EXPRESS, INC.
Form 10-Q
June 06, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended May 4, 2013
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ______ TO ______
Commission File Number 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	43230
(Address of principal executive offices)	(Zip Code)

Telephone: (614) 474-4001
(Registrant’s telephone number, including area code)

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

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
The number of outstanding shares of the registrant’s common stock was 85,406,418 as of May 31, 2013.

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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;
- our reliance on third parties 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 and our ability to pay dividends;
- 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 February 2, 2013 ("Annual Report"), filed with the Securities and Exchange Commission (“SEC”) on April 2, 2013. 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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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.

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

	May 4, 2013	February 2, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$244,214	$256,297
Receivables, net	10,773	11,024
Inventories	226,329	215,082
Prepaid minimum rent	25,362	25,166
Other	9,850	8,293
Total current assets	516,528	515,862
PROPERTY AND EQUIPMENT	650,899	625,344
Less: accumulated depreciation	(354,879)	(346,975)
Property and equipment, net	296,020	278,369
TRADENAME/DOMAIN NAME	197,734	197,719
DEFERRED TAX ASSETS	16,808	16,808
OTHER ASSETS	9,773	10,441
Total assets	$1,036,863	$1,019,199
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$158,394	$176,125
Deferred revenue	22,117	27,851
Accrued bonus	468	336
Accrued expenses	94,857	108,464
Total current liabilities	275,836	312,776
LONG-TERM DEBT	198,923	198,843
OTHER LONG-TERM LIABILITIES	154,497	136,418
Total liabilities	629,256	648,037
COMMITMENTS AND CONTINGENCIES (Note 11)		
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; 89,586 shares and 89,322 shares issued at May 4, 2013 and February 2, 2013, respectively, and 85,390 shares and 85,224 shares outstanding at May 4, 2013 and February 2, 2013, respectively	896	893

Additional paid-in capital	110,732	105,012
Accumulated other comprehensive gain (loss)	50	(20)
Retained earnings	364,358	331,921
Treasury stock – at average cost; 4,196 shares and 4,098 shares at May 4, 2013 and February 2, 2013, respectively	(68,429)	(66,644)
Total stockholders' equity	407,607	371,162
Total liabilities and stockholders' equity	$1,036,863	$1,019,199

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	
	May 4, 2013	April 28, 2012
NET SALES	$508,524	$495,952
COST OF GOODS SOLD, BUYING AND OCCUPANCY COSTS	337,747	307,185
Gross profit	170,777	188,767
OPERATING EXPENSES:		
Selling, general, and administrative expenses	112,623	114,195
Other operating (income) expense, net	(540)	15
Total operating expenses	112,083	114,210
OPERATING INCOME	58,694	74,557
INTEREST EXPENSE, NET	4,805	4,782
OTHER EXPENSE (INCOME), NET	229	(208)
INCOME BEFORE INCOME TAXES	53,660	69,983
INCOME TAX EXPENSE	21,223	27,910
NET INCOME	$32,437	$42,073
OTHER COMPREHENSIVE INCOME:		
Foreign currency translation gain (loss)	70	(78)
COMPREHENSIVE INCOME	$32,507	$41,995
EARNINGS PER SHARE:		
Basic	$0.38	$0.47
Diluted	$0.38	$0.47
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	85,095	88,846
Diluted	85,490	89,310

See notes to unaudited consolidated financial statements.

