

EXPRESS, INC.
Form 10-Q
December 05, 2012
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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 October 27, 2012
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 001-34742

EXPRESS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-2828128
(I.R.S. Employer
Identification No.)

1 Express Drive
Columbus, Ohio
(Address of principal executive offices)
Telephone: (614) 474-4001
(Registrant's telephone number, including area code)

43230
(Zip 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer Accelerated filer

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

The number of outstanding shares of the registrant's common stock was 85,491,704 as of November 30, 2012.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("Quarterly Report") contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact included in this Quarterly Report are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance, and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "anticipate," "estimate," "expect," "project," "plan," "intend," "believe," "may," "will," "should," "likely," and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected costs, expenditures, cash flows, and financial results, our plans and objectives for future operations, growth or initiatives, strategies, or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- changes in consumer spending and general economic conditions;
- our ability to identify and respond to new and changing fashion trends, customer preferences, and other related factors;
- fluctuations in our sales and results of operations on a seasonal basis and due to a variety of other factors;
- increased competition from other retailers;
- the success of the malls and shopping centers in which our stores are located;
- our dependence upon independent third parties to manufacture all of our merchandise;
- the availability constraints and price volatility of raw materials and labor used to manufacture our products;
- interruptions of the flow of merchandise from international manufacturers causing disruptions in our supply chain;
- shortages of inventory, delayed shipments to our online customers, and harm to our reputation due to difficulties or shut-down of distribution facilities;
- our reliance upon independent third-party transportation providers for substantially all of our product shipments;
- our dependence upon key executive management;
- our growth strategy, including our international expansion plan;
- our dependence on a strong brand image;
- our leasing substantial amounts of space;
- the failure to find store employees that can effectively operate our stores;
- our reliance on Limited Brands, Inc. ("Limited Brands") to provide us with certain key services for our business;
- our reliance on information systems and any failure, inadequacy, interruption or security failure of those systems;
- claims made against us resulting in litigation;
- changes in laws and regulations applicable to our business;
- our inability to protect our trademarks or other intellectual property rights;
- our substantial indebtedness and lease obligations;
- restrictions imposed by our indebtedness on our current and future operations;
- fluctuations in energy costs;
- changes in taxation requirements or the results of tax audits; and
- impairment charges on long-lived assets.

We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors and, it is impossible for us to anticipate all factors that could affect our actual results. For the discussion of these risks and other risks and uncertainties that could cause actual results to differ materially from those contained in our forward-looking statements, please refer to "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended January 28, 2012 ("Annual Report"), filed with the Securities and Exchange Commission ("SEC") on March 23, 2012. The forward-looking statements included in this Quarterly Report

are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events, or otherwise, except as otherwise required by law.

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ITEM 1. FINANCIAL STATEMENTS.EXPRESS, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Per Share Amounts)
(Unaudited)

	October 27, 2012	January 28, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 102,438	\$ 152,362
Receivables, net	9,416	9,027
Inventories	286,877	208,954
Prepaid minimum rent	24,233	23,461
Other	28,949	18,232
Total current assets	451,913	412,036
PROPERTY AND EQUIPMENT	614,145	521,860
Less: accumulated depreciation	(333,279)	(294,554)
Property and equipment, net	280,866	227,306
TRADENAME/DOMAIN NAME	197,719	197,509
DEFERRED TAX ASSETS	9,640	12,462
OTHER ASSETS	11,216	12,886
Total assets	\$951,354	\$862,199
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$207,472	\$133,679
Deferred revenue	18,524	27,684
Accrued bonus	85	14,689
Accrued expenses	87,638	109,161
Accounts payable and accrued expenses – related parties	—	5,997
Total current liabilities	313,719	291,210
LONG-TERM DEBT	198,760	198,539
OTHER LONG-TERM LIABILITIES	135,780	91,303
Total liabilities	648,259	581,052

COMMITMENTS AND CONTINGENCIES (Note 12)

STOCKHOLDERS' EQUITY:

Preferred stock – \$0.01 par value; 10,000 shares authorized; no shares issued or outstanding	—	—
Common stock – \$0.01 par value; 500,000 shares authorized; 89,607 shares and 88,946 shares issued at October 27, 2012 and January 28, 2012, respectively, and 85,509 shares and 88,887 shares outstanding at October 27, 2012 and	896	890

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January 28, 2012, respectively		
Additional paid-in capital	100,910	87,713
Accumulated other comprehensive loss	(53) (7
Retained earnings	267,979	192,654
Treasury stock – at average cost; 4,098 shares and 59 shares at October 27, 2012 and January 28, 2012, respectively	(66,637	) (103
Total stockholders' equity	303,095	281,147
Total liabilities and stockholders' equity	\$951,354	\$862,199
See notes to unaudited consolidated financial statements.		

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EXPRESS, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Amounts in Thousands, Except Per Share Amounts)

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
NET SALES	\$468,527	\$486,784	\$1,419,358	\$1,400,202
COST OF GOODS SOLD, BUYING AND OCCUPANCY COSTS	316,989	310,816	932,532	896,088
Gross profit	151,538	175,968	486,826	504,114
OPERATING EXPENSES:				
Selling, general, and administrative expenses	117,722	115,061	347,224	342,236
Other operating (income) expense, net	(586	) 34	(553	) (166
Total operating expenses	117,136	115,095	346,671	342,070
OPERATING INCOME	34,402	60,873	140,155	162,044
INTEREST EXPENSE	4,782	6,328	14,338	27,843
INTEREST INCOME	—	(2	) (1	) (7
OTHER INCOME, NET	(116	) (148	) (104	) (148
INCOME BEFORE INCOME TAXES	29,736	54,695	125,922	134,356
INCOME TAX EXPENSE	12,314	22,025	50,598	54,053
NET INCOME	\$17,422	\$32,670	\$75,324	\$80,303
OTHER COMPREHENSIVE INCOME:				
Foreign currency translation	(49	) 2	(46) —
COMPREHENSIVE INCOME	\$17,373	\$32,672	\$75,278	\$80,303
EARNINGS PER SHARE:				
Basic	\$0.20	\$0.37	\$0.86	\$0.91
Diluted	\$0.20	\$0.37	\$0.86	\$0.90
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	85,980	88,643	87,489	88,573
Diluted	86,216	88,903	87,835	88,838

See notes to unaudited consolidated financial statements.

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EXPRESS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)
(Unaudited)

	Thirty-Nine Weeks Ended		
	October 27, 2012	October 29, 2011	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$75,324	\$80,303	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	50,733	51,198	
Loss on disposal of property and equipment	67	89	
Excess tax benefit from share-based compensation	(409) —	
Share-based compensation	12,207	7,483	
Non-cash loss on extinguishment of debt	—	2,744	
Deferred taxes	3,713	(2,764)
Changes in operating assets and liabilities:			
Receivables, net	(379	) 2,043
Inventories	(77,900) (93,325)
Accounts payable, deferred revenue, and accrued expenses	18,555	10,168	
Other assets and liabilities	7,231	6,404	
Net cash provided by operating activities	89,142	64,343	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(73,354) (55,915)
Purchase of intangible assets	(210) (60)
Net cash used in investing activities	(73,564) (55,975)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of long-term debt arrangements	—	(50,087)
Costs incurred in connection with debt arrangements and Senior Notes	—	(1,192)
Payments on capital lease obligation	(41) —	
Excess tax benefit from share-based compensation	409	—	
Proceeds from share-based compensation	623	234	
Repurchase of common stock	(66,534) (103)
Net cash used in financing activities	(65,543) (51,148)
EFFECT OF EXCHANGE RATE ON CASH	41	—	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(49,924) (42,780)
CASH AND CASH EQUIVALENTS, Beginning of period	152,362	187,762	
CASH AND CASH EQUIVALENTS, End of period	\$102,438	\$144,982	
See notes to unaudited consolidated financial statements.			

