SIGNALIFE, INC.
Form SB-2
January 08, 2008

As filed with the Securities and Exchange Commission on January 8, 2007

Commission File No. 333 _____

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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Form SB-2

Registration Statement Under The Securities Act Of 1933

—

Signalife, Inc.

(Name of small business issuer in its charter)

Delaware	**3845**	**87-0441351**
(State or other jurisdiction of incorporation or organization)	**(Primary Industrial Code)**	**(I.R.S. Employer Identification No.)**

Lowell T. Harmison

President and Chief Operating Officer

4705 Laurel Canyon Blvd., Suite 203

Studio City, California 91607

(864) 233-2300

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)
(Name, address, including zip code, and telephone number, including area code, of agent for service of process)

Copies to

John M. Woodbury, Jr., Esq.

7251 Owensmouth Ave, Suite 7

Canoga Park, California 91303

(818) 337-2602

Approximate date of proposed sale to public: From time to time after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _

If this Form is a post effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o __

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o __

If delivery of this prospectus is expected to be made pursuant to Rule 434, please check the following box: o

Calculation of Registration Fee

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Offering Price Per Share	Proposed Aggregate Offering Price	Amount of Registration Fee
Common stock (2)	9,229,373	$ 0.69 (3)	$ 6,368,267.37	$ 250.27
Total	9,229,373		$ 6,368,267.37	$ 250.27

(1)

Pursuant to SEC Rule 416(a), also covers additional common shares that may be offered to prevent dilution as a result of stock splits, stock dividends or similar transactions relating to these securities.

(2)

Represents common stock reserved for issuance by the registrant with respect to the prospective issuance of common shares pursuant to the exercise by Signalife, Inc. of put rights under a Standby Equity Distribution Agreement with YA Global Investments, L.P.

(3)

Pursuant to SEC Rule 457(h)(1) and 457(c), the filing fee is computed upon the basis of the average of the high and low prices reported by the American Stock Exchange as of the close of market on December 28, 2007.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED DECEMBER 30, 2007

Prospectus

9,229,373 Common Shares

This prospectus relates to the offer and sale by one of our shareholders, YA Global Investments, L.P. (*YA Global Investments*) and/or certain of its pledgees, donees, transferees and other successors (collectively, the *selling shareholders*), during the period in which the registration statement containing this prospectus is effective, of up to 9,229,373 common shares that YA Global Investments may prospectively purchase from Signalife under a Standby Equity Distribution Agreement dated August 6, 2007 with YA Global Investments (the *Standby Equity Distribution Agreement*).

The common shares offered under this prospectus may be sold by the selling shareholders on the public market, in negotiated transactions with a broker-dealer or market maker as principal or agent, or in privately negotiated transactions not involving a broker or dealer. The prices at which the selling shareholders may sell the shares may be determined by the prevailing market price for the shares at the time of sale, may be different than such prevailing market prices or may be determined through negotiated transactions with third parties. We will not receive any of the proceeds from those sales.

By virtue of its commitment to purchase the shares offered under this prospectus pursuant to the terms of the Standby Equity Distribution Agreement, and in anticipation of its intent to sell those shares from time-to-time, YA Global Investments will be considered an underwriter within the meaning of the Securities and Exchange Act of 1933, as amended (the *Securities Act*). With the exception of YA Global Investments as provided in the preceding sentence, no other underwriter or person has been engaged to facilitate the sale of the common shares under this prospectus.

Our common shares trade on the American Stock Exchange under the trading symbol SGN .

Please read this prospectus carefully. It describes our company, finances, products and services. Federal and state securities laws require that we include in this prospectus all the important information that you will need to make an investment decision.

_____

An investment in the common shares offered for sale under this prospectus involves a high degree of risk. You should purchase our securities only if you can afford losing your entire investment.
See Risk Factors beginning on page 6 of this prospectus.

_____

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of the common shares offered for sale under this prospectus or the

merits of that offering, or has determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

_____

The date of this Prospectus is December 30, 2007

4705 Laurel Canyon Blvd., Suite 203, Studio City, California 91607

(864) 233-2300

The information in this prospectus is not complete and may be changed. We have filed a registration statement containing this prospectus with the Securities and Exchange Commission. The common stock offered for sale under this prospectus may not be offered for sale or sold until that registration statement is declared effective by the Securities and Exchange Commission. This prospectus is not an offer to sell the common shares and doesn t solicit an offer to purchase the common shares in any jurisdiction where this offer or sale is not otherwise permitted

TABLE OF CONTENTS

Page

PROSPECTUS SUMMARY

1

The Company And Business

1

The Offering

3

Summary Financial Data

4

RISK FACTORS

6

Risks Relating To Our Business

6

Risks Relating To The Sale Of Common Shares Offered Under This Prospectus On The Public Market And The Issuance Of Such Shares Under The Standby Equity Distribution Agreement 10

General Risks Relating To An Investment In Our Securities

15

FORWARD-LOOKING STATEMENTS

19

USE OF PROCEEDS

20

BUSINESS

20

Overview

20

Recent Corporate History

20

Description Of Heart Monitor Systems And ECGs

21

Description Model 100 Patient Module

23

Description Of Products

24

Description Of Products In Investigational Stage

27

Description of Signal Technologies; Evaluative Studies

28

Competitive Advantages And Marketing Strategy

29

Market And Competition

32

Marketing And Distribution Strategy

33

Manufacturing Capacity

34

Research And Development

34

Regulatory Overview

34

Patents And Licenses

38

Costs And Effects Of Compliance With Environmental Laws

39

Subsidiaries

40

Employees

40

PROPERTIES

40

MANAGEMENT_S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

41

General

41

Overview

41

Results of Operations

42

Plan Of Operation

43

Liquidity And Capital Resources

44

Critical Accounting Policies

48

Recent Accounting Pronouncements

49

LEGAL PROCEEDINGS

49

MANAGEMENT

51

Identity

51

Business Experience

52

Board Of Directors

56

Board Committees

56

Independence of Directors

56

Audit Committee Financial Expert

56

Director Compensation Policies

57

Director Overall Compensation Table

57

Director Outstanding Option Table

58

Scientific Medical Advisory Board

60

Medical Advisor Compensation

61

Other Significant Employees And Consultants

62

Employment And Consulting Agreements With Executive Management

62

Executive Officer Overall Compensation Table

64

Executive Officer Outstanding Equity Awards Table

66

PRINCIPAL SHAREHOLDERS

67

TRANSACTIONS AND BUSINESS RELATIONSHIPS WITH MANAGEMENT AND PRINCIPAL SHAREHOLDERS

70

Transactions With Executive Officers, Directors And Shareholders

70

DESCRIPTION OF CAPITAL STOCK

71

General

71

Common Shares

71

Preferred Shares

71

Series A Preferred Shares

72

Options And Warrants Convertible into Common Shares

73

EQUITY COMPENSATION PLANS

73

Summary Equity Compensation Plan Data

73

Description of Equity Compensation Plans Approved By Shareholders

74

Description of Equity Compensation Plans Not Approved By Shareholders

75

MARKET FOR EQUITY SECURITIES

76

Description Of Market

76

Dividend Policy And Restrictions On Payment Of Dividends

77

REGISTRATION RIGHTS

77

SELLING SHAREHOLDERS

78

PLAN OF DISTRIBUTION

80

Method of Sales Under This Prospectus

80

Limitation On Sales By NASD Members

83

Sales Outside Of This Prospectus; Sales Under This Prospectus By Successors-In-Interest

84

Compliance With State Securities Laws

85

Distribution Expenses And Proceeds of Sale

85

Other Matters

86

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

87

Termination of Prior Accountant

87

Appointment of New Accountant

88

TRANSFER AGENT

88

LEGAL MATTERS

89

EXPERTS

89

INDEMNIFICATION OF DIRECTORS AND OFFICERS

89

WHERE YOU CAN FIND MORE INFORMATION

90

FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

91

Report Of Independent Registered Public Accounting Firm

F-1

Balance Sheet

F-2

Statements Of Operations

F-3

Statements Of Stockholders Equity

F-4

Statements Of Cash Flows

F-7

Notes To Financial Statements

F-9

INTERIM FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2007 AND 2006 92

Balance Sheet

F-1

Statements Of Operations

F-2

Statement Of Stockholders Equity

F-3

Statements Of Cash Flows

F-4

Notes To Interim Financial Statements

F-6

PROSPECTUS SUMMARY

This summary highlights important information about our company and business. Because it is a summary, it may not contain all of the information that is important to you. To understand this offering fully, you should read this entire prospectus and the financial statements and related notes included in this prospectus carefully, and in particular that section of this prospectus captioned *Risk Factors*. Unless the context requires otherwise, *Signalife*, *we*, *us*, *our* a similar terms refer to Signalife, Inc.

On April 11, 2003, we effected a split in our common shares on a 3:1 forward basis through the mechanism of a stock dividend. Whenever we make any reference in this prospectus to the grant or issuance of common shares or options or warrants to purchase common shares, such reference shall, for comparison purposes, be made in reference to post-split numbers and, in the case of options and warrants, exercise prices, unless we state otherwise.

The Company And Business

Signalife, Inc. is a medical device company focused on researching, developing and marketing medical devices which monitor and measure physiological signals in order to detect diseases that impact an individual s health. Physiological signals are small bioelectrical signals generated by the body.

Our initial product, the Signalife *Fidelity 100 Monitor System* or *Fidelity 100*, is a heart monitoring system that uses our proprietary Model 100 patient module to acquire, amplify and process physiological signals associated with a patient s cardiovascular system. Heart monitor systems are used in a variety of medical settings. For example, they are used to collect physiological data for electrocardiogram or ECG tests for the purpose of detecting and identifying cardiovascular disease, and also used to monitor the condition of the heart during surgical procedures. Our patient module operates using our proprietary patented signal acquisition and amplification technology, as well as Bluetooth technology which allows the acquired signals to be wirelessly transmitted to a personal computer for interpretation and storage by the physician. Our proprietary signal acquisition and amplification technology provides the capability to collect, enlarge and process physiological signals in a manner that discriminates them from ambient or background electromagnetic noise, thereby facilitating the examination of the signal data for diagnostic purposes.

The *Fidelity 100 Monitor System* is marketed as an integrated system containing all of the components the Model 100 Module, electrode lead sets, and a personal computer with monitor and printer, which could either be in a desk top or laptop configuration. The *Fidelity 100* is principally used for clinical (resting) and in-patient ambulatory applications. For example, ECG data may be instantaneously acquired, processed, amplified and transmitted to the personal computer for analysis in stationary settings, such as while conducting ECG tests in resting or in-patient ambulatory settings or during surgeries.

Our initial marketing efforts for the *Fidelity 100* since its introduction have been extremely limited to date principally due to performance issues with third-party distributors and sales agents to whom we originally delegated sales authority, our limited internal sales and marketing support functions and personnel, and the focus of prior management on other activities. We have only recently launched a company-sponsored program to aggressively market and promote the *Fidelity 100* in the United States, in which we will rely upon new senior management and directors to market our products within the United States to selected marquee hospitals and physician groups, and are re-evaluating the use of independent distributors.

We are also currently working on a number of products using our proprietary signal acquisition and amplification technology that are in the late development stage and which we expect to introduce to market within the next year or soon thereafter. These products include the Signalife *Fidelity 200 Event Recording System* or *Fidelity 200* , the Signalife *Fidelity 300 Holder Monitor* or *Fidelity 300* , the Signalife *Fidelity 400 Intracardiac Monitor* or *Fidelity 40* and the Signalife *Cardiac Vest*.

The Signalife *Fidelity 200 Event Recording System* is a direct-to-consumer non-prescription credit card-sized heart monitoring device which has been specifically designed to be used in conjunction with monitoring centers. We anticipate that we will sell the *Fidelity 200* to consumers through retail outlets such as drug stores, retail pharmacies, and major retail discount chains. The consumer will then separately subscribe to a monitoring service that is compatible with the device. This product has recently received FDA 510(k) clearance as a class II medical device, and we are actively involved in engineering the final production version which we will commercially introduce into the market at the first available opportunity.

The *Fidelity 300* is a three-lead ambulatory Holter monitor which will be used while the patient carries out his or her daily activities away from the physicians office or hospital to collect ECG data relating to arrhythmia and other transient heart disease. Specifically, the data is acquired, processed, amplified and stored in a computer storage chip contained in the *Fidelity 300*, and then downloaded by the physician at a later date when the patient returns to the physician s office. The Fidelity 300 will allow up to thirty days of data to be recorded, satisfying physician needs for a more extensive database, unlike other Holter markets currently on the market that record only for a period of 24 to 48 hours. We anticipate a production version of this product will be completed and brought to market at the end of 2008.

The Signalife *Cardiac Vest*, developed in conjunction with the Champ Car World Series, is an extremely lightweight, close-fitting vest that will be used as a more effective, convenient and comfortable alternative for the electrode and lead sets customarily used with ambulatory cardiac monitors. The design is planned to allow a patient to use the vest on a 24/7 basis for extended periods of time, being removed only intermittently for showers, etc. We anticipate a production version of this product will be completed and brought to market at the end of 2008 at the earliest.

We are also actively pursuing other marketing alternatives. For example, we have recently successfully completed a pilot program in which patrons of a gym were tested using the *Fidelity 100* in order to detect and identify cardiovascular disease that could be triggered or exacerbated by exercise programs. We are now in the process of expanding the program to fitness facilities across the country. We are also participating in the Athletes For Life program which will focus on developing protocols to test professional and amateur athletes for cardiovascular disease and abnormalities as part of their regular training regime, and will also promote testing for impoverished communities where early detection of cardiovascular disease simply does not exist.

As of December 28, 2007, we had issued and outstanding or accrued for issuance a total of: (1) 53,473,269 common shares (as that term is defined in that section of the prospectus captioned *Description Of Equity Securities*); (2) 14,574 series A preferred shares (as that term is defined in that section of the prospectus captioned *Description Of Equity Securities*), plus an additional 40,764 unissued series A preferred shares accrued for issuance as dividends through September 30, 2007; and (3) stock purchase options and warrants entitling the holders to purchase up to 11,259,179 and 179,292 common shares and series A preferred shares, respectively, at weighted average exercise prices of $1.98 and $3.00 per share, respectively.

Our corporate offices are located at 4705 Laurel Canyon Blvd., Suite 203, Studio City, California. Our telephone number is (864) 233-2300.

Our common shares are currently quoted on the American Stock Exchange or AMEX under the symbol SGN.

The Offering

This prospectus relates to the offer and sale by one of our shareholders, YA Global Investments, L.P. (*YA Global Investments*) and/or certain of its pledgees, donees, transferees and other successors (collectively, the *selling shareholders*), during the period in which the registration statement containing this prospectus is effective, of up to 9,229,373 common shares that YA Global Investments may prospectively purchase from Signalife under a Standby Equity Distribution Agreement dated August 6, 2007 with YA Global Investments (the *Standby Equity Distribution Agreement*). Under the Standby Equity Distribution Agreement, we have the right at our election without any obligation to do so, over a three-year period commencing as of the effective date of the registration statement containing this prospectus, subject to a number of restrictions and limitations, to incrementally sell or put up to $100,000,000 in common shares to YA Global Investments at a price equal to 97% of the lowest daily volume weighted average price or VWAP for Signalife s common stock on its primary market over a five-day trading period (the *pricing period*) following the date of notice of Signalife s exercise of its selling rights.

The overall number of common shares offered for sale under this prospectus has been selected and determined by the company based, in significant part, upon limitations imposed by the SEC relating to the overall number of shares that may be registered in a single registration statement. We anticipate that we will, in the future, likely register additional shares to be issued under the Standby Equity distribution Agreement under additional registration statements subject to SEC guidelines. The overall number of shares that we may exercise our put rights to sell and issue to YA Global Investments under the Standby Equity Distribution Agreement and which may be sold under this prospectus are also subject to additional restrictions and limitations under the Standby Equity Distribution Agreement. Included in the common shares offered for sale under this prospectus are 5,663,334 common shares for which the prospective sale to YA Global Investments pursuant to the terms of the Standby Equity Distribution Agreement must first receive shareholder approval in accordance with AMEX rules before we may exercise our put options thereunder. We intend to seek such shareholder approval in the near future. No assurance can be given that such shareholder approval will be received.

The common shares offered under this prospectus may be sold by the selling shareholders on the public market, in negotiated transactions with a broker-dealer or market maker as principal or agent, or in privately negotiated transactions not involving a broker or dealer. The prices at which the selling shareholders may sell the shares may be determined by the prevailing market price for the shares at the time of sale, may be different than such prevailing market prices or may be determined through negotiated transactions with third parties. The selling shareholders will pay any brokerage commissions and/or similar charges incurred for the sale of these shares.

By virtue of its commitment to purchase the shares offered under this prospectus pursuant to the terms of the Standby Equity Distribution Agreement, and in anticipation of its intent to sell those shares from time-to-time, YA Global Investments will be considered an underwriter within the meaning of the Securities and

Exchange Act of 1933, as amended (the *Securities Act*). With the exception of YA Global Investments as provided in the preceding sentence and subject to YA Global Investment`s purchase obligations under the Standby Equity Distribution Agreement, no other underwriter or person has been engaged to facilitate the sale of the common shares offered under this prospectus.

Information regarding the selling shareholders, the common shares they are offering to sell under this prospectus, and the times and manner in which they may offer and sell those shares is provided in the sections of this prospectus captioned *Selling Shareholders*, *Registration Rights* and *Plan of Distribution*. We have agreed to pay all expenses relating to registering the common shares offered under this prospectus.

We will not receive any of the proceeds from any sales of the common shares offered under this prospectus by the selling shareholders. We will, however, receive proceeds from the original purchase of the common shares offered under this prospectus by YA Global Investments. The number and purchase price of such shares shall be based upon prospective market prices and shall be determined in accordance with the terms and conditions of the Standby Equity Distribution Agreement. By way of example, assuming the sale to YA Global Investments of all of the 9,229,373 common shares offered for sale under this prospectus at an assumed offering price of $0.67 per share (representing a 3% discount for the closing low price as of December 28, 2007), we would receive gross proceeds of approximately $6,177,000.

The registration of common shares pursuant to this prospectus does not necessarily mean that all or any of those shares will be prospectively purchased by YA Global Investments pursuant to the terms of the Standby Equity Distribution Agreement or, to the extent so purchased, will ultimately be offered or sold in whole or in part by the selling shareholders.

For more complete information relating to the Standby Equity Distribution Agreement and related transactions with YA Global Investments, see those sections of this prospectus captioned *Management s Discussion And Analysis Of Financial Condition And Results of Operations Liquidity And Capital Resources, Use Of Proceeds, Registration Rights*, and *Risk Factors Risks Relating To The Sale Of Common Shares Offered Under This Prospectus On The Public Market And The Issuance Of Such Shares Under The Standby Equity Distribution Agreement.*

Summary Financial Data

The following tables summarize the statements of operations and balance sheet data for our company for the periods or as of the dates indicated, respectively:

	Nine Months Ended September 30,		Year Ended December 31,	
Statement of Operations Data	**2007**	**2006**	**2006**	**2005**
	(unaudited)	(unaudited)		
Product Sales	$	$	$ 190,170	$
Costs of products sold	$	$	$ 42,316	$
Gross profit	$	$	$ 147,854	$

Research and development expenses	$ 1,009,011	$ 692,388	$ 2,694,958	$ 1,328,482

General and administrative expenses	$ 10,130,880	$ 7,441,667	$ 10,806,932	$ 6,224,105
Loss from operations	$ (11,139,891)	$ (8,134,055)	$ (13,354,036)	$ (7,552,587)
Other income (expense)	$ 559,539	$ 1,091,191	$ 1,637,910	$ (1,108,101)
Net loss	$ (10,580,352)	$ (7,042,864)	$ (11,716,126)	$ (8,660,688)
Basic and diluted loss per share attributable to common stockholders	$ (0.23)	$ (0.18)	$ (0.30)	$ (0.23)
Weighted average shares outstanding, basic and diluted	46,234,610	38,950,260	39,333,720	37,298,692

Balance Sheet Data:	**September 30, 2007**	**December 31, 2006**
	(unaudited)	
Current assets	$ 2,311,070	$ 3,644,454
Total assets	$ 5,099,286	$ 4,520,287
Current liabilities	$ 922,738	$ 1,575,668
Total liabilities	$ 922,738	$ 1,575,668
Total stockholders equity	$ 4,176,548	$ 2,944,619
Total liabilities and stockholders equity	$ 5,099,286	$ 4,520,287

RISK FACTORS

An investment in our common shares involves a high degree of risk and is subject to many uncertainties. These risks and uncertainties may adversely affect our business, operating results and financial condition. In such an event, the trading price for our common shares could decline substantially, and you could lose all or part of your investment. In order to attain an appreciation for these risks and uncertainties, you should read this prospectus in its entirety and consider all of the information and advisements contained in this prospectus, including the following risk factors and uncertainties.

