless that rate cannot be readily determined. Most of the Company's leases do not provide an implicit interest rate, therefore, the Company is required to use its incremental borrowing rate. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The Company used incremental borrowing rates based on information available at the date of adoption of ASU 2016-02.

RTW Retailwinds, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

August 3, 2019

(Unaudited)

3. Leases (Continued)

Other Information

Supplemental cash flow information related to leases was as follows:

		Six months ended August 3, 2019 (amounts in thousands)
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$	31,344
Operating cash flows from finance leases	$	53
Financing cash flows from finance leases	$	844
Lease assets obtained in exchange for new operating lease liabilities	$	2,258
Lease assets obtained in exchange for new finance lease liabilities	$	—

4. Revenue Recognition

The Company recognizes revenue from the sale of merchandise at the Company's stores at the time the customer takes possession of the related merchandise and the purchases are paid for. Revenue, including shipping fees billed to customers, from the sale of merchandise at the Company's eCommerce websites is recognized when the merchandise is shipped to the customer and the purchases are paid for. Sales taxes collected from customers are excluded from revenues.

The Company issues gift cards and merchandise credits which do not contain provisions for expiration or inactivity fees. Revenue for gift cards and merchandise credits is recognized at redemption. The portion of the dollar value of gift cards and merchandise credits that ultimately is not used by customers to make purchases is known as breakage and will be recognized as revenue if the Company determines it is not required to escheat such amounts to government agencies under state escheatment laws.

The Company offers its private label credit card holders a points-based customer loyalty program, in which customers earn points based on purchases (the "Runway Rewards" program). When customers reach predetermined point thresholds, earned points are converted to rewards that can be redeemed for discounts on future purchases of Company merchandise. Under the Runway Rewards program, points earned expire after 12 months if the point threshold for a reward is not attained. Issued rewards expire after approximately 60 days if they are not redeemed. As rewards are being earned, the Company defers a portion of the revenue equal to the estimated sales value of the reward that is expected to be redeemed using the standalone selling price method. Revenue is recognized as rewards are redeemed or expire.

The Company recognizes revenue in connection with its private label credit card agreement with Comenity Bank, a bank subsidiary of Alliance Data Systems Corporation ("ADS") (the "ADS Agreement"). Pursuant to the terms of the ADS Agreement, ADS has the exclusive right to provide private label credit cards to the Company's customers. The Company's private label credit card is issued to the Company's customers for use exclusively at the Company's stores and eCommerce

RTW Retailwinds, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

August 3, 2019

(Unaudited)

4. Revenue Recognition (Continued)

websites, and credit is extended to such customers by Comenity Bank on a non-recourse basis to the Company. After the execution of the ADS Agreement on July 14, 2016, the Company received a $40 million signing bonus, which was recorded as deferred revenue, and is being amortized on a straight-line basis over the 10-year term of the ADS Agreement. In addition, over the term of the ADS Agreement, the Company receives royalty payments based on a percentage of private label credit card sales, which the Company recognizes as revenue as it is earned.

The opening and closing balances of the Company's contract liabilities are as follows:

	Gift Cards & Merchandise Credits		Loyalty Rewards	
	Six months ended August 3, 2019	Six months ended August 4, 2018	Six months ended August 3, 2019	Six months ended August 4, 2018
	(Amounts in thousands)			
Beginning balance	$ 12,206	$ 13,649	$ 6,389	$ 7,331
Increase/(decrease)	(1,576)	(1,154)	(1,422)	41
Ending balance	$ 10,630	$ 12,495	$ 4,967	$ 7,372

Contract liabilities related to gift cards and merchandise credits and loyalty programs are reported in "Accrued expenses" on the condensed consolidated balance sheets.

The amount of revenue recognized during the three months ended August 3, 2019 and August 4, 2018 that was included in the opening contract liability balance for gift cards and merchandise credits was $1.3 million and $1.0 million, respectively. The amount of revenue recognized during the six months ended August 3, 2019 and August 4, 2018 that was included in the opening contract liability balance for gift cards and merchandise credits was $3.0 million and $4.0 million, respectively. During both the three months ended August 3, 2019 and August 4, 2018, the net revenue impact from rewards issued, redeemed and expired under loyalty reward programs was $0.1 million of revenue recognized. During the six months ended August 3, 2019 and August 4, 2018, the net revenue impact from rewards issued, redeemed and expired under loyalty reward programs was $1.4 million of revenue recognized and $41,000 of revenue deferred, respectively.

