EXPRESS, INC.
Form 10-Q
September 02, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended July 30, 2011
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 such registrants were 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. (Check one):

Large accelerated filer	o	Accelerated filer	o

Non-accelerated filer x (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 88,701,756 as of August 30, 2011.

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FORWARD-LOOKING STATEMENTS

This 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," "can have," "likely" and oth 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 used to manufacture our products;
- interruptions of the flow of our 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 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;
- impairment charges on long-lived assets;
- our failure to maintain adequate internal controls;
- increased costs as a result of being a public company; and
- potential conflicts of interest with our principal stockholder.

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 29, 2011, filed with the Securities and Exchange Commission (“SEC”) on March 22, 2011. 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)

	July 30, 2011	January 29, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$144,552	$187,762
Receivables, net	8,716	9,908
Inventories	207,430	185,209
Prepaid minimum rent	22,399	22,284
Other	34,234	22,130
Total current assets	417,331	427,293
PROPERTY AND EQUIPMENT	484,503	448,109
Less: accumulated depreciation	(265,342)	(236,790)
Property and equipment, net	219,161	211,319
TRADENAME/DOMAIN NAME	197,474	197,414
DEFERRED TAX ASSETS	5,513	5,513
OTHER ASSETS	17,254	21,210
Total assets	$856,733	$862,749
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$166,314	$85,843
Deferred revenue	15,415	25,067
Accrued bonus	10,992	14,268
Accrued expenses	82,098	91,792
Accounts payable and accrued expenses – related parties	3,890	79,865
Total current liabilities	278,709	296,835
LONG-TERM DEBT	317,149	366,157
OTHER LONG-TERM LIABILITIES	78,238	69,595
Total liabilities	674,096	732,587
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; 88,761 shares and 88,736 shares issued at July 30, 2011 and January 29, 2011, respectively and	888	887

88,702 shares and 88,696 shares outstanding at July 30, 2011 and January 29, 2011, respectively		
Additional paid-in capital	82,263	77,318
Accumulated other comprehensive loss	(2)	—
Retained earnings	99,590	51,957
Treasury stock – at average cost; 59 shares and 40 shares at July 30, 2011 and January 29, 2011, respectively	(102)	—
Total stockholders' equity	182,637	130,162
Total liabilities and stockholders' equity	$856,733	$862,749

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		Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
NET SALES	$446,041	$407,277	$913,418	$833,739
COST OF GOODS SOLD, BUYING, AND OCCUPANCY COSTS	296,209	277,260	585,272	546,516
Gross profit	149,832	130,017	328,146	287,223
OPERATING EXPENSES:				
Selling, general, and administrative expenses	117,682	110,936	227,175	213,846
Other operating expense (income), net	402	14,031	(200)	17,045
Total operating expenses	118,084	124,967	226,975	230,891
OPERATING INCOME	31,748	5,050	101,171	56,332
INTEREST EXPENSE	10,510	23,349	21,515	44,129
INTEREST INCOME	(2)	(1)	(5)	(11)
OTHER INCOME, NET	—	(1,474)	—	(1,906)
INCOME (LOSS) BEFORE INCOME TAXES	21,240	(16,824)	79,661	14,120
INCOME TAX EXPENSE (BENEFIT)	8,620	(38,938)	32,028	(38,555)
NET INCOME	$12,620	$22,114	$47,633	$52,675
OTHER COMPREHENSIVE LOSS:				
Foreign currency translation adjustments	(2)	—	(2)	—
COMPREHENSIVE INCOME	$12,618	$22,114	$47,631	$52,675
Pro forma (loss) income before income taxes (Note 11)		$(16,824)		$14,120
Pro forma income tax (benefit) expense (Note 11)		(7,131)		5,525
Pro forma net (loss) income (Note 11)		$(9,693)		$8,595
EARNINGS PER SHARE:				
Basic	$0.14	$0.25	$0.54	$0.64
Diluted	$0.14	$0.25	$0.54	$0.63
WEIGHTED AVERAGE SHARES OUTSTANDING (Note 1):				
Basic	88,583	88,254	88,538	82,362
Diluted	88,860	88,694	88,805	83,418
PRO FORMA (LOSS) EARNINGS PER SHARE (Note 11):				
Basic		$(0.11)		$0.10
Diluted		$(0.11)		$0.10

PRO FORMA WEIGHTED AVERAGE SHARES OUTSTANDING (Note 11):		
Basic	88,254	82,362
Diluted	88,694	83,418

See notes to unaudited consolidated financial statements.