Risks Relating To Our Business

Our limited operating history will make it difficult for you to predict our future operating results and to otherwise assess or predict the likelihood of our business success.

While we introduced our first heart monitoring product, the *Fidelity 100 Monitor System*, in late 2006, we have only recently launched a company-sponsored program to aggressively market and promote this product in the United States and have limited sales to date. Prior to the introduction of the *Fidelity 100*, we were a development stage company solely engaged in research and development activities. Our limited operating history will make it difficult, if not impossible, to predict future operating results and to assess the likelihood of our business success in considering an investment in our company.

We have nominal sales revenues to date and have accumulated losses since our inception. Our continued inability to generate revenues and profits could cause us to go out of business.

We have incurred cumulative net losses before preferred dividends available to common shareholders in the amount of $45,379,008 from our inception through September 30, 2007. We project that we will not be cash flow positive based solely on projected sales and service revenues less manufacturing, general and administrative, marketing expenses and other operating costs for an indefinite period of time. We anticipate that we will continue to incur substantial operating losses for the foreseeable future, notwithstanding any anticipated revenues we may receive in the near future.

If we are unable to raise additional working capital, we will be unable to fully fund our operations and to otherwise execute our business plan, leading to the reduction or suspension of our operations and ultimately our going out of business.

As noted in a prior risk factor above, we only recently introduced our first heart monitoring product, the *Fidelity 100 Monitor System*, to market and commenced commercial sales of that product, and further anticipate that after such introduction we will continue to be cash flow negative due to our anticipated costs exceeding our anticipated revenues for an indefinite period of time. We anticipate that we will fund the operation of our business going forward through a combination of revenues from pending and future product sales and proceeds of sales of our common shares under our Standby Equity Purchase Agreement with YA Global Investments. We do not know if the aforesaid sources of capital will be sufficient to fund the operation of our business for the twelve month period commencing as of October 1, 2007. We have taken and will continue to take steps to preserve our cash, including making payments to selected service providers and employees in common shares in lieu of cash. Should our

costs and expenses prove to be greater than we currently anticipate, or should we change our current business plan in a manner that will increase or accelerate our anticipated costs and expenses, such as through an acquisition of new products, the depletion of our working capital would be accelerated. To the extent it becomes necessary to raise additional cash in the future to the extent our current cash and working capital resources as discussed above are insufficient, we anticipate we would seek to raise it through the public or private sale of debt or equity securities, the procurement of advances on contracts or licenses, funding from joint-venture or strategic partners, debt financing or short-term loans, or a combination of the foregoing. We may also seek to satisfy indebtedness without any cash outlay through the private issuance of debt or equity securities. We currently do not have any binding commitments for, or readily available sources of, additional financing. We cannot give you any assurance that we will be able to secure the additional cash or working capital we may require to continue our operations.

Even if we are able to raise additional financing, we might not be able to obtain it on terms that are not unduly expensive or burdensome to the company or disadvantageous to our existing shareholders.

Even if we are able to raise additional cash or working capital through the public or private sale of debt or equity securities, the procurement of advances on contracts or licenses, funding from joint-venture or strategic partners, debt financing or short-term loans, or the satisfaction of indebtedness without any cash outlay through the private issuance of debt or equity securities, the terms of such transactions may be unduly expensive or burdensome to the company or disadvantageous to our existing shareholders. For example, we may be forced to sell or issue our securities at significant discounts to market, or pursuant to onerous terms and conditions, including the issuance of preferred stock with disadvantageous dividend, voting or veto, board membership, conversion, redemption or liquidation provisions; the issuance of convertible debt with disadvantageous interest rates and conversion features; the issuance of warrants with cashless exercise features; the issuance of securities with anti-dilution provisions; and the grant of registration rights with significant penalties for the failure to quickly register. If we raise debt financing, we may be required to secure the financing with all of our business assets, which could be sold or retained by the creditor should we default in our payment obligations. We also might be required to sell or license our products or technologies under disadvantageous circumstances we would not otherwise consider, including granting licenses with low royalty rates and exclusivity provisions.

Our sales, marketing and distribution capabilities are currently in the initial stages of development and are limited in manpower and financial resources, which limits our ability to rapidly penetrate the markets with our products and to generate revenue growth

Our initial marketing efforts for the *Fidelity 100* since its introduction have been extremely limited to date principally due to performance issues with third-party distributors and sales agents to whom we originally delegated sales authority, our limited internal sales and marketing support functions and personnel, and the focus of prior management on other activities. We have only recently launched a company-sponsored program to aggressively market and promote this product in the United States, in which we will rely upon new senior management and directors to market our products within the United States to selected marquee hospitals and physician groups, and are re-evaluating the use of independent distributors. Going forward, we also intend to develop a more effective internal sales and marketing team. Our ability to actively market and promote our products will require significant amounts of capital

that would be diverted from other uses. The distribution of our products and consequential revenue growth will therefore be limited as these marketing and distributions channels grow and funding becomes available. While we are in discussions with a number of large third party marketing and distribution partners with the manpower and financial resources to more quickly and aggressively promote our products, there is no assurance that we will enter into an agreement with these potential partners on acceptable terms or at all.

We intend to rely upon the third-party FDA-approved manufacturers or suppliers to manufacture our heart monitoring products. Should these manufacturers fail to perform as expected, we will need to develop or procure other manufacturing sources, which would cause delays or interruptions in our product supply and result in the loss of significant sales and customers.

We currently have no internal manufacturing capability, and will rely extensively on FDA-approved licensees, strategic partners or third party contract manufacturers or suppliers. We have recently entered into a contract manufacturing agreement with a private-label manufacturer to manufacture our Model 100 Monitors and package our Model 100 Monitor System. We cannot give you any assurance that this contract manufacturer or any other contract manufacturer or supplier we procure will be able to supply our product in a timely or cost effective manner or in accordance with applicable regulatory requirements or our specifications. Further, should we be forced to manufacture our products, we cannot give you any assurance that we will be able to develop an internal manufacturing capability or procure third party suppliers.

We are dependent for our success on a few key executive officers. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of working capital.

Our success depends to a critical extent on the continued efforts of services of our executive management team comprised of Dr. Lowell T. Harmison, our President and Chief Operating Officer, and Dr. Budimir S. Drakulic, our Chief Technology Officer. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of working capital. We are currently under discussions with Dr. Harmison in connection with entering into an employment agreement. Dr. Drakulic is employed as a consultant under a loan-out agreement through June 26, 2016. None of these agreements will preclude any of these key officers from leaving the company, and no assurance can be given that we will enter into an employment agreement with Dr. Harmison. We currently maintain key man life insurance policies in the amount $3 million with respect to Dr. Drakulic which will assist us in recouping some of our costs in the event of the death of that officer.

Our products are highly regulated. We will not be able to introduce our products to market if we cannot obtain the necessary regulatory approvals. If we are unable to obtain regulatory approvals for our products in selected key markets at all or in a timely manner, we will not be able to grow as quickly as expected, and the loss of anticipated revenues will also reduce our ability to fully fund our operations and

to otherwise execute our business plan. Our failure to receive the regulatory approvals in the United States would likely cause us to go out of business.

The manufacture, sale, promotion and marketing of our heart monitoring products and other products we intend to develop are subject to regulation by the Food and Drug Administration (*FDA*) and similar government regulatory bodies in other countries. As we develop or obtain new products we will be required to determine what regulatory requirements, if any, we must comply with in order to market and sell our products in the United States and worldwide. The process of obtaining regulatory approval could take years and be very costly, if approval can be obtained at all. If we fail to comply with these requirements, we could be subjected to enforcement actions such as an injunction to stop us from marketing the product at issue or a possible seizure of our assets. We intend to work diligently to assure compliance with all applicable regulations that impact our business. We can give you no assurance, however, that we will be able to obtain regulatory approval for all of our products. We also cannot assure you that additional regulations will not be enacted in the future that would be costly or difficult to satisfy.

Because we are not diversified, we are subject to a greater risk of going out of business should our single proposed product line fail.

The only business opportunities we are presently pursuing are the heart monitoring or ECG market and, later, using the same technology, the neurological brain scan or EEG market. Unlike many established companies that are diversified, we do not presently have other businesses, properties, investments or other income producing assets upon which we could rely upon should our single product line fail, thereby increasing the risk of our going out of business.

Many of our customers will rely upon third party reimbursements from third party payors to cover all or a portion of the cost of our products. If third party payors do not provide reimbursement for our products, we will not be able to grow as quickly as expected, and the loss of anticipated revenues will also reduce our ability to fully fund our operations and to otherwise execute our business plan.

We intend to sell our heart monitoring products to individual patients and doctors, hospitals and clinics who will seek reimbursement from various third party payors, including government health programs, private health insurance plans, managed care organizations and other similar programs. We can give you no assurance that reimbursement will be available from third party payors at all, or for more than a nominal portion of the cost of our products.

Our inability to protect our intellectual property rights could allow competitors to use our property rights and technologies in competition against our company, which would reduce our sales. In such an event we would not be able to grow as quickly as expected, and the loss of anticipated revenues will also reduce our ability to fully fund our operations and to otherwise execute our business plan.

We rely on a combination of patent, patent pending, copyright, trademark and trade secret laws, proprietary rights agreements and non-disclosure agreements to protect our intellectual properties. We cannot give you any assurance that these measures will prove to be effective in protecting our intellectual properties. We also cannot give you any assurance that our existing patents will not be invalidated, that

any patents that we currently or prospectively apply for will be granted, or that any of these patents will ultimately provide significant commercial benefits. Further, competing companies may circumvent any patents that we may hold by developing products which closely emulate but do not infringe our patents. While we intend to seek patent protection for our products in selected foreign countries, those patents may not receive the same degree of protection as they would in the United States. We can give you no assurance that we will be able to successfully defend our patents and proprietary rights in any action we may file for patent infringement. Similarly, we cannot give you any assurance that we will not be required to defend against litigation involving the patents or proprietary rights of others, or that we will be able to obtain licenses for these rights. Legal and accounting costs relating to prosecuting or defending patent infringement litigation may be substantial.

We also rely on proprietary designs, technologies, processes and know-how not eligible for patent protection. We cannot give you any assurance that our competitors will not independently develop the same or superior designs, technologies, processes and know-how.

While we have and will continue to enter into proprietary rights agreements with our employees and third parties giving us proprietary rights to certain technology developed by those employees or parties while engaged by our company, we can give you no assurance that courts of competent jurisdiction will enforce those agreements.

Risks Relating To The Sale Of Common Shares Offered Under This Prospectus On The Public Market And The Issuance Of Such Shares Under The Standby Equity Distribution Agreement

We May Not Be Able To Access Sufficient Funds Under The Standby Equity Distribution Agreement When Needed.

As discussed above in *Risk Factors Risks Relating To Our Business*, we are dependent on external financing to fund our operations. While we anticipate that our financing needs will be provided in part through the exercise of our put rights to sell the common shares offered under this prospectus to YA Global Investments under the Standby Equity Distribution Agreement, such ability will nevertheless be circumscribed by a number of restrictions and limitations contained in the Standby Equity Distribution Agreement, including (1) the availability of a sufficient number of registered shares to be so sold under either this prospectus or any other registration statement we may file with the SEC based, in part, on limitations imposed by the SEC as to the number of shares that may be registered in relation to our public float; (2) a potential restriction on the maximum proceeds that we may raise under any put notice (restricted to the greater of $1,000,000 or the volume weighted average price or VWAP of our common stock on our principal market during the five trading days immediately prior to such notice multiplied by the average daily volume traded on such market during such period); and (3) a restriction on our ability to exercise our put rights to the extent that such exercise would (i) cause the total shares beneficially held by YA Global Investments and its affiliates to exceed 9.99% of our then outstanding common shares, calculated in accordance with Section 13(d) of the Exchange Act; or (ii) exceed 20% of our outstanding shares as of the date the Standby Equity Distribution Agreement was entered into without procuring shareholder approvals or consents in accordance with AMEX rules. By way of example, under the registration statement containing this prospectus we are registering 9,229,373 common shares for

potential sale to YA Global Investments under the Standby Equity Distribution Agreement. However, since YA Global Investments to our knowledge currently owns 4,261,325 common shares, we cannot exercise our put rights (unless otherwise agreed to by YA Global Investments) to the extent that it would cause YA Global Investments to increase its position to more than 9.99% of our outstanding common shares. Based on our common shares outstanding as of December 19, 2007, this would limit us to selling no more than 980,655 common shares to YA Global Investments unless it had previously reduced its position, which it is under no obligation to do so. Were we to exercise our put rights to sell the aforesaid 980,655 shares at an assumed put exercise price of $0.67 per share (representing a 3% discount for the closing low price as of December 28, 2007), the amount of gross proceeds we would raise would be approximately $656,000. Based upon the foregoing limitations, no assurances can be given that financing will be available under the Standby Equity Distribution Agreement in sufficient amounts or at all when needed.

We May Be Limited In The Amount We Can Raise Under The Standby Equity Distribution Agreement Because Of Concerns About Selling More Shares Into The Public Market Than The Market Can Absorb Without A Significant Price Adjustment.

We will want to avoid placing more shares into the public market than the market s ability to absorb without a significant downward pressure on the price of our common stock. This potential adverse impact on the stock price may limit our willingness to use the Standby Equity Distribution Agreement.

We Will Not Be Able To Exercise Our Put Rights Under The Standby Equity Distribution Agreement When We Are In Possession Of Material Nonpublic Information.

Whenever we are issuing shares to YA Global Investments, we will be deemed to be involved in an indirect primary offering. We cannot engage in any offering of securities without disclosing all information that may be material to an investor in making an investment decision. Accordingly, we may be required to either disclose such information in a registration statement or prospectus supplement or refrain from exercising our put rights under the Standby Equity Distribution Agreement.

Shareholder Approval Is Required In Order To Exercise Our Put Option For A Significant Portion Of The Common Shares Offered Under This Prospectus.

Included in the common shares offered for sale under this prospectus are 5,663,334 common shares for which the prospective sale to YA Global Investments pursuant to the terms of the Standby Equity Distribution Agreement must first receive shareholder approval in accordance with AMEX rules before we may exercise our put options thereunder. We intend to seek such shareholder approval in the near future. No assurance can be given that such shareholder approval will be received.

The Standby Equity Distribution Agreement Will Restrict Our Ability To Engage In Alternative Financings.

Because of the structure of standby equity distribution transactions, we will be deemed to be involved in a near continuous indirect primary public offering of our securities. As long as we are deemed to be

engaged in a public offering, our ability to engage in a private placement will be limited because of integration concerns.

The Pricing Is Relatively Expensive If Only A Small Part Of The Standby Equity Distribution Agreement Facility Is Ever Used.

We do not know how much of the commitment amount under the standby equity distribution agreement we will be eligible to use or otherwise elect to use. The pricing for the commitment under the Standby Equity Distribution Agreement, the cost to register the common shares offered under this prospectus, and the transactional costs for the exercise of our put rights, will be relatively expensive if only a small part of the facility is ever used.

YA Global Investments May Experience Significant Dilution In Net Tangible Book Value Per Share In Connection With Its Purchase Of Common Shares Under The Standby Equity Distribution Agreement.

Signalife s net tangible book value as of September 30, 2007 was $4,510,743 or approximately $0.09 per common share. In the event that YA Global Investments was to purchase common shares under the Standby Equity Distribution Agreement at a price in excess of $0.09 per share, it would incur dilution with respect to its net tangible book value per share, which could be substantial were the sales price to be substantially greater than the net tangible book value per share. Tangible net book value is important insofar as it is reflective of the amount you would receive upon liquidation based upon the book value of the company s net tangible assets. By way of example, assuming the sale of all of the 9,229,373 common shares offered for sale under this prospectus at an assumed offering price of $0.67 per share (representing a 3% discount for the closing low price as of December 28, 2007), YA Global Investments would experience immediate and substantial dilution in the net tangible book value per share for each share purchased of approximately $0.50 per share.

Some Existing Shareholders May Experience Significant Dilution In Their Net Tangible Book Value As A Result Of Issuances Under The Standby Equity Distribution Agreement.

As previously noted, Signalife s net tangible book value as of September 30, 2007 was $0.09 per common share. In the event that YA Global Investments was to purchase common shares under the Standby Equity Distribution Agreement at a price of less than $0.09 per share, existing common shareholders would incur dilution with respect to their net tangible book value per share, which could be substantial were the sales price to be substantially less than the net tangible book value per share. Further, the sale and issuance of common shares to YA Global Investments under the Standby Equity Distribution Agreement will dilute the overall proportionate voting, dividend participation and other and pecuniary ownership rights of existing common shareholders. Further, our net loss per share or net income per share, as the case may be, would increase or decrease, respectively, as the result of the issuance of common shares to YA Global Investments under the Standby Equity Distribution Agreement, which could be a factor in causing the market price of our common stock to decline. In addition, the lower our stock price, the more shares of common stock we will have to issue under the Standby Equity Distribution Agreement to draw down the full amount. If our stock price is lower, then our existing stockholders would experience greater dilution.

YA Global Investments Will Pay Less Than The Then-Prevailing Market Price For The Common Shares Offered Under This Prospectus, Which May Cause The Price Of Our Common Stock To Decline.

Under the terms of the Standby Equity Distribution Agreement, YA Global Investments Partners will purchase the common shares offered under this prospectus at a price equal to 97% of the lowest daily volume weighted average price or VWAP for our common stock on our primary market over a five-day trading period (the *pricing period*) following the date of notice of the exercise of our selling rights under the Standby Equity Distribution Agreement. Although such purchases will not be directly reflected in the market price for our common stock, market awareness of such below-market purchases may cause the market price for our common stock to decline.

YA Global Investments Will Have An Incentive To Immediately Sell Common Shares Following Its Purchase Of Those Shares In Order To Cover Its Purchase Price, Which May Cause The Price Of Our Common Stock To Decline.

Since YA Global Investments is purchasing the common shares offered for sale under this prospectus at a three percent discount to prevailing market prices as described above, YA Global Investments will have an incentive to immediately sell such shares (or other common shares it owns or acquires), in order to realize a gain on the difference between the purchase price and the then-prevailing market price of our common stock. To the extent YA Global Investments sells our common shares, the market price for our common stock may decrease due to the additional shares in the market. A reduction in the market price for our common stock may also influence YA Global Investments to sell a greater number of common shares, which would further depress the stock price.

YA Global Investments Will Have An Incentive To Sell Common Shares During The Pricing Period, Which May Cause The Price Of Our Common Stock To Decline And Which Would Result In A Lower Purchase Price.

YA Global Investments is deemed to beneficially own the shares of common stock corresponding to a particular advance on the date that we exercise our put rights under the Standby Equity Distribution Agreement by delivering an advance notice to YA Global Investments, which is prior to the date the shares are delivered to YA Global Investments. YA Global Investments may sell such shares any time after we deliver an advance notice. Accordingly, YA Global Investments may sell such shares during the pricing period. Such sales may cause the market price for our common stock to decline and if so would result in a lower volume weighted average price during the pricing period, which would result in us having to issue a larger number of shares of common stock to YA Global Investments in respect of the advance.

YA Global Investments Will Have An Incentive To Sell Common Shares In Order To Acquire Additional Shares, Which May Cause The Price Of Our Common Stock To Decline.

Under the Standby Equity Distribution Agreement, we cannot exercise our put rights to the extent that it would cause YA Global Investments to increase its position to more than 9.99% of our outstanding common shares. YA Global Investments will have an incentive to immediately sell the common shares offered under this prospectus (or other common shares it owns or acquires) in the event that YA Global

Investments position approaches the noted 9.99% cap, in order to ensure that YA Global Investments has an opportunity to purchase the common shares offered under this prospectus at a discount pursuant to the terms of the Standby Equity Distribution Agreement. Such sales may cause the market price for our common stock to decline.

Future Sales Of The Common Shares Offered Under This Prospectus May Negatively Affect Our Stock Price And Our Ability To Raise Funds In Financings.

Sales by the selling shareholders on the public market of the common shares offered under this prospectus could lower the market price of our common stock. Such sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that our management deems acceptable or at all.

The Sale Of The Common Shares Offered Under This Prospectus Could Encourage Short Sales By Third Parties, Which Could Contribute To The Future Decline Of Our Stock Price.

In many circumstances the provision of financing based on the distribution of equity for companies whose common stock is publicly traded has the potential to cause a significant downward pressure on the price of such common stock. This is especially the case if the shares being placed into the public market exceed the market s ability to take up the increased stock or if we have not performed in such a manner to show that the equity funds raised will be used to grow our business. Such an event could place further downward pressure on the price of our common stock. Under the terms of Standby Equity Distribution Agreement, we may request numerous cash advances. Even if we use the cash advances to grow our revenues and profits or invest in assets that are materially beneficial to us, the opportunity exists for short sellers and others to contribute to the future decline of our stock price. If there are significant short sales of our common stock, the price decline that would result from this activity will cause the share price to decline more to which in turn may cause long holders of the stock to sell their shares, thereby contributing to sales of common stock in the market. If there is an imbalance on the sell side of the market for our common stock, the price will likely decline.