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

	Thirteen Weeks Ended	
	May 4, 2013	April 28, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$32,437	$42,073
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,441	17,049
Loss on disposal of property and equipment	64	17
Excess tax benefit from share-based compensation	(1)	(273)
Share-based compensation	5,011	3,856
Deferred taxes	—	(188)
Changes in operating assets and liabilities:		
Receivables, net	287	(263)
Inventories	(11,296)	12,468
Accounts payable, deferred revenue, and accrued expenses	(44,776)	(32,333)
Other assets and liabilities	6,194	3,216
Net cash provided by operating activities	5,361	45,622
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(16,853)	(16,932)
Purchase of intangible assets	—	(185)
Net cash used in investing activities	(16,853)	(17,117)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligation	(15)	(13)
Excess tax benefit from share-based compensation	1	273
Proceeds from share-based compensation	1,082	623
Repurchase of common stock	(1,785)	(1,349)
Net cash used in financing activities	(717)	(466)
EFFECT OF EXCHANGE RATE ON CASH	126	38
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(12,083)	28,077
CASH AND CASH EQUIVALENTS, Beginning of period	256,297	152,362
CASH AND CASH EQUIVALENTS, End of period	$244,214	$180,439

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., together with its subsidiaries ("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 May 4, 2013, Express operated 620 primarily mall-based stores in the United States, Canada, and Puerto Rico. Additionally, the Company earned revenue from 18 franchise stores. These franchise stores are operated by franchisees pursuant to franchise agreements covering the Middle East, Mexico, and certain other Latin American countries. Under the franchise agreements, the franchisees operate 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. References herein to "2013" and "2012" represent the 52-week period ended February 1, 2014 and the 53-week period ended February 2, 2013, respectively. All references herein to “the first quarter of 2013” and “the first quarter of 2012” represent the thirteen weeks ended May 4, 2013 and April 28, 2012, 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 state 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 2013. Therefore, these statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the year ended February 2, 2013, included in the Company's Annual Report on Form 10-K, filed with the SEC on April 2, 2013.

Principles of Consolidation

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period, as well as the related disclosure of contingent assets and liabilities as of the date of the Consolidated Financial Statements. Actual results may differ from those estimates. The Company revises its estimates and assumptions as new information becomes available.

Reclassifications

Certain prior period amounts have been reclassified or adjusted to conform to the current year presentation.

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

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and that there is 1 operating segment. Therefore, the Company reports results as a single segment, which includes the operation of its Express brick-and-mortar retail stores, e-commerce operations, and international operations.

The following is information regarding the Company's sales channels:

	Thirteen Weeks Ended	
	May 4, 2013	April 28, 2012
	(in thousands)	
Stores	$430,557	$443,446
E-commerce	70,722	47,876
Other revenue	7,245	4,630
Total net sales	$508,524	$495,952

Other revenue consists primarily of shipping and handling revenue related to e-commerce activity, gift card breakage, and revenue from franchise agreements.

Revenues and long-lived assets relating to the Company's international operations for the thirteen weeks ended May 4, 2013 and April 28, 2012 and as of May 4, 2013 and February 2, 2013, respectively, were not material and, therefore, not reported separately from domestic revenues and 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	
	May 4, 2013	April 28, 2012
	(in thousands)	
Weighted-average shares - basic	85,095	88,846
Dilutive effect of stock options, restricted stock units, and restricted stock	395	464
Weighted-average shares - diluted	85,490	89,310

Equity awards representing 2.8 million and 2.0 million shares of common stock were excluded from the computation of diluted earnings per share for the thirteen weeks ended May 4, 2013 and April 28, 2012, respectively, as the effects of the awards would have been anti-dilutive.

Additionally, for the thirteen weeks ended May 4, 2013 and April 28, 2012, there were 0.5 million and 0.3 million shares, respectively, 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. 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.

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.

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The following table presents the Company's assets measured at fair value on a recurring basis as of May 4, 2013 and February 2, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall.

	May 4, 2013		
	Level 1	Level 2	Level 3
	(in thousands)		
U.S. treasury securities money market funds	$220,104	$—	$—

	February 2, 2013		
	Level 1	Level 2	Level 3
	(in thousands)		
U.S. treasury securities money market funds	$236,086	$—	$—

The carrying amounts reflected on the unaudited Consolidated Balance Sheets for cash, cash equivalents, receivables, prepaid expenses, and payables as of May 4, 2013 and February 2, 2013 approximated their fair values.