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Notes to Unaudited Consolidated Financial Statements (Unaudited)

1. Description of Business and Basis of Presentation

Business Description

Express, Inc. ("Express" or the "Company") is a specialty apparel and accessories retailer of women's and men's merchandise, targeting the 20 to 30 year old customer. Express merchandise is sold through retail stores and the Company's website, www.express.com. As of October 27, 2012, Express operated 618 primarily mall-based stores in the United States, Canada, and Puerto Rico. Additionally, the Company earned royalties from 10 stores in the Middle East operated through a development agreement ("Development Agreement") with Alshaya Trading Co. ("Alshaya"). Under the Development Agreement, Alshaya operates stores that sell Express-branded apparel and accessories purchased directly from the Company.

Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31. Fiscal years are referred to by the calendar year in which the fiscal year commences. All references herein to "2012" and "2011" represent the 53-week period ended February 2, 2013 and the 52-week period ended January 28, 2012, respectively. All references herein to "the third quarter of 2012" and "the third quarter of 2011" represent the thirteen weeks ended October 27, 2012 and October 29, 2011, respectively.

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying unaudited Consolidated Financial Statements reflect all adjustments (which are of a normal recurring nature) necessary to present fairly the financial position, results of operations, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for 2012. Therefore, these statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the year ended January 28, 2012, included in the Company's Annual Report, filed with the SEC.

Principles of Consolidation

The unaudited Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

2. Segment Reporting

The Company defines an operating segment on the same basis that it uses to evaluate performance internally. The Company has determined that, together, its Chief Executive Officer and its Chief Operating Officer are the Chief Operating Decision Maker, and that there is one operating segment. Therefore, the Company reports results as a single segment, which includes the operation of its brick-and-mortar retail stores and e-commerce operations.

The following presents information regarding the Company's major product classes and sales channels:

Thirteen Weeks Ended

Thirty-Nine Weeks Ended

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	October 27, 2012 (in thousands)	October 29, 2011	October 27, 2012 (in thousands)	October 29, 2011
Classes:				
Apparel	\$421,681	\$440,792	\$1,281,598	\$1,267,240
Accessories and other	41,424	41,542	123,200	118,696
Other revenue	5,422	4,450	14,560	14,266
Total net sales	\$468,527	\$486,784	\$1,419,358	\$1,400,202

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	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Channels:	(in thousands)		(in thousands)	
Stores	\$408,043	\$436,683	\$1,254,668	\$1,264,653
E-commerce	55,062	45,651	150,130	121,283
Other revenue	5,422	4,450	14,560	14,266
Total net sales	\$468,527	\$486,784	\$1,419,358	\$1,400,202

Other revenue consists primarily of shipping and handling revenue related to e-commerce activity, gift card breakage, and royalties from the Development Agreement.

Revenues and long-lived assets relating to the Company's international operations were not material for any period presented and are, therefore, not reported separately from domestic revenues or long-lived assets.

3. Earnings Per Share

The following table provides a reconciliation between basic and diluted weighted-average shares used to calculate basic and diluted earnings per share:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
	(in thousands)		(in thousands)	
Weighted-average shares - basic	85,980	88,643	87,489	88,573
Dilutive effect of stock options, restricted stock units, and restricted stock	236	260	346	265
Weighted-average shares - diluted	86,216	88,903	87,835	88,838

Equity awards representing 3.8 million and 2.4 million shares of common stock were excluded from the computation of diluted earnings per share for the thirteen and thirty-nine weeks ended October 27, 2012, respectively, as the effects of the awards would have been anti-dilutive. Equity awards representing 2.0 million and 2.3 million shares of common stock were excluded from the computation of diluted earnings per share for the thirteen and thirty-nine weeks ended October 29, 2011, respectively, as the effects of the awards would have been anti-dilutive.

Additionally, for the thirteen and thirty-nine weeks ended October 27, 2012, there were 0.3 million shares of restricted stock excluded from the computation of diluted weighted average shares because the number of shares that will ultimately be issued is contingent on the Company's performance compared to pre-established annual performance goals.

4. Share Repurchase Program

On May 24, 2012, the Company's Board of Director's ("Board") authorized the repurchase of up to \$100 million of the Company's common stock ("Repurchase Program"), which may be made from time to time in open market or privately negotiated transactions. The Repurchase Program will be funded using the Company's available cash and is expected to be executed in the 18 month period following the authorization. The Repurchase Program may be suspended, modified, or discontinued at any time, and the Company has no obligation to make repurchases of its common stock under the Repurchase Program. During the thirteen weeks ended October 27, 2012, the Company

repurchased 1.3 million shares of its common stock under the Repurchase Program at an average price of \$11.70 per share, totaling \$15.0 million, including commissions; and through October 27, 2012, the Company repurchased 4.0 million shares of its common stock at an average price of \$16.38 per share, totaling \$65.1 million, including commissions.

5. Fair Value of Financial Assets

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation as of the measurement date.

Level 1-Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.

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Level 2-Valuation is based upon quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3-Valuation is based upon other unobservable inputs that are significant to the fair value measurement. The following table presents the Company's assets measured at fair value on a recurring basis as of October 27, 2012 and January 28, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall.

	October 27, 2012		
	Level 1	Level 2	Level 3
	(in thousands)		
U.S. treasury securities funds	\$77,456	\$—	\$—

	January 28, 2012		
	Level 1	Level 2	Level 3
	(in thousands)		
U.S. treasury securities funds	\$131,543	\$—	\$—

The carrying amounts reflected on the unaudited Consolidated Balance Sheets for cash, cash equivalents, receivables, prepaid expenses, and payables as of October 27, 2012 and January 28, 2012 approximated their fair values.

6. Intangible Assets

The following table provides the significant components of intangible assets:

	October 27, 2012		January 28, 2012	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
	(in thousands)		(in thousands)	
Tradename	\$196,144	\$—	\$196,144	\$—
Internet domain name/other	1,575	—	1,365	—
Net favorable lease obligations	19,750	17,427	19,750	16,275
	\$217,469	\$17,427	\$217,259	\$16,275

The Company's tradename and internet domain name/other have indefinite lives. Net favorable lease obligations are amortized over a period between 5 and 7 years, which represented the remaining life of each respective lease at the evaluation date, and are included in other assets on the unaudited Consolidated Balance Sheets. Amortization expense totaled \$0.4 million and \$1.2 million during the thirteen and thirty-nine weeks ended October 27, 2012, respectively; and \$0.4 million and \$1.8 million during the thirteen and thirty-nine weeks ended October 29, 2011, respectively.

