

EXPRESS, INC.
Form 10-Q
December 12, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended November 3, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number 001-34742

EXPRESS, INC.

(Exact name of registrant as specified in its charter)

Delaware	26-2828128
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Express Drive	43230
Columbus, Ohio	
(Address of principal executive offices)	(Zip Code)
Telephone: (614) 474-4001	
(Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

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

Emerging growth company

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

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of outstanding shares of the registrant's common stock was 68,528,607 as of December 1, 2018.

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FORWARD-LOOKING STATEMENTS

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

External Risks such as:

- changes in consumer spending and general economic conditions;
- customer traffic at malls, shopping centers, and at our stores;
- competition from other retailers;
- our dependence upon independent third parties to manufacture all of our merchandise;
- changes in the cost of raw materials, labor, and freight;
- supply chain disruption and increased tariffs;
- difficulties associated with our distribution facilities;
- natural disasters, fire, and other events that cause business interruption; and
- our reliance on third parties to provide us with certain key services for our business.

Strategic Risks such as:

- our ability to identify and respond to new and changing fashion trends, customer preferences, and other related factors;
- fluctuations in our sales, results of operations, and cash levels on a seasonal basis and due to a variety of other factors, including our product offerings relative to customer demand, the mix of merchandise we sell, promotions, inventory levels, and sales mix between stores and e-commerce;
- our dependence on a strong brand image;
- our ability to adapt to changes in consumer behavior and develop and maintain a relevant and reliable omni-channel experience for our customers;
- our dependence upon key executive management; and
- our ability to execute our growth strategy, including improving profitability, providing an exceptional brand and customer experience, transforming and leveraging our systems and processes, and cultivating a strong company culture, and achieving our strategic objectives, including delivering compelling merchandise at an attractive value, investing in growing brand awareness and retaining and acquiring new customers to the Express brand, growing e-commerce sales and expanding our omni-channel capabilities, optimizing our store footprint, and managing our overall cost structure.

Information Technology Risks such as:

- the failure or breach of information systems upon which we rely;
- and
- our ability to protect our customer data from fraud and theft.

Financial Risks such as:

- our substantial lease obligations;
- restrictions imposed on us under the terms of our asset-based loan facility, including restrictions on our ability to repurchase shares of our common stock;
- impairment charges on long-lived assets;

- claims made against us resulting in litigation or changes in laws and regulations applicable to our business;
- our inability to protect our trademarks or other intellectual property rights that may preclude the use of our trademarks or other intellectual property around the world;
- changes in tax requirements, results of tax audits, and other factors that may cause fluctuations in our effective tax rate; and
- our failure to maintain adequate internal controls.

We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. For a discussion of these risks and other risks and uncertainties that could cause actual results to differ materially from those contained in our forward-looking statements, please refer to “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended February 3, 2018 (“Annual Report”), filed with the Securities and Exchange Commission (“SEC”) on April 4, 2018. The forward-looking statements included in this Quarterly Report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events, or otherwise, except as required by law.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

EXPRESS, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands, Except Per Share Amounts)

(Unaudited)

	November 3, 2018	February 3, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 161,189	\$ 236,222
Receivables, net	15,496	12,084
Inventories	362,767	260,728
Prepaid minimum rent	30,637	30,779
Other	28,402	24,319
Total current assets	598,491	564,132
PROPERTY AND EQUIPMENT	1,074,712	1,047,447
Less: accumulated depreciation	(699,577)	(642,434)
Property and equipment, net	375,135	405,013
TRADENAME/DOMAIN NAMES/TRADEMARKS	197,618	197,618
DEFERRED TAX ASSETS	7,388	7,346
OTHER ASSETS	15,634	12,815
Total assets	\$ 1,194,266	\$ 1,186,924
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 225,100	\$ 145,589
Deferred revenue	34,473	41,240
Accrued expenses	93,407	110,563
Total current liabilities	352,980	297,392
DEFERRED LEASE CREDITS	130,157	137,618
OTHER LONG-TERM LIABILITIES	100,092	103,600
Total liabilities	583,229	538,610
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY:		
Preferred stock – \$0.01 par value; 10,000 shares authorized; no shares issued or outstanding—		—
Common stock – \$0.01 par value; 500,000 shares authorized; 93,632 shares and 92,647 shares issued at November 3, 2018 and February 3, 2018, respectively, and 70,904 shares and 76,724 shares outstanding at November 3, 2018 and February 3, 2018, respectively	936	926
Additional paid-in capital	209,876	199,099
Retained earnings	715,099	704,395
Treasury stock – at average cost; 22,728 shares and 15,923 shares at November 3, 2018 and February 3, 2018, respectively	(314,874)	(256,106)
Total stockholders' equity	611,037	648,314

Total liabilities and stockholders' equity	\$1,194,266	\$1,186,924
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See Notes to Unaudited Consolidated Financial Statements.