Private Equity Lines Are Relatively New Concepts And It Is Not Clear How The Courts And The SEC Will Treat Them.

Private equity lines of credit are relatively recent creations and differ in significant ways from traditional PIPE financing transactions. The staff of the SEC s Division of Corporation Finance has taken the position that, as long as certain criteria are met, the staff will not recommend enforcement action with respect to the private equity lines of credit or the related resale registration statement containing this prospectus. It should be noted however, that the staff s position, although significant, is not a definitive interpretation of the law and is not binding on courts. Accordingly, there is a risk that a court may find this type of financing arrangement, or the manner in which it is implemented, to violate securities laws.

General Risks Relating To An Investment In Our Securities

Our common shares are sporadically or thinly traded, so you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares

Our common shares have historically been sporadically or thinly traded, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unestablished company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without a material reduction in share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained. Due to these conditions, we can give you no assurance that you will be able to sell your shares at or near ask prices or at all if you need money or otherwise desire to liquidate your shares.

The market price for our common shares has a small and thinly-traded public float and is particularly volatile given our status as a company which has only recently introduced its products to market, and our limited operating history, nominal revenues and lack of profits to date, all of which could lead to wide fluctuations in our share price. The price at which you purchase our common shares may not be indicative of the price that will prevail in the trading market. You may be unable to sell your common shares at or above your purchase price, which may result in substantial losses to you. The volatility in our common share price may subject us to securities litigation.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, we have relatively few common shares outstanding in the public float since most of our shares are held by a small number of shareholders. In addition, as noted above, our common shares are sporadically or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without a material reduction in share price. Secondly, we are a speculative or risky investment due to our limited operating history, nominal revenues and lack of profits to date, and uncertainty of future market acceptance for our products. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the

stock of a seasoned issuer. Additionally, in the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management s attention and resources.

The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; acceptance of our products and services as viable market solution; government regulations, announcements of significant acquisitions, strategic partnerships or joint ventures; our capital commitments; and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

Since a single shareholder currently beneficially owns more than one-third of our outstanding common shares, that shareholder retains the ability to influence or control our management and the outcome of corporate actions requiring shareholder approval notwithstanding the overall opposition of our other shareholders. This concentration of ownership could discourage or prevent a potential takeover of our company that might otherwise result in you receiving a premium over the market price for your common shares.

ARC Finance Group, LLC (*ARC Finance Group*), which is owned and controlled by Ms. Tracey Hampton, owns more than one-third of our outstanding common shares and voting securities. As a consequence of its substantial stock ownership position, ARC Finance Group effectively holds the practical ability to elect a majority of our board of directors or to remove any director, and thereby control our management. ARC Finance Group also has the practical ability to control the outcome of corporate actions requiring shareholder approval, including mergers and other changes of corporate control, going private transactions, and other extraordinary transactions. ARC Finance Group actively evaluates potential modifications to our board of directors and management, and could make such modifications or wholesale changes at any time if deemed to be in the company s best interest.

The sale of a large amount of common shares held by our shareholders or our executive officers or directors, or the perception that such sales could occur, could depress the prevailing market prices for our shares.

There are a substantial number of common shares either currently outstanding or acquirable upon exercise of common share purchase options or warrants by our officers, directors and principal shareholders that may be freely sold on the public markets. Included in these holdings are 3,500,000 common shares (out of a total of approximately 22,605,800 common shares) held by our controlling shareholder, ARC Finance Group, that we registered for sale in mid-2005 to provide ARC Finance Group with a mechanism to sell such shares on the public market should it decide to do so in view of its apparent ineligibility to sell those shares under the Rule 144 safe harbor under current SEC interpretations. Shortly after such registration, ARC Finance Group transferred a substantial portion of

these shares to independent trustees under blind trusts it has established. As of this date neither ARC Finance Group nor Signalife knows if the independent trustees have sold any of such shares or, in the alternative, increased their position. ARC Finance Group reserves the right to sell the balance of the registered 3,500,000 common shares under 10b-5 plans or otherwise, although to our knowledge it has not, to date, sold those shares. We also regularly issue registered common shares to officers, employees, directors and certain eligible consultants as compensation for the provision of services, which are immediately available for sale. A large number of our shares, both registered and unregistered, may also be sold under available resale exemptions under the federal securities laws, including Rule 144 (albeit subject to volume limitations in the case of shares held by affiliates or restricted stock held for less than two years). We anticipate that a substantial number of the aforesaid registered and unregistered shares, whether currently held or acquired in the future by way of grant or exercise of common share purchase options or warrants, will be sold on the public markets for a number of reasons, including the need to satisfy income tax liabilities, the need to cover the purchase price of option and warrant exercises, or decisions predicated on market conditions. The occurrence of such sales, or the perception that such sales could occur, could depress the prevailing market prices for our shares.

A large number of common shares are issuable upon the exercise of outstanding common share purchase options or warrants. The exercise of these securities could result in the substantial dilution of your investment in terms of your percentage ownership in the company as well as the book value of your common shares. The sale of a large amount of common shares received upon the exercise of these securities on the public market to finance the exercise price or to pay associated income taxes, or the perception that such sales could occur, could depress the prevailing market prices for our shares.

There are currently outstanding as of December 28, 2007, share purchase options and warrants entitling the holders to purchase 11,259,179 common shares at weighted average exercise prices of $1.98 per share. Included in these share purchase options are a large number granted to directors, officers, employees and consultants that are subject to vesting conditions. In the event of the exercise of these securities, you could suffer substantial dilution of your investment in terms of your percentage ownership in the company as well as the book value of your common shares. In addition, the holders of the common share purchase options or warrants may sell common shares in tandem with their exercise of those options or warrants to finance that exercise, or may resell the shares purchased in order to cover any income tax liabilities that may arise from their conversion or exercise of these securities.

Our issuance of additional common shares or preferred shares, or options or warrants to purchase those shares, would dilute your proportionate ownership and voting rights. Our issuance of additional preferred shares, or options or warrants to purchase those shares, could negatively impact the value of your investment in our common shares as the result of preferential voting rights or veto powers, dividend rights, disproportionate rights to appoint directors to our board, conversion rights, redemption rights and liquidation provisions granted to the preferred shareholders, including the grant of rights that could discourage or prevent the distribution of dividends to you, or prevent the sale of our assets or a potential takeover of our company that might otherwise result in you receiving a distribution or a premium over the market price for your common shares.

We are entitled under our certificate of incorporation to issue up to 100,000,000 common and 10,000,000 blank check preferred shares. After taking into consideration our common and series A preferred shares outstanding or accrued for issuance as of December 28, 2007, we will be entitled to issue up to 46,526,731 additional common shares and 9,985,453 additional preferred shares. Our board may generally issue those common and preferred shares, or options or warrants to purchase those shares, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. Any preferred shares we may issues shall have such rights, preferences, privileges and restrictions as may be designated from time-to-time by our board, including preferential dividend rights, voting rights, conversion rights, redemption rights and liquidation provisions. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development and marketing plans. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our various stock plans. We cannot give you any assurance that we will not issue additional common or preferred shares, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.

We are subject to the Delaware Business Combination Act, which could discourage or prevent a potential takeover of our company that might otherwise result in you receiving a premium over the market price for your common shares.

As a Delaware corporation, we are subject to the Delaware Business Combination Act which precludes a shareholder who owns 15% or more of our shares from entering into a business combination involving our company for a period of three years, unless (1) our board of directors approves the combination before the shareholder acquires the 15% interest; (2) the interested shareholder acquires at least 85% of our shares as part of the transaction in which he acquired the initial 15%, excluding shares owned by our officers who are also directors and voting stock held by employee benefit plans; or (3) the combination is approved by a majority vote of our board of directors and two-thirds vote of our other shareholders at a duly called shareholders meeting. A business combination is defined as (1) a merger or consolidation requiring shareholder approval, (2) the sale, lease, pledge, or other disposition of our assets, including by dissolution, having at least 50% of the entire asset value of our company, or (3) a proposed tender or exchange offer of 50% or more of our voting stock.

The elimination of monetary liability against our directors, officers and employees under our certificate of incorporation and the existence of indemnification rights to our directors, officers and employees may

result in substantial expenditures by our company and may discourage lawsuits against our directors, officers and employees.

Our certificate of incorporation contains provisions which eliminate the liability of our directors for monetary damages to our company and shareholders to the maximum extent permitted under Delaware corporate law. Our bylaws also require us to indemnify our directors to the maximum extent permitted by Delaware corporate law. We may also have contractual indemnification obligations under our agreements with our directors, officers and employees. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors, officers and employees, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors, officers and employees for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our shareholders against our directors, officers and employees even though such actions, if successful, might otherwise benefit our company and shareholders.

FORWARD-LOOKING STATEMENTS

In this prospectus we make a number of statements, referred to as *forward-looking statements* , which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe to be appropriate in the circumstances. You can generally identify forward-looking statements through words and phrases such as *seek* , *anticipate* , *believe* , *estimate* , *expect* *intend* , *plan* , *budget* , *project* , *may be* , *may continue* , *may likely result* , and similar expressions. When read forward looking statement you should remain mindful that actual results or developments may vary substantially from those expected as expressed in or implied by that statement for a number of reasons or factors, such as those relating to: (1) the success of our research and development activities, the development of a viable commercial production model, and the speed with which regulatory authorizations and product launches may be achieved; (2) whether or not a market for our products develops and, if a market develops, the pace at which it develops; (3) our ability to successfully sell our products if a market develops; (4) our ability to attract the qualified personnel to implement our growth strategies; (5) our ability to develop sales, marketing and distribution capabilities; (6) our ability to obtain reimbursement from third party payers for the products that we sell; (7) the accuracy of our estimates and projections; (8) our ability to fund our short-term and long-term financing needs; (9) changes in our business plan and corporate strategies; and other risks and uncertainties discussed in greater detail in the sections of this prospectus, including those captioned *Risk Factors* and *Management s Discussion And Analysis Of Financial Condition And Results Of Operations* .

Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our company and our business made elsewhere in this prospectus as well as other public reports filed with the United States Securities and Exchange Commission (the *SEC*). You should not place undue reliance on any forward-looking statement as a prediction of actual

results or developments. We are not obligated to update or revise any forward-looking statement contained in this prospectus to reflect new events or circumstances unless and to the extent required by applicable law.

USE OF PROCEEDS

The proceeds from the sale of the common shares to be sold under this prospectus will be retained by the selling shareholders, and will not be paid or remitted or otherwise made available to our company. Included in the common shares offered for sale under this prospectus are 9,229,373 common shares issuable upon exercise of our put rights under a Standby Equity Distribution Agreement. To the extent we exercise these put rights, we would receive proceeds from the original sale of those common shares. We anticipate that we will use such proceeds for working capital and other general corporate purposes. The number and purchase price of such shares shall be based upon prospective market prices and shall be determined in accordance with the terms and conditions of the Standby Equity Distribution Agreement. By way of example, assuming the sale of all of the 9,229,373 common shares offered for sale under this prospectus at an assumed offering price of $0.67 per share (representing a 3% discount for the closing low price as of December 28, 2007), we would receive gross proceeds of approximately $6,177,000.

BUSINESS

Overview

Signalife, Inc. is a medical device company focused on researching, developing and marketing medical devices which monitor and measure physiological signals in order to detect diseases that impact an individual s health. Physiological signals are small bioelectrical signals generated by the body. Our initial product, the Signalife *Fidelity 100 Monitor System* or *Fidelity 100* , is a heart monitoring systems that uses our proprietary Model 100 patient module to acquire, amplify and process physiological signals associated with a patient s cardiovascular system. Heart monitor systems are used in a variety of medical settings. For example, they are used to collect physiological data for electrocardiogram or ECG tests for the purpose of detecting and identifying cardiovascular disease, and also used to monitor the condition of the heart during surgical procedures. Our patient module operates using our proprietary patented signal acquisition and amplification technology, as well as Bluetooth technology which allows the acquired signals to be wirelessly transmitted to a personal computer for interpretation and storage by the physician. Our proprietary signal acquisition and amplification technology provides the capability to collect, enlarge and process physiological signals in a manner that discriminates them from ambient or background electromagnetic noise, thereby facilitating the examination of the signal data for diagnostic purposes.

Recent Corporate History

Signalife was originally incorporated in Delaware on January 19, 1987 under the name Mt. Olympus Enterprises Inc. Since our formation, we changed our name to Recom Managed Systems, Inc. on November 6, 1998, and then to Signalife, Inc. on November 2, 2005.

Prior to September 19, 2002, we were an inactive corporate shell. On September 19, 2002, we acquired certain know how, trade secrets and other proprietary intellectual property rights relating to the development of a physiological signal amplification equipment and technology, referred to in this prospectus as the *Signal Technologies*, from ARC Finance Group, LLC (*ARC Finance Group*), our parent corporation, in exchange for 23,400,000 common shares (7,800,000 shares pre-split).

The principal component of the Signal Technologies is our proprietary patented signal acquisition and amplification technology which was originally invented by our Chief Technology Officer, Dr. Budimir S. Drakulic. The underlying patent covers methods of discriminating different biomedical signals from ambient electromagnetic noise. Also included in the Signal Technologies was an assignment of a license agreement dated December 9, 1993 between Dr. Drakulic and Teledyne Electronic Technologies (*Teledyne*) pursuant to which Dr. Drakulic granted a limited license to that company to manufacture electroencephalogram or EEG monitor products based upon an early version of the amplification technology. This early version amplifier is also currently used by the National Institute of Health as well as companies such as Titan Systems and Teledyne, Inc. for purposes of monitoring different physiological signals. This license agreement specified that Dr. Drakulic retained ownership of the original patent and underlying technology and the right to use technology to develop new products as long as they would not infringe on Teledyne s licensed products. Dr. Drakulic has since received a letter from Teledyne acknowledging that the use of the technology for our proposed heart monitor systems does not infringe on Teledyne s licensed products. Concurrent with our acquisition of the Signal Technologies, we obtained Dr. Drakulic s services as our Chief Technology Officer to lead our product development efforts.

Description Of Heart Monitor Systems And ECGs

A heart monitor system is a system used to monitor and record changes in physiological signals associated with a patient s cardiovascular system. The principal use of heart monitor systems is to collect physiological data for electrocardiogram or ECG tests for the purpose of detecting and identifying cardiovascular disease. Other uses include the monitoring of the heart during surgical procedures. An ECG gives the cardiologist important information about the heart. For example, by examining changes in waveforms from 0.67 Hz to 40 Hz frequency range, a cardiologist can identify irregularities in the heart s rate and rhythm, known as arrhythmia. By examining changes in waveforms in the broader 0.05 Hz to 150 Hz frequency range, a cardiologist can identify different types of heart disease, including damage to the heart muscles or tissue resulting from (1) decreased blood flow attributable to the narrowing of the arteries, known as cardiac ischemia, (2) enlargement of the heart resulting from additional effort attributable to the hardening of the heart muscle, known as hypertrophy, and (3) the existence of past or presently occurring heart attacks.

When an ECG test is ordinarily conducted in a clinical setting, the physiological signals from the patient s heart are displayed through a heart monitor system called a 12-lead ECG, based on acquiring a signal from ten electrodes, one of which is attached to each of the patient s arms, six to the chest and one to each leg. The placement of the ten electrodes enables the heart to be examined for different diseases. Physiological signals generated by the heart are amplified and recorded in the form of a series of waveforms that can be displayed on a screen or printed on paper for interpretation by a cardiologist.

Any irregularity in heart rhythm, damage or stress to the heart muscle will result in a deviation from a normal waveform.

There are three settings under which ECGs are normally taken: (1) the clinical or resting setting where the patient is immobile; (2) the ambulatory setting where the patient is mobile; and (3) the exercise setting where the patient is subjected to physical stress in a controlled environment. These three types of ECG tests are more fully described as follows:

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ECGs administered in the clinical or resting setting are generally taken (1) on an annual or periodic basis for typically older patients as part of their annual or regular physical examination; (2) under emergency or exigent circumstances when an individual complains of symptoms typically associated with heart disease such as chest pains, shortness of breath or heart palpitations; or (3) as part of surgeries and medical procedures, such as heart surgery. Most clinical ECGs are obtained in the resting setting. In a resting setting, the principal technical issue in interpreting ECG waveforms arise from the existence of ambient or background noise emanating from other electromagnetic sources, including (1) signals generated by the other organs, muscles and systems of the body, whether from movement or the performance by those organs of their bodily functions, and (2) signals generated by sources external to the body, such as electronic equipment, lights or engines. This ambient noise is commonly referred to as an artifact . As previously discussed, cardiologists can identify irregularities in the heart s rate and rhythm, known as arrhythmia, by examining changes in the 0.67 to 40 Hz frequency range. Because of the relatively large amplitudes of these waveforms in this range, cardiologists can, as a practical matter, easily identify arrhythmia notwithstanding the existence of electromagnetic ambient noise from other sources. However, it is very difficult for cardiologists to distinguish physiological signals from ambient noise in the broader frequency ranges used to identify different types of heart disease, including cardiac ischemia, hypertrophy and the existence of past or presently occurring heart attacks. The reason for this difficulty is that the physiological signals associated with these other heart diseases are of a much lower amplitude or strength in the lower 0.05 to 0.67 Hz and upper 40 to 150 Hz portions of the frequency range, meaning that they do not stand-out from the ambient noise in these portions and therefore cannot be easily discriminated from that ambient noise. In order to minimize ambient noise in the clinical setting, ECGs are normally taken in the hospital or physician offices. Cardiologists instruct the patient to lie in the supine position, being as still as possible while a reading is taken to reduce ambient noise caused by physical movement. Another method to reduce ambient noise is to reduce the sensitivity of the monitoring equipment, although this alternative results in a loss of signal quality and the ability to read certain signal intricacies.

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ECGs administered in the ambulatory setting are given in an attempt to identify so-called transient heart disease that is, problems that come and go, and that are not apparent in the low-activity states where a standard clinical or resting ECG is typically taken. Examples of transient heart disease are cardiac ischemia and cardiac hypertrophy. Additionally, the existence of past or presently occurring heart attacks can escape detection without longer-term monitoring in a physically active or stressful setting. An ambulatory heart monitor system, commonly known as a Holter monitor, allows the patient s heart to be continuously monitored over a period of hours or

days, while the patient carries out his or her daily activities under typical conditions of stress away from the physicians office or hospital. The principal technical limitation in deciphering ECG waveforms in an ambulatory setting is that in many cases, ambulatory heart monitor systems are unable to accurately identify many of the heart conditions they are intended to identify due to their inability to clearly distinguish and discriminate the physiological signals associated with these conditions from electromagnetic ambient noise in the lower and upper portions of the full 0.05 to 150 Hz frequency range. Therefore, the industry standard for ambulatory recorders is 0.67 to 40 Hz.

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ECGs administered in the exercise or stress setting are given while the patient exercises on a treadmill, step machine or exercise cycle to enable the cardiologist to monitor, among other things, the patient s heart behavior under conditions of physical stress. Exercise can exacerbate cardiovascular abnormalities that are not present at rest and it can be used to determine the adequacy of cardiac function. Similar to an ambulatory ECG, this allows the cardiologist to identify different heart disease such as cardiac ischemia and cardiac hypertrophy as well as the existence of past or presently occurring heart attacks that may not be evident under a clinical resting or simple ambulatory ECG test conditions. Indeed, many physicians administer a stress ECG before proceeding to an ambulatory ECG. While external sources of ambient noise can be reduced in the clinical setting when exercise ECGs are conducted, high levels of physical activity inherent in exercise ECGs generate higher internal levels of ambient noise due to necessary patient movement. To address this issue, exercise ECG devices are connected to computers which run sophisticated software to filter and process physiological signals and produce average waveforms for interpretation by the cardiologist. However, the American Heart Association and American College of Cardiology each state that computer processing is not completely reliable because of software limitations in handling noise and the technical limitations of the algorithms used in the software, and cardiologists are therefore advised to look at the raw data and not to rely solely upon software-processed data.

Description Model 100 Patient Module

The core component of our heart monitoring systems is our battery-operated, digital 12-lead Model 100 patient module (the *Model 100 Module*), a compact device approximately 4 x 3.5 x 1.5 inches in size and 5.5 oz. in weight, that allows a patient s heart to be continuously monitored over a period of 24 to 48 hours in a variety of settings both non-ambulatory (stationary) and ambulatory (moving) such as hospitals, surgeries, clinics, doctors offices, exercise and sports medicine clinics and laboratories. The Model 100 Module contains both our proprietary patented amplification technology which acquires, processes and amplifies ECG signals, as well as Bluetooth technology which allows the acquired signals to be wirelessly transmitted to a personal computer for interpretation and storage by the physician.