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

	Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$47,633	$52,675
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,557	34,429
Loss on disposal of property and equipment	56	633
Change in fair value of interest rate swap	—	(1,906)
Share-based compensation	4,753	3,570
Non-cash loss on extinguishment of debt	2,744	8,781
Deferred taxes	—	(32,389)
Changes in operating assets and liabilities:		
Receivables, net	1,192	(1,675)
Inventories	(22,221)	(12,551)
Accounts payable, deferred revenue, and accrued expenses	(22,682)	75
Accounts payable and accrued expenses – related parties	369	(2,649)
Other assets and liabilities	(5,149)	(7,204)
Net cash provided by operating activities	41,252	41,789
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(33,553)	(28,181)
Purchase of intangible assets	(60)	—
Net cash used in investing activities	(33,613)	(28,181)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under Senior Notes	—	246,498
Net proceeds from equity offering	—	166,898
Repayments of long-term debt arrangements	(49,775)	(300,625)
Costs incurred in connection with debt arrangements and Senior Notes	(1,161)	(11,986)
Costs incurred in connection with equity offering	—	(6,498)
Proceeds from share-based compensation	191	—
Repurchase of common stock	(102)	—
Repayment of notes receivable	—	5,633
Distributions	—	(261,000)
Net cash used in financing activities	(50,847)	(161,080)
EFFECT OF EXCHANGE RATES ON CASH	(2)	—
NET DECREASE IN CASH AND CASH EQUIVALENTS	(43,210)	(147,472)
CASH AND CASH EQUIVALENTS, Beginning of period	187,762	234,404
CASH AND CASH EQUIVALENTS, End of period	$144,552	$86,932

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. (the "Company" or "Express") 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 the Company's retail stores and website. As of July 30, 2011, Express operated 599 primarily mall-based stores in the United States and in Puerto Rico. Additionally, the Company earns royalties from 7 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 "2011" and "2010" represent the 52-week periods ended January 28, 2012 and January 29, 2011, respectively. All references herein to “the second quarter of 2011” and “the second quarter of 2010” represent the thirteen weeks ended July 30, 2011 and July 31, 2010, respectively.

Basis of Presentation

In connection with the initial public offering of the Company's common stock ("IPO"), on May 12, 2010, Express Parent LLC ("Express Parent") converted into a Delaware corporation and changed its name from Express Parent LLC to Express, Inc. This conversion was effective May 2, 2010 for tax purposes. In connection with this conversion, all of the equity interests in Express Parent, which consisted of Class L, Class A, and Class C units, were converted into shares of the Company's common stock at a ratio of 0.702, 0.649, and 0.442, respectively. The accounting effects of the recapitalization, collectively referred to as the "Reorganization", are reflected retrospectively for all periods presented in the unaudited Consolidated Financial Statements.

Express owns all of the outstanding equity interests in Express Topco LLC ("Express Topco") which owns all of the outstanding equity interests in Express Holding LLC ("Express Holding"). Express Holding owns all of the outstanding equity interests in Express, LLC and Express Finance Corp. ("Express Finance"). Express, LLC conducts the operations of the Company and was a division of Limited Brands, Inc. ("Limited Brands") until it was acquired by an affiliate of Golden Gate Private Equity, Inc. ("Golden Gate") in 2007 (the "Golden Gate Acquisition"). Express Finance was formed on January 28, 2010 for the purpose of serving as co-issuer of the 8 3/4% Senior Notes ("Senior Notes") described in Note 9.