Deferred revenue related to the ADS Agreement was $27.0 million at August 3, 2019, of which $23.0 million is included in "Other liabilities" and $4.0 million is included in "Accrued expenses" on the condensed consolidated balance sheet. As of August 4, 2018, deferred revenue related to the ADS Agreement was $31.0 million, of which $27.0 million is included in "Other liabilities" and $4.0 million is included in "Accrued expenses" on the condensed consolidated balance sheet. During the three months ended August 3, 2019 and August 4, 2018, the Company recognized revenue of $5.4 million and $5.7 million, respectively, from royalties and the amortization of signing bonuses in connection with the ADS Agreement. During the six months ended August 3, 2019 and August 4, 2018, the Company recognized revenue of $11.0 million and $11.6 million, respectively, from royalties and the amortization of signing bonuses in connection with the ADS Agreement.

RTW Retailwinds, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

August 3, 2019

(Unaudited)

5. 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, diluted earnings per share are calculated based on the weighted average number of outstanding shares of common stock plus the dilutive effect of share-based awards calculated under the treasury stock method. A reconciliation between basic and diluted earnings per share is as follows:

	Three months ended August 3, 2019	Three months ended August 4, 2018	Six months ended August 3, 2019	Six months ended August 4, 2018
	(Amounts in thousands, except per share amounts)			
Net (loss) income	$ (7,490)	$ 3,067	$ (9,739)	$ 6,153
Basic (loss) earnings per share:				
Weighted average shares outstanding:				
Basic shares of common stock	64,337	63,749	64,265	63,638
Basic (loss) earnings per share	$ (0.12)	$ 0.05	$ (0.15)	$ 0.10
Diluted (loss) earnings per share:				
Weighted average shares outstanding:				
Basic shares of common stock	64,337	63,749	64,265	63,638
Plus impact of share-based awards	—	2,495	—	2,186
Diluted shares of common stock	64,337	66,244	64,265	65,824
Diluted (loss) earnings per share	$ (0.12)	$ 0.05	$ (0.15)	$ 0.09

The calculation of diluted earnings per share for the three and six months ended August 3, 2019 and August 4, 2018 excludes the share-based awards listed in the following table due to their anti-dilutive effect as determined under the treasury stock method:

	Three months ended August 3, 2019	Three months ended August 4, 2018	Six months ended August 3, 2019	Six months ended August 4, 2018
	(Amounts in thousands)			
Stock options	—	—	—	6
Stock appreciation rights(1)	2,495	36	2,207	86
Restricted stock and units	588	2	588	13
Total anti-dilutive shares	3,083	38	2,795	105

(1) Each stock appreciation right ("SAR") referred to above represents the right to receive a payment measured by the increase in the fair market value of one share of common stock from the date of grant of the SAR to the date of exercise of the SAR. Upon exercise, the SARs will be settled in the Company's common stock.

RTW Retailwinds, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

August 3, 2019

(Unaudited)

6. Pension Plan

The Company sponsors a single employer defined benefit pension plan ("plan") covering substantially all union employees. Employees covered by collective bargaining agreements are primarily non-management store associates, representing approximately 7% of the Company's workforce at August 3, 2019. The collective bargaining agreement with the Local 1102 unit of the Retail, Wholesale and Department Store Union AFL-CIO is in effect through August 31, 2021.

The plan provides retirement benefits for union employees who have attained the age of 21 and complete 1,000 or more hours of service in any calendar year 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 annually contribute the amount necessary to provide for benefits based on accrued service and to contribute at least the minimum required by ERISA rules. Net periodic benefit cost includes the following components:

	Three months ended August 3, 2019	Three months ended August 4, 2018	Six months ended August 3, 2019	Six months ended August 4, 2018
	(Amounts in thousands)			
Service cost	$ 97	$ 97	$ 194	$ 193
Interest cost	79	76	158	153
Expected return on plan assets	(131)	(140)	(261)	(281)
Amortization of unrecognized losses	57	39	113	78
Amortization of prior service credit	(4)	(4)	(8)	(8)
Net periodic benefit cost	$ 98	$ 68	$ 196	$ 135

In accordance with FASB ASC Topic 220, "Comprehensive Income," comprehensive (loss) income reported on the Company's condensed consolidated statements of comprehensive income includes net (loss) income and other comprehensive income. For the Company, other comprehensive income consists of the reclassification of unrecognized losses and prior service credits related to the Company's minimum pension liability. The total amount of unrecognized losses and prior service credits of the plan reclassified out of "Accumulated other comprehensive loss" on the condensed consolidated balance sheets and into "Selling, general, and administrative expenses" on the Company's condensed consolidated statements of operations for the three months ended August 3, 2019 and August 4, 2018 was approximately $53,000 and $35,000, respectively, and for the six months ended August 3, 2019 and August 4, 2018 was approximately $105,000 and $70,000, respectively. As of February 2, 2019, the Company reported a minimum pension liability of $1.4 million due to the underfunded status of the plan. The minimum pension liability is reported in "Other liabilities" on the condensed consolidated balance sheets.