The production version of our Model 100 Module was originally designed, engineered, fabricated and tested by Battelle Memorial Institute, Health and Life Sciences, pursuant to a research and development services agreement completed by Battelle Memorial Institute in December 2004. Battelle Memorial Institute is a global science and technology enterprise that designs, develops and commercializes technology and manages laboratories for customers. The pre-production model of our Model 100

Module, which was completed by Battelle Memorial Institute in December 2004, was tested and determined to comply with all applicable performance, safety, environmental and regulatory standards, including the United States Food And Drug Administration (*FDA*)-recognized consensual American National Standards Institute/Association for the Advancement Of Medical Instrumentation (*ANSI/AAMI*) EC-38 industry standards for ambulatory ECG devices, Federal Communications Commission (*FCC*) requirements for Human Exposure to Radiofrequency (RF), the FDA-recognized consensual industry standards for electromagnetic compatibility for medical devices (EMC), the FDA-recognized IE 60601-1 international safety standard relating to medical electrical equipment, and the FDA's Quality System Regulations. These testing results also satisfied our obligation under our abbreviated 510(k) submission to have supporting data in our files before marketing the Model 100 Module as part of the Model 100 Monitor System. The Model 100 Module also complies with ANSI/AAMI EC-11 and EC-13 ECG standards to the extent they relate to non-diagnostic features and alarm functions for stationary (non-ambulatory) ECG devices.

Description Of Products

Fidelity 100 Monitor System

Our initial product using the Model 100 Module is the Signalife *Fidelity 100 Monitor System* or *Fidelity 100* . The *Fidelity 100* is an integrated system in which our Model 100 Module collects, processes and amplifies ECG signals from that patient through a set of twelve electrode lead sets provided with the system, and then wirelessly transmits that signal to a nearby personal computer provided with the system. The signals are then displayed on a computer monitor and can be printed on a printer provided with the system for analysis by the cardiologist.

The *Fidelity 100 Monitor System* is marketed an integrated system containing all of the components the Model 100 Module, electrode lead sets, and a personal computer with monitor and printer, which could either be in a desk top or laptop configuration. This product has received FDA 510(k) clearance as a class II medical device.

The *Fidelity 100 Monitor System* is principally used for clinical (resting) settings, including (1) monitoring the performance of the heart during surgical procedures including heart surgery; (2) under emergency or exigent circumstances when an individual complains of symptoms typically associated with heart disease such as chest pains, shortness of breath or heart palpitations; and (3) as part of regular examinations or preventative programs for the purpose of detecting and identifying cardiovascular disease.

We introduced the *Fidelity 100 Monitor System* by presenting the system at the annual meeting of the American College of Cardiology held at Atlanta, Georgia, from March 12-14, 2006, and received our first orders for this product in October 2006. Nevertheless, our marketing efforts for this product within the United States have been nominal to date, principally due to third-party performance issues in distributing our products while prior management devoted its limited time and resources to other matters. We are now focusing our efforts on formally launching this product into the United States market using our own resources.

Fidelity 200 Event Recording System

The Signalife *Fidelity 200 Event Recording System* or *Fidelity 200* , which is in the final development stage as discussed below, is a direct-to-consumer non-prescription credit card-sized heart monitoring device which has been specifically designed to be used in conjunction with monitoring centers. This product has received FDA 510(k) clearance as a class II medical device.

The *Fidelity 200*, which utilizes the proprietary physiological signal acquisition and amplification technology used in the *Model 100 Module*, will be used as an early-detection device by patients who desire to independently monitor their condition. Specifically, at the onset of an event that will be recorded, the patient holds the event recorder to his/her chest, presses the record button, and records up to a 45-second event. The event recorder will be capable of storing up to six, 45-second recordings. The patient will then either take the recorder to his or her physician for review or transmit the data to a subscription-based 24-hour monitoring center via a telephone phone line. In the latter case, the patient will call the monitoring center and upon verbal communication with receiving station personnel, position the monitor over the telephone mouthpiece, and start the transmission by pressing the play button. Data will then be transmitted to the monitoring center where it can be immediately evaluated by a qualified ECG technician, cardiac nurse or cardiologist.

We anticipate that we will sell the *Fidelity 200* to consumers through retail outlets such as drug stores, retail pharmacies, and major retail discount chains. The consumer will then separately subscribe to a monitoring services that is compatible with the device. We are currently in negotiations with several established monitoring centers in connection with pooling our efforts on the use and sale of the *Fidelity 200* for those centers and the sharing of subscription fees. We are actively involved in engineering the final production version which we will commercially introduce into the market at the first available opportunity.

Fidelity 300 Holter Monitor

The Signalife *Fidelity 300 Holder Monitor* or *Fidelity 300* , which contains the proprietary physiological signal acquisition and amplification technology used in the *Model 100 Module*, is a three-lead ambulatory Holter device. The *Fidelity 300* is used while the patient carries out his or her daily activities away from the physicians office or hospital to collect ECG data relating to arrhythmia and other transient heart disease. Specifically, the data is acquired, processed, amplified and stored in a computer storage chip contained in the *Fidelity 300*, and then downloaded by the physician at a later date when the patient returns to the physician s office. The Fidelity 300 will allow up to thirty days of data to be recorded, satisfying physician needs for a more extensive database, unlike other holter markets currently on the market that record only for a period of 24 to 48 hours.

A major industry partner has indicated its desire to provide the software to be used with this product to scan the processed data, in conjunction with tests to be conducted through the Cleveland Clinic Heart Center. We have extended a right of first negotiation to that industry partner to distribute the *Fidelity 300* on an OEM basis, and are in the process of documenting the anticipated testing regime. We are also in negotiations with another industry partner relating to a joint venture or distribution arrangement.

Although we received FDA 5120(k) clearance for an earlier version of this prototype as a class II medical device, we intend to procure additional clearance given new features we have added. We anticipate that we would commence marketing the *Fidelity 300* by the end of fiscal 2008. We have extended a right of first negotiation to the aforesaid major industry partner to distribute the *Fidelity 300* on an OEM basis, and are in negotiations with another industry partner relating to a potential joint venture or distribution arrangement.

Fidelity 400 Intracardiac Monitor

The Signalife *Fidelity 400 Intracardiac Monitor* or *Fidelity 400* applies our proprietary physiological signal acquisition and amplification technology to read intracardiac signals procured from intracardiac catheter products. An intracardiac catheter is a flexible tube that is inserted through a vein in the leg and fed into the heart. The catheter is equipped with electrodes which allows the signal to be recorded within the heart, and the catheter data is transmitted to a monitor, which allows the physician to evaluate cardiac function, including arrhythmia, or irregular heartbeat. These readings are beneficial in that they measure signals directly from the heart, as opposed to signals read from the surface of the body as is typical in the ordinary application of heart monitors.

We developed and successfully tested a proto-type version of this product at the Electrophysiology Laboratories at the Cleveland Clinic Heart Center as was reported in a poster presentation at the Heart Rhythm Society in Boston in May 2006. We are in the process of planning a series of clinical studies through the Cleveland Clinic for the purposes of procuring FDA 510(k) clearance of the proto-type as a class II medical device. We are also currently designing, engineering and fabricating a production version of this product, which we anticipate will be completed and brought to market by the end of 2008 at the earliest. We are currently in discussion with several major industry partners relating to the commercialization and distribution of this product.

Cardiac Vest

In conjunction with the Champ Car World Series, the North America-based formula-one style auto racing circuit, and cardiologists from the Cleveland Clinic, we have tested a new variant of a patient vest containing proprietary electrodes to be used with our monitors previously under development by Signalife (the Signalife *Cardiac Vest*). The design is planned to allow a patient to use the vest on a 24/7 basis for extended periods of time, being removed only intermittently for showers, etc.

The Signalife *Cardiac Vest* is an extremely lightweight, close-fitting vest or undergarment made of stretchable material in which the electrodes are stitched into the fabric. Cardiologists at the Cleveland Clinic successfully tested the vest during fiscal 2006 in the Champ Car Series, in which selected race-car drivers would wear the vest during races, and the data collected would be transmitted wirelessly to a modified *Fidelity 100* using telemetry. It should be noted that in spite of extremely harsh and noisy testing conditions, we were able to precisely measure ECG signals using the *Cardiac Vest* and the *Fidelity 100*, demonstrating the efficacy of each.

We believe that the Signalife *Cardiac Vest* is more effective and convenient than the electrode/wire sets currently employed with ambulatory recording devices. When employing these electrode/wire sets, the

intended attachment site requires proper shaving and preparation of the site and the use of gels to ensure that the lead remains affixed to the site. If the electrode is dislodged from the location site by physical activity or lack of proper site preparation, the Holter monitor will not record the proper signal. In the case of the Signalife *Cardiac Vest,* the electrodes incorporated into the vest do not need to be attached to the skin. Instead, they need only remain adjacent to the proper location, which is effected through the design and materials used in the vest.

We have are currently designing, engineering and fabricating a production version of the Signalife *Cardiac Vest*, which we anticipate will be completed and brought to market by the end of fiscal 2008 at the earliest. We will also need to procure FDA 510(k) clearance for this product. We have entered into preliminary discussions with an industry partner relative to the prospective distribution of this product for both typical ambulatory purposes as well as for athletic applications.

Patient Monitoring Centers

Signalife has previously considered in the longer term developing, acquiring or entering into joint venture, licensing or other collaborative arrangements with patient monitoring centers that would work in conjunction with our products and with certain monitoring capabilities which we have internally established. Signalife s involvement with patient monitoring centers would enable us to receive a continuous stream of revenues from monitoring devices we sell, which would allow us to substantially enhance our revenues from the initial sale of such devices.

Patient monitoring centers are typically used in ambulatory settings, where a patient either uses an event recorder to independently monitor their condition, or wears a Holter monitor to record data over an extended period of time while performing his or her daily activities away from the physicians office or hospital. The data from the event recorder or Holter monitor is typically transmitted to the monitoring center either by telephone or the Internet. The data is then transferred or made available to the cardiologist.

We would likely expand the services offered by our patient monitoring centers to include mobile outpatient monitoring using either or both of our *Fidelity 200 Event Recording System* or a telemetry-based version of the Signalife *Fidelity 300 Holter Monitor* in conjunction with our *Cardiac Vest*. At this point we are in discussions with several patient monitoring centers relating to a collaborative arrangement whereby the center would use the *Fidelity 200* and we would share subscription fees.

Description Of Products In Investigational Stage

EEG Products

We have initiated a study of the applicability of our technology to electroencephalogram or EEG-related applications, in particular the detection of Alzheimer s, Parkinson s and other neurological diseases. As previously discussed above, earlier versions of our amplification technology are now used in EEG equipment used to measure neurological or brain responses. We believe the enhancements Dr. Drakulic has designed since for ECG purposes may have similar application for the EEG market. As discussed below in this prospectus, this activity will not impact the Teledyne licensing agreement.

Given our immediate focus on marketing and distributing our *Fidelity 100 Monitor System* and introducing our Signalife Holter Monitor and Signalife *Fidelity 200 Event Recording System* to market, we do not anticipate that we actively pursue the data collection and other activities necessary to further this product until fiscal 2009 at the earliest, however, new management and board members at the company are actively re-evaluating this stratagem.

Description of Signal Technologies; Evaluative Studies

Our patient modules operate using the Signal Technologies. The Signal Technologies are a patented amplification technology originally developed by our Chief Technology Officer, Dr. Budimir S. Drakulic, to address the electrical interference or noise issue during physiological recordings. In an effort to explore ways to accurately and objectively monitor pilot performance, the United States Air Force desired to record a pilot s neurological brain responses, consisting of tiny electrical impulses generated by the brain, to different tasks and stresses that occur in-flight using an electroencephalogram or EEG test. However, the Air Force found that the neurological signal monitoring equipment then available was not able to accurately monitor EEG in an electromagnetically-charged (i.e., noisy or artifact-intensive) environment such as the cockpit of a fighter jet or a B-52 bomber. In 1992, Dr. Drakulic led a team from the University of California at Los Angeles (*UCLA*) and the Veterans Administration in an effort to develop a device to resolve this problem. This effort resulted in the creation by Dr. Drakulic in 1994 of a first-generation amplifier that was successfully used by the Air Force to monitor pilot EEG signals. This early version amplifier is also currently used by the National Institute of Health as well as companies such as Titan Systems and Teledyne, Inc. for purposes of monitoring different physiological signals.

The Signal Technologies were originally acquired by ARC Finance Group from Dr. Drakulic and then by Signalife from ARC Finance Group, based upon the belief of Dr. Drakulic and the principals of these companies that with the technological, development and financial assistance of these companies the capability of the technology to discriminate EEG signals, particularly in an electromagnetically-charged environment such as fighter aircraft cockpits, would have a similar application in discriminating ECG signals from ambient noise. Specifically, it was and continues to be believed by these persons that the Signal Technologies, as applied to the ECG market, would have the ability to amplify and discriminate the lower-amplitude physiological signals associated with those in the lower and upper portions of the full 0.05 to 150 Hz frequency range, thereby facilitating the ability to more clearly identify heart diseases in an ambulatory setting. In developing Signalife s initial ambulatory patient modules and overall heart monitor systems, and adopting the Signal Technologies for those modules and systems, Dr. Drakulic has since enhanced the signal processing technology such that Signalife has filed five additional patents covering these enhancements.

In order to validate our beliefs as to the performance of our technology in the ECG market, on August 30, 2004 we entered into an agreement with the Duke Clinical Research Institute at Duke University to evaluate the performance of our *Fidelity 100 Monitor System* against a well established high fidelity ECG monitor. Under this agreement, the Duke Clinical Research Institute under the supervision of Dr. Mitchell W. Krucoff, as principal investigator, designed and conducted DIVA clinical studies evaluating our *Fidelity 100 Monitor System* during catherization procedures at the Durham, North Carolina, Medical Center from January 2005 to December 2005. The results of the complete study

indicate that the *Fidelity 100 Monitor System* provides excellent detection and quantification of transient ischemia. A summary of the results were presented at the IEEE EMBC 2007 conference held in August 2007 in Lyon, France, and full clinical data will be released in the American Journal of Cardiology.

As previously discussed, we have also validated our beliefs as to the performance of our signal acquisition and amplification technology through the tests conducted by cardiologists at the Cleveland Clinic successfully tested the vest during fiscal 2006 in the Champ Car Series pursuant to which we were able, in spite of harsh and noisy racing conditions, to precisely measure ECG signals.

Competitive Advantages And Marketing Strategy

As discussed above, Signalife believes that the Signal Technologies afford our ECG monitoring devices the ability to amplify and discriminate physiological signals in all settings, notwithstanding the existence of electromagnetic ambient noise from other sources, and in all frequency ranges, including lower-amplitude physiological signals associated with those in the lower and upper portions of the full 0.05 to 150 Hz frequency range associated with transient heart diseases. Signalife believes that this ability affords the *Fidelity 100* heart monitor with significant competitive advantages over the state-of-the-art heart monitors currently on the market. These advantages can be most easily demonstrated and explained by the following graphic, which compares two ECG print-outs taken during a cardiac surgical procedure (seen in the background) recently performed at a major hospital.

The readout on the left is from the *Fidelity 100* heart monitor, while the read-out on the right is from a state of the art heart monitor offered by a competitor. The *Fidelity 100* read out shows the waveform of the normal or proper heart function from all eight leads. The read-out from the state of the art monitor, on the other hand, shows only one lead (on the top) which has any similarity whatsoever to a normal waveform. The data from the second lead is confusing and essentially meaningless, although it could be construed to indicate that there are potentially heart problems, even though there is none indicated on the Signalife read-out. The other leads show no data whatsoever. The significance of the foregoing is that not only does the *Fidelity 100* monitor consistently give accurate signals from all leads in all cases, it also avoid false positives relating to inaccurate information. Specifically, since, as a practical matter, the meaning of the signal from the second lead on the state of the art monitor is meaningless, the physician can only speculate as to what is going on with the heart, and can potentially misdiagnose the condition of the heart.

The reason for the efficacy of the *Fidelity 100* heart monitor over state of the art heart monitors is fairly simple. The *Fidelity 100* has been designed to collect only the signals from the heart, while ignoring and

not being confused by all the other electronic clutter that is occurring in the operating (or ambulatory) environment, including other physiological signals from the body (such as from the brain and other organs) and other electromagnetic signals from the numerous devices in the operating room or surrounding environment. In the case of the state of the art devices, they collect all of the data from the surrounding environment, both physiological and electromagnetic, and then attempt to filter out the other noise sources, with the results seen above. Specifically, much of the data is either distorted, confusing and potentially misleading (as in the case of lead 2), or omitted or non-existent (such as in the case of leads 3 to 8).

As a consequence, Signalife believes that hospitals and physicians will have a huge inducement to purchase the *Fidelity 100* they can more accurate monitor heart functions in all settings and under all conditions surgical, diagnostic, and ambulatory--and avoid misdiagnosis, leading to better patient results, eliminating liability. Moreover, this ability will allow them to eliminate other monitoring functions, thereby reducing procedure costs. Given that there is one heart attack in the United States every 34 seconds, Signalife believes that this enhanced ability to detect cardiac disease early and will lead to life-saving intervention.

Based upon these beliefs, Signalife is marketing or will market our ECG devices as follows:

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In certain clinical resting settings where there is a high incidence of electromagnetic interference, such as in surgical suites, Signalife is promoting the ability of our ECG devices to provide clear and accurate signal data that is not adversely affected by the electromagnetic interference.

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In the case of other clinical resting settings where resting ECGs are typically taken, Signalife is promoting the ability of our ECG devices to allow the patient to walk around the facility or on a treadmill while the ECG is being taken, thereby allowing the physician to better identify transient heart diseases. Since competitive resting ECG devices do not presently have this ability, this should lend our ECG devices a clear competitive advantage over traditional resting ECG devices.

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In the case of ambulatory settings, where a patient wears a Holter monitor or event recorder for an extended period of time while performing his or her daily activities away from the physicians office or hospital, Signalife is promoting the ability of our ECG devices to amplify and discriminate physiological signals in the lower-amplitude physiological signals associated with those in the lower and upper portions of the full 0.05 to 150 Hz frequency range associated with transient heart diseases. Since competitive ambulatory ECG devices do not presently have this ability, this should lend our ECG devices a clear competitive advantage.

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In the case of exercise or stress settings, Signalife is promoting the ability of our ECG devices to provide clear signal data that does not need to be filtered and processed by computer software to eliminate electromagnetic noise, addressing the reliability issues arising from the use of such programs.

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The ability of our ECG devices to provide clear data output and more accurate results across the full Hz frequency ranges also allows us to provide the physician with signal data that will facilitate

greater diagnostic yield , a medical term which means that the physician can more accurately and expeditiously diagnose the cardiac disease or condition, leading to better patient outcomes.

To date, the cardiac monitor market is a mature one with little innovation or product differentiation and limited market growth. Competitors principally compete on price and relatively small margins in order to maintain market share. Volume is mainly predicated on product replacement and the increased need for devices compatible with data networks. Given the product advantages afforded by our Signal Technologies, we believe that we can differentiate the benefits of our products from those of competitors and sell our products for greater prices and margins than our competitors. We also believe that our monitoring devices will cause existing versions in the market to be deemed obsolete, with will accelerate the growth of replacement sales and the overall growth of the market. The principal hurdle we must overcome in order to attain these ends will be educating prospective purchasers as to the product differences and benefits afforded by our products over competitive products.

Market And Competition

Market

Cardiovascular disease accounts for 40% of all hospital revenue and approximately 37% of deaths in the United States. Over 500,000 Americans survive heart attacks every year and need to be diagnostically monitored. In the United States alone, over 280,000 patients have various heart devices implanted. The US Department of Health and Human Services estimates that heart disease costs including, hospital expenses, home care, medications and lost earnings, exceed $400 billion. Experts estimate that 85% of cardiovascular disease could be prevented or halted by sufficient early diagnosis.

According to the American Heart Association, a patient that survives the acute stage of a heart attack has a chance of illness and death that is 1.5-15 times higher than that of the general population. Signalife's patented heart monitoring technology will allow physicians to monitor patients in an ambulatory setting, giving them access to vital life-improving and life-saving information.

Competition

Each of the ECG market segments is highly concentrated with five or six companies typically accounting for a substantial majority of all sales. Our principal competitors in the resting ECG market segment are GE Healthcare, Royal Philips Electronics, Cardiac Science, Inc. and Welch Allyn, Inc. Our principal competitors in the stress ECG market are GE Healthcare, Cardiac Science, Inc, Welch Allyn, Inc. and Schiller AG. Our principal competitors in the ambulatory ECG market segment include Del Mar Reynolds Medical Ltd., GE Healthcare, Royal Philips Electronics, Cardiac Science, Inc, Mortara Instrument, Inc., Rozinn Electronics, Inc., CardioNet, Inc., Raytel Medical Corporation, Cardiac Telecom, Inc. and Card Guard Instromedix and Lifewatch subsidiaries.