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 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 2011. Therefore, these statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the year ended January 29, 2011, included in the Company's Annual Report on Form 10-K, 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. Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” ASU No. 2011-04 clarifies and changes the application of various fair value measurement principles and disclosure requirements, and will be effective for the Company in the first quarter of 2012. The Company has assessed the updated guidance and expects adoption to have no impact on its consolidated financial position or

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results of operations.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." ASU No. 2011-05 requires presentation of the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements and eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU No. 2011-05 will be effective for the Company in the first quarter of 2012. The Company has assessed the guidance and expects adoption to have no impact on its consolidated financial position or results of operations.

3. Segment Reporting

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

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
Classes:	(in thousands)		(in thousands)	
Apparel	$403,272	$367,811	$826,448	$752,794
Accessories and other	37,331	35,622	77,154	73,353
Other revenue	5,438	3,844	9,816	7,592
Total net sales	$446,041	$407,277	$913,418	$833,739

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
Channels:	(in thousands)		(in thousands)	
Stores	$402,503	$376,104	$827,970	$771,543
E-commerce	38,100	27,329	75,632	54,604
Other revenue	5,438	3,844	9,816	7,592
Total net sales	$446,041	$407,277	$913,418	$833,739

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

4. Earnings Per Share

The weighted-average shares used to calculate basic and diluted net income per share for the thirteen and twenty-six weeks ended July 31, 2010 have been retroactively adjusted based on the Reorganization (see Note 1).
The following table provides a reconciliation between basic and diluted net income per share:

	Thirteen Weeks Ended July 30, 2011			Thirteen Weeks Ended July 31, 2010		
(in thousands, except per share amounts)	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic EPS	$12,620	88,583	$0.14	$22,114	88,254	$0.25
Effect of dilutive securities:						
Restricted shares, restricted stock units, and stock options	—	277	—	—	440	—
Diluted EPS	$12,620	88,860	$0.14	$22,114	88,694	$0.25

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(in thousands, except per share amounts)	Twenty-Six Weeks Ended July 30, 2011 Net Income	Weighted Average Shares	Per Share Amount	Twenty-Six Weeks Ended July 31, 2010 Net Income	Weighted Average Shares	Per Share Amount
Basic EPS	$47,633	88,538	$0.54	$52,675	82,362	$0.64
Effect of dilutive securities:						
Restricted shares, restricted stock units, and stock options	—	267	—	—	1,056	(0.01)
Diluted EPS	$47,633	88,805	$0.54	$52,675	83,418	$0.63

Stock options and restricted stock units to purchase 2.4 million and 2.3 million shares of common stock were not included in the computation of diluted EPS for the thirteen and twenty-six weeks ended July 30, 2011, respectively, as to do so would have been anti-dilutive. Stock options to purchase 1.3 million shares of common stock were not included in the computation for the thirteen and twenty-six weeks ended July 31, 2010, as to do so would have been anti-dilutive.

5. Fair Value of Financial Assets and Liabilities

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.
The following table presents the Company's assets measured at fair value on a recurring basis as of July 30, 2011 and January 29, 2011, respectively, aggregated by level in the fair value hierarchy within which those measurements fall.

	July 30, 2011 Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousands)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. treasury securities funds	$123,923	$—	$—	$123,923

	January 29, 2011 Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousands)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total

U.S. treasury securities funds	$168,929	$—	$—	$168,929

The carrying amounts reflected on the unaudited Consolidated Balance Sheets for cash, cash equivalents, receivables, prepaid expenses, and payables approximated their fair values as of July 30, 2011 and January 29, 2011.

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6. Intangible Assets

The significant components of intangible assets are as follows:

	July 30, 2011		January 29, 2011	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
	(in thousands)			
Tradename	$196,144	$—	$196,144	$—
Internet domain name/other	1,330	—	1,270	—
Net favorable lease obligations	19,750	(15,371)	19,750	(14,449)
Credit card relationships & customer lists	4,766	(4,766)	4,766	(4,317)
	$221,990	$(20,137)	$221,930	$(18,766)

The Company's tradename and internet domain name have indefinite lives. Net favorable lease obligations, credit card relationships, and customer lists have finite lives and are amortized over a period of up to 7 years, 4 years, and 2 years, respectively, and are included in other assets on the unaudited Consolidated Balance Sheets. Amortization expense totaled $0.7 million and $1.4 million during the thirteen and twenty-six weeks ended July 30, 2011, respectively; and $1.0 million and $2.1 million during the thirteen and twenty-six weeks ended July 31, 2010, respectively.