7. Income Taxes

The Company files U.S. federal income tax returns and income tax returns in various state and local jurisdictions. The Company is no longer subject to U.S. federal income tax examinations for tax years through 2014. With limited exception, the Company is no longer subject to state and local income tax examinations for tax years through 2014.

RTW Retailwinds, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

August 3, 2019

(Unaudited)

7. Income Taxes (Continued)

At February 2, 2019, the Company reported a total liability for unrecognized tax benefits of $2.4 million, including interest and penalties. There have been no material changes during the six months ended August 3, 2019. Of the total $2.4 million of unrecognized tax benefits at February 2, 2019, approximately $1.8 million, if recognized, would impact the Company's effective tax rate. The Company does not anticipate any significant increases or decreases to the balance of unrecognized tax benefits during the next 12 months.

The Company continues to maintain a valuation allowance against its deferred tax assets until the Company believes it is more likely than not that these assets will be realized in the future. If sufficient positive evidence arises in the future indicating that all or a portion of the deferred tax assets meet the more likely than not standard under ASC Topic 740, "Income Taxes," the applicable valuation allowance would be reversed accordingly in the period that such determination is made. As of August 3, 2019, the Company's valuation allowance against its deferred tax assets was $58.4 million.

8. Long-Term Debt and Credit Facilities

On October 24, 2014, Lerner New York, Inc., Lernco, Inc. and Lerner New York Outlet, LLC, wholly-owned indirect subsidiaries of RTW Retailwinds, Inc., entered into a Fourth Amended and Restated Loan and Security Agreement (the "Loan Agreement") with Wells Fargo Bank, National Association, as Agent and Term Loan Agent and the lender party thereto. The obligations under the Loan Agreement are guaranteed by RTW Retailwinds, Inc. and its subsidiaries. The Loan Agreement expires on October 24, 2019. The Company expects to renew the Loan Agreement.

The Loan Agreement consists of a revolving credit facility that provides the Company with up to $100 million of credit, consisting of a $75 million revolving credit facility (which includes a sub-facility for issuance of letters of credit up to $45 million) with a fully committed accordion option that allows the Company to increase the revolving credit facility up to $100 million or decrease it to a minimum of $60 million, subject to certain restrictions. On April 5, 2018, the Company used cash on-hand to prepay in full the $11.5 million outstanding balance of a $15 million, 5-year term loan (the "Term Loan") under the Loan Agreement. The Company can no longer borrow funds under the Term Loan.

Under the terms of the Loan Agreement, the interest rates applicable to revolving loans are, at the Company's option, either at a floating rate equal to the Adjusted Eurodollar Rate plus a margin of between 1.50% and 1.75% per year for Eurodollar Rate Loans or a floating rate equal to the Prime Rate plus a margin of between 0.50% and 0.75% per year for Prime Rate Loans, depending upon the Company's Average Compliance Excess Availability. The Company pays to the lender under the revolving credit facility a monthly fee on outstanding commercial letters of credit at a rate of between 0.75% and 0.875% per year and on standby letters of credit at a rate of between 1.50% and 1.75% per year, depending upon the Company's Average Compliance Excess Availability, plus a monthly fee on a proportion of the unused commitments under the revolving credit facility at a rate of 0.25% per year.

The maximum borrowing availability under the Company's revolving credit facility is determined by a monthly borrowing base calculation based on applying specified advance rates against inventory and certain other eligible assets. As of August 3, 2019, the Company had availability under its revolving credit facility of $40.7 million, net of letters of credit outstanding of $15.4 million, as compared to

RTW Retailwinds, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

August 3, 2019

(Unaudited)

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

availability of $35.0 million, net of letters of credit outstanding of $11.9 million, as of February 2, 2019, and availability of $37.1 million, net of letters of credit outstanding of $14.9 million, as of August 4, 2018. The $15.4 million of letters of credit outstanding at August 3, 2019 represent $10.1 million of standby letters of credit primarily related to the Company's new corporate headquarters and certain insurance contracts and $5.3 million of commercial letters of credit. Standby letters of credit related to the Company's corporate headquarters are scheduled to be reduced by $2.0 million in October 2019. As of August 3, 2019, the Company had no borrowings outstanding under the Loan Agreement.