The market for heart monitoring products and services is intensely competitive, especially for small companies. Given the lack of product differentiation and intense competition, companies principally compete on price. There are no substantial barriers to entry, and we expect that competition will be intense and may increase. Many of our existing competitors may have substantially greater financial,

product development, technical and marketing resources, larger customer bases, longer operating histories, better name recognition and more established relationships in the industry. As a result, certain of these competitors may be able to develop and expand their product and service offerings more rapidly, adapt to new or emerging technologies and changes in customer requirements more quickly, take advantage of acquisition and other opportunities more readily, devote greater resources to the marketing and sale of their products and services, or aggressively reduce their sales prices below the our costs. We cannot assure you that we will be able compete successfully with existing competitors or new competitors.

Marketing And Distribution Strategy

Our initial marketing efforts for the *Fidelity 100* since its introduction have been extremely limited to date principally due to performance issues with third-party distributors and sales agents to whom we originally delegated sales authority, our limited internal sales and marketing support functions and personnel, and the focus of prior management on other activities. We have recently launched a company-sponsored program to aggressively market and promote the *Fidelity 100* in the United States, in which we will rely upon new senior management and directors, consisting of Dr. Lowell T. Harmison, the President and Chief Operating Officer and a director of Signalife, and Drs. Steven J. Phillips, Robert E. Windom and Jay A. Johnson, directors of Signalife, taking the initiative to personally market the *Fidelity 100* to selected marquee cardiac hospitals in the United States and selected physicians and physician groups to whom they have pre-existing relationships and entrees to top management and decision makers. Given their prominent reputations in the industry, Signalife believes Drs. Harmison, Phillips, Windom and Johnson will be able to cut through red-tape to more quickly demonstrate the benefits of the product and procure purchase orders, thereby in kick-starting sales and achieving market acceptance of the *Fidelity 100* heart monitor as the state of the art heart monitor. Given that Drs. Harmison, Phillips, Windom and Johnson and have extensive experience in one or more different but complementary medical areas that will use the Signalife *Fidelity 100* heart monitor for slightly different purposes and benefits cardiology, internal medicine, and cardiac surgery Signalife will have the ability to better address physician concerns in each such area.

Signalife also intends to develop its own internal sales team, and will likely engage independent commissioned salespersons or joint venture partners to distribute our products in the United States under certain circumstances. New management is currently reevaluating the company`s existing independent sales agents in view of prior performance issues. We have also entered into agreements with several firms to market, promote and otherwise introduce our products to medical professionals and health care institutions, both internationally (principally Mexico to date) and the United States, and to otherwise generate product awareness.

We are also in discussions with several prospective industry partners relative to distributing our products, including an the *Fidelity 100 Monitor System*; the Signalife *Fidelity 200 Event Recording System*; the *Fidelity 300 Holter Monitor*, the *Fidelity 400 Intracardiac Monitor*, and an industry partner that is investigating the use of the Signalife *Cardiac Vest* for Holter monitor purposes. No assurance can be given that we will enter into agreements with any of these industry partners.

We have recently successfully completed a pilot program with a national gym, in which patrons of the gym at a selected facility were tested using the Signalife *Fidelity 100 Monitor System* in order to detect and identify cardiovascular disease that could be triggered or exacerbated by exercise programs. As part of the program, we developed a set of test protocols and procedures to address cardiac risks inherent to exercise. We are now in the process of expanding the program to fitness facilities across the country.

We are also participating in the Athletes For Life program which will focus on developing protocols to test professional and amateur athletes for cardiovascular disease and abnormalities as part of their regular training regime, and will also promote testing for impoverished communities where early detection of cardiovascular disease simply does not exist. A large number of high-profile athletes have indicated their desire both in participating in this program given the high incidence of cardiovascular abnormalities associated with athletes involved in professional sports and track and field; and also sponsoring the community outreach portion of the program given their desire to promote community fitness and cardiovascular testing in the general community.

Manufacturing Capacity

We intend to manufacture our products both domestically and off-shore using third party FDA-certified contract manufacturers or joint-venture partners. Most of the components of our products are standard parts which are available from multiple supply sources at competitive prices. This, coupled with the lack of significant start-up costs attributable to the use of contractors, should minimize production and product costs. Currently, we have engaged one contract manufacturer, Ventrex, Inc., which has been manufacturing the Model 100 Modules used in our *Fidelity 100 Monitor System* since December 2005.

Research And Development

We currently conduct research and early stage development activities in-house and with engineering consultants. We retain title to all improvements or enhancements to our technology developed by or worked on by our engineering consultants under their contracts. Our research and development expenses for fiscal 2006 and 2005 were $2,694,958 and $1,328,482, respectively. None of these expenditures were borne by customers. We have budgeted approximately $1,465,000 for research and development for fiscal 2007.

Regulatory Overview

Current Status

Our heart monitors are Class II medical devices that must be cleared by the FDA in order to be marketed within the United States. We have, to date, received FDA 510(k) clearance under the FDA s abbreviated 510(k) submission format allowing us to market our Model 100 Module as a class II medical device as part of an overall ECG system, on the basis of it being substantially equivalent to other ambulatory monitor systems on the market which satisfy the industry s consensual ANSI/AAMI EC-38 standard for non-diagnostic monitor systems. We have similarly received 510(k) clearance for the *Fidelity 200* Event Recorder. Under the terms of the abbreviated 510(k) clearance, we are required to have supporting data in our files documenting that the heart monitoring device/system will conform to

performance standards before it can be marketed. As such, we may continue to perform engineering and design work on the heart monitoring device/system without resubmitting the system for further FDA 510(k) clearance unless we were to significantly alter the safety or effectives of the system as cleared by FDA. We do not currently anticipate this will occur.

FDA Regulations And Requirements

ECG heart monitor products are regulated in the United States by the Food and Drug Administration (the *FDA*) under the Medical Device Amendments of 1976 (the *Medical Device Act*), a section of the Federal Food, Drug & Cosmetic Act (the *FDC Act*). Under the Medical Device Act, medical devices are designated as Class I, II or III devices depending upon the level of control and review necessary to assure the safety and effectiveness of the device, which in turn is based upon the level of risk to the patient. ECG heart monitor products are classified as a Class II medical device, which cannot be sold in the United States unless the seller can first demonstrate or represent to the FDA pursuant to section 510(k) of the FDC Act, that the device is substantially equivalent to one or more similar devices currently on the U.S. market, referred to as predicate devices. To demonstrate substantial equivalency, the applicant must show that the new device (1) has the same intended use as the predicate device or devices, and (2) has either the same technological characteristics as the predicate device or devices, or has different technological characteristics that do not raise new questions of safety and effectiveness. A claim of substantial equivalence does not mean the new and predicate devices must be identical. Substantial equivalence is established with respect to intended use, design, energy used or delivered, materials, performance, safety, effectiveness, labeling, biocompatibility, standards and other applicable characteristics. Until the applicant receives clearance declaring a device substantially equivalent, it may not proceed to market the device within the United States.

The review period and FDA determination of substantial equivalence should be made within 90 days of submission of a 510(k) application, unless additional information or clarification or clinical studies are requested or required by the FDA. As a practical matter, the review process and FDA determination can take significantly longer than 90 days.

It should be noted that 510(k) clearance is a grandfather process. As such, 510(k) clearance does not imply that the safety, reliability and effectiveness of the medical device has been approved or validated by the FDA, but merely means that the medical device is determined to be substantially equivalent to a previously cleared commercially-related medical device.

As an alternative to the traditional 510(k) submission process, the FDA has also adopted an abbreviated or summary 510(k) submission process in cases where device-specific guidance documents or special controls have been established, or the FDA has recognized a relevant consensus standard, and the applicant certifies compliance or conformance with those documents, controls or standards. The applicant can procure abbreviated 510(k) clearance by either; (1) submitting a declaration that the applicant has in its files test data confirming that the medical device conforms to the consensus standard at the time of submission, or (2) submitting a statement that the medical device will conform to the consensus standard and that the applicant will have that supporting data in its files before marketing the device. Under either approach, the FDA reviewers will normally accept the declaration or statement

without requesting the submission of information demonstrating conformity with the standard. In the case of ECG heart monitor products, the FDA has recognized the EC-38 Ambulatory Electrocardiograph, EC-11 Diagnostic ECG, and EC-13 Arrhythmia Detection and Alarm standards adopted by the American National Standards Institute or ANSI and the Association for the Advancement of Medical Instrumentation or AAMI as voluntary consensus standards for Class II 510(k) submission purposes. In the event that we make improvements to a previously-cleared device, the FDA also has a process that allows us to compare the improved device to our previously-cleared device on an expedited basis, typically 30 days.

Both domestic and foreign manufacturers and distributors of medical devices that intend to market those devices in the United States must register their establishments with the FDA and annually update the registration. Registration provides the FDA with the location of medical device manufacturing facilities and importers. In addition, all medical devices that are manufactured and imported into the United States must be listed with the FDA. Medical device listing is a means of keeping the FDA advised of the generic categories of devices an establishment is manufacturing and marketing.

Manufacturing facilities must undergo FDA inspections to assure compliance with good manufacturing practices or GMPs set forth under the quality system or QS regulation promulgated by the FDA. The quality system regulation provides a basic framework to ensure that manufacturers of finished medical devices intended for commercial distribution in the United States have in place a quality system for the design, manufacture, packaging, labeling, storage, installation and services of finished medical devices intended for commercial distribution in the United States. These regulations require that various specifications and controls be established for devices; that devices be designed under a quality system to meet these specifications; that devices be manufactured under a quality system; that finished devices meet these specifications; that devices be correctly installed, checked and serviced; that quality data be analyzed to identify and correct quality problems and that complaints be processed. Thus, the quality system regulation helps assure that medical devices are safe and effective for their intended use. The FDA monitors device problem data and inspects the operations and records of device developers and manufactures to determine compliance with the GMPs.

Medical devices sold in the United States must also conform to general labeling requirements adopted by the FDA stipulating the content and format of product information that must be provided with the device, including information relating to the manufacturer of, and the intended use of the device, as well as directions for use of the device.

Under Medical Device Reporting or MDR regulations established by the FDA, manufacturers, distributors and users of medical devices are required to report complaints of device malfunctions or incidents of serious injuries or deaths associated with medical devices to the FDA. The MDR regulations provide a post-surveillance mechanism for the FDA and manufacturers to identify, monitor and track significant adverse events involving medical devices for the purpose of detecting and correcting problems in a timely manner.

Thirteen Weeks Ended		**Twenty-Six Weeks Ended**	
July 31, 2010	**August 1, 2009**	**July 31, 2010**	**August 1, 2009**
Transaction Services			
$14,361	$16,489	$30,542	$32,506
Merchandise Sourcing			
$104,067	$118,401	$190,901	$207,460

The Company s outstanding liability related to transaction services and merchandise sourcing provided by LBI, included in accounts payable and accrued expenses related parties on the Consolidated Balance Sheets, was as follows:

	July 31, 2010	January 30, 2010
Transaction Services	$ 9,480	$ 10,881
Merchandise Sourcing	$ 77,279	$ 63,643

Furthermore, under the Limited Liability Company Agreement of Parent (LLC Agreement), LBI was entitled to receive a cash payment (at the same time payments were made under the GGC Advisory Agreement (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 LBI over the number of units held by GGC at the time of payment of such Advisory Agreement fees. Effective May 12, 2010, the LLC Agreement, including the advisory arrangement with LBI, was terminated in connection with the Company s conversion to a corporation and IPO. As a result of terminating the LLC Agreement, the Company paid LBI a one-time termination fee of $3,333.

Table of Contents

The Company incurred the following charges from LBI related to advisory fees and the termination of the LLC Agreement. These charges are included in other operating expense, net, in the Consolidated Statements of Income:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
LBI LLC Agreement Fee	$ 3,401	$ 417	$ 4,156	$ 774

As a result of the termination of the LLC Agreement, the Company no longer has a financial obligation to LBI as of July 31, 2010. The Company s outstanding liability related to the LBI LLC Agreement fee, included in accounts payable and accrued expenses related parties on the Consolidated Balance Sheets, was $4,688 as of January 30, 2010.

Transactions with GGC

In connection with the GGC Acquisition, the Company entered into the Advisory Agreement with GGC that was originally scheduled to expire in July of 2017. In exchange for on-going consulting and management advisory services provided by GGC, the Company paid GGC an annual management fee equal to the greater of (i) $2,000 per fiscal year or (ii) 3% of adjusted EBITDA of Holding. Additionally, the Company reimbursed GGC 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. As a result of terminating the Advisory Agreement, the Company paid GGC a one-time termination fee of $10,000.

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
Advisory fees and out-of-pocket expenses	$ 10,477	$ 1,252	$ 12,752	$ 2,444

As a result of the termination of the Advisory Agreement, the Company no longer has a financial obligation to GGC as of July 31, 2010. The Company s outstanding liability related to the GGC Advisory Agreement, included in accounts payable and accrued expenses related parties on the Consolidated Balance Sheets, was $7,128 as of January 30, 2010.

Transactions with Other GGC Affiliates

The Company also transacts with affiliates of GGC for software license purchases, consulting and software maintenance services, and e-commerce warehouse and fulfillment services. The Company incurred the following charges, included in general, administrative, and store operating expenses in the Consolidated Statements of Income:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
Software licenses and maintenance and consulting	$ 161	$ 62	226	$ 179
E-commerce warehouse and fulfillment	$ 1,544	$ 3,506	$ 5,162	$ 6,874

On March 25, 2010, the Company elected to prepay its e-commerce service provider, a GGC affiliate, $10,240 for services from April 2010 through January 2011 in exchange for a discount on those services. This prepaid amount is expensed as services are rendered. The Company recognized expense related to the prepaid e-commerce warehouse and fulfillment services of $3,036 and $4,007 for the thirteen and twenty-six weeks ended July 31, 2010, respectively.

Table of Contents

The prepaid balance related to this GGC affiliate was $6,233 and $0 as of July 31, 2010 and January 30, 2010, respectively.

The Company s outstanding liability to other GGC affiliates, included in accounts payable and accrued expenses -related parties on the Consolidated Balance Sheets, was $349 and $3,491 as of July 31, 2010 and January 30, 2010, respectively.

In December 2009, the Company began providing real estate services to multiple GGC affiliates. Income recognized for these services during the thirteen week and twenty-six weeks ended July 31, 2010 was nominal, and no income was recognized during the thirteen week and twenty-six weeks ended August 1, 2009.

An affiliate of GGC owns $50,000 in face value of the Senior Notes issued on March 5, 2010. Interest expense incurred on the Senior Notes attributable to GGC affiliates was $1,168 and $1,912 during the thirteen weeks and twenty-six weeks ended July 31, 2010. There was no interest on the Senior Notes in 2009.

8. Income Taxes

Prior to May 2, 2010, the Company was 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. The Company, therefore, is subject to federal and state tax expense beginning May 2, 2010.

The Reorganization, for tax purposes, was deemed a contribution by Parent of its assets and liabilities to the Company, followed by the liquidation of Parent. The Reorganization resulted in a taxable gain to Parent. Except in those few jurisdictions where Parent is taxed directly, the taxable gain flowed through to the members due to Parent's partnership tax treatment. The taxable gain correspondingly increased the tax basis in the assets acquired by the Company in the Reorganization. As a result of the Reorganization, the Company recorded a net deferred tax asset of $32,389, a current tax payable of $582, and one-time non-cash tax benefit of $31,807.

As part of the Reorganization, EIC and the management holding companies merged with and into the Company on May 12, 2010, resulting in a non-cash capital contribution of $823 relating to certain tax assets it received. As a result of the merger, the Company recorded a deferred tax asset of $1,110, a valuation allowance of $143, and a liability for uncertain tax positions of $144.

Parent will file tax returns as a partnership for the period from January 31, 2010 to May 1, 2010. The Company will file tax returns as a corporation for the period from May 2, 2010 to January 29, 2011. The Company s provisions for income taxes for interim reporting periods are based on estimates of the effective tax rate for each of the periods described. The computation of the effective tax rate includes a forecast of the Company s estimated ordinary income (loss), which is the annual income (loss) from operations before income tax, excluding unusual or infrequently occurring (or discrete) items. Significant management judgment is required in projecting ordinary income (loss) in order to determine the Company s estimated effective tax rate. The effective tax rate, excluding items recorded discretely for the thirteen weeks ended July 31, 2010, was 41.4% compared to (5.9%) for the thirteen weeks ended August 1, 2009. The difference is a result of the Company being taxed as a corporation rather than a partnership. Of the states that taxed the Company prior to the Reorganization, two of them are based on a modified gross profit tax, and therefore, even though the Company was in a loss position for the three months ended August 1, 2009, it reported tax expense.

The Company recorded a valuation allowance against the deferred tax assets arising from a capital loss carry-forward. A portion of these capital loss carry-forwards begin expiring in 2013. As of July 31, 2010, the valuation allowance totaled $143. No valuation allowances, other than those arising from the capital loss carry-forward mentioned above, 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 evaluates tax positions using a more-likely-than-not recognition criterion. The Company recorded a liability for uncertain tax positions of $144 as of July 31, 2010. There was no liability for uncertain tax positions as of January 30, 2010. The Company believes the increase or decrease in the liability for uncertain tax positions will not be significant within the next twelve months, however changes could result from examinations, the expiration of statutes of limitation, or other circumstances.

Table of Contents

The Company is currently not under examination by the Internal Revenue Service or state income taxing authorities.

9. Debt

Long-term debt consisted of the following as of July 31, 2010:

Holding Term Loan	$ 121,250
8.75% $250,000 Senior Notes	250,000
Debt discount on Senior Notes	(3,377)
Total debt	367,873
Short term portion of debt	1,250
Total long-term debt	$ 366,623

As of July 31, 2010, there were no borrowings outstanding and approximately $162,010 available under the Company s $200,000 secured asset-based loan revolving credit facility (the Credit Facility).

Refinancing Transactions

Senior Notes

On March 5, 2010, Express and EFC co-issued, in a private placement, $250,000 of 8 3/4% Senior Notes (Senior Notes) due March 1, 2018 at an offering price of 98.599% of the face value. An affiliate of GGC purchased $50,000 of Senior Notes. Interest on the Senior Notes is payable on March 1 and September 1 of each year beginning September 1, 2010. On March 5, 2010, net proceeds of $241,397 (net of original issuance and underwriting discount) were received from the Senior Notes. Net proceeds from the Senior Notes offering were used to prepay $154,907 related to the Topco Term C Loan (including principal, interest, and prepayment penalty), $85,210 was allocated to the Company, and the remainder was used to pay related transaction fees and expenses, including $2,700 to GGC for transaction fees. Of the $154,907 used to prepay the Topco Term C Loan, $50,000 of principal, $636 of interest, and $1,000 of the prepayment penalty was paid to a GGC affiliate.

In connection with issuing the Senior Notes, $10,802 of costs were capitalized as debt issuance costs within other assets on the Consolidated Balance Sheets (including the $2,700 transaction fee paid to GGC described above) and will be amortized over the eight year term of the Senior Notes using the effective interest method. On March 10, 2010, the Company utilized the cash received from issuing the Senior Notes, along with cash on hand of $153,802, to pay a distribution of $230,000 to its equity holders.

Prior to March 1, 2013, a portion of the Senior Notes may be redeemed at 108.75% of the principal amount plus accrued and unpaid interest with the net proceeds of certain equity offerings. At any time prior to March 1, 2014, the Senior Notes may be redeemed in part or in full at a redemption price equal to 100% of 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: 104.375% prior to March 1, 2015; 102.188% on or after March 1, 2015, but prior to March 1, 2016; and 100% on or after March 1, 2016.

The indenture governing the Senior Notes contains customary covenants and restrictions on the activities of Express, EFC, and Express 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; entrance 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 the Company s assets. The covenants in the Senior Notes indenture are subject to certain thresholds and exceptions described in the Senior Notes indenture, including exceptions that permit Express, EFC, and Express restricted subsidiaries to enter into affiliate transactions with, and to make restricted payments to, GGC and LBI, under certain circumstances specified in the Senior Notes indenture. Certain of these covenants will be suspended if the Senior Notes are assigned an investment grade rating by both Standard & Poor s Rating Services (S&P) and Moody s Investor Service, Inc. (Moody s) 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. The Senior Notes are general unsecured obligations of Express and EFC and rank equally in right of payment with all existing and future senior indebtedness of Express and

EFC. The Senior Notes are unconditionally guaranteed by the Company and all of the domestic subsidiaries of Express, other than immaterial subsidiaries.

Table of Contents

In connection with the issuance of the Senior Notes, the Company entered into a registration rights agreement (Registration Rights Agreement) which requires the use of commercially reasonable efforts to register notes having substantially identical terms as the Senior Notes with the SEC prior to March 5, 2011. In the event that a registration default (Registration Default) occurs (as defined in the Registration Rights Agreement), then additional interest on the Senior Notes in an amount equal to 0.25% per annum during the first 90-day period immediately following the occurrence of the first Registration Default will be required. The additional interest will increase by 0.25% per annum for each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum amount of 1.0% per annum. On August 26, 2010, the Company s Registration Statement on Form S-4 (333-168571) that registered the Senior Notes was declared effective by the SEC, and on August 27, 2010, the exchange offer was launched. The terms of the exchange notes were substantially identical to those of the unregistered Senior Notes.