7. Related Party Transactions

Transactions with Limited Brands

On July 29, 2011, Limited Brands divested of its remaining ownership in the Company, and as a result of the disposition, Limited Brands and their affiliates are no longer related parties as of the end of the second quarter of 2011. The 2011 related party activity with Limited Brands and their affiliates described below includes only those expenses transacted prior to Limited Brands' disposition of the Company's common stock.

The Company incurred charges from affiliates of Limited Brands, including Mast Global Logistics ("Mast"), for various transaction services, including home office rent which is included in selling, general, and administrative expenses. The costs of merchandise sourcing services and logistics services, including distribution center rent, 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:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
	(in thousands)		(in thousands)	
Merchandise Sourcing	$109,649	$104,067	$198,162	$190,901
Transaction and Logistics Services	$12,772	$14,361	$24,778	$30,542

On July 29, 2011, amounts due to Limited Brands totaling $77.6 million and $9.3 million were reclassified to accounts payable and accrued expenses on the unaudited Consolidated Balance Sheets, respectively, since Limited Brands was no longer considered a related party as of the end of the second quarter of 2011. The Company's outstanding liability related to merchandise sourcing and transaction and logistics services provided by Limited Brands, including Mast, included in accounts payable and accrued expenses – related parties on the unaudited Consolidated Balance Sheets was $68.3 million and $8.6 million, respectively, as of January 29, 2011.

As part of a home office lease with an affiliate of Limited Brands, the Company is entitled to a construction allowance of $8.0 million. As of July 30, 2011, approximately $7.4 million of costs were incurred against the $8.0 million construction allowance. The construction allowance and related leasehold improvements have been recorded on the unaudited Consolidated Balance Sheets and are considered non-cash transactions.

Furthermore, under the Limited Liability Company Agreement of Express Parent ("LLC Agreement"), Limited Brands was entitled to receive a cash payment at the same time payments were made under an advisory agreement

with Golden Gate ("Advisory Agreement") equal to the product of (i) the amount of the fees actually paid in cash under the Advisory Agreement and (ii) the quotient of the number of units held by Limited Brands over the number of units held by Golden Gate at the time of

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payment of such Advisory Agreement fees. Effective May 12, 2010, the LLC Agreement, including the advisory arrangement with Limited Brands, was terminated in connection with the Company's conversion to a corporation and IPO. The Company paid Limited Brands a one-time termination fee of $3.3 million in the second quarter of 2010 in connection with the termination of the LLC Agreement.

The Company incurred the following charges from Limited Brands related to advisory fees and the termination of the LLC Agreement. These charges are included in other operating expense (income), net, in the unaudited Consolidated Statements of Income and Comprehensive Income:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
	(in thousands)		(in thousands)	
Limited Brands LLC Agreement Fee (including termination fee)	$—	$3,401	$—	$4,156

As a result of the termination of the LLC Agreement, the Company had no financial obligation to Limited Brands related to this agreement as of July 30, 2011 or January 29, 2011.

Transactions with Golden Gate

In connection with the Golden Gate Acquisition, the Company entered into an Advisory Agreement with Golden Gate that was originally scheduled to expire in July 2017. Pursuant to the Advisory Agreement, the Company paid Golden Gate an annual management fee equal to the greater of (i) $2.0 million per fiscal year or (ii) 3% of adjusted EBITDA of Express Holding. Additionally, the Company reimbursed Golden Gate for reasonable out-of-pocket expenses incurred as a result of providing on-going advisory services. Effective May 12, 2010, the Advisory Agreement was terminated in connection with the Company's conversion to a corporation and IPO. The Company paid Golden Gate a one-time termination fee of $10.0 million in the second quarter of 2010 in connection with the termination of the Advisory Agreement.