Under the terms of the Loan Agreement, the Company is subject to a Minimum Excess Availability covenant of $7.5 million. The Loan Agreement contains other covenants and conditions, 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 indebtedness. Subject to such restrictions, the Company may incur more indebtedness for working capital, capital expenditures, stock repurchases, acquisitions and for other purposes.

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

9. Fair Value Measurements

The Company measures fair value in accordance with FASB ASC Topic 820, "Fair Value Measurements" ("ASC 820"). ASC 820 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.

The carrying values on the balance sheets for cash and cash equivalents, short-term trade receivables and accounts payable approximate their fair values due to the short-term maturities of such items.

The Company classifies long-lived store assets and operating lease assets within Level 3 of the fair value hierarchy. The Company evaluates the impairment of long-lived assets in accordance with ASC Topic 360, "Property, Plant and Equipment." Long-lived assets are evaluated for recoverability whenever events or changes in circumstances indicate that an asset may have been impaired. The evaluation is performed at the individual store level, which is the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. In

9. Fair Value Measurements (Continued)

evaluating long-lived assets for recoverability, the Company estimates the future cash flows at the individual store level that are expected to result from the use of each store's assets based on historical experience, omni-channel strategy, knowledge and market data assumptions. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the long-lived assets, an impairment loss, equal to the excess of the carrying amount over the fair value of the assets, is recognized. During the three and six months ended August 3, 2019, the Company recorded $0.3 million and $0.4 million of non-cash impairment charges related to underperforming store assets in "Selling, general and administrative expenses" on the Company's condensed consolidated statement of operations, respectively. During the three and six months ended August 4, 2018, the Company recorded $0.5 million of non-cash impairment charges related to underperforming store assets in "Selling, general and administrative expenses" on the Company's condensed consolidated statement of operations.

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

Overview

RTW Retailwinds, Inc. (together with its subsidiaries, the "Company") is a specialty women's omni-channel and digitally enabled retailer with a multi-brand lifestyle platform providing curated fashion solutions that are versatile, on-trend, and stylish at a great value. The specialty retailer, first incorporated in 1918, operates 413 retail and outlet locations in 35 states and a substantial and growing eCommerce business. The Company's portfolio includes branded merchandise from New York & Company, Fashion to Figure, Happy x Nature, Uncommon Sense and collaborations with Eva Mendes, Gabrielle Union and Kate Hudson. The Company's branded merchandise is sold at its retail locations and online at *www.nyandcompany.com*, *www.fashiontofigure.com*, *www.happyxnature.com*, *www.uncommonsense.com*, and through its rental subscription businesses at *www.nyandcompanycloset.com* and *www.fashiontofigurecloset.com*. The target customers for the Company's merchandise are women between the ages of 25 and 49.

For fiscal year 2019, the Company's key strategic initiatives are as follows: (i) leverage its celebrity collaborations to amplify the New York & Company brand, and evolve as a broader lifestyle brand through the growth of the Company's sub-brand strategy, including 7th Avenue Design Studio, Soho Jeans, Soho Street, Eva Mendes Collection, and Gabrielle Union Collection; (ii) enhance brand awareness and increase customer engagement, including new customer acquisition and retention of its loyal customer base to drive traffic online and into stores; (iii) drive growth in eCommerce sales and continue to elevate its omni-channel capabilities by providing an easy and seamless customer experience; (iv) optimize the Company's existing store base; (v) continue ongoing Project Excellence initiatives; and (vi) explore opportunities to invest in growth initiatives. Project Excellence is the Company's ongoing business re-engineering program which consists of a continuous analysis of business processes and organizational structure in an effort to improve sales productivity and operating efficiencies, as well as to reduce the Company's overall cost structure.

In April 2019, the Company introduced Happy x Nature, Kate Hudson's first ready-to-wear collection supported by Ms. Hudson's active and engaged social network. Happy x Nature has experienced a positive customer response to-date, and the Company will continue to focus on increasing brand awareness and sales.

The Company's net sales for the three months ended August 3, 2019 were $201.9 million, as compared to $216.4 million for the three months ended August 4, 2018. Comparable store sales decreased 4.8% for the three months ended August 3, 2019, as compared to an increase of 0.6% for the three months ended August 4, 2018. Net loss for the three months ended August 3, 2019 was $7.5 million, or a loss of $0.12 per diluted share, as compared to net income of $3.1 million, or earnings of $0.05 per diluted share, for the three months ended August 4, 2018. Please refer to the "Results of Operations" below for a further discussion of the Company's operating results.