Amendments to Debt Arrangements

In February 2010, in anticipation of issuing the Senior Notes due March 1, 2018, the Company amended its respective debt arrangements as follows:

The Credit Facility was amended to permit the incurrence of the Senior Notes not to exceed $250,000 aggregate principal. The applicable margin rate was increased by 100 basis points and is based on the existing excess availability calculation. The fee payable on the average daily unused balance was increased from 0.25% to 0.50%, and the excess availability covenant was increased to not be less than $30,000, up from $20,000 in the original agreement.

The $125,000 variable-rate secured Holding Term Loan (Holding Term Loan) was amended to permit the incurrence of the Senior Notes not to exceed $250,000 aggregate principal. The applicable margin rate was increased by 150 basis points (increased by an additional 0.50% in the event that the Moody s corporate family rating is not B2 or better or the S&P corporate credit rating is not B or better) and is based on the existing leverage ratio calculation. The leverage ratio for purposes of calculating excess cash flow was revised to require that no more than $75,000 of cash and cash equivalents be netted against debts.

The $300,000 Topco Term Loan (Topco Term Loan) consisting of a $150,000 Topco Term B Loan (Topco Term B Loan) and a $150,000 Topco Term C Loan (Topco Term C Loan) was amended to permit the issuance of up to $250,000 of aggregate principal amount of Senior Notes and required the prepayment of the Topco Term C Loan at 102% with the proceeds from the Senior Notes.

In connection with these amendments $1,756 was capitalized as additional debt issuance costs within other assets on the Consolidated Balance Sheets and will be amortized over the remaining term of the corresponding debt arrangements.

Loss on Extinguishment

In connection with the prepayment of the Topco Term C Loan on March 10, 2010, the Company recognized a loss on extinguishment of debt totaling $7,157. This amount consisted of a $3,000 prepayment penalty, the write-off of $2,523 of unamortized discount, and the write-off of $1,634 of unamortized debt issuance costs. The loss on extinguishment of debt was recorded as interest expense in the Consolidated Statements of Income. The write-offs of unamortized discount and unamortized debt issuance costs represent a non-cash adjustment to reconcile net income to net cash provided by operating activities within the Consolidated Statements of Cash Flows.

On May 18, 2010, net proceeds from the IPO were used to prepay $164,881 related to the Topco Term B Loan (including principal, interest, and prepayment penalty). Of the $164,881 used to prepay the Topco Term B Loan, $58,304 of principal, $2,083 of interest, and $3,498 of the prepayment penalty was paid to a GGC affiliate. In connection with the prepayment of the Topco Term B Loan on May 18, 2010, the Company recognized a loss on extinguishment of debt totaling $13,624. This amount consisted of a $9,000 prepayment penalty, the write off of $2,486 of unamortized discount, and the write off of $2,138 of unamortized debt issuance costs. The loss on extinguishment of debt was recorded as interest expense in the Consolidated Statements of Income. The write-offs of the unamortized discount and unamortized debt issuance costs represent a non-cash adjustment to reconcile net income to net cash provided by operating activities within the Consolidated Statements of Cash Flows.

Table of Contents

Fair Value of Debt

The fair value of the Company s debt was estimated using quoted market prices for similar debt issues. As of July 31, 2010, the estimated fair value of the Holding Term Loan was $126,212, and the estimated fair value of the Senior Notes approximated net book value.

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 three weeks after the merchandise shipment date. As of July 31, 2010 and January 30, 2010, 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 July 31, 2010 and January 30, 2010, outstanding stand-by LCs, including the LBI stand-by LC, totaled $8,098 and $8,160, respectively.

10. Derivative Instrument

Effective July 6, 2007, the Company entered into a receive variable/pay fixed interest rate swap agreement to mitigate exposure to interest rate fluctuations on a notional amount of $75,000 of the Company s $125,000 variable-rate Holding Term Loan. The Company did not seek cash flow hedge accounting, and therefore, records the impact of the change in fair market value of the swap in other income, net in the Consolidated Statements of Income. The effect of the derivative instrument on other income, net in the Consolidated Statements of Income was $942 and $466 for the thirteen weeks ended July 31, 2010 and August 1, 2009, respectively, both a reduction of expense, and $1,906 and $910 for the twenty-six weeks ended July 31, 2010 and August 1, 2009, respectively, also reductions in expense. The fair value of the interest rate swap was $62 and $1,968 as of July 31, 2010 and January 30, 2010, respectively, and is recorded in accrued expenses on the Consolidated Balance Sheets. The interest rate swap agreement terminated on August 6, 2010.

11. Stockholders Equity

On February 9, 2010, management promissory notes totaling $5,633 were repaid in full by each member of management.

On February 16, 2010, the Company initially filed its Registration Statement with the SEC. The Registration Statement became effective on May 12, 2010, and the IPO closed on May 18, 2010. As part of the IPO, the Company sold 10,500 shares of newly-issued common stock, raising net proceeds of approximately $160,083, after deducting the underwriting discount and costs incurred related to the IPO.

In conjunction with the Reorganization described in Note 1, the Company s certificate of incorporation authorized 500,000 shares of common stock and 10,000 shares of preferred stock. No preferred stock was issued or outstanding as of July 31, 2010. Further, the Company became taxed as a corporation rather than as a partnership. In accordance with Staff Accounting Bulletin Topic 4B, the Company reclassified $87,216 in undistributed losses through May 12, 2010 to additional paid-in-capital. In addition, as a result of the merger of EIC and the management holding companies into the Company, the Company recorded a non-cash capital contribution of $823 related to certain tax assets it received.

12. Share-Based Compensation

The Company recognized share-based compensation expense of $2,007 and $3,570 for the thirteen weeks and twenty-six weeks ended July 31, 2010, respectively, and $501 and $1,005 for the thirteen weeks and twenty-six weeks ended August 1, 2009, respectively. As of July 31, 2010, there was $11,679 of total unrecognized compensation expense related to equity incentive shares, which is expected to be recognized over a weighted-average period of approximately 3.7 years.

On May 12, 2010 the Company granted 1,322 options to purchase common stock to certain employees. These options had a grant date fair value of $9.22 per share. Compensation cost will be recognized ratably over the four year vesting period. Also on May 12, 2010, in conjunction with the IPO, certain restricted shares became fully vested.

Table of Contents

13. Pro forma Information

The pro forma net income applied in computing the pro forma EPS for the thirteen and twenty-six weeks ended July 31, 2010 and the thirteen and twenty-six weeks ended August 1, 2009 is based on the Company s historical net income as adjusted to reflect the Company s conversion to a corporation as if it has occurred as of the beginning of the respective periods. In connection with the conversion, effective May 2, 2010, the Company became taxed as a corporation. The Company was previously treated as a partnership for tax purposes, and therefore generally not subject to income tax. The pro forma net income includes adjustments for income tax expense as if the Company had been a corporation at an assumed combined federal, state, and local income tax rate of 40.9% for the first thirteen weeks of 2010 and 38.7% for the thirteen and twenty-six weeks ended August 1, 2009.

The pro forma net income eliminates the non-cash deferred tax benefit of $31,807 as a non-recurring item related to the Reorganization (see Note 8).

14. Commitments and Contingencies

Express is named as a defendant in a purported class action lawsuit action alleging various California state labor law violations. The complaint was originally filed on February 18, 2009, and an amended complaint was filed on March 18, 2009. The amended complaint contains six counts: (1) failure to provide required meal breaks to the class members and failure to pay the class members for missed meal breaks, including premium payments required by California law; (2) failure to provide required rest breaks to the class members and failure to pay the class members for missed rest breaks, including premium payments required by California law; (3) failure to pay wages in a timely manner to employees who were terminated or quit; (4) failure to pay overtime or premium payments in a timely manner; (5) failure to provide accurate wage statements; and (6) violations of Section 17200 of the California Business and Professions Code. The Company estimated that the potential exposure for losses related to this lawsuit ranges from approximately $1,900 to $3,400 and has accrued an amount on the Consolidated Balance sheet as of July 31, 2010 to reflect its best estimate of this risk. As the situation develops and more information becomes available, the amount of the reserve may increase or decrease accordingly. The amount of any such change may be material to the Company s results of operations or financial condition.

The Company is subject to various claims and contingencies related to other lawsuits and pending action 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.

Table of Contents

15. Guarantor Subsidiaries

On March 5, 2010, Express and EFC (the Subsidiary Issuers), both wholly-owned indirect subsidiaries of the Company, issued $250,000 Senior Notes at 8.75%. The Company (Guarantor) and certain of the Company s indirect wholly-owned subsidiaries (Guarantor Subsidiaries) have fully and unconditionally guaranteed, on a joint and several basis, the Company s obligations under the Senior Notes. The following consolidating schedules present the condensed financial information on a combined basis.

EXPRESS, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

(Amounts in thousands)

(Unaudited)

	July 31, 2010					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Assets						
Current assets						
Cash and cash equivalents	$ 1,494	$ 85,438	$	$	$	$ 86,932
Receivables, net		6,617				6,617
Inventories		184,255				184,255
Prepaid minimum rent		21,287				21,287
Intercompany receivable		8,273	17,782		(26,055)	
Other	92	16,091		6,342		22,525
Total current assets	1,586	321,961	17,782	6,342	(26,055)	321,616
Property and equipment, net		211,587				211,587
Tradename/domain name		197,414				197,414
Investment in subsidiary	109,101	2,974		102,755	(214,830)	
Deferred tax asset	968	27,979		4		28,951
Other assets		24,624				24,624
Total assets	$ 111,655	$ 786,539	$ 17,782	$ 109,101	$ (240,885)	$ 784,192
Liabilities and stockholders equity						
Current liabilities						
Accounts payable	$	$ 85,831	$	$	$	$ 85,831
Deferred revenue		15,937				15,937
Accrued bonus		8,579				8,579
Accrued expenses		52,457	14,808			67,265
Accounts payable and accrued expenses related parties		87,182				87,182
Intercompany payable	8,273	17,782			(26,055)	
Total current liabilities	8,273	267,768	14,808		(26,055)	264,794
Long-term debt		366,623				366,623
Other long-term liabilities	145	49,393				49,538
Total liabilities	8,418	683,784	14,808		(26,055)	680,955

Commitments and Contingencies (Note 14)

Total stockholders equity	103,237	102,755	2,974	109,101	(214,830)	103,237
Total liabilities and stockholders equity	$ 111,655	$ 786,539	$ 17,782	$ 109,101	$ (240,885)	$ 784,192

Table of Contents

15. Guarantor Subsidiaries (continued)

EXPRESS, INC.

CONDENSED CONSOLIDATING BALANCE SHEET

(Amounts in thousands)

(Unaudited)

	January 30, 2010					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Assets						
Current assets						
Cash and cash equivalents	$ 192	$ 234,212	$	$	$	$ 234,404
Receivables, net		4,377				4,377
Inventories		171,704				171,704
Prepaid minimum rent		20,874				20,874
Intercompany receivable		856	23,972		(24,828)	
Other	879	4,410				5,289
Total current assets	1,071	436,433	23,972		(24,828)	436,648
Property and equipment, net		215,237				215,237
Tradename/domain name		197,414				197,414
Investment in subsidiary	141,281	2,831		448,030	(592,142)	
Other assets		16,962		3,293		20,255
Total assets	$ 142,352	$ 868,877	$ 23,972	$ 451,323	$ (616,970)	$ 869,554
Liabilities and stockholders equity						
Current liabilities						
Accounts payable	$	$ 61,093	$	$	$	$ 61,093
Deferred revenue		22,247				22,247
Accrued bonus		22,541				22,541
Accrued expenses	43	37,234	21,141	15,158		73,576
Accounts payable and accrued expenses related parties		89,831				89,831
Intercompany payable	856	23,972			(24,828)	
Total current liabilities	899	256,918	21,141	15,158	(24,828)	269,288
Long-term debt		120,629		294,884		415,513
Other long-term liabilities		43,300				43,300
Total liabilities	899	420,847	21,141	310,042	(24,828)	728,101
Commitments and Contingencies (Note 15)						
Total stockholders equity	141,453	448,030	2,831	141,281	(592,142)	141,453

Total liabilities and stockholders equity	$ 142,352	$ 868,877	$ 23,972	$ 451,323	$ (616,970)	$ 869,554

Table of Contents

15. Guarantor Subsidiaries (continued)

EXPRESS, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(Amounts in thousands)

(Unaudited)

	Thirteen Weeks Ended July 31, 2010					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Net sales	$	$ 407,277	$	$	$	$ 407,277
Cost of goods sold, buying and occupancy costs		277,260				277,260
Gross profit		130,017				130,017
General, administrative, and store operating expenses	665	110,378	(65)	(42)		110,936
Other operating expense, net		14,028		3		14,031
Operating income (loss)	(665)	5,611	65	39		5,050
Interest expense		8,781		14,568		23,349
(Income) loss in subsidiary	(22,678)	(65)		(31,309)	54,052	
Other income, net		(1,475)				(1,475)
Income (loss) before income taxes	22,013	(1,630)	65	16,780	(54,052)	(16,824)
Income tax expense (benefit)	(101)	(32,939)		(5,898)		(38,938)
Net income (loss)	$ 22,114	$ 31,309	$ 65	$ 22,678	$ (54,052)	$ 22,114

EXPRESS, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(Amounts in thousands)

(Unaudited)

	Thirteen Weeks Ended August 1, 2009					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Net sales	$	$ 373,823	$	$	$	$ 373,823
Cost of goods sold, buying and occupancy costs		271,024				271,024
Gross profit		102,799				102,799
General, administrative, and store operating expenses		94,771	(55)			94,716
Other operating expense, net		1,827				1,827

Operating income		6,201	55			6,256
Interest expense		2,384		10,814		13,198
(Income) loss in subsidiary	6,756	(55)		(4,008)	(2,693)	
Other income, net		(565)				(565)
Income (loss) before income taxes	(6,756)	4,437	55	(6,806)	2.693	(6,377)
Income tax expense (benefit)		429		(50)		379
Net income (loss)	$ (6,756)	$ 4,008	$ 55	$ (6,756)	$ 2,693	$ (6,756)

Table of Contents

15. Guarantor Subsidiaries (continued)

EXPRESS, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(Amounts in thousands)

(Unaudited)

	Twenty-Six Weeks Ended July 31, 2010					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Net sales	$	$ 833,739	$	$	$	$ 833,739
Cost of goods sold, buying and occupancy costs		546,516				546,516
Gross profit		287,223				287,223
General, administrative, and store operating expenses	2,140	211,872	(143)	(23)		213,846
Other operating expense, net		17,042		3		17,045
Operating income (loss)	(2,140)	58,309	143	20		56,332
Interest expense		15,145		28,984		44,129
(Income) loss in subsidiary	(54,714)	(143)		(77,675)	132,532	
Other income, net		(1,917)				(1,917)
Income (loss) before income taxes	52,574	45,224	143	48,711	(132,532)	14,120
Income tax expense (benefit)	(101)	(32,451)		(6,003)		(38,555)
Net income (loss)	$ 52,675	$ 77,675	$ 143	$ 54,714	$ (132,532)	$ 52,675

EXPRESS, INC.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(Amounts in thousands)

(Unaudited)

	Twenty-Six Weeks Ended August 1, 2009					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Net sales	$	$ 748,181	$	$	$	$ 748,181
Cost of goods sold, buying and occupancy costs		533,298				533,298
Gross profit		214,883				214,883
General, administrative, and store operating expenses	19	184,323	(125)	23		184,240
Other operating expense, net		3,444				3,444
Operating income (loss)	(19)	27,116	125	(23)		27,199

Interest expense		5,106		21,741		26,847
(Income) loss in subsidiary	(862)	(125)		(22,480)	23,467	
Other income, net		(1,084)				(1,084)
Income (loss) before income taxes	843	23,219	125	716	(23,467)	1,436
Income tax expense (benefit)		739		(146)		593
Net income (loss)	$ 843	$ 22,480	$ 125	$ 862	$ (23,467)	$ 843

Table of Contents

15. Guarantor Subsidiaries (continued)

EXPRESS, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Twenty-Six Weeks Ended July 31, 2010					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Operating Activities						
Net cash provided by (used in) operating activities	$ 5,805	$ 71,479	$	$ (35,495)	$	$ 41,789
Investing Activities						
Capital expenditures		(28,181)				(28,181)
Investment in subsidiary	(170,535)			(5,633)	176,168	
Dividends received	261,000			432,153	(693,153)	
Net cash provided by (used in) investing activities	90,465	(28,181)		426,520	(516,985)	(28,181)
Financing Activities						
Borrowings under Senior Notes		246,498				246,498
Net proceeds from equity offering	166,898					166,898
Repayments of long-term debt arrangements		(625)		(300,000)		(300,625)
Costs incurred in connection with debt arrangements and Senior Notes		(11,426)		(560)		(11,986)
Costs incurred in connection with equity offering	(6,498)					(6,498)
Equity contributions	5,633			170,535	(176,168)	
Repayment of notes receivable		5,633				5,633
Distributions	(261,000)	(432,153)		(261,000)	693,153	(261,000)
Net cash provided by (used in) financing activities	(94,967)	(192,073)		(391,025)	516,985	(161,080)
Net increase (decrease) in cash and cash equivalents	1,303	(148,775)				(147,472)
Cash and cash equivalents, beginning of period	192	234,212				234,404
Cash and cash equivalents, end of period	$ 1,495	$ 85,437	$	$	$	$ 86,932

EXPRESS, INC.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Twenty-Six Weeks Ended August 1, 2009					
	Express, Inc.	Subsidiary Issuers	Guarantor Subsidiaries	Other Subsidiaries	Eliminations	Consolidated Total
Operating Activities						
Net cash provided by (used in) operating activities	$	$ 71,553	$	$ (31,354)	$	40,199
Investing Activities						
Capital expenditures		(16,678)				(16,678)
Dividends received				31,354	(31,354)	
Net cash provided by (used in) investing activities		(16,678)		31,354	(31,354)	(16,678)
Financing Activities						
Repayments of short term debt arrangements		(75,000)				(75,000)
Repayments of long term debt arrangements		(625)				(625)
Distributions		(31,354)			31,354	
Net cash provided by (used in) financing activities		(106,979)			31,354	(75,625)
Net decrease in cash and cash equivalents		(52,104)				(52,104)
Cash and cash equivalents, beginning of period	192	175,923				176,115
Cash and cash equivalents, end of period	$ 192	$ 123,819	$	$	$	$ 124,011

Table of Contents

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

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity, and cash flows of our company as of and for the periods presented below. The following discussion and analysis should be read in conjunction with our Registration Statement on Form S-1 (File No. 333-164906), which became effective on May 12, 2010, and our unaudited consolidated financial statements and the related notes included in Item 1 of this Quarterly Report. This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors. See Forward-Looking Statements.

Overview

Our 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 2010 and 2009 represent the 52-week periods ended January 29, 2011 and January 30, 2010, respectively. All references herein to the second quarter of 2010 and the second quarter of 2009 represent the thirteen weeks ended July 31, 2010 and August 1, 2009, respectively.

Express is the sixth largest specialty retail brand of women s and men s apparel in the United States with 30 years of experience offering a distinct combination of fashion and quality for multiple lifestyle occasions at an attractive value, addressing fashion needs across work, casual, jeanswear, and going-out occasions. We currently operate 577 retail stores, located primarily in high-traffic shopping malls, lifestyle centers, and street locations across the United States and in Puerto Rico, and also distribute products through our e-commerce website, express.com.

In the second quarter of 2010, we experienced a 6% increase in comparable store sales, a 60% increase in e-commerce merchandise sales, and a 26% increase in gross profit compared to the comparable period of 2009. Strong response to our offerings across categories drove increased regular price sell-through in all channels of distribution. We believe this is a result of our re-designed go-to market strategy, which includes an extensive testing program, along with outstanding execution of our key growth strategies. Our new stores are also performing at expectations.

How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of performance and financial measures. These key measures include net sales, comparable store sales and other individual store performance factors, gross profit, and general, administrative, and store operating expenses. We also review other metrics such as EBITDA and Adjusted EBITDA.

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

Comparable Store Sales and Other Individual Store Performance Factors. Comparable store sales are calculated based upon stores that were open at least thirteen full months as of the end of the reporting period. A store is not considered a part of the comparable store sales base if the square footage of the store changed by more than 20% due to remodel or relocation activities. As we continue to increase our store count, we expect that non-comparable store sales will begin to contribute more to our total net sales than they currently do. We also review sales per gross square foot, average unit retail, units per transaction, dollars per transaction, traffic, and conversion, among other things, in order to evaluate the performance of individual stores. In addition, we review sales per gross square foot on a company-wide basis.