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EXPRESS, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Amounts in Thousands, Except Per Share Amounts)

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
NET SALES	\$514,961	\$503,419	\$1,487,918	\$1,458,820
COST OF GOODS SOLD, BUYING AND OCCUPANCY COSTS	356,812	352,227	1,046,204	1,041,590
Gross profit	158,149	151,192	441,714	417,230
OPERATING EXPENSES:				
Selling, general, and administrative expenses	148,294	140,493	426,583	407,001
Restructuring costs	166	258	166	22,869
Other operating income, net	(513)	(341)	(689)	(664)
Total operating expenses	147,947	140,410	426,060	429,206
OPERATING INCOME/(LOSS)	10,202	10,782	15,654	(11,976)
INTEREST EXPENSE, NET	32	577	168	2,070
OTHER INCOME, NET	—	—	(500)	(537)
INCOME/(LOSS) BEFORE INCOME TAXES	10,170	10,205	15,986	(13,509)
INCOME TAX EXPENSE/(BENEFIT)	2,203	4,174	5,268	(4,981)
NET INCOME/(LOSS)	\$7,967	\$6,031	\$10,718	\$(8,528)
OTHER COMPREHENSIVE INCOME:				
Foreign currency translation gain	\$—	\$—	\$—	\$(402)
Amount reclassified to earnings	—	—	—	4,205
Other Comprehensive Income	\$—	\$—	\$—	\$3,803
COMPREHENSIVE INCOME/(LOSS)	\$7,967	\$6,031	\$10,718	\$(4,725)
EARNINGS PER SHARE:				
Basic	\$0.11	\$0.08	\$0.14	\$(0.11)
Diluted	\$0.11	\$0.08	\$0.14	\$(0.11)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	72,512	78,805	73,959	78,679
Diluted	73,473	78,890	74,757	78,679

See Notes to Unaudited Consolidated Financial Statements.

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

	Thirty-Nine Weeks Ended	
	November 30, 2018	October 28, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	\$ 10,718	\$ (8,528)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	64,099	67,852
Loss on disposal of property and equipment	303	1,323
Impairment charge	—	5,479
Loss on deconsolidation of Canada	—	10,672
Share-based compensation	10,816	11,110
Deferred taxes	(42)	2,164
Landlord allowance amortization	(8,702)	(9,779)
Other non-cash adjustments	(500)	(500)
Changes in operating assets and liabilities:		
Receivables, net	(3,412)	(660)
Inventories	(102,039)	(104,516)
Accounts payable, deferred revenue, and accrued expenses	52,187	59,001
Other assets and liabilities	(5,113)	14,056
Net cash provided by operating activities	18,315	47,674
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(32,402)	(42,207)
Decrease in cash and cash equivalents resulting from deconsolidation of Canada	—	(9,232)
Net cash used in investing activities	(32,402)	(51,439)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on lease financing obligations	(1,385)	(1,262)
Repayments of financing arrangements	(750)	(2,040)
Repurchase of common stock under share repurchase program	(56,161)	—
Repurchase of common stock for tax withholding obligations	(2,650)	(1,574)
Net cash used in financing activities	(60,946)	(4,876)
EFFECT OF EXCHANGE RATE ON CASH	—	(438)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(75,033)	(9,079)
CASH AND CASH EQUIVALENTS, Beginning of period	236,222	207,373
CASH AND CASH EQUIVALENTS, End of period	\$ 161,189	\$ 198,294
See Notes to Unaudited Consolidated Financial Statements.		

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Notes to Unaudited Consolidated Financial Statements

1. Description of Business and Basis of Presentation

Business Description

Express, Inc., together with its subsidiaries (“Express” or the “Company”), is a leading fashion destination and apparel brand for both women and men. Since 1980, Express has provided the latest apparel and accessories for work, casual, jeanswear, and going-out, offering a distinct combination of fashion and quality at an attractive value. The Company operates more than 600 retail and factory outlet stores in the United States and Puerto Rico, as well as a best-in-class shopping experience through its website and mobile app.

As of November 3, 2018, Express operated 453 primarily mall-based retail stores in the United States and Puerto Rico as well as 181 factory outlet stores. Additionally, as of November 3, 2018, the Company earned revenue from 16 franchise stores in Latin America. These franchise stores are operated by franchisees pursuant to franchise agreements. Under the franchise agreements, the franchisees operate stand-alone Express stores that sell Express-branded apparel and accessories purchased directly from the Company.

On May 4, 2017, Express announced its intention to exit the Canadian market and Express Fashion Apparel Canada Inc. and one of its wholly-owned subsidiaries filed for protection in Canada under the Companies’ Creditors Arrangement Act (CCAA) with the Ontario Superior Court of Justice in Toronto. As of May 4, 2017, Canadian retail operations were deconsolidated from the Company’s financial statements. Canadian financial results prior to May 4, 2017 are included in the Company’s consolidated financial statements. See Note 12 for additional information.

Fiscal Year

The Company’s fiscal year ends on the Saturday closest to January 31. Fiscal years are referred to by the calendar year in which the fiscal year commences. References herein to “2018” and “2017” represent the 52-week period ended February 2, 2019 and the 53-week period ended February 3, 2018, respectively. All references herein to “the third quarter of 2018” and “the third quarter of 2017” represent the thirteen weeks ended November 3, 2018 and October 28, 2017, respectively.