7. Related Party Transactions

The transactions described below are transactions between the Company and entities affiliated with Golden Gate Private Equity, Inc. ("Golden Gate") and Limited Brands. Prior to July 2007, the Company operated as a division of Limited Brands. In July 2007, a Golden Gate affiliate acquired approximately 75% of the outstanding equity interests in the Company from Limited Brands, and the Company began its transition to a stand-alone Company. In May 2010, the Company launched an initial public offering ("IPO") whereby Golden Gate and Limited Brands sold a portion of their shares. Since the IPO, Golden Gate and Limited Brands gradually reduced their ownership interest in the Company. On July 29, 2011, Limited Brands sold its remaining ownership interest in the Company, and as a result of this disposition, ceased to be a related party as of the end of the second quarter of 2011. On March 19, 2012, Golden Gate sold its remaining ownership interest in the Company, and as of May 31, 2012, Golden Gate no longer had

representation on the Board As a result, Golden Gate ceased to be a related party as of June 1, 2012.

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Transactions with Limited Brands

The Company is party to a logistics services agreement with an affiliate of Limited Brands. The Limited Brands affiliate provides certain inbound and outbound transportation and delivery services, distribution services, and customs and brokerage services. In addition, merchandise sourcing services are provided by Mast Global Fashions, an affiliate of Limited Brands. The Company is also party to a lease agreement with an affiliate of Limited Brands for its home office and distribution center.

The 2011 related party activity with affiliates of Limited Brands described below includes only those expenses incurred through Limited Brands' disposition of the Company's common stock on July 29, 2011.

The Company incurred charges from affiliates of Limited Brands for various services, including home office rent, which are included in selling, general, and administrative expenses, and for merchandise sourcing and logistics services, including distribution center rent, which are included in cost of goods sold, buying and occupancy costs. The amounts included in the unaudited Consolidated Statements of Income and Comprehensive Income are as follows:

	Thirty-Nine Weeks Ended October 29, 2011 (in thousands)
Merchandise sourcing	\$198,162
Transaction and logistics services	\$24,788

Transactions with Other Golden Gate Affiliates

The Company transacts with affiliates of Golden Gate for e-commerce warehouse and fulfillment services, software license purchases, and consulting and software maintenance services. The 2012 related party activity with affiliates of Golden Gate described below includes only those expenses incurred and income earned through the date on which Golden Gate ceased to be a related party.

The Company incurred the following charges from affiliates of Golden Gate for various services, which are included primarily in cost of goods sold, buying and occupancy costs in the unaudited Consolidated Statements of Income and Comprehensive Income:

	Thirteen Weeks Ended October 29, 2011 (in thousands)	Thirty-Nine Weeks Ended October 27, 2012 (in thousands)	October 29, 2011
E-commerce warehouse and fulfillment	\$7,305	\$8,755	\$21,209
Software licenses and consulting and software maintenance services	\$55	\$91	\$198

The Company provided real estate services to certain Golden Gate affiliates. Income recognized during the thirty-nine weeks ended October 27, 2012 was \$0.2 million. Income recognized for these services during the thirteen and thirty-nine weeks ended October 29, 2011 was \$0.1 million and \$0.4 million, respectively.

During the first and second quarters of 2011, the Company repurchased \$25.0 million and \$24.2 million of Senior Notes, respectively, in open market transactions. Of the \$49.2 million of Senior Notes repurchased, \$40.0 million were held by a Golden Gate affiliate. Interest expense incurred on the Senior Notes attributable to the Golden Gate affiliate was \$0.3 million, during the thirty-nine weeks ended October 27, 2012; and \$0.2 million and \$1.5 million during the thirteen and thirty-nine weeks ended October 29, 2011, respectively.

8. Income Taxes

The provision for income taxes is based on a current estimate of the annual effective tax rate adjusted to reflect the impact of discrete items. The Company's quarterly effective tax rate does not reflect a benefit associated with losses related to certain foreign subsidiaries. The Company's effective tax rate was 41.4% and 40.3% for the thirteen weeks ended October 27, 2012

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and October 29, 2011, respectively. The Company's effective tax rate was 40.2% for the thirty-nine weeks ended October 27, 2012 and October 29, 2011.

The Company recorded a valuation allowance against the deferred tax assets arising from the net operating loss of foreign operations. As of January 28, 2012, the valuation allowance for net operating losses totaled \$0.1 million. In addition, as of January 28, 2012, the valuation allowance for other noncurrent tax assets totaled \$0.2 million. No other valuation allowances have been provided for deferred tax assets because management believes that it is more-likely-than-not that the full amount of the net deferred tax assets will be realized in the future.

The Company does not expect material adjustments to the total amount of unrecognized tax benefits within the next 12 months, but the outcome of tax matters is uncertain and unforeseen results can occur.

During the third quarter of 2012, the Internal Revenue Service initiated an audit of the period ended January 29, 2011, which is currently on-going.

9. Lease Financing Obligations

In certain lease arrangements, the Company is involved with the construction of the building. To the extent the Company is involved in the construction of structural improvements or takes construction risk prior to commencement of a lease, it is deemed the owner of the project for accounting purposes. The Company then records an asset in property and equipment and a related financing obligation for the amount of construction-in-progress and the replacement cost of the Company's portion of the pre-existing building. Once construction is complete, the Company considers the requirements for sale-leaseback treatment, including the transfer of all risks of ownership back to the landlord, and whether the Company has any continuing involvement in the leased property. If the arrangement does not qualify for sale-leaseback treatment, the building assets subject to these obligations remain on the Company's Consolidated Balance Sheets at their historical cost, and such assets are depreciated over their remaining useful lives. The costs of construction paid by the landlord and the replacement cost of the pre-existing building are recorded as lease financing obligations in other long-term liabilities on the unaudited Consolidated Balance Sheets, and a portion of the lease payments are applied as payments of principal and interest. The selection of the interest rate for lease financing obligations is evaluated at lease inception based on the Company's incremental borrowing rate. As of October 27, 2012, the Company had recorded \$23.8 million in property and equipment, along with an offsetting amount recorded as a lease financing obligation. These assets and liabilities are classified as non-cash items for purposes of the unaudited Consolidated Statements of Cash Flow.

The Company will not report rent expense for the portion of the rent payment determined to be related to the properties which are owned for accounting purposes. Rather, this portion of rental payments under the lease will be recognized as a reduction of the financing obligation and interest expense. Expense relating to the land is recognized on a straight-line basis once construction begins.

10. Debt

Borrowings outstanding consisted of the following:

	October 27, 2012 (in thousands)	January 28, 2012
8 3/4% Senior Notes	\$200,850	\$200,850
Debt discount on Senior Notes	(2,090)	(2,311)
Total long-term debt	\$198,760	\$198,539

Revolving Credit Facility

On July 29, 2011, Express Holding, LLC, a wholly-owned subsidiary, ("Express Holding") and its subsidiaries entered into an Amended and Restated \$200.0 million secured Asset-Based Loan Revolving Credit Facility ("Revolving

Credit Facility"). As of October 27, 2012, there were no borrowings outstanding and approximately \$197.9 million available under the the Revolving Credit Facility.