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

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

24

Table of Contents

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

Other Operating Expense, Net. Other operating expense, net includes advisory fees paid to GGC and LBI under the terms of the Advisory Agreement and LLC Agreement, respectively, proceeds received from insurance claims, and gain/loss on disposal of assets. Changes in other operating expense, net relate primarily to changes in fees related to our Advisory Agreement with GGC and LLC Agreement with LBI. As part of our IPO and Reorganization, the Advisory Agreement and LLC Agreement were terminated effective May 12, 2010, and, therefore, the costs related to these agreements have been eliminated subsequent to our IPO.

Results of Operations

The Second Quarter of 2010 Compared to the Second Quarter of 2009

The table below sets forth the various line items in the Consolidated Statements of Income as a percentage of net sales for the second quarter of 2010 and the second quarter of 2009, as well as the percentage increase/(decrease) of each category in the second quarter of 2010 as compared to the second quarter of 2009. Due to seasonal variations in the retail industry, the results of operations for any current period are not necessarily indicative of the results expected for the full year or of future financial results. The seasonality of our operations may also lead to significant fluctuations in certain asset and liability accounts.

	Percentage of Net Sales Thirteen Weeks Ended	
	July 31, 2010	**August 1, 2009**
Net sales	100%	100%
Cost of goods sold, buying and occupancy costs	68%	73%
Gross profit	32%	27%
General, administrative, and store operating expenses	27%	25%
Other operating expense, net	3%	%
Operating income	1%	2%
Interest expense	6%	4%
Other income, net	%	%
Loss before income taxes	(4)%	(2)%
Income tax expense (benefit)	(10)%	%
Net income (loss)	5%	(2)%

Table of Contents

Net Sales

	Thirteen Weeks Ended	
	July 31, 2010	August 1, 2009
Net sales (in thousands)	$ 407,277	$ 373,823
Comparable store sales percentage increase / (decrease) (a)	6%	(12)%
Net sales per average gross square foot (b)	$ 75.19	$ 70.44
Total store square footage at end of period (in thousands) (b)	5,007	5,030
Number of:		
Stores open at beginning of period	576	580
New stores	2	3
Closed stores	(1)	(3)
Stores open at end of period	577	580

(a) Comparable store sales are calculated based upon stores that were open at least thirteen full months as of the end of the reporting period. A store with a square footage change of more than 20% is not considered a comparable store for the first year following its reopening.

(b) Net sales per average gross square foot is determined by dividing net sales (excluding e-commerce sales, shipping and handling revenue, gift card breakage, and royalties) for the period by average gross square feet during the period. Unless otherwise indicated, references herein to square feet are to gross square feet, rather than net selling space.

Net sales increased from $373.8 million in the second quarter of 2009 to $407.3 million in the second quarter of 2010, a 9% increase. Comparable store sales increased by $20.0 million, or 6%, in the second quarter of 2010 compared to the comparable period in the prior year. The comparable store sales increase was primarily due to an increase in the number of transactions at comparable stores during the period and, to a lesser extent, growth in the average dollars per transaction. Sales growth for the second quarter of 2010 was also attributable to the opening of new stores during the first and second quarters of 2010 and growth in e-commerce sales. Online merchandise sales for the quarter (which are not included in comparable store sales) increased 60% to $27.3 million. Other revenue totaled $3.8 million in the second quarter of 2010, an increase of $1.3 million, compared to other revenue of $2.5 million in the second quarter of 2009, primarily as a result of increased shipping and handling revenue related to the increase in e-commerce merchandise sales.

Gross Profit

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

	Thirteen Weeks Ended	
	July 31, 2010	August 1, 2009
	(in thousands)	
Cost of goods sold, buying and occupancy costs	$ 277,260	$ 271,024
Gross profit	$ 130,017	$ 102,799

The increase in gross profit as a percentage of net sales for the second quarter of 2010 compared to the comparable 2009 period primarily reflected higher full-priced merchandise sales. We believe this is driven by our redesigned go-to-market strategy, which is designed to reduce markdowns and inventory risk through increased product testing, more informed inventory buys, and chasing into proven styles. The remaining increase in gross profit was primarily driven by a $1.7 million reduction in cancellation charges.

Table of Contents

General, Administrative, and Store Operating Expenses

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

	Thirteen Weeks Ended	
	July 31, 2010	August 1, 2009
	(in thousands)	
General, administrative, and store operating expenses	$ 110,936	$ 94,716

The $16.2 million increase in general, administrative, and store operating expenses in the second quarter of 2010 compared to the second quarter of 2009 was driven by a $4.5 million increase in marketing expense as a result of additional investments in brand development and print advertising, a $3.4 million increase in payroll costs associated with additional information technology and e-commerce headcount, stock compensation expense due to accelerated vesting, and higher tax and fringe rate due to the reinstatement of Company contributions to the 401(K) and retirement plans, a $2.1 million increase in professional fees primarily related to public company legal fees and trademark protection, a $1.6 million increase in other IT costs, a $1.0 million increase in credit card fees, and a $0.9 million increase in costs related to the IPO completed on May 18, 2010.

Other Operating Expense, Net

The following table shows other operating expense, net in dollars for the stated periods:

	Thirteen Weeks Ended	
	July 31, 2010	August 1, 2009
	(in thousands)	
Other operating expense, net	$ 14,031	$ 1,827

Changes in other operating expense, net relate primarily to fees paid to GGC under the Advisory Agreement and fees paid to LBI under the LLC Agreement. The $12.2 million increase in the second quarter of 2010 compared to the second quarter of 2009 was due to a $10.0 million fee paid to GGC and a $3.3 million fee paid to LBI to terminate the Advisory Agreement and LLC Agreement, respectively, upon completion of our IPO on May 18, 2010.

Interest Expense

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

	Thirteen Weeks Ended	
	July 31, 2010	August 1, 2009
	(in thousands)	
Interest expense	$ 23,349	$ 13,198

Interest expense includes various charges, including amortization of debt issuance costs, amortization of debt discount, and prepayment penalties on the early extinguishment of debt. The $10.2 million increase in the second quarter of 2010 compared to the second quarter of 2009 resulted primarily from the $13.6 million loss on extinguishment of debt associated with the Topco Term B Loan early repayment. This increase was offset by lower interest rates on our debt during the second quarter of 2010 compared to the second quarter of 2009 due to the higher interest Topco Term C Loan early repayment using proceeds from the Senior Notes issued in the first quarter of 2010 and the higher interest Topco Term B Loan early repayment using proceeds from the IPO in the second quarter of 2010.

Other Income, Net

The following table shows other income, net in dollars for the stated periods:

	Thirteen Weeks Ended	
	July 31, 2010	August 1, 2009
	(in thousands)	
Other income, net	$ (1,475)	$ (565)

Other income, net was primarily composed of changes in the fair market value of our interest rate swap.

Table of Contents

Income Tax Expense (Benefit)

The effective income tax rate fluctuated significantly due to a one-time non-cash tax benefit of $31.8 million, which was recorded as a result of the Company becoming subject to taxation as a corporation, effective May 2, 2010, in connection with its conversion to a corporation. The Company was previously treated as a partnership for tax purposes, and therefore generally was not subject to income taxes.

Twenty-Six Weeks Ended July 31, 2010 Compared to Twenty-Six Weeks Ended August 1, 2009

The table below sets forth the various line items in the Consolidated Statements of Income as a percentage of net sales for the twenty-six weeks ended July 31, 2010 and the twenty-six weeks ended August 1, 2009, as well as the percentage increase/(decrease) of each category for the twenty-six weeks ended July 31, 2010 as compared to the twenty-six weeks ended August 1, 2009. Due to seasonal variations in the retail industry, the results of operations for any current period are not necessarily indicative of the results expected for the full year or of future financial results. The seasonality of our operations may also lead to significant fluctuations in certain asset and liability accounts.

	Percentage of Net Sales Twenty-Six Weeks Ended	
	July 31, 2010	**August 1, 2009**
Net sales	100%	100%
Cost of goods sold, buying and occupancy costs	66%	71%
Gross profit	34%	29%
General, administrative, and store operating expenses	26%	25%
Other operating expense, net	2%	%
Operating income	7%	4%
Interest expense	5%	4%
Other income, net	%	%
Income before income taxes	2%	%
Income tax expense (benefit)	(5)%	%
Net income	6%	%

Table of Contents

Net Sales

	Twenty-Six Weeks Ended	
	July 31, 2010	August 1, 2009
Net sales (in thousands)	$ 833,739	$ 748,181
Comparable store sales percentage increase / (decrease) (a)	9%	(14)%
Net sales per average gross square foot (b)	$ 154.62	$ 140.91
Total store square footage at end of period (in thousands) (b)	5,007	5,030
Number of:		
Stores open at beginning of period	573	581
New stores	9	4
Closed stores	(5)	(5)
Stores open at end of period	577	580

(a) Comparable store sales are calculated based upon stores that were open at least thirteen full months as of the end of the reporting period. A store with a square footage change of more than 20% is not considered a comparable store for the first year following its reopening.

(b) Net sales per average gross square foot is determined by dividing net sales (excluding e-commerce sales, shipping and handling revenue, gift card breakage, and royalties) for the period by average gross square feet during the period. Unless otherwise indicated, references herein to square feet are to gross square feet, rather than net selling space.

Net sales increased from $748.2 million in the twenty-six weeks ended August 1, 2009 to $833.7 million in the twenty-six weeks ended July 31, 2010, an 11% increase. Comparable store sales increased by $60.9 million, or 9%, for the twenty-six weeks ended July 31, 2010 compared to the comparable period in the prior year. The comparable store sales increase was primarily due to an increase in the number of transactions at comparable stores during the period and an increase in the average dollars per transaction. Sales growth for the twenty-six weeks ended July 31, 2010 was also attributable to the opening of new stores during 2010 and growth in e-commerce sales. Online merchandise sales for the twenty-six weeks ended July 31, 2010 (which are not included in comparable store sales) increased 59% to $54.6 million. Other revenue was $7.6 million for the twenty-six weeks ended July 31, 2010, an increase of $2.4 million, compared to other revenue of $5.2 million for the comparable period in 2009, primarily as a result of increased shipping and handling revenue related to the increase in e-commerce merchandise sales.

Gross Profit

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

	Twenty-Six Weeks Ended	
	July 31, 2010	August 1, 2009
	(in thousands)	
Cost of goods sold, buying and occupancy costs	$ 546,516	$ 533,298
Gross profit	$ 287,223	$ 214,883

The increase in gross profit as a percentage of net sales for the twenty-six weeks ended July 31, 2010 compared to the comparable 2009 period primarily reflected higher full-priced merchandise sales. We believe this is driven by our redesigned go-to-market strategy, which is designed to reduce markdowns and inventory risk through increased product testing, more informed inventory buys, and chasing into proven styles.

Table of Contents

General, Administrative, and Store Operating Expenses

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

	Twenty-Six Weeks Ended	
	July 31, 2010	August 1, 2009
	(in thousands)	
General, administrative, and store operating expenses	$ 213,846	$ 184,240

The $29.6 million increase in general, administrative, and store operating expenses in the twenty-six weeks ended July 31, 2010 compared to the comparable 2009 period was driven by $10.9 million of payroll costs associated with additional information technology and e-commerce headcount, stock compensation expense due to accelerated vesting, and higher tax and fringe rate due to the reinstatement of the company contributions for the 401(K) and retirement plans, $8.5 million of marketing expense as a result of additional investments in brand development and print advertising, and $2.7 million in costs related to the Senior Notes offering completed on March 5, 2010 and the IPO completed on May 18, 2010.

Other Operating Expense, Net

The following table shows other operating expense, net in dollars for the stated periods:

	Twenty-Six Weeks Ended	
	July 31, 2010	August 1, 2009
	(in thousands)	
Other operating expense, net	$ 17,045	$ 3,444

Changes in other operating expense, net relate primarily to fees paid to GGC under the Advisory Agreement and fees paid to LBI under the LLC Agreement. The $13.6 million increase for the twenty-six weeks ended July 31, 2010 compared to the comparable period in 2009 was driven by the $10.0 million fee paid to GGC and $3.3 million fee paid to LBI to terminate the Advisory Agreement and LLC Agreement, respectively, upon completion of our IPO on May 18, 2010.

Interest Expense

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

	Twenty-Six Weeks Ended	
	July 31, 2010	August 1, 2009
	(in thousands)	
Interest expense	$ 44,129	$ 26,847

Interest expense includes various charges, including amortization of debt issuance costs, amortization of debt discount, and prepayment penalties on the early extinguishment of debt. The increase of $17.3 million during the twenty-six weeks ended July 31, 2010 compared to the comparable period in 2009 resulted primarily from the $20.8 million loss on extinguishment of debt associated with the Topco Term C Loan and Topco Term B Loan early repayments, and $9.6 million in interest expense on the Senior Notes offering issued on March 5, 2010, partially offset by a decrease in interest expense of $13.5 million due to the higher interest on the Topco Term C Loan and Topco Term B Loan, which were repaid in the first quarter of 2010 and the second quarter of 2010, respectively.

Other Income, Net

The following table shows other income, net in dollars for the stated periods:

	Twenty-Six Weeks Ended	
	July 31, 2010	August 1, 2009
	(in thousands)	
Other income, net	$ (1,917)	$ (1,084)

Other income, net was primarily composed of changes in the fair market value of our interest rate swap.

Table of Contents

Income Tax Expense (Benefit)

The effective income tax rate fluctuated significantly due to a one-time non-cash tax benefit of $31.8 million, which was recorded as a result of the Company becoming subject to taxation as a corporation, effective May 2, 2010, in connection with its conversion to a corporation. The Company was previously treated as a partnership for tax purposes and therefore generally was not subject to income taxes.

EBITDA and Adjusted EBITDA

The following table presents EBITDA and Adjusted EBITDA for the stated periods:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
	(in thousands)			
EBITDA	$ 23,081	$ 25,078	$ 90,916	$ 65,260
Adjusted EBITDA	$ 45,874	$ 33,564	$ 122,186	$ 78,714

EBITDA and Adjusted EBITDA have been presented in this Quarterly Report and are supplemental measures of financial performance that are not required by, or presented in accordance with GAAP. EBITDA is defined as consolidated net income before depreciation and amortization, interest expense (net), including amortization of debt issuance costs and debt discounts, and provision for income taxes. Adjusted EBITDA is calculated in accordance with our existing credit agreements and is defined as EBITDA adjusted to exclude the items set forth in the table below.

EBITDA is included in this Quarterly Report because it is a key metric used by management to assess our operating performance. Adjusted EBITDA is included in this Quarterly Report because it is a measure by which our lenders evaluate our covenant compliance. The Holding Term Loan contains a leverage ratio covenant and the Credit Facility contains a fixed charge coverage ratio covenant that we must meet if we do not meet the excess availability requirement under the Credit Facility, and both covenants are calculated based on Adjusted EBITDA. Non-compliance with the financial ratio covenants contained in the Holding Term Loan and the Credit Facility could result in the acceleration of our obligations to repay all amounts outstanding under those agreements. The applicable interest rates on the Holding Term Loan and the Credit Facility are also based, in part, on our leverage ratio and excess availability, respectively. In addition, the Holding Term Loan, the Credit Facility and the indenture governing the Senior Notes contain covenants that restrict, subject to certain exceptions, our ability to incur additional indebtedness or make restricted payments, such as dividends, based, in some cases, on our ability to meet leverage ratios or fixed charge coverage ratios. Adjusted EBITDA is a material component of these ratios.

EBITDA and Adjusted EBITDA are not measures of our financial performance or liquidity under GAAP and should not be considered as alternatives to net income as a measure of operating performance, cash flows from operating activities as a measure of liquidity, or any other performance measure derived in accordance with GAAP. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management s discretionary use, as they do not consider certain cash requirements such as interest payments, tax payments, and debt service requirements. EBITDA and Adjusted EBITDA contain certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs, and cash costs to replace assets being depreciated and amortized, and exclude certain non-recurring charges that may recur in the future. Management compensates for these limitations by relying primarily on our GAAP results and by using EBITDA and Adjusted EBITDA only supplementally. Our measures of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the methods of calculation.

Table of Contents

The following table presents a reconciliation of the differences between EBITDA and Adjusted EBITDA to net income, the most directly comparable GAAP financial measure, for the stated periods.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
	(in thousands)			
Net income (loss)	$ 22,114	$ (6,756)	$ 52,675	$ 843
Depreciation and amortization	16,557	18,356	32,668	37,152
Interest expense, net (a)	23,348	13,099	44,128	26,672
Income tax expense (benefit)	(38,938)	379	(38,555)	593
EBITDA	23,081	25,078	90,916	65,260
Non-cash deductions, losses, charges (b)	3,047	3,647	5,754	4,569
Non-recurring expenses (c)	1,296	1,580	2,090	2,680
Transaction expenses (d)	2,389	533	2,628	1,207
Permitted Advisory Agreement fees and expenses (e)	10,477	1,253	12,752	2,446
Non-cash expense related to equity incentives	2,007	501	3,570	1,004
Other adjustments allowable under our existing credit agreements (f)	3,577	972	4,476	1,548
Adjusted EBITDA	$ 45,874	$ 33,564	$ 122,186	$ 78,714

(a) Includes interest income at Express, Inc. and also includes amortization of debt issuance costs, amortization of debt discount, and loss on extinguishment of debt.
(b) Adjustments made to reflect the net impact of non-cash expense items such as non-cash rent and expense associated with the change in fair value of our interest rate swap.
(c) Primarily includes expenses related to the development of standalone IT systems in connection with the termination of our transition services agreement with LBI.
(d) Represents costs incurred related to items such as the issuance of stock, recapitalizations, and incurrence of permitted indebtedness.
(e) Includes on-going consulting and management services provided by GGC pursuant to the Advisory Agreement entered into in connection with the GGC Acquisition.
(f) Reflects adjustments permitted under our existing credit agreements, including advisory fees paid to LBI.

Liquidity and Capital Resources

Our business relies on cash flows from operations as our primary source of liquidity. We do, however, have access to additional liquidity, if needed, through borrowings under our existing Credit Facility. Our primary cash needs are for merchandise inventories, payroll, store rent, capital expenditures associated with opening new stores and updating existing stores, and information technology. The most significant components of our working capital are cash and cash equivalents, merchandise inventories, accounts payable, and other current liabilities. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day or, in the case of credit or debit card transactions, within a few days of the related sale and have up to 75 days to pay certain merchandise vendors and 45 days to pay the majority of our non-merchandise vendors. In March of 2010, we used the net proceeds from the Senior Notes offering, together with cash on hand of $153.8 million, to prepay our Topco Term C Loan, including the related prepayment penalty and accrued interest and to make a distribution of $230.0 million to our equity holders. In May 2010, we received $166.9 million (excluding underwriting discount) in net proceeds from our IPO. These proceeds were used to prepay our Topco Term B Loan, including the related prepayment penalty and accrued interest. Following these transactions, as of July 31, 2010, we had cash and cash equivalents of approximately $86.9 million and $162.0 million of availability under the Credit Facility. Our working capital is seasonal as a result of building up inventory for the next selling season and, as a result, our cash and cash equivalents during the spring are usually lower when compared to the rest of our fiscal year. Our cash balances generally increase during the summer selling season, and then increase further during the fall and holiday seasons. As our cash balances and inventory increase during the summer, fall, and holiday seasons, our borrowing base under our Credit Facility increases. We believe that cash generated from operations and the availability of borrowings under our Credit Facility or other financing arrangements will be sufficient to meet working capital requirements, anticipated capital expenditures, and scheduled debt payments for at least the next twelve months.

32

Table of Contents

Cash Flow Analysis

A summary of operating, investing, and financing activities are shown in the following table:

	Twenty-Six Weeks Ended	
	July 31, 2010	August 1, 2009
	(in thousands)	
Net cash provided by operating activities	$ 41,789	$ 40,199
Net cash used in investing activities	(28,181)	(16,678)
Net cash used in financing activities	(161,080)	(75,625)

Net Cash Provided By Operating Activities

Operating activities consist primarily of net income adjusted for non-cash items, including depreciation and amortization, and the effect of working capital changes. Net cash provided by operating activities was $41.8 million for the twenty-six weeks ended July 31, 2010 compared to $40.2 million for the comparable period of 2009. The $1.6 million increase in cash provided by operating activities was primarily driven by a $51.8 million increase in net income and an $8.8 million non-cash loss related to early extinguishment of debt, offset by $32.4 million non-cash increase in deferred tax assets as a result of the Company being treated as a corporation for tax purposes in connection with its conversion to a corporation and a $24.4 million use of cash related to the change in operating assets and liabilities. The $24.4 million use of cash related to the change in operating assets and liabilities was primarily related to a $16.3 million change in inventory as a result of additional investments in seasonless inventory driven by our never-out strategy on key items, a $15.1 million change in accounts payable and accrued expenses-related parties related to the termination of the advisory arrangements with GGC and LBI, a $6.2 million prepayment of certain e-commerce fulfillment services, and a $6.0 million change in tax receivable/payable as a result of the Company being treated as a corporation for tax purposes, offset by a $15.7 million change in accounts payable and accrued expenses primarily related to $9.1 million of accrued Senior Notes interest.