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and therefore do not include all of the information or footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying unaudited Consolidated Financial Statements reflect all adjustments (which are of a normal recurring nature) necessary to state fairly the financial position, results of operations, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for 2018. Therefore, these statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the year ended February 3, 2018, included in the Company’s Annual Report on Form 10-K, filed with the SEC on April 4, 2018.

Principles of Consolidation

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

Segment Reporting

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited Consolidated Financial Statements and the reported amounts of revenue and expense during the reporting period, as well as the related disclosure of contingent assets and liabilities as of the date of the unaudited Consolidated Financial Statements.

Actual results may differ from those estimates. The Company revises its estimates and assumptions as new information becomes available.

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Recently Issued Accounting Pronouncements - Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASC 606”). ASC 606 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)”, and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Company adopted ASC 606 in the first quarter of fiscal 2018 under the full retrospective method, which required the adjustment of each prior period presented. The primary impact of ASC 606 relates to the accounting for points earned under the Company’s customer loyalty program, the timing of revenue recognition for e-commerce sales, and the classification on the income statement of funds received and certain costs incurred related to our private label credit card program. Upon the adoption of ASC 606, the Company recognized a cumulative effect of a change in accounting principle through a reduction to retained earnings on January 31, 2016, the first day of fiscal 2016, in the amount of \$6.1 million. The impact of the adoption of ASC 606 on previously issued financial statements included in this report are as follows:

CONSOLIDATED BALANCE SHEET (unaudited, in thousands except per share amounts)		February 3, 2018	
	As Reported	Adjustments for adoption of ASC 606	As Adjusted
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$236,222	\$ —	\$236,222
Receivables, net	12,084	—	12,084
Inventories	266,271	(5,543)	260,728
Prepaid minimum rent	30,779	—	30,779
Other	19,780	4,539	24,319
Total current assets	565,136	(1,004)	564,132
PROPERTY AND EQUIPMENT			
Property and equipment, net	1,047,447	—	1,047,447
Less: accumulated depreciation	(642,434)	—	(642,434)
Property and equipment, net	405,013	—	405,013
TRADENAME/DOMAIN NAMES/TRADEMARKS			
TRADENAME/DOMAIN NAMES/TRADEMARKS	197,618	—	197,618
DEFERRED TAX ASSETS	7,025	321	7,346
OTHER ASSETS	12,815	—	12,815
Total assets	\$1,187,607	\$ (683)	\$1,186,924
LIABILITIES AND STOCKHOLDERS’ EQUITY			
CURRENT LIABILITIES:			
Accounts payable	\$145,589	\$ —	\$145,589
Deferred revenue	28,920	12,320	41,240
Accrued expenses	116,355	(5,792)	110,563
Total current liabilities	290,864	6,528	297,392
DEFERRED LEASE CREDITS			
DEFERRED LEASE CREDITS	137,618	—	137,618
OTHER LONG-TERM LIABILITIES	105,125	(1,525)	103,600
Total liabilities	533,607	5,003	538,610
STOCKHOLDERS’ EQUITY:			
Common stock	926	—	926

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Additional paid-in capital	199,099	—	199,099
Retained earnings	710,081	(5,686)	704,395
Treasury stock	(256,106)	—	(256,106)
Total stockholders' equity	654,000	(5,686)	648,314
Total liabilities and stockholders' equity	\$1,187,607	\$ (683)	\$1,186,924

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CONSOLIDATED STATEMENTS OF INCOME		Thirteen Weeks Ended October 28, 2017		
(unaudited, in thousands, except per share amounts)	As Reported	Adjustments for adoption of ASC 606	As Adjusted	
NET SALES	\$498,651	\$ 4,768	\$503,419	
COST OF GOODS SOLD, BUYING AND OCCUPANCY COSTS	349,850	2,377	352,227	
Gross profit	148,801	2,391	151,192	
OPERATING EXPENSES:				
Selling, general and administrative expenses	137,721	2,772	140,493	
Restructuring costs	258	—	258	
Other operating income, net	(341	) —	(341)
Total operating expenses	137,638	2,772	140,410	
OPERATING INCOME/(LOSS)	11,163	(381	) 10,782	
INTEREST EXPENSE, NET	577	—	577	
OTHER INCOME, NET	—	—	—	
INCOME/(LOSS) BEFORE INCOME TAXES	10,586	(381	) 10,205	
INCOME TAX (BENEFIT) EXPENSE	4,316	(142	) 4,174	
NET INCOME/(LOSS)	\$6,270	\$ (239	) \$6,031	
EARNINGS PER SHARE:				
Basic	\$0.08	\$ —	\$0.08	
Diluted	\$0.08	\$ —	\$0.08	
CONSOLIDATED STATEMENTS OF INCOME		Thirty-Nine Weeks Ended October 28, 2017		
(unaudited, in thousands, except per share amounts)	As Reported	Adjustments for adoption of ASC 606	As Adjusted	
NET SALES	\$1,444,216	\$ 14,604	\$1,458,820	
COST OF GOODS SOLD, BUYING AND OCCUPANCY COSTS	1,036,947	4,643	1,041,590	
Gross profit	407,269	9,961	417,230	
OPERATING EXPENSES:				
Selling, general and administrative expenses	399,529	7,472	407,001	
Restructuring costs	22,869	—	22,869	
Other operating expense, net	(664	) —	(664)
Total operating expenses	421,734	7,472	429,206	
OPERATING INCOME/(LOSS)	(14,465	) 2,489	(11,976)
INTEREST EXPENSE, NET	2,070	—	2,070	
OTHER INCOME, NET	(537	) —	(537)
INCOME/(LOSS) BEFORE INCOME TAXES	(15,998	) 2,489	(13,509)
INCOME TAX (BENEFIT) EXPENSE	(5,935) 954	(4,981)
NET INCOME/(LOSS)	\$(10,063) \$ 1,535	\$(8,528)
EARNINGS PER SHARE:				