Capital spending for the six months ended August 3, 2019 was $2.7 million, as compared to $1.6 million for the six months ended August 4, 2018. During the six months ended August 3, 2019, the Company opened 4 New York & Company stores and 2 Fashion to Figure stores, closed 2 New York & Company stores and 1 Outlet store, converted 2 New York & Company stores into Outlet stores, and remodeled/refreshed 3 New York & Company stores and 1 Outlet store, ending the second quarter of fiscal year 2019 with 413 stores, including 120 Outlet stores (of which 57 are clearance stores) and 11 Fashion to Figure stores. As of August 3, 2019, the Company had 2.0 million selling square feet in operation. Included in the New York & Company store count at August 3, 2019 are 18 Eva Mendes side-by-side stores, 47 Eva Mendes shop-in-shop stores, and 1 free-standing Eva Mendes boutique.

In April 2019, the Company introduced Uncommon Sense, a lingerie lifestyle brand. Based on the Company's operating results during the three months ended August 3, 2019 and the necessary decision to focus the Company's resources on improving the performance of the New York & Company brand, the Company is prioritizing its efforts around its new businesses that have shown early potential, namely Fashion to Figure and Happy x Nature. As such, the Company has decided to exit the Uncommon Sense brand concept and expects to pursue several divestiture options for the related inventory and other assets.

Recent Macroeconomic Developments

The Company has exposure to volatility of the macroeconomic environment due to political uncertainty and potential changes to international trade agreements, such as new tariffs imposed on certain Chinese-made products imported to the United States. During fiscal year 2018, the United States began to impose additional duties on certain Chinese-made imported products. On May 10, 2019, tariffs on certain merchandise imported from China increased from 10% to 25%. These tariffs are expected to increase an additional 5% to 30% on October 1, 2019. On September 1, 2019, additional tariffs of 15% were imposed on the majority of products the Company imports from China, such as apparel, accessories, and footwear. To minimize the negative impact of these tariffs and new and/or incremental tariffs, the Company is actively reducing its penetration of Chinese-made imported products and has engaged vendor participation to negotiate cost-sharing agreements, and will manage and adjust spring buys and product pricing. There can be no assurance that these actions will mitigate the impact of existing tariffs and new and/or incremental tariffs and consequentially, the Company may experience a material adverse impact from such tariffs to its results of operations, financial position and cash flows.

Seasonality

The Company views the retail apparel market as having two principal selling seasons: spring (first and second quarter) and fall (third and fourth quarter). New product lines are introduced into the Company's stores in five major deliveries each year (spring, summer, fall, holiday and pre-spring). The Company's business experiences seasonal fluctuations in net sales and operating income, with a larger portion of its sales typically realized during its fourth quarter. Seasonal fluctuations also affect inventory levels. The Company must carry a significant amount of inventory, especially before the holiday season selling period in the fourth quarter and prior to the Easter and Mother's Day holidays toward the latter part of the first quarter and beginning of the second quarter.

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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 August 3, 2019 and August 4, 2018:

As a % of net sales	Three months ended August 3, 2019	Three months ended August 4, 2018	Six months ended August 3, 2019	Six months ended August 4, 2018
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold, buying and occupancy costs	70.5%	67.9%	69.6%	68.0%
Gross profit	29.5%	32.1%	30.4%	32.0%
Selling, general and administrative expenses	33.3%	30.7%	32.9%	30.5%
Operating (loss) income	(3.8)%	1.4%	(2.5)%	1.5%
Interest income, net	(0.1)%	(0.1)%	(0.1)%	—%
Loss on extinguishment of debt	—%	—%	—%	—%
(Loss) income before income taxes	(3.7)%	1.5%	(2.4)%	1.5%
Provision for income taxes	—%	0.1%	—%	0.1%
Net (loss) income	(3.7)%	1.4%	(2.4)%	1.4%

Selected operating data:	Three months ended August 3, 2019	Three months ended August 4, 2018	Six months ended August 3, 2019	Six months ended August 4, 2018
	(Dollars in thousands, except square foot data)			
Comparable store sales (decrease) increase	(4.8)%	0.6%	(5.0)%	1.7%
Net sales per average selling square foot(1)	$ 99	$ 101	$ 197	$ 202
Net sales per average store(2)	$ 491	$ 503	$ 980	$ 1,007
Average selling square footage per store(3)	4,959	4,974	4,959	4,974