The Revolving Credit Facility requires Express Holding and its subsidiaries to maintain a fixed charge coverage ratio of at least 1.0:1.0 if excess availability plus eligible cash collateral is less than 10% of the borrowing base for 15 consecutive days. In addition, the Revolving Credit Facility contains customary covenants and restrictions on Express Holding and its subsidiaries'

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activities, including, but not limited to, limitations on the incurrence of additional indebtedness; liens, negative pledges, guarantees, investments, loans, asset sales, mergers, acquisitions, and prepayment of other debt; distributions, dividends, and the repurchase of capital stock; transactions with affiliates; and the ability to change the nature of its business or its fiscal year. All obligations under the Revolving Credit Facility are guaranteed by Express Holding and its domestic subsidiaries (that are not borrowers) and secured by a lien on substantially all of the assets of Express Holding and its domestic subsidiaries.

Senior Notes

On March 5, 2010, Express, LLC and Express Finance Corp. ("Express Finance"), wholly-owned subsidiaries of the Company, co-issued, in a private placement, \$250.0 million of 8 3/4% Senior Notes due in 2018 (the "Senior Notes") at an offering price of 98.6% of the face value.

In the first quarter of 2011, \$25.0 million of Senior Notes were repurchased on the open market at a price of 108.75% of the principal amount. In the second quarter of 2011, \$24.2 million of Senior Notes were repurchased on the open market at an average price of 109.21% of the principal amount.

The indenture governing the Senior Notes contains customary covenants and restrictions on the activities of Express, LLC, Express Finance, and Express, LLC's restricted subsidiaries, including, but not limited to, the incurrence of additional indebtedness; payment of dividends or distributions in respect of capital stock or certain other restricted payments or investments; entering into agreements that restrict distributions from restricted subsidiaries; the sale or disposal of assets, including capital stock of restricted subsidiaries; transactions with affiliates; the incurrence of liens; and mergers, consolidations or the sale of substantially all of Express, LLC's assets. Certain of these covenants will be suspended if the Senior Notes are assigned an investment grade rating by both Standard & Poor and Moody's Investors Service and no default has occurred or is continuing. If either rating on the Senior Notes should subsequently decline to below investment grade, the suspended covenants will be reinstated.

Loss on Extinguishment

In connection with the Senior Notes repurchases in the first and second quarters of 2011, the Company recognized a \$6.9 million loss on extinguishment of debt for the thirty-nine weeks ended October 29, 2011. Of this loss on extinguishment, \$2.5 million was attributed to the write-off of unamortized debt issuance costs and unamortized discount.

In connection with the amendment and restatement of the Revolving Credit Facility in the second quarter of 2011, the Company recognized a \$0.3 million loss on extinguishment of debt attributed to the write-off of unamortized debt issuance costs for the thirty-nine weeks ended October 29, 2011.

The loss on extinguishment of debt was recorded as interest expense in the unaudited Consolidated Statements of Income and Comprehensive Income. The write-offs of unamortized debt issuance costs and unamortized discounts represent a non-cash adjustment to reconcile net income to net cash provided by operating activities within the unaudited Consolidated Statements of Cash Flows.

Fair Value of Debt

The fair value of the Senior Notes was estimated using a number of factors, such as recent trade activity, size, timing, and yields of comparable bonds, and is, therefore, within Level 2 of the fair value hierarchy. As of October 27, 2012, the estimated fair value of the Senior Notes was \$217.7 million.

Letters of Credit

The Company periodically enters into various trade letters of credit ("trade LCs") in favor of certain vendors to secure merchandise. These trade LCs are issued for a defined period of time, for specific shipments, and generally expire 3 weeks after the merchandise shipment date. As of October 27, 2012 and January 28, 2012, there were no outstanding trade LCs. Additionally, the Company enters into stand-by letters of credit ("stand-by LCs") on an as-needed basis to

secure merchandise and fund other general and administrative costs. As of October 27, 2012 and January 28, 2012, outstanding stand-by LCs totaled \$2.1 million and \$1.8 million, respectively.

11. Share-Based Compensation

The following summarizes our share-based compensation expense:

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	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
	(in thousands)		(in thousands)	
Stock options	\$2,032	\$1,669	\$6,089	\$4,798
Restricted stock units and restricted stock	1,318	1,049	6,104	2,529
Restricted shares (equity issued pre-IPO)	1	12	14	156
Total share-based compensation	\$3,351	\$2,730	\$12,207	\$7,483

During the thirteen and thirty-nine weeks ended October 27, 2012, the stock compensation related income tax benefit recognized by the Company was \$0.2 million and \$1.7 million, respectively; and during the thirteen and thirty-nine weeks ended October 29, 2011, was minimal and \$0.1 million, respectively.

Stock Options

During the thirty-nine weeks ended October 27, 2012, the Company granted stock options under the Express, Inc., 2010 Incentive Compensation Plan (the "2010 Plan"). The fair value of the stock options is determined using the Black-Scholes-Merton option-pricing model as described further below. The majority of stock options granted under the 2010 Plan vest 25% per year over 4 years and have a 10 year contractual life, however those granted to the Chief Executive Officer vest ratably over 3 years. The expense for stock options is recognized using the straight-line attribution method.

The Company's activity with respect to stock options during the thirty-nine weeks ended October 27, 2012 was as follows:

	Number of Shares	Grant Date Weighted Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
	(in thousands, except per share amounts and years)			
Outstanding, January 28, 2012	2,667	\$17.93		
Granted	576	\$23.98		
Exercised	(35)	\$17.45		
Forfeited or expired	(37)	\$19.80		
Outstanding, October 27, 2012	3,171	\$19.01	8.3	\$—
Expected to vest at October 27, 2012	2,180	\$19.61	8.4	\$—
Exercisable at October 27, 2012	961	\$17.63	7.9	\$—

The following provides additional information regarding the Company's stock options:

	Thirty-Nine Weeks Ended October 27, 2012
(in thousands, except per share amounts)	
Weighted average grant date fair value of options granted	\$12.79
Total intrinsic value of options exercised	\$267
Total fair value of options vested	\$6,503

As of October 27, 2012, there was approximately \$17.6 million of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted-average period of approximately 1.3 years.

The Company uses the Black-Scholes-Merton option-pricing model to value stock options granted to employees and directors. The Company's determination of the fair value of stock options is affected by the Company's stock price as well as a number of subjective and complex assumptions. These assumptions include the risk-free interest rate, the Company's expected stock price volatility over the term of the awards, expected term of the award, and dividend yield.

The fair value of stock options was estimated at the grant date using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

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	Thirty-Nine Weeks Ended			
	October 27, 2012		October 29, 2011	
Risk-free interest rate ⁽¹⁾	1.12	%	1.39	%
Price Volatility ⁽²⁾	55.9	%	55.4	%
Expected term (years) ⁽³⁾	6.17		6.25	
Dividend yield ⁽⁴⁾	—		—	

(1) Represents the yield on U.S. Treasury securities with a term consistent with the expected term of the stock options. Because the Company's stock has a limited history of being publicly traded, this was based on the historical volatility of selected comparable companies over a period consistent with the expected term of the stock options.