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Basic	\$ (0.13)	\$ 0.02	\$ (0.11)
Diluted	\$ (0.13)	\$ 0.02	\$ (0.11)

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	Thirty-Nine Weeks Ended October 28, 2017		
(unaudited, in thousands)	As Reported	Adjustments for adoption of ASC 606	As Adjusted
CONSOLIDATED STATEMENT OF CASH FLOWS			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income/(loss)	\$(10,063)	\$ 1,535	\$(8,528)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation and amortization	67,852	—	67,852
Loss on disposal of property and equipment	1,323	—	1,323
Impairment charge	5,479	—	5,479
Loss on deconsolidation of Canada	10,672	—	10,672
Share-based compensation	11,110	—	11,110
Deferred taxes	1,210	954	2,164
Landlord allowance amortization	(9,779)	—	(9,779)
Other non-cash adjustments	(500)	—	(500)
Changes in operating assets and liabilities:			
Receivables, net	(660)	—	(660)
Inventories	(105,379)	863	(104,516)
Accounts payable, deferred revenue, and accrued expenses	61,797	(2,796)	59,001
Other assets and liabilities	14,612	(556)	14,056
Net cash provided by operating activities	47,674	—	47,674
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(42,207)	—	(42,207)
Decrease in cash and cash equivalents resulting from deconsolidation of Canada	(9,232)	—	(9,232)
Net cash used in investing activities	(51,439)	—	(51,439)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on lease financing obligations	(1,262)	—	(1,262)
Repayments of financing arrangements	(2,040)	—	(2,040)
Repurchase of common stock under share repurchase program	—	—	—
Repurchase of common stock for tax withholding obligations	(1,574)	—	(1,574)
Net cash used in financing activities	(4,876)	—	(4,876)
EFFECT OF EXCHANGE RATE ON CASH	(438)	—	(438)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,079)	—	(9,079)
CASH AND CASH EQUIVALENTS, Beginning of period	207,373	—	207,373
CASH AND CASH EQUIVALENTS, End of period	\$ 198,294	\$ —	\$ 198,294

Recently Issued Accounting Pronouncements - Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." ASU 2016-02 requires entities to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about leasing arrangements. Under ASU 2016-02, a lessee should recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term on its balance sheet. The new standard is effective for annual and interim periods beginning after December 15, 2018. In July 2018, the FASB issued ASU 2018-11, "Leases: Targeted Improvements," as an amendment to ASU 2016-02, which provides entities with an

additional transition method to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company will adopt the new leasing standard in the first quarter of 2019 and is finalizing its review of lease agreements, including system requirements. While the Company continues to assess all potential impacts of the standard, the Company currently believes the most significant impact relates to recording lease assets and related liabilities on the Consolidated Balance sheets. This will have a material impact on both Total assets and Total liabilities. The Company also continues to evaluate the potential impact on the Consolidated Statements of Income and Comprehensive Income of the standard as a whole and more specifically as it relates to the available practical expedients.

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2. Revenue Recognition

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

	Thirteen Weeks Ended November 3, 2018		Thirty-Nine Weeks Ended November 3, 2018	
	2017	2018	2017	2018
	(in thousands)		(in thousands)	
Apparel	\$ 446,395	\$ 437,837	\$ 1,292,029	\$ 1,272,407
Accessories and other	50,860	51,178	151,007	149,427
Other revenue	17,706	14,404	44,882	36,986
Total net sales	\$ 514,961	\$ 503,419	\$ 1,487,918	\$ 1,458,820

	Thirteen Weeks Ended November 3, 2018		Thirty-Nine Weeks Ended November 3, 2018	
	2017	2018	2017	2018
	(in thousands)		(in thousands)	
Stores	\$ 348,182	\$ 370,916	\$ 1,037,445	\$ 1,115,167
E-commerce	149,073	118,099	405,591	306,667
Other revenue	17,706	14,404	44,882	36,986
Total net sales	\$ 514,961	\$ 503,419	\$ 1,487,918	\$ 1,458,820

Other revenue consists primarily of sell-off revenue related to mark-out-of-stock inventory sales to third parties, shipping and handling revenue related to e-commerce activity, revenue earned from our private label credit card agreement, revenue from gift card breakage, and revenue from franchise agreements.