The Company incurred the following charges from Golden Gate related to advisory fees, out-of-pocket expenses, and the termination of the Advisory Agreement. These charges are included in other operating expense (income), net in the unaudited Consolidated Statements of Income and Comprehensive Income:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
	(in thousands)		(in thousands)	
Advisory fees and out-of-pocket expenses (including Advisory Agreement termination fee)	$—	$10,477	$—	$12,752

As a result of the termination of the Advisory Agreement, the Company had no financial obligation to Golden Gate related to this agreement as of July 30, 2011 or January 29, 2011.

Transactions with Other Golden Gate Affiliates

The Company also transacts with affiliates of Golden Gate for e-commerce warehouse and fulfillment services, software license purchases, and consulting and software maintenance services. The Company incurred the following charges, included primarily in cost of goods sold, buying, and occupancy costs in the unaudited Consolidated Statements of Income and Comprehensive Income:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
	(in thousands)		(in thousands)	
E-commerce warehouse and fulfillment	$6,998	$1,544	$13,904	$5,162
Software licenses and maintenance and consulting	$25	$161	$143	$226

On March 25, 2010, the Company elected to prepay its e-commerce service provider, a Golden Gate affiliate, $10.2 million for

services from April 2010 through January 2011 in exchange for a discount on those services. This prepaid amount was expensed as services were rendered with $3.0 million and $4.0 million being included primarily in costs of goods sold, buying, and occupancy costs in the unaudited Consolidated Statements of Income and Comprehensive Income during the thirteen and twenty-six weeks ended July 31, 2010, respectively. The prepaid balance related to this Golden Gate affiliate was fully amortized as of January 29, 2011.

The Company’s outstanding liability to other Golden Gate affiliates, included in accounts payable and accrued expenses - related parties on the unaudited Consolidated Balance Sheets, was $3.9 million and $3.0 million as of July 30, 2011 and January 29, 2011, respectively.

In December 2009, the Company began providing real estate services to multiple Golden Gate affiliates. Income recognized for these services during the thirteen and twenty-six weeks ended July 30, 2011 was $0.1 million and $0.3 million, respectively. Minimal income was recognized for these services during the thirteen and twenty-six weeks ended July 31, 2010. The Company's receivable balance related to these services was $0.1 million as of July 30, 2011 and January 29, 2011.

As part of the prepayment in full of the 14.5% Topco Term C Loan ("Term C Loan") in February 2010, an affiliate of Golden Gate received a payment consisting of $50.0 million of principal, $0.6 million of interest, and a $1.0 million prepayment penalty. As part of the prepayment in full of the 13.5% Topco Term B Loan ("Term B Loan") in May 2010, an affiliate of Golden Gate received a payment consisting of $58.3 million of principal, $2.1 million of interest, and a $3.5 million prepayment penalty. Total interest expense on the Term C Loan and Term B Loan, collectively referred to as the "Topco Credit Facility", attributed to Golden Gate affiliates was $0.3 million and $2.7 million during the thirteen and twenty-six weeks ended July 31, 2010, respectively. The Company did not incur any interest expense under the Topco Credit Facility during the thirteen and twenty-six weeks ended July 30, 2011 due to the termination of the Topco Credit Facility last year.

During the first and second quarters of 2011, the Company repurchased $25.0 million and $24.2 million of the 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, leaving $10.0 million of Senior Notes owned by a Golden Gate affiliate outstanding as of July 30, 2011. Interest expense incurred on the Senior Notes attributable to the Golden Gate affiliate was $0.4 million and $1.3 million during the thirteen and twenty-six weeks ended July 30, 2011, respectively; and $1.2 million and $1.9 million during the thirteen and twenty-six weeks ended July 31, 2010, respectively.

8. Income Taxes

Prior to May 2, 2010, the Company was treated as a partnership for federal income tax purposes, and therefore had not been subject to federal and state income tax (subject to exception in a limited number of state and local jurisdictions). On May 12, 2010, the Company elected to be treated as a corporation under Subchapter C of Chapter 1 of the United States Internal Revenue Code, effective May 2, 2010, and was therefore subject to federal and state tax expense beginning May 2, 2010.