(2) Comparable companies were selected primarily based on industry, stage of life cycle, and size. Beginning with the second anniversary of the IPO, the Company began using its own volatility as an additional input in the determination of expected volatility.

(3) Calculated utilizing the "simplified" methodology prescribed by SAB No. 107 due to the lack of historical exercise data necessary to provide a reasonable basis upon which to estimate the term.

(4) Based on the fact that the Company does not currently plan on paying regular dividends.

Restricted Stock Units and Restricted Stock

During the thirty-nine weeks ended October 27, 2012, the Company granted restricted stock units ("RSUs") and restricted stock under the 2010 Plan, including 0.4 million shares of performance-based restricted stock and 0.1 million shares of performance-based RSUs. The fair value of the RSUs and restricted stock is determined based on the Company's stock price on the grant date. The expense for RSUs and restricted stock is recognized using the straight-line attribution method except for awards with performance conditions, for which the graded vesting method is used. These awards have vesting conditions with requisite service periods of 3 years for the Chief Executive Officer, 4 years for other employees, and 1 year for members of the Board.

The Company's activity with respect to RSUs and restricted stock for the thirty-nine weeks ended October 27, 2012 was as follows:

	Number of Shares	Grant Date Weighted Average Fair Value
	(in thousands, except per share amounts)	
Unvested, January 28, 2012	900	\$18.52
Granted	826	\$24.13
Vested	(176)	)\$17.89
Forfeited	(12)	)\$21.83
Unvested, October 27, 2012	1,538	\$21.57

The total fair value/intrinsic value of RSUs and restricted stock that vested was \$3.2 million and \$0.1 million during the thirty-nine weeks ended October 27, 2012 and October 29, 2011, respectively. As of October 27, 2012, there was approximately \$18.6 million of total unrecognized compensation expense related to unvested RSUs and restricted stock, which is expected to be recognized over a weighted-average period of approximately 1.5 years.

12. Commitments and Contingencies

In a complaint filed on July 7, 2011 in the United States District Court for the Northern District of Illinois styled as Eric Wynn, et al., v. Express, LLC, Express was named as a defendant in a purported nationwide collective action alleging violations of the Fair Labor Standards Act and of applicable Illinois state wage and hour statutes related to

alleged off-the-clock work. The lawsuit seeks unspecified monetary damages and attorneys' fees. In March 2012, the court granted conditional collective action certification. Express continues to vigorously defend against these claims. The Company has accrued an amount on the Consolidated Balance Sheet as of October 27, 2012 that reflects its best estimate of the potential loss, which is not expected to be material to the Consolidated Financial Statements. As the situation develops and more information becomes available, the amount of this reserve may increase or decrease accordingly.

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The Company is subject to various other claims and contingencies arising out of the normal course of business. Management believes that the ultimate liability arising from such claims and contingencies, if any, is not likely to have a material adverse effect on the Company's results of operations, financial condition, or cash flows.

13. Guarantor Subsidiaries

On March 5, 2010, Express, LLC and Express Finance (the "Subsidiary Issuers"), both 100% owned indirect subsidiaries of the Company, issued the Senior Notes. The Company ("Guarantor") and certain of the Company's indirect 100% owned subsidiaries ("Guarantor Subsidiaries") have guaranteed, on a joint and several basis, the Company's obligations under the Senior Notes. The guarantees are not full and unconditional because Guarantor Subsidiaries can be released and relieved of their obligations under certain customary circumstances contained in the indenture governing the Senior Notes. These circumstances include the following, so long as other applicable provisions of the indenture are adhered to: any sale or other disposition of all or substantially all of the assets of any Guarantor Subsidiary, any sale or other disposition of capital stock of any Guarantor Subsidiary, or designation of any restricted subsidiary that is a Guarantor Subsidiary as an unrestricted subsidiary. On August 26, 2012, Express, LLC contributed certain assets and liabilities to a newly created Guarantor Subsidiary. As a result, the current and prior period condensed consolidated financial information has been revised to retroactively give effect to the new structure in place as of August 26, 2012.

The following consolidating schedules present the condensed financial information on a combined basis.

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EXPRESS, INC.
 CONDENSED CONSOLIDATING BALANCE SHEET
 (Amounts in thousands)
 (Unaudited)

	October 27, 2012					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Assets						
Current assets						
Cash and cash equivalents	\$938	\$74,129	\$24,343	\$3,028	\$—	\$102,438
Receivables, net	—	3,884	3,903	1,629	—	9,416
Inventories	—	18,041	266,010	2,826	—	286,877
Prepaid minimum rent	—	446	23,139	648	—	24,233
Intercompany loan receivable	—	17,596	—	—	(17,596)	—
Intercompany receivable	—	55,917	—	5,862	(61,779)	—
Other	1,066	24,348	3,525	10	—	28,949
Total current assets	2,004	194,361	320,920	14,003	(79,375)	451,913
Property and equipment, net	—	41,073	227,766	12,027	—	280,866
Tradename/domain name	—	197,719	—	—	—	197,719
Investment in subsidiary	300,250	334,995	—	294,466	(929,711)	—
Deferred tax assets	852	6,386	2,402	—	—	9,640
Other assets	—	8,066	3,146	4	—	11,216
Total assets	\$303,106	\$782,600	\$554,234	\$320,500	\$(1,009,086)	\$951,354
Liabilities and stockholders' equity						
Current liabilities						
Accounts payable	\$—	\$204,530	\$1,831	\$1,111	\$—	\$207,472
Deferred revenue	—	1,320	17,159	45	—	18,524
Accrued bonus	—	—	85	—	—	85
Accrued expenses	12	45,201	41,295	1,130	—	87,638
Intercompany payable	—	5,862	55,917	—	(61,779)	—
Intercompany loan payable	—	—	—	17,596	(17,596)	—
Total current liabilities	12	256,913	116,287	19,882	(79,375)	313,719
Long-term debt	—	198,760	—	—	—	198,760
Other long-term liabilities	—	32,461	98,462	4,857	—	135,780
Total liabilities	12	488,134	214,749	24,739	(79,375)	648,259
Commitments and Contingencies (Note 12)						
Total stockholders' equity	303,094	294,466	339,485	295,761	(929,711)	303,095
Total liabilities and stockholders' equity	\$303,106	\$782,600	\$554,234	\$320,500	\$(1,009,086)	\$951,354

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EXPRESS, INC.
 CONDENSED CONSOLIDATING BALANCE SHEET
 (Amounts in thousands)
 (Unaudited)