5. Intangible Assets

The following table provides the significant components of intangible assets:

	May 4, 2013		
	Cost	Accumulated Amortization	Ending Net Balance
	(in thousands)		
Tradename	$196,144	$—	$196,144
Internet domain name/other	1,590	—	1,590
Net favorable lease obligations	19,750	18,116	1,634
	$217,484	$18,116	$199,368

	February 2, 2013		
	Cost	Accumulated Amortization	Ending Net Balance
	(in thousands)		
Tradename	$196,144	$—	$196,144
Internet domain name/other	1,575	—	1,575
Net favorable lease obligations	19,750	17,811	1,939
	$217,469	$17,811	$199,658

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 represent 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 $0.3 million and $0.4 million during the thirteen weeks ended May 4, 2013 and April 28, 2012, respectively.

6. Related Party Transactions

The transactions described in this note are transactions between the Company and entities affiliated with Golden Gate Private Equity, Inc. ("Golden Gate"). Prior to July 2007, the Company operated as a division of L Brands, Inc. ("L Brands"). In July 2007, a Golden Gate affiliate acquired approximately 75% of the outstanding equity interests in the Company from L Brands, and the Company began its transition to a stand-alone company. In May 2010, the Company completed an Initial Public Offering ("IPO") whereby Golden Gate and L Brands sold a portion of their shares. Following the IPO, both Golden Gate and L Brands gradually reduced their ownership interest in the Company. On July 29, 2011, L Brands disposed of its remaining

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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 Company's Board of Directors ("Board"). As a result, Golden Gate ceased to be a related party as of June 1, 2012. The related party activity with Golden Gate affiliates described in this note includes only expenses incurred and income earned through the date which Golden Gate ceased to be a related party.

Transactions with Other Golden Gate Affiliates

The Company transacts with Golden Gate affiliates for e-commerce warehouse and fulfillment services, software license purchases, and consulting and software maintenance services.

The Company incurred the following charges from Golden Gate affiliates 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 April 28, 2012 (in thousands)
E-commerce warehouse and fulfillment	$6,750
Software licenses and consulting and software maintenance services	$40

The Company provides real estate services to certain Golden Gate affiliates. Income recognized during the thirteen weeks ended April 28, 2012 was $0.1 million.

Interest expense incurred on the 8 3/4% Senior Notes attributable to the $40.0 million of Senior Notes previously owned by a Golden Gate affiliate was $0.2 million during the thirteen weeks ended April 28, 2012.

7. 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 and foreign tax credit carryovers. The Company's effective tax rate was 39.6% and 39.9% for the thirteen weeks ended May 4, 2013 and April 28, 2012, respectively.

8. 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. Therefore, the Company records an asset in property and equipment on the unaudited Consolidated Balance Sheets, including any capitalized interest costs, and related liabilities in accrued interest and lease financing obligation in other long-term liabilities on the unaudited Consolidated Balance Sheets, for the replacement cost of the Company's portion of the pre-existing building plus the amount of construction-in-progress incurred by the landlord as of the balance sheet date. 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 unaudited Consolidated Balance Sheets at their historical cost, and such assets are depreciated over their remaining useful lives. The replacement cost of the pre-existing building, as well as the costs of construction paid by the landlord, are recorded as lease financing obligations, and a portion of the lease payments are applied as payments of principal and interest. The interest rate selected for lease financing obligations is evaluated at lease inception based on the Company's incremental borrowing rate. At the end of the initial lease term, should the Company decide not to renew the lease, the Company would reverse equal amounts of the net book value of the assets and the corresponding lease financing obligations. The initial lease terms related to these lease arrangements are expected to expire in 2023 and 2029. As of May 4, 2013 and February 2, 2013, the Company has recorded $26.7 million and $16.2 million, respectively, of construction-in-progress, with a corresponding amount to lease financing obligations, each of which is reflected in the unaudited Consolidated Balance Sheets. These assets and liabilities are classified as non-cash items for purposes of the unaudited Consolidated Statements of Cash Flow.