The Reorganization, for tax purposes, was deemed a contribution by Express Parent of its assets and liabilities to the Company, followed by the liquidation of Express Parent. The Reorganization resulted in a taxable gain to Express Parent. Except in those few jurisdictions where Express Parent was taxed directly, the taxable gain flowed through to the members due to Express Parent's partnership tax treatment. The taxable gain correspondingly increased the tax basis in the assets acquired by the Company in the Reorganization. Also, as a result of the Reorganization, the Company had a liability due to a management holding company totaling $0.8 million as of January 29, 2011. The Company settled this liability by making a final cash payment during the first quarter of 2011. Additionally, the Company had a $3.5 million net liability comprised of a $4.8 million gross liability payable to a Golden Gate entity and a $1.3 million gross receivable due from taxing authorities. As of July 30, 2011, the Company settled the liability due to the Golden Gate entity by making a final cash payment during the second quarter of 2011.

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 40.6% and 41.4% (excluding items recorded discretely), respectively, for the thirteen weeks ended July 30, 2011 and July 31, 2010, respectively.
The Company's effective tax rate was 40.2% and (273%) for the twenty-six weeks ended July 30, 2011 and July 31, 2010, respectively. The increase in the effective rate is primarily a result of the Company's conversion to a corporation in connection with its IPO in the second quarter of 2010 and the recognition of a one-time tax benefit of $31.8 million in conjunction with the Reorganization.
The Company recorded a valuation allowance against the deferred tax assets arising from the net operating loss of foreign

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subsidiaries. As of July 30, 2011 and January 29, 2011, the valuation allowance was approximately $0.1 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.

9. Debt
Borrowings outstanding consisted of the following:

	July 30, 2011	January 29, 2011
	(in thousands)	
Opco Term Loan	$120,000	$120,625
8 3/4% Senior Notes	200,850	250,000
Debt discount on Senior Notes	(2,451)	(3,218)
Total debt	318,399	367,407
Short term portion of debt	(1,250)	(1,250)
Total long-term debt	$317,149	$366,157

Opco Revolving Credit Facility
On July 29, 2011, Express Holding and its domestic subsidiaries entered into an Amended and Restated $200.0 million secured Asset-Based Loan Credit Agreement (the "Opco Revolving Credit Facility"). The Opco Revolving Credit Facility amends, restates, and extends the existing $200.0 million asset-based revolving credit facility, which was scheduled to expire on July 6, 2012. In connection with the amendment, the Company incurred $1.2 million of debt issuance costs that will be amortized on a straight-line basis through July 2016.
The Opco Revolving Credit Facility is scheduled to expire on July 29, 2016 and allows for up to $30.0 million of swing line advances and up to $45.0 million to be available in the form of letters of credit. Borrowings under the Opco Revolving Credit Facility bear interest at a rate equal to either the rate appearing on Bloomberg L.P.'s Page BBAM1/(Official BBA USD Dollar Libor Fixings) (the “Eurodollar Rate”) plus an applicable margin rate or the highest of (1) the prime lending rate, (2) 0.50% per annum above the federal funds rate and (3) 1% above the Eurodollar Rate, in each case plus an applicable margin rate. The applicable margin rate is determined based on excess availability as determined by reference to the borrowing base. The applicable margin for Eurodollar Rate-based advances is 1.50%, 1.75%, or 2.00% if excess availability is greater than or equal to 66% of the borrowing base, less than 66% of the borrowing base but greater than or equal to 33% of the borrowing base, or less than 33% of the borrowing base, respectively. The applicable margin rate for base rate-based advances is 0.50%, 0.75%, or 1.00% if excess availability is greater than or equal to 66% of the borrowing base, less than 66% of the borrowing base but greater than or equal to 33% of the borrowing base, or less than 33% of the borrowing base, respectively. The borrowing base components are 90% of credit card receivables plus 90% of the liquidation value of eligible inventory plus 100% of borrowing base-eligible cash collateral (not to exceed 20% of the borrowing base) less certain reserves.
The unused line fee payable under the Opco Revolving Credit Facility is incurred at 0.375% per annum of the average daily unused revolving commitment during each quarter, payable quarterly in arrears on the first day of each May, August, November, and February. In the event that (1) an event of default has occurred or (2) excess availability plus eligible cash collateral is less than 12.5% of the borrowing base for five consecutive days, such unused line fees are payable on the first day of each month.
Interest payments under the Opco Revolving Credit Facility are due quarterly on the first day of each May, August, November, and February for base rate-based advances, provided, however, in the event that (1) an event of default has occurred or (2) excess availability plus eligible cash collateral is less than 12.5% of the borrowing base for five consecutive days, interest payments are due on the first day of each month. Interest payments under the Opco Revolving Credit Facility are due on the last day of the interest period for Eurodollar Rate-based advances for interest periods of one, two, and three months, and additionally every three months after the first day of the interest period for Eurodollar Rate-based advances for interest periods of greater than three months.