Revenue related to the Company's international franchise operations for the thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively, were not material for any period presented and, therefore, are not reported separately from domestic revenue.

Revenue Recognition Policies

Merchandise Sales

The Company recognizes sales for in-store purchases at the point-of-sale. Revenue related to e-commerce transactions is recognized upon shipment based on the fact that control transfers to the customer at that time. The Company has made a policy election to treat shipping and handling as costs to fulfill the contract and as a result any amounts received from customers are included in the transaction price allocated to the performance obligation of providing goods with a corresponding amount accrued within cost of goods sold, buying and occupancy costs in the unaudited Consolidated Statements of Income and Comprehensive Income for amounts paid to applicable carriers. Associate discounts on merchandise purchases are classified as a reduction of net sales. Net sales excludes sales tax collected from customers and remitted to governmental authorities.

Loyalty Program

The Company maintains a customer loyalty program in which customers earn points toward rewards for qualifying purchases and other marketing activities. Upon reaching specified point values, customers are issued a reward, which they may redeem on merchandise purchases at the Company's stores or on its website. Generally, rewards earned must be redeemed within 60 days from the date of issuance. The Company defers a portion of merchandise sales based on the estimated standalone selling price of the points earned. This deferred revenue is recognized as certificates are redeemed or expire. To calculate this deferral, the Company makes assumptions related to card holder redemption rates based on historical experience. The loyalty liability is included in deferred revenue on the unaudited Consolidated Balance Sheets.

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	Thirteen Weeks Ended November 3, 2018 (in thousands)		Thirty-Nine Weeks Ended October 28, 2017 (in thousands)	
Beginning balance loyalty deferred revenue	\$18,313	\$ 11,568	\$14,186	\$ 15,662
Reduction in revenue/(revenue recognized)	(2,843)	930	1,284	(3,164)
Ending balance loyalty deferred revenue	\$15,470	\$ 12,498	\$15,470	\$ 12,498

Sales Returns Reserve

The Company reduces net sales and provides a reserve for projected merchandise returns based on prior experience. Merchandise returns are often resalable merchandise and are refunded by issuing the same payment tender as the original purchase. The sales returns reserve was \$12.5 million and \$10.6 million as of November 3, 2018 and February 3, 2018, respectively, and is included in accrued expenses on the unaudited Consolidated Balance Sheets. The asset related to projected returned merchandise is included in other assets on the unaudited Consolidated Balance Sheets.

Gift Cards

The Company sells gift cards in its stores, on its e-commerce website, and through third parties. These gift cards do not expire or lose value over periods of inactivity. The Company accounts for gift cards by recognizing a liability at the time a gift card is sold. The gift card liability balance was \$18.9 million and \$26.7 million, as of November 3, 2018 and February 3, 2018, respectively, and is included in deferred revenue on the Consolidated Balance Sheets. The Company recognizes revenue from gift cards when they are redeemed by the customer. The Company also recognizes income on unredeemed gift cards, referred to as “gift card breakage.” Gift card breakage is recognized proportionately using a time-based attribution method from issuance of the gift card to the time when it can be determined that the likelihood of the gift card being redeemed is remote and that there is no legal obligation to remit the unredeemed gift cards to relevant jurisdictions. The gift card breakage rate is based on historical redemption patterns. Gift card breakage is included in net sales in the unaudited Consolidated Statements of Income and Comprehensive Income.

	Thirteen Weeks Ended November 3, 2018 (in thousands)		Thirty-Nine Weeks Ended October 28, 2017 (in thousands)	
Beginning gift card liability	\$20,335	\$ 20,014	\$26,737	\$ 27,498
Issuances	7,393	7,801	24,376	23,114
Redemptions	(8,241)	(8,332)	(29,681)	(29,302)
Gift card breakage	(616)	(581)	(2,561)	(2,408)
Ending gift card liability	\$18,871	\$ 18,902	\$18,871	\$ 18,902

Private Label Credit Card

The Company has an agreement with Comenity Bank (the “Bank”) to provide customers with private label credit cards (the “Card Agreement”) which was amended on August 28, 2017 to extend the term of the arrangement through December 31, 2024. Each private label credit card bears the logo of the Express brand and can only be used at the Company’s store locations and e-commerce channel. The Bank is the sole owner of the accounts issued under the private label credit card program and absorbs the losses associated with non-payment by the private label card holders and a portion of any fraudulent usage of the accounts.

Pursuant to the Card Agreement, the Company receives amounts from the Bank during the term based on a percentage of private label credit card sales and is also eligible to receive incentive payments for the achievement of certain performance targets. These funds are recorded as net sales in the Consolidated Statements of Income and Comprehensive Income.

The Company also receives reimbursement funds from the Bank for expenses the Company incurs. These reimbursement funds are used by the Company to fund marketing and other programs associated with the private label

credit card. The reimbursement funds received related to these private label credit cards are recorded as net sales in the unaudited Consolidated Statements of Income and Comprehensive Income.