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

(2) Net sales per average store is defined as net sales divided by the average of beginning and monthly 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 August 3, 2019		Three months ended August 4, 2018		Six months ended August 3, 2019		Six months ended August 4, 2018	
Store count and selling square feet:	Store Count	Selling Square Feet	Store Count	Selling Square Feet	Store Count	Selling Square Feet	Store Count	Selling Square Feet
Stores open, beginning of period	410	2,035,312	432	2,153,351	411	2,047,032	432	2,171,329
New stores	5	21,851	1	2,980	6	25,965	10	26,141
Closed stores	(2)	(9,799)	(7)	(37,149)	(3)	(17,204)	(16)	(83,481)
Net impact of remodeled stores on selling square feet	—	651	—	(276)	(1)	(7,778)	—	4,917
Stores open, end of period	413	2,048,015	426	2,118,906	413	2,048,015	426	2,118,906

Three Months Ended August 3, 2019 Compared to Three Months Ended August 4, 2018

Net Sales. Net sales for the three months ended August 3, 2019 were $201.9 million, as compared to $216.4 million for the three months ended August 4, 2018. The decrease in net sales reflects a net reduction in store count since August 4, 2018 and a 4.8% reduction in comparable store sales during the three months ended August 3, 2019, which was partially offset by increased sales from Fashion to Figure. Included in net sales for the three months ended August 3, 2019 and August 4, 2018 are royalties and other revenue totaling $5.4 million and $5.7 million, respectively, recognized as a result of the ADS Agreement. In the comparable store base, average dollar sales per transaction decreased by 1.2%, and the number of transactions per average store decreased 3.7%, as compared to the same period last year.

Gross Profit. Gross profit for the three months ended August 3, 2019 was $59.6 million, or 29.5% of net sales, as compared to $69.4 million, or 32.1% of net sales, for the three months ended August 4, 2018. Product margins during the three months ended August 3, 2019 were near peak levels, despite increased promotional activity. The decrease in gross profit as a percentage of net sales for the three months ended August 3, 2019, as compared to the three months ended August 4, 2018, reflects an increase in promotional activity, increased shipping costs primarily related to growth in the eCommerce channel, and a reduction in vendor rebates due to lower receipts, partially offset by a slight improvement in the leveraging of buying and occupancy costs as the Company continues to reduce occupancy expenses.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $67.2 million, or 33.3% of net sales, for the three months ended August 3, 2019, as compared to $66.3 million, or 30.7% of net sales, for the three months ended August 4, 2018. The increase in selling, general and administrative expenses as a percentage of net sales for the three months ended August 3, 2019, as compared to the three months ended August 4, 2018, reflects $2.0 million of incremental spending in connection with the incubation of the Company's three new businesses (Fashion to Figure, Happy x Nature, and Uncommon Sense), increased recruiting expenses and deleveraging as a result of the decrease in comparable store sales, which was partially offset by a decrease in variable compensation expense due to the Company's operating results.

Operating (Loss) Income. Operating loss for the three months ended August 3, 2019 was $7.6 million, inclusive of losses from the Company's three new businesses discussed above. This compares to operating income for the three months ended August 4, 2018 of $3.1 million. There was no impact on operating income for the three months ended August 4, 2018 from the Company's new businesses.

Interest Income, Net. Net interest income was $0.3 million for the three months ended August 3, 2019, as compared to $0.2 million for the three months ended August 4, 2018.

Provision for Income Taxes. As previously disclosed, the Company continues to provide for adjustments to its deferred tax valuation allowance. The provision for income taxes for both the three months ended August 3, 2019 and August 4, 2018 was $0.2 million.

Net (Loss) Income. For the reasons discussed above, net loss for the three months ended August 3, 2019 was $7.5 million, or a loss of $0.12 per diluted share, as compared to net income of $3.1 million, or earnings of $0.05 per diluted share, for the three months ended August 4, 2018.

Six Months Ended August 3, 2019 Compared to Six Months Ended August 4, 2018

Net Sales. Net sales for the six months ended August 3, 2019 were $402.9 million, as compared to $435.2 million for the six months ended August 4, 2018. The decrease in net sales reflects a net reduction in store count since August 4, 2018 and a 5.0% reduction in comparable store sales during the six months ended August 3, 2019, which was partially offset by increased sales from Fashion to Figure. Included in net sales for the six months ended August 3, 2019 and August 4, 2018 are royalties and other revenue totaling $11.0 million and $11.6 million, respectively, recognized as a result of the ADS Agreement. In the comparable store base, average dollar sales per transaction increased by 0.1%, while the number of transactions per average store decreased 5.2%, as compared to the same period last year.