The Opco Revolving Credit Facility requires Express Holding and its domestic 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 Opco 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; the ability to change the nature of its business or its fiscal year; the ability to amend the terms of the $125.0 million variable rate term loan ("Opco Term Loan"); and permitted activities of Express Holding. All obligations under the Opco 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, provided that the liens on certain assets of Express Holding and its subsidiaries are junior in priority to the liens securing the Opco Term Loan.
In connection with amending and restating the existing $200.0 million asset-based revolving credit facility, the Company recognized a $0.3 million loss on extinguishment of debt attributed to the write-off of unamortized debt issuance costs for the thirteen and twenty-six weeks ended July 30, 2011, which was recorded as interest expense in the unaudited Consolidated Statements of Income and Comprehensive Income and represents a non-cash adjustment to reconcile net income to net cash provided by operating activities within the unaudited Consolidated Statements of Cash Flows.
As of July 30, 2011, there were no borrowings outstanding and approximately $198.2 million available under Opco Revolving Credit Facility.
Senior Notes

On March 5, 2010, Express, LLC and Express Finance co-issued, in a private placement, $250.0 million of 8 3/4% Senior Notes due 2018 at an offering price of 98.599% of the face value. An affiliate of Golden Gate purchased $50.0 million of Senior Notes in the offering.

In connection with the Senior Notes offering, Express, LLC and Express Finance entered into a registration rights agreement, which required Express, LLC and Express Finance to use commercially reasonable efforts to register notes having substantially identical terms as the Senior Notes with the SEC. On September 27, 2010, Express, LLC and Express Finance exchanged $200.0 million of the unregistered Senior Notes for registered Senior Notes having substantially identical terms as the unregistered Senior Notes.

During the first and second quarters of 2011, Express, LLC repurchased $25.0 million and $24.2 million of the 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, leaving $10.0 million of unregistered Senior Notes held by a Golden Gate affiliate outstanding as of July 30, 2011. Express, LLC received a written waiver from the Golden Gate affiliate in regards to the requirement to register the remaining $10.0 million of Senior Notes.

Loss on Extinguishment

In connection with the Senior Notes repurchases in the first and second quarters of 2011, the Company recognized a $3.4 million and $6.9 million loss on extinguishment of debt for the thirteen and twenty-six weeks ended July 30, 2011, respectively, which was recorded as interest expense in the unaudited Consolidated Statements of Income and Comprehensive Income. Of this loss on extinguishment of debt, the premium on the repurchases represented $2.2 million and $4.4 million for the thirteen and twenty-six weeks ended July 31, 2011, respectively. The remaining loss on extinguishment was attributable to the unamortized debt issuance costs and unamortized discount write-offs totaling $1.2 million and $2.5 million, respectively, for the thirteen and twenty-six week periods ended July 30, 2011. This unamortized debt issuance costs and unamortized discount write-offs 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 Opco Term Loan was estimated using quoted market prices for similar debt issues. The fair value of the Senior Notes was estimated using quoted market prices. As of July 30, 2011, the estimated fair value of the Opco Term Loan and Senior Notes was $135.1 million and $217.9 million, respectively.

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 July 30, 2011 and January 29, 2011, there were no outstanding trade LCs. Additionally,

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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 July 30, 2011 and January 29, 2011, outstanding stand-by LCs totaled $1.8 million.

10. Share-Based Compensation

The following summarizes our share-based compensation expense:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
	(in thousands)		(in thousands)	
Restricted shares	$61	$1,367	$144	$2,930
Stock options	1,705	618	3,129	618