Net Cash Used in Investing Activities

Investing activities consist primarily of capital expenditures for growth (new store openings), store maintenance (remodels, conversions to a dual gender format, visual, fixtures, heating, ventilation and air conditioning improvements, and gates), and non-store maintenance (information technology and expenses associated with operations at our home office).

Capital expenditures were $28.2 million during the twenty-six weeks ended July 31, 2010, an $11.5 million increase compared to $16.7 million during the twenty-six weeks ended August 1, 2009. Capital expenditures, gross of landlord allowances, attributed to the opening of new stores, store remodels, and store conversions to a dual gender format totaled $12.6 million during the twenty-six weeks ended July 31, 2010 and $7.7 million during the twenty-six weeks ended August 1, 2009. The remaining capital expenditures in each period relate primarily to investments in store fixtures, heating, ventilation and air conditioning improvements, gates, information technology, and investments in the operations at our home office.

Management expects capital expenditures for 2010 to be approximately $57.0 million to $63.0 million, including landlord allowances, with the increase compared to 2009 resulting primarily from new store openings and the final phase of our information technology transition from LBI, which relates primarily to point-of-sale and customer marketing database investments. Landlord allowances related to 2010 capital expenditures are expected to be approximately $7.0 to $10.0 million. In addition, in 2010 we expect to receive a landlord allowance from LBI in the amount of $8.0 million for home office capital expenditures.

Table of Contents

Net Cash Used in Financing Activities

Financing activities consist primarily of borrowings and repayments related to our Holding and Topco Term Loans, our Credit Facility, and our Senior Notes, as well as distributions to our equity holders and fees and expenses paid in connection with our debt arrangements and IPO.

Net cash used by financing activities was $161.1 million during the twenty-six weeks ended July 31, 2010. This use of cash included $261.0 million in distributions to equity holders, including a $31.0 million tax distribution in the second quarter of 2010, repayments of $150.0 million for borrowings under our Topco Term C Loan, repayments of $150.0 million for borrowings under our Topco Term B Loan, and $18.5 million in costs incurred in connection with our debt arrangements and Senior Notes offering and IPO. These uses were offset by net proceeds of $246.5 million (net of original issuance discount) received from the Senior Notes offering and $166.9 million (net of underwriters discount) received from the IPO. This compares to $75.6 million in net cash used by financing activities for the twenty-six weeks ended August 1, 2009. This use of cash was primarily related to the repayment of $75.0 million borrowed under our Credit Facility.

Existing Credit Facilities

Credit Facility

On July 6, 2007, Holding and Express entered into a $200.0 million secured asset-based loan revolving credit facility. The Credit Facility is available to be used for working capital and other general corporate purposes and is scheduled to expire on July 6, 2012. The Credit Facility, as amended, allows for swing line advances of up to $30.0 million and up to $45.0 million to be available in the form of letters of credit.

On February 5, 2010, Holding and Express entered into an amendment to the Credit Facility that became effective March 5, 2010 in connection with issuing the Senior Notes. The amendment, among other things, (1) permitted the issuance of the Senior Notes and the guarantees thereof by Holding and its subsidiaries, (2) increased the applicable interest rate margins and unused line fee, (3) permitted a distribution by Express to allow Topco to prepay the Topco Term C Loan in its entirety (plus prepayment penalties and accrued and unpaid interest thereon) and permitted Parent to make a cash distribution to its equity holders in an aggregate amount equal to approximately $230.0 million, (4) permits Express to pay distributions to allow Topco to make regularly scheduled interest payments on the Topco Term B Loan, and (5) permits Holding to own the equity interests of EFC, the co-issuer of the Senior Notes. We paid customary amendment fees to consenting lenders in connection with the amendment.

Borrowings under the Credit Facility bear interest at a rate equal to LIBOR plus an applicable margin rate or the higher of The Wall Street Journal s prime lending rate and 0.50% per annum above the federal funds rate, plus an applicable margin rate. The applicable margin rate is determined based on excess availability as determined with reference to our borrowing base. Prior to the effectiveness of the amendment described above, the applicable margin rate for LIBOR-based advances was 1.25% per annum or 1.00% if excess availability was $100.0 million or greater, and for base rate-based advances was 0.25% per annum or 0.00% if excess availability was $100.0 million or greater. As a result of the amendment described above, effective March 5, 2010, the applicable margin rate for LIBOR-based advances is 2.25% per annum or 2.00% if excess availability is $100.0 million or greater, and for base rate-based advances is 1.25% per annum or 1.00% if excess availability is $100.0 million or greater. The borrowing base components are 90% of credit card receivables plus 85% of the liquidation value of eligible inventory, less certain reserves. At the end of 2008, we borrowed $75.0 million under the Credit Facility, which was reflected as a current liability on our balance sheet. This amount was paid in full during the first quarter of 2009. We had no borrowings outstanding as of July 31, 2010.

Prior to the effectiveness of the amendment described above, unused line fees payable under the Credit Facility were based on 0.25% of the average daily unused revolving commitment during each quarter payable quarterly in arrears. As a result of the amendment described above, effective March 5, 2010, unused line fees payable under the Credit Facility are based on 0.50% of the average daily unused revolving commitment during each quarter payable quarterly in arrears.

Interest payments under the Credit Facility are due quarterly on the last calendar day of each April, July, October, and January for base rate-based advances and on the last day of the interest period for LIBOR-based advances for interest periods of one, two, three, and six months (or if available to all lenders, nine or twelve months), and additionally every three months after the first day of the interest period for LIBOR-based advances for interest periods of greater than three months.

The Credit Facility contains customary covenants and restrictions on 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 our business or our fiscal year; the ability to amend the terms of the Holding Term Loan; and permitted activities of Holding. All obligations under the Credit Facility are guaranteed by Holding and its subsidiaries and secured by a lien on substantially all of the

assets of Holding and its subsidiaries, provided that the liens on certain assets of Holding and its subsidiaries shall be junior in priority to the liens securing the Holding Term Loan.

Table of Contents

Prior to the effectiveness of the amendment described above, the Credit Facility required us to maintain a fixed charge coverage ratio of 1.00 to 1.00 if excess availability plus eligible cash collateral was less than $20.0 million. This amount was raised to $30.0 million as part of the amendment noted above. Our excess availability was $162.0 million as of July 31, 2010. We were not subject to this covenant as of July 31, 2010 because excess availability plus eligible cash collateral was greater than $30.0 million.

Holding Term Loan

On July 6, 2007, Holding and Express, entered into a $125.0 million secured term loan. The proceeds of these borrowings were used to finance, in part, the GGC Acquisition and to pay related transaction fees and expenses. Borrowings under the Holding Term Loan bear interest at a rate equal to LIBOR plus an applicable margin rate or the higher of The Wall Street Journal s prime lending rate and 0.50% per annum above the federal funds rate, plus an applicable margin rate.

On February 5, 2010, Holding and Express entered into an amendment to the Holding Term Loan that became effective March 5, 2010 in connection with issuing the Senior Notes. The amendment, among other things, (1) permitted the issuance of the Senior Notes and the guarantees thereof by Holding and its subsidiaries, (2) increased the applicable interest rate margins (subject to a further increase in the event Express corporate family rating is not B2 or better by Moody s and Express corporate credit rating is not B or better by S&P), (3) permitted a distribution by Express to allow Topco to prepay the Topco Term C Loan under the Topco Term Loan in its entirety (plus prepayment penalties and accrued and unpaid interest thereon) and permitted Parent to make a cash distribution to its equity holders in an aggregate amount equal to approximately $230.0 million, (4) permits Express to pay distributions to allow Topco to make regularly scheduled interest payments on the Topco Term B Loan, and (5) permits Holding to own the equity interests of EFC, the co-issuer of the Senior Notes. We paid customary fees to consenting lenders in connection with the amendment.

The applicable margin rate is determined by Holding s leverage ratio of consolidated debt for borrowed money (net of cash and cash equivalents provided that, after giving effect to the amendment described below, no more than $75.0 million of cash and cash equivalents may be netted against consolidated debt for borrowed money for this purpose), including amounts drawn under letters of credit and any synthetic debt, to Adjusted EBITDA (Leverage Ratio), in effect on the first day of each interest period with respect to LIBOR-based advances and by the Leverage Ratio in effect from time to time with respect to base rate-based advances. Prior to the effectiveness of the amendment described above, the applicable margin rate for LIBOR-based advances was 2.75% per annum or 2.50% if the Leverage Ratio was less than 1.00 to 1.00, and for base rate-based advances was 1.75% per annum or 1.50% if the Leverage Ratio was less than 1.00 to 1.00. As a result of the amendment described above, effective March 5, 2010, the applicable margin rate for LIBOR-based advances is 4.25% per annum or 4.00% if the Leverage Ratio is less than 1.00 to 1.00, and for base rate-based advances is 3.25% per annum or 3.00% if the Leverage Ratio is less than 1.00 to 1.00; additionally, these rates may be further increased by 0.50% per annum in the event that Express fails to maintain, at the time of determination, a corporate family rating of B2 or better by Moody s and a corporate credit rating of B or better by S&P. As of July 31, 2010, the interest rate under the Holding Term Loan was 4.63%.

Interest payments under the Holding Term Loan are due quarterly on the last calendar day of each April, July, October, and January for base rate-based advances and on the last day of the applicable interest period for LIBOR-based advances for interest periods of one, two, three, and six months (or if available to all lenders, nine or twelve months), and additionally every three months after the first day of the interest period for LIBOR-based advances for interest periods of greater than three months. Principal payments under the Holding Term Loan are due quarterly on the last business day of each April, July, October, and January through July 6, 2013, in equal installments of 0.25% of the initial principal balance with the balance of principal due on July 6, 2014.

The agreement governing the Holding Term Loan requires that annual prepayments of principal be made within five business days after the 120th calendar day following the end of each fiscal year in the amount by which an applicable percentage of excess cash flow (as defined in the agreement) that corresponds to Holding s Leverage Ratio, exceeds any voluntary prepayments of the Holding Term Loan over the fiscal year.

Table of Contents

The Holding Term Loan contains customary covenants and restrictions on 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 Express businesses or fiscal year; the ability to amend the terms of the purchase agreement pertaining to the GGC Acquisition, and the Credit Facility loan documents; and permitted activities of Holding. All obligations under the Holding Term Loan are guaranteed by Holding and its subsidiaries and secured by a lien on substantially all of the assets of Holding and its subsidiaries, provided that the liens on certain assets of Holding and its subsidiaries shall be junior in priority to the liens securing the Credit Facility.

The Holding Term Loan also requires that Holding maintains a Leverage Ratio for the most recently completed reporting period (last four consecutive fiscal quarters as of the end of each quarter) of not more than 2.00 to 1.00 at the end of the first and second fiscal quarters of 2010; and 1.75 to 1.00 thereafter. Holding was in compliance with the covenant requirement as of July 31, 2010.

Effective July 6, 2007, Express entered into a receive variable/pay fixed interest rate swap agreement to mitigate exposure to interest rate fluctuations on a notional principal amount of $75.0 million of the $125.0 million variable-rate Holding Term Loan. The interest rate swap agreement terminated on August 6, 2010. The fair value of the interest rate swap was a liability of $0.1 million as of July 31, 2010.

Topco Term Loan

On June 26, 2008, Topco, as borrower, entered into a $300.0 million secured term loan facility. The proceeds of the Topco Term Loan were used to finance distributions to Parent s equity holders and to pay related fees, costs, and expenses. The Topco Term Loan was scheduled to mature on June 26, 2015 and was comprised of a $150.0 million Topco Term B Loan and a $150.0 million Topco Term C Loan. An affiliate of GGC, GGC Unlevered Credit Opportunities, LLC, was a lender under our Topco Term Loan and, as of January 30, 2010, was owed approximately $50.0 million of the Topco Term B Loan and $50.0 million of the Topco Term C Loan. On March 5, 2010, in connection with the issuance of the Senior Notes, the Topco Term C Loan was prepaid in full, plus a prepayment penalty and accrued and unpaid interest thereon. A separate affiliate of GGC purchased an additional $8.3 million of principal amount of the Topco Term B Loan on April 8, 2010. On May 18, 2010, in connection with our IPO, we prepaid the Topco Term B Loan in full, which included a prepayment penalty and accrued and unpaid interest thereon.

Senior Notes

On March 5, 2010, Express and EFC co-issued, in a private placement, $250.0 million of 8 3/4% Senior Notes due March 1, 2018 at an offering price of 98.599% of the face value. An affiliate of GGC purchased $50.0 million of Senior Notes. Interest on the Senior Notes is payable on March 1 and September 1 of each year beginning September 1, 2010. Net proceeds of $241.4 million (net of original issuance and underwriting discount) received from the Senior Notes offering were used to prepay $154.9 million related to the Topco Term C Loan (including principal, interest, and prepayment penalty), $85.2 million was allocated to us, and the remainder was used to pay related transaction fees and expenses, including $2.7 million to GGC for transaction fees. On March 10, 2010, we utilized the cash received from issuing the Senior Notes as well as cash on hand to pay a distribution of $230.0 million to our equity holders. In connection with issuing the Senior Notes, $10.8 million of costs were capitalized as debt issuance costs within other assets on the Consolidated Balance Sheets and will be amortized over the eight year term of the Senior Notes using the effective interest method.

Prior to March 1, 2014, the Senior Notes may be redeemed in part or in full at a redemption price equal to 100% of the principal amount of the Senior Notes, plus a make-whole premium calculated in accordance with the indenture governing the Senior Notes and accrued and unpaid interest. In addition, prior to March 1, 2013, a portion of the Senior Notes may be redeemed with the net proceeds of certain equity offerings at 108.75%. 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: 104.375% prior to March 1, 2015; 102.188% on or after March 1, 2015, but prior to March 1, 2016; and 100% on or after March 1, 2016.

The indenture governing the Senior Notes contains customary covenants and restrictions on the activities of Express, EFC and Express 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; entrance 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 assets. Certain of these covenants will be suspended if the Senior Notes are assigned an investment grade rating by both S&P and Moody s 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. The Senior Notes are general unsecured obligations of Express and EFC and rank equally in right of payment with all existing and future senior indebtedness of Express and EFC. The Senior Notes are unconditionally guaranteed by us and all of the domestic subsidiaries of Express, other than immaterial subsidiaries.

36

Table of Contents

In connection with issuing the Senior Notes, we entered into the Registration Rights Agreement which requires us to use commercially reasonable efforts to register notes having substantially identical terms as the Senior Notes with the SEC prior to March 5, 2011. In the event that a Registration Default occurs (as defined in the Registration Rights Agreement), then additional interest on the Senior Notes in an amount equal to 0.25% per annum during the first 90-day period immediately following the occurrence of the first Registration Default will be required. The additional interest will increase by 0.25% per annum for each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum amount of 1.0% per annum. On August 26, 2010, the Company s Registration Statement on Form S-4 (333-168571) that registered the Senior Notes was declared effective by the SEC and on August 27, 2010 the exchange offer was launched. The terms of the exchange notes were substantially identical to those of the unregistered Senior Notes.

Contractual Obligations

Our contractual obligations consist primarily of operating leases, debt facilities, purchase orders for merchandise inventory, self insurance liabilities, severance agreements, logistics services with LBI, other agreements to purchase goods and services that are legally binding and that require minimum quantities to be purchased, and letters of credit outstanding. These contractual obligations impact our short and long-term liquidity and capital resource needs.

The estimated significant contractual cash obligations and other commercial commitments as of July 31, 2010 are summarized in the following table:

	Payments Due by Period (in thousands)				
Contractual Obligations	**Totals**	**2010**	**2011-2012**	**2013-2014**	**Thereafter**
Existing Debt Facilities (1)(2)	$ 371,250	$ 625	$ 2,813	$ 117,812	$ 250,000
Other Long Term Obligations (3)	160,640	12,535	52,662	59,111	36,332
Operating Leases (4)	743,849	75,368	269,416	205,522	193,543
Purchase Obligations (5)	253,453	253,403	50		
Total	$ 1,529,192	$ 341,931	$ 324,941	$ 382,445	$ 479,875

(1) As of July 31, 2010, we had the following amounts outstanding under our existing credit facilities: $250.0 million under the Senior Notes, $121.3 million under the Holding Term Loan, and no amounts outstanding under the Credit Facility. The Senior Notes are due on March 1, 2018, the Holding Term Loan matures on July 6, 2014, and the Credit Facility matures on July 6, 2012.

(2) Excludes estimated interest under existing debt facilities of $199.8 million. Interest costs for the Holding Term Loan have been estimated based on interest rates in effect for such indebtedness as of July 31, 2010.

(3) Other long-term obligations consist of self insurance liabilities, severance agreements, and home office and logistics agreements with LBI.

(4) We enter into operating leases in the normal course of business. Most lease arrangements provide us with the option to renew the leases at defined terms. The future operating lease obligations would change if we were to exercise these options, or if we were to enter into additional new operating leases.

(5) Purchase obligations are made up of merchandise purchase orders, unreserved non-finished goods (fabric, trims) commitments and liabilities to our third party travel administrator.

As of July 31, 2010 outstanding stand-by letters of credit totaled $8,098.

Seasonality

Our business is seasonal. As a result, our net sales fluctuate from quarter to quarter, which often affects the comparability of our results between periods. Net sales are historically higher in the third and fourth quarters primarily due to early Fall selling patterns and impact of the holiday season. Generally, the annual sales split is approximately 45% for the Spring season (February through July) and 55% for the Fall season (August through January). Working capital requirements are typically higher in the second and fourth quarters due to inventory-related working capital requirements for holiday and early Fall selling periods. Our business is also subject, at certain times, to calendar shifts, which may occur during key selling periods close to holidays such as Easter, Thanksgiving, and Christmas, and regional fluctuations for events such as sales tax holidays.

37

Table of Contents

Critical Accounting Policies

Management has determined that our most critical accounting policies are those related to revenue recognition, merchandise inventory valuation, long-lived assets valuation, claims and contingencies, income taxes, and stock-based compensation. We continue to monitor our accounting policies to ensure proper application of current rules and regulations. There have been no significant changes to these policies discussed in our Registration Statement which became effective May 12, 2010.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

We are subject to interest rate risk in connection with borrowings under our Credit Facility and Holding Term Loan, which bear interest at variable rates. Borrowings under our Senior Notes bear interest at fixed rates. For fixed rate debt, interest rate changes affect the fair market value of such debt, but do not impact earnings or cash flow.

From July 6, 2007 to August 6, 2010, we were party to a receive variable/pay fixed interest rate swap to hedge our interest rate risk, on a notional principal amount of $75.0 million of the $125.0 million variable-rate Holding Term Loan. The interest rate swap agreement terminated on August 6, 2010. As of July 31, 2010, the weighted-average interest rate on the outstanding balance of our Holding Term Loan and Credit Facility was 4.63%. As of July 31, 2010, a 1% change in interest rates would increase or decrease interest expense by approximately $1.2 million, without giving effect to the interest rate swap.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) promulgated under the Securities Act of 1934, as amended (the "Exchange Act")) that are designed to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation prior to filing this report of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of July 31, 2010.

Changes in Internal Control Over Financial Reporting

As discussed in our Registration Statement, management identified the following material weakness in its internal controls, which was remediated in the second quarter of 2010: we did not have adequate oversight and controls related to the accounting for complex agreements arising from transactions unrelated to our core business operations. We remediated this material weakness by establishing an internal committee of accounting, finance, tax, legal, and internal audit personnel to review our policies and accounting treatment of all complex agreements in the period in which the contracts are signed.

As such, this change has materially affected our internal control over financial reporting during the second quarter of 2010.

Table of Contents

PART II - OTHER INFORMATION.

ITEM 1. LEGAL PROCEEDINGS.
Information relating to legal proceedings is set forth in Note 14 to our Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS.
Our risk factors as of July 31, 2010 have not changed materially from those disclosed in our Registration Statement. The risk factors disclosed in our Registration Statement, in addition to the other information set forth in this Quarterly Report, could materially affect our business, financial condition or results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.
Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.
Not applicable.

ITEM 4. (REMOVED AND RESERVED).

ITEM 5. OTHER INFORMATION.
Not applicable.

ITEM 6. EXHIBITS.
Exhibits. The following exhibits are filed or furnished with this Quarterly Report:

Exhibit Number	Exhibit Description
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Financial Officer and Principal Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: September 10, 2010

EXPRESS, INC.

By: /s/ Matthew C. Moellering
Matthew C. Moellering, Executive Vice President,
Chief Administrative Officer, Chief Financial Officer,
Treasurer and Secretary