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Rent expense relating to the land is recognized on a straight-line basis once construction begins. Once the store opens, 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 rent payment under the lease will be recognized as a reduction of the lease financing obligations and as interest expense.

9. Debt
Borrowings outstanding consisted of the following:

	May 4, 2013	February 2, 2013
	(in thousands)	
8 3/4% Senior Notes	$200,850	$200,850
Debt discount on Senior Notes	(1,927)	(2,007)
Total long-term debt	$198,923	$198,843

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 Credit Facility ("Revolving Credit Facility"). As of May 4, 2013, 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' 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.

Prior to March 1, 2014, the Senior Notes may be redeemed in part or in full at a redemption price equal to the principal amount plus a make-whole premium, calculated in accordance with the indenture governing the Senior Notes, and accrued and unpaid interest. On or after March 1, 2014, the Senior Notes may be redeemed in part or in full at the following percentages of the outstanding principal amount prepaid: 104.38% prior to March 1, 2015; 102.19% on or after March 1, 2015, but prior to March 1, 2016; and at the principal amount on or after March 1, 2016.

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's 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.

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 May 4, 2013, the estimated fair value of the Senior Notes was $218.2 million.

Letters of Credit

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The Company may enter 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 May 4, 2013 and February 2, 2013, there were no outstanding trade LCs. Additionally, the Company enters into stand-by letters of credit ("stand-by LCs") on an as-need basis to secure merchandise and fund other general and administrative costs. As of May 4, 2013 and February 2, 2013, outstanding stand-by LCs totaled $2.1 million.

10. Share-Based Compensation

The Company records the fair value of share-based payments to employees in the unaudited Consolidated Statements of Income and Comprehensive Income as compensation expense, net of forfeitures, over the requisite service period.

Share-based Compensation Plans

The following summarizes our share-based compensation expense:

	Thirteen Weeks Ended	
	May 4, 2013	April 28, 2012
	(in thousands)	
Restricted stock units and restricted stock	$2,778	$1,948
Stock options	2,232	1,898
Restricted shares (equity issued pre-IPO)	1	10
Total share-based compensation	$5,011	$3,856

The stock compensation related income tax benefit recognized by the Company during the thirteen weeks ended May 4, 2013 and April 28, 2012 was $1.9 million and $1.5 million, respectively.

Stock Options

During the thirteen weeks ended May 4, 2013, the Company granted stock options under the Amended and Restated 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 later in this note. 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 thirteen weeks ended May 4, 2013 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, February 2, 2013	3,092	$18.99		
Granted	612	$17.49		
Exercised	(62)	$16.98		
Forfeited or expired	(68)	$19.45		
Outstanding, May 4, 2013	3,574	$18.76	8.1	$3,127
Expected to vest at May 4, 2013	2,095	$18.85	8.4	$2,025
Exercisable at May 4, 2013	1,397	$18.62	7.6	$1,014

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

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	Thirteen Weeks Ended	
	May 4, 2013	April 28, 2012
	(in thousands, except per share amounts)	
Weighted average grant date fair value of options granted	$9.27	$13.47
Total intrinsic value of options exercised	$93	$267

As of May 4, 2013, there was approximately $17.5 million of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted-average period of approximately 1.7 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:

	Thirteen Weeks Ended			
	May 4, 2013		April 28, 2012	
Risk-free interest rate (1)	1.06	%	1.14	%
Price Volatility (2)	56.0	%	55.9	%
Expected term (years) (3)	6.19		6.16	
Dividend yield (4)	—		—	

(1) Represents the yield on U.S. Treasury securities with a term consistent with the expected term of the stock options.