In connection with the Card Agreement, the Bank agreed to pay the Company a \$20.0 million refundable payment which the Company recognized upon receipt as deferred revenue within other long-term liabilities in the unaudited Consolidated Balance

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Sheets and began to recognize into income on a straight-line basis commencing January of 2018. The remaining deferred revenue balance of \$17.7 million will be recognized over the term of the amended Card Agreement within the other revenue component of net sales. In addition, the Company received \$7.1 million in non-refundable payments during 2017 which were recognized in the other revenue component of net sales on the unaudited Consolidated Statements of Income and Comprehensive Income with the related expenses classified as cost of goods sold, buying and occupancy.

	Thirteen Weeks Ended November 3, 2018 (in thousands)		Thirty-Nine Weeks Ended October 28, 2017 (in thousands)	
Beginning balance refundable payment liability	\$18,467	\$ 237	\$19,906	\$ 347
Refundable Payment Received	—	20,000	—	20,000
Recognized in revenue	(719)	(54)	(2,158)	(164)
Ending balance refundable payment liability	\$17,748	\$ 20,183	\$17,748	\$ 20,183

3. Earnings Per Share

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

	Thirteen Weeks Ended November 3, 2018 (in thousands)		Thirty-Nine Weeks Ended October 28, 2017 (in thousands)	
Weighted-average shares - basic	72,512	78,805	73,959	78,679
Dilutive effect of stock options and restricted stock units	961	85	798	—
Weighted-average shares - diluted	73,473	78,890	74,757	78,679

Equity awards representing 2.5 million and 3.4 million shares of common stock were excluded from the computation of diluted earnings per share for the thirteen and thirty-nine weeks ended November 3, 2018, respectively, as the inclusion of these awards would have been anti-dilutive. Equity awards representing 4.2 million and 4.6 million shares of common stock were excluded from the computation of diluted earnings per share for the thirteen and thirty-nine weeks ended October 28, 2017, respectively, as the inclusion of these awards would have been anti-dilutive.

Additionally, for the thirteen weeks ended November 3, 2018, approximately 1.5 million shares were excluded from the computation of diluted weighted average shares because the number of shares that will ultimately be issued is contingent on the Company's performance compared to pre-established performance goals which have not been achieved as of November 3, 2018.

4. Fair Value Measurements

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

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

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

Level 3-Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

Financial Assets

The following table presents the Company's financial assets, recorded in cash and cash equivalents on the unaudited Consolidated Balance Sheet, measured at fair value on a recurring basis as of November 3, 2018 and February 3,

2018, aggregated by the level in the fair value hierarchy within which those measurements fall.

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November 3, 2018

	Level 1	Level 2	Level 3
	(in thousands)		
Money market funds	\$ 134,183	\$ —	\$ —

February 3, 2018

	Level 1	Level 2	Level 3
	(in thousands)		
Money market funds	\$ 139,920	\$ —	\$ —
Commercial paper	—	79,908	—
	\$ 139,920	\$ 79,908	\$ —

The money market funds are valued using quoted market prices in active markets. The commercial paper is valued using other observable inputs for those securities based on information provided by an independent third party entity. The carrying amounts reflected on the unaudited Consolidated Balance Sheets for the remaining cash and cash equivalents, receivables, prepaid expenses, and payables as of November 3, 2018 and February 3, 2018 approximated their fair values.

Non-Financial Assets

The Company's non-financial assets, which include fixtures, equipment, improvements, and intangible assets, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur indicating the carrying value of these assets may not be recoverable, or annually in the case of indefinite lived intangibles, an impairment test is required. The impairment test requires the Company to estimate the fair value of the assets and compare this to the carrying value of the assets. If the fair value of the asset is less than the carrying value, then an impairment charge is recognized and the non-financial assets are recorded at fair value. The Company estimates the fair value using a discounted cash flow model. Factors used in the evaluation include, but are not limited to, management's plans for future operations, recent operating results, and projected cash flows. During the thirteen and thirty-nine weeks ended November 3, 2018 and the thirteen weeks ended October 28, 2017, the Company did not recognize any impairment charges. During the first quarter of 2017, the Company recognized impairment charges of approximately \$5.5 million related to its 17 Canadian stores, all of which were fully impaired and closed as part of the exit of the Canadian business. These charges are included in restructuring costs in the unaudited Consolidated Statements of Income and Comprehensive Income. See Note 12 for additional discussion regarding the exit from Canada.

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5. Intangible Assets

The following table provides the significant components of intangible assets:

November 3, 2018		
Cost	Accumulated Amortization	Ending Net Balance
(in thousands)		
Tradename/domain names/trademarks	\$ 197,618 \$ —	\$ 197,618
Licensing arrangements	425 306	119
	\$ 198,043 \$ 306	\$ 197,737
February 3, 2018		
Cost	Accumulated Amortization	Ending Net Balance
(in thousands)		
Tradename/domain names/trademarks	\$ 197,618 \$ —	\$ 197,618
Licensing arrangements	425 270	155
	\$ 198,043 \$ 270	\$ 197,773

The Company's tradename, Internet domain names, and trademarks have indefinite lives. Licensing arrangements are amortized over a period of ten years and are included in other assets on the unaudited Consolidated Balance Sheets.