Gross Profit. Gross profit for the six months ended August 3, 2019 was $122.3 million, or 30.4% of net sales, as compared to $139.3 million, or 32.0% of net sales, for the six months ended August 4, 2018. The decrease in gross profit as a percentage of net sales for the six months ended August 3, 2019, as compared to the six months ended August 4, 2018, reflects an increase in promotional activity, increased shipping costs primarily related to growth in the eCommerce channel, and a reduction in vendor rebates due to lower receipts.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $132.3 million, or 32.9% of net sales, for the six months ended August 3, 2019, as compared to $132.8 million, or 30.5% of net sales, for the six months ended August 4, 2018. The increase in selling, general and administrative expenses as a percentage of net sales for the six months ended August 3, 2019, as compared to the six months ended August 4, 2018, reflects $3.5 million of incremental spending in connection with the incubation of the Company's three new businesses (Fashion to Figure, Happy x Nature, and Uncommon Sense) and deleveraging as a result of the decrease in comparable store sales, which was partially offset by a decrease in variable compensation expense due to the Company's operating results, and a decrease in store selling expense.

Operating (Loss) Income. Operating loss for the six months ended August 3, 2019 was $10.0 million, inclusive of losses from the Company's three new businesses discussed above. This compares to operating income of $6.5 million for the six months ended August 4, 2018. There was no impact on operating income for the six months ended August 4, 2018 from the Company's new businesses.

Interest Income, Net. Net interest income was $0.6 million for the six months ended August 3, 2019, as compared to $0.2 million for the six months ended August 4, 2018.

Loss on Extinguishment of Debt. In connection with the early repayment of the $11.5 million outstanding balance of a $15 million, 5-year term loan (the "Term Loan") on April 5, 2018, the Company wrote off $0.2 million of unamortized deferred financing fees in the six months ended August 4, 2018. The Company can no longer borrow funds under the Term Loan.

Provision for Income Taxes. As previously disclosed, the Company continues to provide for adjustments to its deferred tax valuation allowance. The provision for income taxes for both the six months ended August 3, 2019 and August 4, 2018 was $0.3 million.

Net (Loss) Income. For the reasons discussed above, net loss for the six months ended August 3, 2019 was $9.7 million, or a loss of $0.15 per diluted share, as compared to net income of $6.2 million, or earnings of $0.09 per diluted share, for the six months ended August 4, 2018.

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/refreshing of existing stores, the development of the Company's information technology infrastructure, including the upgrade of corporate technology systems and the enhancement of its digital and omni-channel capabilities. 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 and cash on-hand, supplemented by borrowings under its credit facility, if needed. As of the date of this Quarterly Report on Form 10-Q, the Company is in compliance with all debt covenants.

The Company plans to make strategic investments to grow as a multi-brand portfolio company. These investments may include the expansion of its celebrity collaborations and existing brands, launching new lifestyle brands, driving growth in the eCommerce channel, and rebalancing its marketing media mix to acquire new customers and retain existing customers. These investments may also include adding talent with enhanced skills and capabilities in digital marketing, celebrity management, data analytics, and customer experience.

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

	August 3, 2019	February 2, 2019	August 4, 2018
	(Amounts in thousands)		
Cash and cash equivalents	$ 83,320	$ 95,542	$ 94,758
Working capital(1)	$ 10,613	$ 60,953	$ 61,013

(1) Working capital at August 3, 2019 reflects the adoption of ASU 2016-02, as discussed in Note 3, "Leases" in the Notes to Condensed Consolidated Financial Statements appearing elsewhere in this Quarterly Report on Form 10-Q. Excluding the $40.4 million of current operating lease liabilities recorded in connection with the adoption of ASU 2016-02, working capital at August 3, 2019 would have been $51.0 million.

	Six months ended August 3, 2019	Six months ended August 4, 2018
	(Amounts in thousands)	
Net cash (used in) provided by operating activities	$ (8,878)	$ 18,259
Net cash used in investing activities	$ (2,441)	$ (1,442)
Net cash used in financing activities	$ (903)	$ (12,967)
Net (decrease) increase in cash and cash equivalents	$ (12,222)	$ 3,850

Operating Activities

The increase in net cash used in operating activities during the six months ended August 3, 2019, as compared to the six months ended August 4, 2018, is primarily the result of the Company's net loss during the six months ended August 3, 2019 combined with a shift in the timing of inventory receipts in an effort to receive goods before tariff increases and an increase in inventory to support the Company's new businesses (Fashion to Figure, Happy x Nature, and Uncommon Sense).

Investing Activities

Net cash used in investing activities was $2.4 million for the six months ended August 3, 2019, as compared to $1.4 million for the six months ended August 4, 2018. During the six months ended August 3, 2019, the Company opened 4 New York & Company stores and 2 Fashion to Figure stores, closed 2 New York & Company stores and 1 Outlet store, converted 2 New York & Company stores into Outlet stores, and remodeled/refreshed 3 New York & Company stores and 1 Outlet store, ending the second quarter of fiscal year 2019 with 413 stores, including 120 Outlet stores (of which 57 are clearance stores) and 11 Fashion to Figure stores. As of August 3, 2019, the Company had 2.0 million selling square feet in operation. Included in the New York & Company store count at August 3, 2019 are 18 Eva Mendes side-by-side stores, 47 Eva Mendes shop-in-shop stores, and 1 free-standing Eva Mendes boutique.