(2) For the first 2 years following the Company's IPO, this was based on the historical volatility of selected comparable companies over a period consistent with the expected term of the stock options because the Company had a limited history of being publicly traded. Comparable companies were selected primarily based on industry, stage of life cycle, and size. Beginning with the second anniversary of the IPO in May 2012, 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 Staff Accounting Bulletin No. 107 due to the lack of historical exercise data necessary to provide a reasonable basis upon which to estimate the term.

(4) The Company does not currently plan on paying regular dividends.

Restricted Stock Units and Restricted Stock

During the thirteen weeks ended May 4, 2013, the Company granted restricted stock units (“RSUs”) under the 2010 Plan, including 0.5 million RSUs with performance conditions. The fair value of the RSUs is determined based on the Company's stock price on the grant date. The expense for RSUs is recognized using the straight-line attribution method, except for RSUs with performance conditions, for which the graded vesting method is used. The RSUs with performance conditions are also subject to time-based vesting with requisite service periods of 2 years for the Chief Executive Officer and 3 years for other employees. RSUs without performance conditions vest ratably over 4 years.

The Company's activity with respect to RSUs and restricted stock for the thirteen weeks ended May 4, 2013 was as follows:

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	Number of Shares	Grant Date Weighted Average Fair Value
	(in thousands, except per share amounts)	
Unvested, February 2, 2013	1,218	$21.49
Granted	839	$17.49
Vested	(273)	$21.33
Forfeited	(53)	$20.99
Unvested, May 4, 2013	1,731	$19.00

The total fair value/intrinsic value of RSUs and restricted stock that vested was $5.8 million during the thirteen weeks ended May 4, 2013. As of May 4, 2013, there was approximately $25.6 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 1.9 years.

11. 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 sought unspecified monetary damages and attorneys' fees. In March 2012, the court granted conditional collective action certification.

To avoid the expense and uncertainty of further litigation with respect to this matter, in January 2013, the Company entered into a settlement agreement to resolve all wage and hour claims that were asserted or could have been asserted by the plaintiffs and other similarly situated employees and former employees who opted-in to the collective action. The settlement was subsequently approved by the court in the first quarter of 2013. Under the terms of the approved settlement, the Company will pay approximately $0.4 million in the aggregate to (i) plaintiffs and other employees and former employees who opted-in to the collective action, and (ii) certain legal fees and expenses on behalf of the plaintiffs and other employees and former employees who opted-in to the collective action. As of May 4, 2013, the unaudited Consolidated Balance Sheets included a reserve for the settlement amount, which is expected to be paid out by August 2013.

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.

12. Guarantor Subsidiaries

On March 5, 2010, Express, LLC and Express Finance (the “Subsidiary Issuers”), both wholly-owned indirect subsidiaries of Express, Inc., issued the Senior Notes. Express, Inc. (“Guarantor”) and certain of its indirect 100% owned subsidiaries (“Guarantor Subsidiaries”) have guaranteed, on a joint and several basis, the 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 consolidating 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)

	May 4, 2013					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Assets						
Current assets						
Cash and cash equivalents	$1,974	$218,329	$22,831	$1,080	$—	$244,214
Receivables, net	—	5,282	3,727	1,764	—	10,773
Inventories	—	12,919	209,993	3,417	—	226,329
Prepaid minimum rent	—	471	23,828	1,063	—	25,362
Intercompany loan receivable	—	20,556	—	—	(20,556)	—
Intercompany receivable	—	—	103,431	5,783	(109,214)	—
Other	57	5,712	3,960	121	—	9,850
Total current assets	2,031	263,269	367,770	13,228	(129,770)	516,528
Property and equipment, net	—	36,243	243,737	16,040	—	296,020
Tradename/domain name	—	197,734	—	—	—	197,734
Investment in subsidiary	404,441	393,189	—	398,657	(1,196,287)	—
Deferred tax assets	738	10,369	5,701	—	—	16,808
Other assets	—	7,375	2,392	6	—	9,773
Total assets	$407,210	$908,179	$619,600	$427,931	$(1,326,057)	$1,036,863
Liabilities and stockholders' equity						
Current liabilities						
Accounts payable	$—	$154,929	$2,782	$683	$—	$158,394
Deferred revenue	—	1,168	20,841	108	—	22,117
Accrued bonus	—	—	428	40	—	468
Accrued expenses	(655)	15,458	79,041	1,013	—	94,857
Intercompany payable	—	109,214	—	—	(109,214)	—
Intercompany loan payable	—	—	—	20,556	(20,556)	—
Total current liabilities	(655)	280,769	103,092	22,400	(129,770)	275,836
Long-term debt	—	198,923	—	—	—	198,923
Other long-term liabilities	258	29,830	118,423	5,986	—	154,497
Total liabilities	(397)	509,522	221,515	28,386	(129,770)	629,256
Commitments and Contingencies (Note 11)						
Total stockholders' equity	407,607	398,657	398,085	399,545	(1,196,287)	407,607
Total liabilities and stockholders' equity	$407,210	$908,179	$619,600	$427,931	$(1,326,057)	$1,036,863