	January 28, 2012					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Assets						
Current assets						
Cash and cash equivalents	\$1,575	\$121,273	\$27,964	\$1,550	\$—	\$152,362
Receivables, net	—	1,917	5,522	1,588	—	9,027
Inventories	—	22,681	183,826	2,447	—	208,954
Prepaid minimum rent	—	219	22,766	476	—	23,461
Intercompany loan receivable	—	12,684	—	—	(12,684)	—
Intercompany receivable	—	—	—	5,862	(5,862)	—
Other	—	20,188	(1,960)	4	—	18,232
Total current assets	1,575	178,962	238,118	11,927	(18,546)	412,036
Property and equipment, net	—	31,415	187,286	8,605	—	227,306
Tradename/domain name	—	197,509	—	—	—	197,509
Investment in subsidiary	277,920	300,747	—	272,135	(850,802)	—
Deferred tax assets	852	7,224	4,386	—	—	12,462
Other assets	—	8,956	3,926	4	—	12,886
Total assets	\$280,347	\$724,813	\$433,716	\$292,671	\$(869,348)	\$862,199
Liabilities and stockholders' equity						
Current liabilities						
Accounts payable	\$—	\$131,767	\$1,294	\$618	\$—	\$133,679
Deferred revenue	—	3,158	24,476	50	—	27,684
Accrued bonus	—	13,486	1,185	18	—	14,689
Accrued expenses	(800)	63,899	44,523	1,539	—	109,161
Accounts payable and accrued expenses—related parties	—	5,997	—	—	—	5,997
Intercompany payable	—	5,862	—	—	(5,862)	—
Intercompany loan payable	—	—	—	12,684	(12,684)	—
Total current liabilities	(800)	224,169	71,478	14,909	(18,546)	291,210
Long-term debt	—	198,539	—	—	—	198,539
Other long-term liabilities	—	29,970	58,189	3,144	—	91,303
Total liabilities	(800)	452,678	129,667	18,053	(18,546)	581,052
Commitments and Contingencies (Note 12)						
Total stockholders' equity	281,147	272,135	304,049	274,618	(850,802)	281,147
Total liabilities and stockholders' equity	\$280,347	\$724,813	\$433,716	\$292,671	\$(869,348)	\$862,199

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EXPRESS, INC.

CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Thirteen Weeks Ended October 27, 2012					Consolidated Total
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	
Net sales	\$—	\$263,985	\$462,960	\$4,157	\$(262,575)	\$468,527
Cost of goods sold, buying and occupancy costs	—	202,519	374,101	2,602	(262,233)	316,989
Gross profit	—	61,466	88,859	1,555	(342)	151,538
Selling, general, and administrative expenses	114	45,761	69,940	2,249	(342)	117,722
Other operating expense (income), net	—	—	(586)	—	—	(586)
Operating income (loss)	(114)	15,705	19,505	(694)	—	34,402
Interest expense	—	4,771	—	11	—	4,782
Interest income	—	—	—	—	—	—
(Income) loss in subsidiary	(17,292)	(11,038)	—	(17,292)	45,622	—
Other expense (income), net	—	—	—	(116)	—	(116)
Income (loss) before income taxes	17,178	21,972	19,505	16,703	(45,622)	29,736
Income tax expense (benefit)	(244)	4,680	7,878	—	—	12,314
Net income (loss)	\$17,422	\$17,292	\$11,627	\$16,703	\$(45,622)	\$17,422
Foreign currency translation	(49)	(49)	—	(98)	147	(49)
Comprehensive income	\$17,373	\$17,243	\$11,627	\$16,605	\$(45,475)	\$17,373

EXPRESS, INC.

CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Thirteen Weeks Ended October 29, 2011					Consolidated Total
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	
Net sales	\$—	\$290,893	\$485,463	\$947	\$(290,519)	\$486,784
Cost of goods sold, buying and occupancy costs	—	203,508	396,070	1,644	(290,406)	310,816
Gross profit	—	87,385	89,393	(697)	(113)	175,968
Selling, general, and administrative expenses	252	40,984	72,510	1,428	(113)	115,061
Other operating expense (income), net	—	—	34	—	—	34
Operating income (loss)	(252)	46,401	16,849	(2,125)	—	60,873
Interest expense	—	6,328	—	—	—	6,328
Interest income	—	(2)	—	—	—	(2)
(Income) loss in subsidiary	(32,925)	(8,014)	—	(32,925)	73,864	—
Other expense (income), net	—	—	—	(148)	—	(148)
Income (loss) before income taxes	32,673	48,089	16,849	30,948	(73,864)	54,695
Income tax expense (benefit)	3	15,164	6,858	—	—	22,025
Net income (loss)	\$32,670	\$32,925	\$9,991	\$30,948	\$(73,864)	\$32,670

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Foreign currency translation	2	2	—	4	(6) 2
Comprehensive income	\$32,672	\$32,927	\$9,991	\$30,952	\$(73,870) \$32,672

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EXPRESS, INC.

CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Thirty-Nine Weeks Ended October 27, 2012					Consolidated Total
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	
Net sales	\$—	\$ 819,709	\$ 1,406,431	\$ 10,692	\$ (817,474)	\$ 1,419,358
Cost of goods sold, buying and occupancy costs	—	606,086	1,136,406	6,837	(816,797)	932,532
Gross profit	—	213,623	270,025	3,855	(677)	486,826
Selling, general, and administrative expenses	614	130,866	211,328	5,093	(677)	347,224
Other operating expense (income), net	—	—	(553)	—	—	(553)
Operating income (loss)	(614)	82,757	59,250	(1,238)	—	140,155
Interest expense	—	14,329	—	9	—	14,338
Interest income	—	(1)	—	—	—	(1)
(Income) loss in subsidiary	(75,694)	(34,177)	—	(75,694)	185,565	—
Other expense (income), net	—	—	—	(104)	—	(104)
Income (loss) before income taxes	75,080	102,606	59,250	74,551	(185,565)	125,922
Income tax expense (benefit)	(244)	26,912	23,930	—	—	50,598
Net income (loss)	\$ 75,324	\$ 75,694	\$ 35,320	\$ 74,551	\$ (185,565)	\$ 75,324
Foreign currency translation	(46)	(46)	—	(92)	138	(46)
Comprehensive income	\$ 75,278	\$ 75,648	\$ 35,320	\$ 74,459	\$ (185,427)	\$ 75,278

EXPRESS, INC.

CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Thirty-Nine Weeks Ended October 29, 2011					Consolidated Total
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	
Net sales	\$—	\$ 822,877	\$ 1,398,187	\$ 947	\$ (821,809)	\$ 1,400,202
Cost of goods sold, buying and occupancy costs	—	585,795	1,130,024	1,740	(821,471)	896,088
Gross profit	—	237,082	268,163	(793)	(338)	504,114
Selling, general, and administrative expenses	1,207	120,276	219,619	1,472	(338)	342,236
Other operating expense (income), net	—	(235)	69	—	—	(166)
Operating income (loss)	(1,207)	117,041	48,475	(2,265)	—	162,044
Interest expense	—	27,843	—	—	—	27,843
Interest income	—	(7)	—	—	—	(7)
(Income) loss in subsidiary	(81,515)	(26,747)	—	(81,515)	189,777	—
Other expense (income), net	—	—	—	(148)	—	(148)
Income (loss) before income taxes	80,308	115,952	48,475	79,398	(189,777)	134,356
Income tax expense (benefit)	5	34,437	19,611	—	—	54,053

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Net income (loss)	\$80,303	\$81,515	\$28,864	\$79,398	\$(189,777)	\$80,303
Foreign currency translation	—	—	—	—	—	—
Comprehensive income	\$80,303	\$81,515	\$28,864	\$79,398	\$(189,777)	\$80,303