During the six months ended August 4, 2018, the Company opened 1 New York & Company store, 1 Outlet store, 8 Fashion to Figure stores, converted 3 existing New York & Company stores to Outlet stores, closed 13 New York & Company stores and 3 Outlet stores, and remodeled/refreshed 5 existing stores, ending the second quarter of year 2018 with 426 stores, including 120 Outlet stores (of which 58 are clearance stores) and 8 Fashion to Figure stores, and 2.1 million selling square feet in operation. Included in the New York & Company store count at August 4, 2018 are 18 Eva Mendes side-by-side stores, 50 Eva Mendes shop-in-shop stores, and 1 free-standing Eva Mendes boutique.

For fiscal year 2019, capital expenditures are expected to be between $12 million and $13 million. In total, fiscal year 2019 capital expenditures reflect continued investments in the Company's information technology, including its omni-channel infrastructure, eCommerce stores and mobile applications, and real estate spending to support opening a select number of new stores and remodeling/refreshing existing locations. The Company expects to end fiscal year 2019 having opened 8 New York & Company stores and 2 Fashion to Figure stores, converted 2 existing New York & Company stores to Outlet stores, remodeled/refreshed 4 New York & Company stores and 2 Outlet stores, and closed 11 to 13 stores and up to 5 Outlet stores, ending the fiscal year with 402 to 404 stores and approximately 2.0 million selling square feet.

As of August 3, 2019, approximately 70% of the Company's store leases could be terminated by the Company in two years or less, providing the Company with operating flexibility.

Financing Activities

Net cash used in financing activities for the six months ended August 3, 2019 was $0.9 million, which consists primarily of principal payments on capital lease obligations. Net cash used in financing activities for the six months ended August 4, 2018 was $13.0 million, which consists primarily of the $11.5 million early repayment of the Term Loan, a $0.3 million quarterly amortization payment of the Term Loan, $1.0 million of principal payments on capital lease obligations, and $0.2 million of employee payroll taxes for which shares were withheld.

Critical Accounting Policies

Management has determined the Company's most critical accounting policies are those related to inventories, long-lived assets, including right-of-use assets, intangible assets, and income taxes. Management continues to monitor these accounting policies to ensure proper application of current rules and regulations. There have been no significant changes to these policies as discussed in the Company's Annual Report on Form 10-K filed with the SEC on April 17, 2019.

Adoption of New Accounting Standards

Please refer to Note 2, "New Accounting Pronouncements" in the Notes to Condensed Consolidated Financial Statements appearing elsewhere in this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's quantitative and qualitative disclosures about market risk from what was reported in its Annual Report on Form 10-K filed with the SEC on April 17, 2019.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* The Company carried out an evaluation, as of August 3, 2019, 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.

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 17, 2019.

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 17, 2019.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

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 Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated September 6, 2019.
31.2	Certification by the Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated September 6, 2019.
32.1	Written Statement of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated September 6, 2019.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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.

RTW RETAILWINDS, INC.

/s/ SHEAMUS TOAL

By: Sheamus Toal
Its: *Executive Vice President,*
Chief Operating Officer and
Chief Financial Officer
(Principal Financial Officer)
Date: September 6, 2019

Exhibit 31.1

CERTIFICATION

I, Gregory J. Scott, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of RTW Retailwinds, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2019

/s/ GREGORY J. SCOTT

Gregory J. Scott
Chief Executive Officer
(Principal Executive Officer)

QuickLinks

Exhibit 31.1

CERTIFICATION

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 31.2

CERTIFICATION

I, Sheamus Toal, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of RTW Retailwinds, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2019

/s/ SHEAMUS TOAL

Sheamus Toal
Executive Vice President, Chief Operating Officer and Chief Financial Officer
(Principal Financial Officer)

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Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer, and Executive Vice President, Chief Operating Officer and Chief Financial Officer of RTW Retailwinds, Inc. (the "Company"), hereby certify, based on our knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended August 3, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 6, 2019

/s/ GREGORY J. SCOTT

Gregory J. Scott
Chief Executive Officer
(Principal Executive Officer)

/s/ SHEAMUS TOAL

Sheamus Toal
Executive Vice President, Chief Operating Officer and Chief Financial Officer
(Principal Financial Officer)