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

	February 2, 2013					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Assets						
Current assets						
Cash and cash equivalents	$938	$230,174	$22,924	$2,261	$—	$256,297
Receivables, net	—	5,612	3,147	2,265	—	11,024
Inventories	—	13,597	198,094	3,391	—	215,082
Prepaid minimum rent	—	451	23,697	1,018	—	25,166
Intercompany loan receivable	—	20,754	—	—	(20,754)	—
Intercompany receivable	—	—	98,304	5,783	(104,087)	—
Other	—	5,085	3,162	46	—	8,293
Total current assets	938	275,673	349,328	14,764	(124,841)	515,862
Property and equipment, net	—	46,913	215,829	15,627	—	278,369
Tradename/domain name	—	197,719	—	—	—	197,719
Investment in subsidiary	369,140	371,084	—	363,356	(1,103,580)	—
Deferred tax assets	738	10,369	5,701	—	—	16,808
Other assets	—	7,710	2,727	4	—	10,441
Total assets	$370,816	$909,468	$573,585	$393,751	$(1,228,421)	$1,019,199
Liabilities and stockholders' equity						
Current liabilities						
Accounts payable	$—	$173,395	$1,132	$1,598	$—	$176,125
Deferred revenue	—	1,223	26,507	121	—	27,851
Accrued bonus	—	—	334	2	—	336
Accrued expenses	(346)	34,490	72,963	1,357	—	108,464
Intercompany payable	—	104,087	—	—	(104,087)	—
Intercompany loan payable	—	—	—	20,754	(20,754)	—
Total current liabilities	(346)	313,195	100,936	23,832	(124,841)	312,776
Long-term debt	—	198,843	—	—	—	198,843
Other long-term liabilities	—	34,074	96,706	5,638	—	136,418
Total liabilities	(346)	546,112	197,642	29,470	(124,841)	648,037
Commitments and Contingencies (Note 11)						
Total stockholders' equity	371,162	363,356	375,943	364,281	(1,103,580)	371,162
Total liabilities and stockholders' equity	$370,816	$909,468	$573,585	$393,751	$(1,228,421)	$1,019,199

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EXPRESS, INC.
CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

	Thirteen Weeks Ended May 4, 2013					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Net sales	$—	$227,992	$496,902	$6,862	$(223,232)	$508,524
Cost of goods sold, buying and occupancy costs	—	151,571	405,116	4,315	(223,255)	337,747
Gross profit	—	76,421	91,786	2,547	23	170,777
Selling, general, and administrative expenses	112	38,294	71,804	2,412	1	112,623
Other operating expense (income), net	—	—	(562)	—	22	(540)
Operating income (loss)	(112)	38,127	20,544	135	—	58,694
Interest expense, net	—	5,262	(469)	12	—	4,805
(Income) loss in subsidiary	(32,505)	(12,614)	—	(32,505)	77,624	—
Other expense (income), net	—	—	—	229	—	229
Income (loss) before income taxes	32,393	45,479	21,013	32,399	(77,624)	53,660
Income tax expense (benefit)	(44)	12,974	8,293	—	—	21,223
Net income (loss)	$32,437	$32,505	$12,720	$32,399	$(77,624)	$32,437
Foreign currency translation gain (loss)	70	70	—	140	(210)	70
Comprehensive income	$32,507	$32,575	$12,720	$32,539	$(77,834)	$32,507