6. Income Taxes

The provision for income taxes is based on a current estimate of the annual effective tax rate adjusted to reflect the impact of discrete items. The Company's effective income tax rate may fluctuate from quarter to quarter as a result of a variety of factors, including changes in the Company's assessment of certain tax contingencies, valuation allowances, changes in tax law, outcomes of administrative audits, the impact of discrete items, and the mix of earnings.

The Company's effective tax rate was 21.7% and 40.9% for the thirteen weeks ended November 3, 2018 and October 28, 2017, respectively. The effective tax rate for the thirteen weeks ended November 3, 2018 was reduced primarily due to income tax reform and includes a net discrete tax benefit of \$0.7 million.

The Company's effective tax rate was 33.0% and 36.9% for the thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively. The effective tax rate for the thirty-nine weeks ended November 3, 2018 was lower due to income tax reform and includes a net discrete tax expense of \$0.7 million. This tax expense is the result of a \$1.3 million discrete tax expense related to a tax shortfall for share-based compensation, partially offset by a net discrete tax benefit of \$0.6 million. The effective tax rate for the thirty-nine weeks ended October 28, 2017 reflects \$3.4 million of discrete tax benefit related to the exit of the Canadian business. This benefit was partially offset by discrete charges of \$2.5 million related to a tax shortfall for share-based compensation and \$1.2 million for a valuation allowance that was recorded against the deferred tax asset for deferred compensation.

7. Lease Financing Obligations

In certain lease arrangements, the Company is involved in the construction of the building. To the extent the Company is involved in the construction of structural improvements or takes construction risk prior to commencement of a lease, it is deemed the owner of the project for accounting purposes. Therefore, the Company records an asset in property and equipment on the unaudited Consolidated Balance Sheets, including any capitalized interest costs, and related liabilities in accrued interest and lease financing obligations in other long-term liabilities on the unaudited Consolidated Balance Sheets, for the replacement cost of the Company's portion of the pre-existing building plus the amount of construction costs incurred by the landlord as of the balance sheet date.

The initial terms of the lease arrangements for which the Company is considered the owner are expected to expire in 2023 and 2029. The net book value of landlord funded construction, replacement cost of pre-existing property, and capitalized interest in property and equipment on the unaudited Consolidated Balance Sheets was \$57.5 million and \$60.2 million, as of November 3, 2018 and February 3, 2018, respectively. There was also \$65.5 million and \$66.7 million of lease financing obligations as of November 3, 2018 and February 3, 2018, respectively,

in other long-term liabilities on the unaudited Consolidated Balance Sheets.

Rent expense relating to the land is recognized on a straight-line basis over the lease term. The Company does not report rent expense for the portion of the rent payment determined to be related to the buildings which are owned for accounting purposes. Rather, this portion of the rent payment under the lease is recognized as interest expense and a reduction of the lease financing obligations.

In February 2016, the Company amended its lease arrangement with the landlord of the Times Square Flagship store. The amendment provided the landlord with the option to cancel the lease upon sufficient notice through December 31, 2016. The option was never exercised and therefore expired on December 31, 2016. In conjunction with amending the lease, the Company recognized an \$11.4 million put option liability that is being amortized through interest expense over the remaining lease term. As of November 3, 2018, the remaining balance related to the put option was \$7.7 million of which \$6.9 million is included within other long-term liabilities on the Consolidated Balance Sheets.

8. Debt

A summary of the Company's financing activities are as follows:

Revolving Credit Facility

On May 20, 2015, Express Holding, LLC, a wholly-owned subsidiary of the Company ("Express Holding"), and its subsidiaries entered into an Amended and Restated \$250.0 million secured Asset-Based Credit Facility ("Revolving Credit Facility"). The expiration date of the facility is May 20, 2020. As of November 3, 2018, there were no borrowings outstanding and approximately \$247.0 million was available for borrowing under the Revolving Credit Facility.

The Revolving Credit Facility requires Express Holding and its subsidiaries to maintain a fixed charge coverage ratio of at least 1.0:1.0 if excess availability plus eligible cash collateral is less than 10% of the borrowing base. In addition, the Revolving Credit Facility contains customary covenants and restrictions on Express Holding's 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, prepayment of other debt, distributions, dividends, the repurchase of capital stock, transactions with affiliates, the ability to change the nature of its business or fiscal year, and permitted business activities. All obligations under the Revolving Credit Facility are guaranteed by Express Holding and its domestic subsidiaries (that are not borrowers) and secured by a lien on, among other assets, substantially all working capital assets including cash, accounts receivable, and inventory, of Express Holding and its domestic subsidiaries.

Letters of Credit

The Company may enter into stand-by letters of credit ("stand-by LCs") on an as-needed basis to secure payment obligations for merchandise purchases and other general and administrative expenses. As of November 3, 2018 and February 3, 2018, outstanding stand-by LCs totaled \$3.0 million and \$3.3 million, respectively.