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EXPRESS, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Thirty-Nine Weeks Ended October 27, 2012					Consolidated Total
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	
Operating Activities						
Net cash provided by (used in) operating activities	\$ 74	\$ 38,875	\$ 49,727	\$ 466	\$—	\$ 89,142
Investing Activities						
Capital expenditures	—	(16,065)	(53,348)	(3,941)	—	(73,354)
Purchase of intangible assets	—	(210)	—	—	—	(210)
Distributions received	65,200	—	—	65,200	(130,400)	—
Net cash provided by (used in) investing activities	65,200	(16,275)	(53,348)	61,259	(130,400)	(73,564)
Financing Activities						
Payments on capital lease obligation	—	(41)	—	—	—	(41)
Excess tax benefit from share-based compensation	—	409	—	—	—	409
Proceeds from share-based compensation	623	—	—	—	—	623
Intercompany loan	—	(4,912)	—	4,912	—	—
Distributions paid	—	(65,200)	—	(65,200)	130,400	—
Repurchase of common stock	(66,534)	—	—	—	—	(66,534)
Net cash provided by (used in) financing activities	(65,911)	(69,744)	—	(60,288)	130,400	(65,543)
Effect of exchange rate on cash	—	—	—	41	—	41
Net increase (decrease) in cash and cash equivalents	(637)	(47,144)	(3,621)	1,478	—	(49,924)
Cash and cash equivalents, beginning of period	1,575	121,273	27,964	1,550	—	152,362
Cash and cash equivalents, end of period	\$ 938	\$ 74,129	\$ 24,343	\$ 3,028	\$—	\$ 102,438

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EXPRESS, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Thirty-Nine Weeks Ended October 29, 2011					Consolidated Total
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	
Operating Activities						
Net cash provided by (used in) operating activities	\$ (265)	\$ 15,337	\$ 52,342	\$ (3,071)	\$ —	\$ 64,343
Investing Activities						
Capital expenditures	—	(6,704)	(46,626)	(2,585)	—	(55,915)
Purchase of intangible assets	—	(60)	—	—	—	(60)
Distributions received	103	—	—	103	(206)	—
Net cash provided by (used in) investing activities	103	(6,764)	(46,626)	(2,482)	(206)	(55,975)
Financing Activities						
Repayments of long-term debt arrangements	—	(50,087)	—	—	—	(50,087)
Costs incurred in connection with debt arrangements and Senior Notes	—	(1,192)	—	—	—	(1,192)
Proceeds from share-based compensation	234	—	—	—	—	234
Intercompany loan	—	(6,002)	—	6,002	—	—
Distributions paid	—	(103)	—	(103)	206	—
Repurchase of common stock	(103)	—	—	—	—	(103)
Net cash provided by (used in) financing activities	131	(57,384)	—	5,899	206	(51,148)
Effect of exchange rate on cash	—	—	—	—	—	—
Net increase (decrease) in cash and cash equivalents	(31)	(48,811)	5,716	346	—	(42,780)
Cash and cash equivalents, beginning of period	1,647	163,480	22,635	—	—	187,762
Cash and cash equivalents, end of period	\$ 1,616	\$ 114,669	\$ 28,351	\$ 346	\$ —	\$ 144,982

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

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity, and cash flows of the Company as of the dates and for the periods presented below. The following discussion and analysis should be read in conjunction with our Annual Report for the year ended January 28, 2012 and our unaudited consolidated financial statements and the related notes included in Item 1 of this Quarterly Report. This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors. See "Forward-Looking Statements."

Overview

Express is a specialty apparel and accessories retailer offering both women's and men's merchandise. We have over 30 years of experience offering a distinct combination of style and quality at an attractive value to women and men between 20 and 30 years old. We offer our customers an assortment of fashionable apparel and accessories to address fashion needs across multiple aspects of their lifestyles, including work, casual, jeanswear, and going-out occasions.

The third quarter of 2012 was a very challenging one for our Company where we realized a decrease in traffic, which led to negative comparable store sales and a decline in gross margin. In response to our diminished performance, we re-assorted our sweater offering, introduced entry price point fashion items in key categories, and communicated clearer pricing and promotions. While we remain cautious regarding our overall performance in the fourth quarter of 2012, we believe these actions, along with continued focus on our four growth pillars, will position us well for the future. Our growth strategies, and a summary of our execution of these strategies, is presented below.

Improve Sales and Margin of Our Existing Retail Stores

The results of this growth pillar did not meet our expectations during the third quarter. Net sales per average gross square foot was \$348 for the trailing 12 months ended October 27, 2012, down from \$355 for the trailing 12 months ended October 29, 2011, primarily driven by decreased traffic in our stores. Net sales per average gross square foot is determined by dividing net sales (excluding e-commerce sales, shipping and handling revenue related to e-commerce, gift card breakage, and royalties) for the period by average gross square feet during the period. Additionally, we continued to see increased promotional activity in order to sell through inventory, primarily in women's, which contributed to the lower margin. Despite a decrease in traffic, men's remained solid and performed well, achieving balanced growth across categories.

Expand Our Store Base

In the third quarter of 2012, we opened 7 new stores in the United States and 1 in Canada and closed 1 store in the United States, ending the quarter with 618 locations. For the remainder of 2012, we expect to open 8 additional stores, 5 in the United States and 3 in Canada, and to close 1 store in the United States. Additionally, we have plans for 2 flagship locations, 1 in San Francisco and 1 in New York, and currently expect both flagships to open prior to the 2013 holiday season. We expect these openings to result in approximately \$8.0 million of incremental pre-opening rent expense in 2012.

Expand Our e-Commerce Platform

In the third quarter of 2012, our e-commerce sales increased 21% over the third quarter of 2011. The growth in e-commerce sales was driven by increased sales of both men's and women's merchandise. E-commerce sales represented 12% of total net sales in the third quarter of 2012, and we continue to expect this channel to grow to 13-15% of total net sales.

Expand Internationally

We continue to focus on our international expansion plans with additional openings in the Middle East under our Development Agreement with Alshaya during the third quarter. At quarter end, we were earning royalties from 10 stores, a net increase of 3 stores from the second quarter of 2012. In addition, as previously announced, we have entered into 2 new franchise agreements, 1 in Mexico and 1 multi-country agreement covering certain other Latin American countries. We anticipate that we will have 3 stores operating under these new agreements by year end.

Our results to date are not necessarily indicative of the results to be expected for the full year. Such results could be impacted by a number of factors outside our control, including overall economic conditions in the United States, costs to procure and produce our product, and competitors' actions. See "Forward-Looking Statements" for additional factors.

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How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of performance and financial measures. These key measures include net sales, comparable sales and other individual store performance factors, gross profit and selling, general, and administrative expenses.

Net Sales. Net sales reflects revenues from the sale of our merchandise, less returns and discounts, as well as shipping and handling revenue related to e-commerce, gift card breakage, and royalties earned from the Development Agreement with Alshaya.