EXPRESS, INC.
CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

	Thirteen Weeks Ended April 28, 2012					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Net sales	$—	$298,049	$492,453	$3,111	$(297,661)	$495,952
Cost of goods sold, buying and occupancy costs	—	198,995	402,042	3,696	(297,548)	307,185
Gross profit	—	99,054	90,411	(585)	(113)	188,767
Selling, general, and administrative expenses	270	43,107	69,646	1,285	(113)	114,195
Other operating expense (income), net	—	1,509	17	(1,511)	—	15
Operating income (loss)	(270)	54,438	20,748	(359)	—	74,557
Interest expense, net	—	4,696	—	86	—	4,782
(Income) loss in subsidiary	(42,343)	26,784	—	(42,343)	57,902	—
Other expense (income), net	—	—	—	(208)	—	(208)
Income (loss) before income taxes	42,073	22,958	20,748	42,106	(57,902)	69,983
Income tax expense (benefit)	—	(19,385)	47,295	—	—	27,910
Net income (loss)	$42,073	$42,343	$(26,547)	$42,106	$(57,902)	$42,073
	(78)	(78)	—	(156)	234	(78)

Foreign currency translation gain (loss)						
Comprehensive income	$41,995	$42,265	$(26,547)	$41,950	$(57,668)	$41,995

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EXPRESS, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Thirteen Weeks Ended May 4, 2013					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Operating Activities						
Net cash provided by (used in) operating activities	$1,739	$(5,805)	$9,120	$307	$—	$5,361
Investing Activities						
Capital expenditures	—	(6,224)	(9,213)	(1,416)	—	(16,853)
Net cash provided by (used in) investing activities	—	(6,224)	(9,213)	(1,416)	—	(16,853)
Financing Activities						
Payments on capital lease obligation	—	(15)	—	—	—	(15)
Excess tax benefit from share-based compensation	—	1	—	—	—	1
Proceeds from share-based compensation	1,082	—	—	—	—	1,082
Repayment of intercompany loan	—	1,972	—	(1,972)	—	—
Borrowings under intercompany loan	—	(1,774)	—	1,774	—	—
Repurchase of common stock	(1,785)	—	—	—	—	(1,785)
Net cash provided by (used in) financing activities	(703)	184	—	(198)	—	(717)
Effect of exchange rate on cash	—	—	—	126	—	126
Net increase (decrease) in cash and cash equivalents	1,036	(11,845)	(93)	(1,181)	—	(12,083)
Cash and cash equivalents, beginning of period	938	230,174	22,924	2,261	—	256,297
Cash and cash equivalents, end of period	$1,974	$218,329	$22,831	$1,080	$—	$244,214

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EXPRESS, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Thirteen Weeks Ended April 28, 2012					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Operating Activities						
Net cash provided by (used in) operating activities	$(32)	$33,335	$12,242	$77	$—	$45,622
Investing Activities						
Capital expenditures	—	(3,780)	(13,369)	217	—	(16,932)
Purchase of intangible assets	—	(185)	—	—	—	(185)
Net cash provided by (used in) investing activities	—	(3,965)	(13,369)	217	—	(17,117)
Financing Activities						
Payments on capital lease obligation	—	(13)	—	—	—	(13)
Excess tax benefit from share-based compensation	—	273	—	—	—	273
Proceeds from share-based compensation	623	—	—	—	—	623
Repayment of intercompany loan	—	140				