Comparable Sales and Other Individual Store Performance Factors. Comparable sales are calculated based upon stores that were open at least thirteen full months as of the end of the reporting period and also includes e-commerce sales. A store is not considered a part of the comparable sales base if the square footage of the store changed by more than 20% due to remodel or relocation activities. We also review sales per gross square foot, average unit retail price, units per transaction, dollars per transaction, traffic, and conversion, among other things, to evaluate the performance of individual stores. We also review sales per gross square foot on a company-wide basis.

Gross Profit. Gross profit is equal to net sales minus cost of goods sold, buying and occupancy costs. Gross margin measures gross profit as a percentage of net sales. Cost of goods sold, buying and occupancy costs includes the direct cost of purchased merchandise, inventory shrinkage, inventory adjustments, inbound freight to our distribution center, outbound freight to get merchandise from our distribution center to stores, merchandising, design, planning and allocation and manufacturing/production costs, occupancy costs related to store operations (such as rent and common area maintenance, utilities, and depreciation on assets), and all logistics costs associated with our e-commerce business.

Our cost of goods sold increases in higher volume quarters because the direct cost of purchased merchandise is tied to sales. Buying and occupancy costs are largely fixed and do not necessarily increase as volume increases. Changes in the mix of our products, such as changes in the proportion of accessories, which are generally higher margin, may also impact our overall cost of goods sold. We review our inventory levels on an on-going basis in order to identify slow-moving merchandise and generally use markdowns to clear such merchandise. The timing and level of markdowns are driven primarily by seasonality and customer acceptance of our merchandise. We use third-party vendors and company-owned outlet stores to dispose of marked-out-of-stock merchandise. We use third parties to source all of our inventory, with the primary drivers of the inventory costs being raw materials, labor in the countries where our merchandise is sourced, and logistics costs associated with transporting our merchandise.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses include all operating costs not included in cost of goods sold, buying and occupancy costs, with the exception of costs such as proceeds received from insurance claims and gain/loss on disposal of assets, which are included in other operating (income) expense, net. These costs include payroll and other expenses related to operations at our corporate home office, store expenses other than occupancy, and marketing expenses, which primarily include production, mailing, and print advertising costs. With the exception of store payroll and marketing, these expenses generally do not vary proportionally with net sales. As a result, selling, general, and administrative expenses as a percentage of net sales is usually higher in lower volume quarters and lower in higher volume quarters.

Results of Operations

The Third Quarter of 2012 Compared to the Third Quarter of 2011

The table below sets forth the various line items in the unaudited Consolidated Statements of Income and Comprehensive Income as a percentage of net sales for the third quarter of 2012 and the third quarter of 2011. Due to seasonal variations in the retail industry, the results of operations for any current period are not necessarily indicative of results expected for the full year or of future financial results. The seasonality of our operations may also lead to significant fluctuations in certain asset and liability accounts.

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	Percentage of Net Sales			
	Thirteen Weeks Ended		October 29, 2011	
	October 27, 2012		October 29, 2011	
Net sales	100	%	100	%
Cost of goods sold, buying and occupancy costs	68	%	64	%
Gross profit	32	%	36	%
Selling, general, and administrative expenses	25	%	24	%
Other operating (income) expense, net	—	%	—	%
Operating income	7	%	13	%
Interest expense	1	%	1	%
Interest income	—	%	—	%
Other income, net	—	%	—	%
Income before income taxes	6	%	11	%
Income tax expense	3	%	5	%
Net income	4	%	7	%
Net Sales				
	Thirteen Weeks Ended			
	October 27, 2012		October 29, 2011	
Net sales (in thousands)	\$468,527		\$486,784	
Comparable sales percentage (decrease) increase	(5	)%	5	%
Gross square footage at end of period (in thousands)	5,351		5,257	
Number of:				
Stores open at beginning of period	611		599	
New stores	8		8	
Closed stores	(1)	—	
Stores open at end of period	618		607	

Net sales decreased by approximately \$18.3 million, or 4%, from \$486.8 million in the third quarter of 2011 to \$468.5 million in the third quarter of 2012. Comparable sales decreased by \$24.6 million, or 5%, in the third quarter of 2012 compared to the third quarter of 2011. The comparable sales decrease was driven by decreases in both transactions and average dollar sales, partially offset by growth in e-commerce sales. We attribute the decrease in transactions to lower traffic in our stores and a lesser acceptance of product in certain women's categories. Non-comparable sales increased \$5.3 million, primarily driven by new store openings.

Gross Profit

The following table shows cost of sales and gross profit in dollars for the stated periods:

	Thirteen Weeks Ended	
	October 27, 2012	October 29, 2011
	(in thousands)	
Cost of goods sold, buying and occupancy costs	\$316,989	\$310,816
Gross profit	\$151,538	\$175,968

The 390 basis point decrease in gross margin, or gross profit as a percentage of net sales, in the third quarter of 2012 compared to the third quarter of 2011 was comprised of a 240 basis point increase in buying and occupancy costs and a 150 basis point deterioration in merchandise margin. The increase in buying and occupancy costs is primarily driven by increased rent, including the impact of pre-opening rent for the 2 flagship stores. The decrease in merchandise margin was primarily driven by increased promotional activity during the quarter.

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Selling, General, and Administrative Expenses

The following table shows selling, general, and administrative expenses in dollars for the stated periods:

	Thirteen Weeks Ended	
	October 27, 2012	October 29, 2011
	(in thousands)	
Selling, general, and administrative expenses	\$117,722	\$115,061

The \$2.7 million increase in selling, general, and administrative expenses in the third quarter of 2012 compared to the third quarter of 2011 was driven by a \$3.7 million increase in marketing expense, primarily related to a shift in timing for direct mail campaigns and a \$1.3 million increase in information technology expenses to support international expansion and e-commerce growth, partially offset by a decrease in incentive compensation expense.

Interest Expense

The following table shows interest expense in dollars for the stated periods:

	Thirteen Weeks Ended	
	October 27, 2012	October 29, 2011
	(in thousands)	
Interest expense	\$4,782	\$6,328

The \$1.5 million decrease in interest expense in the third quarter of 2012 compared to the third quarter of 2011 resulted primarily from a lower debt balance primarily due to the \$119.7 million prepayment of the Term Loan in the fourth quarter of 2011.

Income Tax Expense

The following table shows income tax expense in dollars for the stated periods:

	Thirteen Weeks Ended	
	October 27, 2012	October 29, 2011
	(in thousands)	
Income tax expense	\$12,314	\$22,025

The effective tax rate was 41.4% for the third quarter of 2012 compared to 40.3% for the third quarter of 2011.

Results of Operations

The Thirty-Nine Weeks Ended October 27, 2012 Compared to the Thirty-Nine Weeks Ended October 29, 2011

The table below sets forth the various line items in the unaudited Consolidated Statements of Income and Comprehensive Income as a percentage of net sales for the thirty-nine weeks ended October 27, 2012 and the thirty-nine weeks ended October 29, 2011. Due to seasonal variations in the retail industry, the results of operations for any current period are not necessarily indicative of results expected for the full year or of future financial results. The seasonality of our operations may also lead to significant fluctuations in certain asset and liability accounts.

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Percentage of Net Sales
Thirty-Nine Weeks Ended
October 27, 2012 October 29, 2011

Net sales