9. Share-Based Compensation

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

Share-Based Compensation Plans

In 2010, the Board approved, and the Company implemented, the Express, Inc. 2010 Incentive Compensation Plan (as amended, the "2010 Plan"). The 2010 Plan authorized the Compensation Committee (the "Committee") of the Board and its designees to offer eligible employees and directors cash and stock-based incentives as deemed appropriate in order to attract, retain, and reward such individuals.

As of April 30, 2018, upon the recommendation of the Committee, the Board unanimously approved and adopted, subject to stockholder approval, the Express, Inc. 2018 Incentive Compensation Plan (the "2018 Plan") to replace the 2010 Plan. On June 13, 2018, stockholders of the Company approved the 2018 Plan and all grants made subsequent to that approval will be made under the 2018 Plan. The primary change made by the 2018 Plan was to increase the number of shares of common stock available for equity-based awards by 2.4 million shares. In addition to increasing the number of shares, the Company also made several enhancements to the 2010 Plan to reflect best practices in corporate governance. The 2018 Plan incorporates these concepts and also includes several other enhancements which are practices the Company already follows but were not explicitly stated in the 2010 Plan. None of these changes will have a significant impact on the accounting for awards made under the 2018 Plan.

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The following summarizes share-based compensation expense:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
	(in thousands)			
Restricted stock units	\$3,015	\$3,249	\$9,347	\$9,455
Stock options	255	401	842	1,655
Performance-based restricted stock units	280	—	627	—
Total share-based compensation	\$3,550	\$3,650	\$10,816	\$11,110

The stock compensation related income tax benefit recognized by the Company during the thirteen and thirty-nine weeks ended November 3, 2018 was negligible and \$2.5 million, respectively. The stock compensation related income tax benefit recognized by the Company during the thirteen and thirty-nine weeks ended October 28, 2017 was negligible and \$2.1 million, respectively.

Restricted Stock Units

During the thirty-nine weeks ended November 3, 2018, the Company granted restricted stock units (“RSUs”) under the 2010 Plan and the 2018 Plan. The fair value of RSUs is determined based on the Company’s closing stock price on the day prior to the grant date in accordance with the 2010 Plan and 2018 Plan. The RSUs granted in 2018 vest ratably over four years and the expense related to these RSUs will be recognized using the straight-line attribution method over this vesting period.

The Company’s activity with respect to RSUs, including awards with performance conditions granted prior to 2018, for the thirty-nine weeks ended November 3, 2018 was as follows:

	Grant Date	Number of Shares	Weighted Average Fair Value Per Share
		(in thousands, except per share amounts)	
Unvested, February 3, 2018	2,902	\$	11.06
Granted	2,044	\$	7.09
Vested	(987)	\$	13.69
Forfeited	(252)	\$	10.34
Unvested, November 3, 2018	3,707	\$	9.08

The total fair value of RSUs that vested during the thirty-nine weeks ended November 3, 2018 was \$13.5 million. As of November 3, 2018, there was approximately \$23.0 million of total unrecognized compensation expense related to unvested RSUs, which is expected to be recognized over a weighted-average period of approximately 1.7 years.

Stock Options

The Company’s activity with respect to stock options during the thirty-nine weeks ended November 3, 2018 was as follows:

	Grant Date	Number of Shares	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
		(in thousands, except per share amounts and years)			
Outstanding, February 3, 2018	2,609	\$	16.43		
Granted	—	\$	—		
Exercised	—	\$	—		
Forfeited or expired	(142)	\$	16.58		

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Outstanding, November 3, 2018	2,467	\$ 16.42	4.9	\$ 46
Expected to vest at November 3, 2018	480	\$ 12.34	8.0	\$ 41
Exercisable at November 3, 2018	1,971	\$ 17.46	4.1	\$ —

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As of November 3, 2018, there was approximately \$1.5 million of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted average period of approximately 1.4 years.

Performance-based Restricted Stock Units

In the first quarter of 2018, the Company granted performance shares to a limited number of senior executive-level employees, which entitle these employees to receive a specified number of shares of the Company's common stock upon vesting. The number of shares earned could range between 0% and 200% of the target amount depending upon performance achieved over the three year vesting period. The performance conditions of the award include adjusted diluted earnings per share (EPS) targets and total shareholder return (TSR) of the Company's common stock relative to a select group of peer companies. A Monte Carlo valuation model was used to determine the fair value of the awards. The TSR performance metric is a market condition. Therefore, fair value of the awards is fixed at the measurement date and is not revised based on actual performance. The number of shares that will ultimately vest will change based on estimates of the Company's adjusted EPS performance in relation to the pre-established targets. The 2018 target grant currently corresponds to approximately 0.5 million shares, with a grant date fair value of \$7.54 per share.

10. Commitments and Contingencies

In a complaint filed in January 2017 by Mr. Jorge Chacon in the Superior Court for the State of California for the County of Orange, certain subsidiaries of the Company were named as defendants in a representative action alleging violations of California state wage and hour statutes and other labor standards. In a complaint filed in December 2017 by Mr. Robert Jaurigue in the Superior Court for the State of California for the County of Los Angeles, a subsidiary of the Company was named as a defendant in a representative action alleging violations of California state wage and hour statutes and other labor standards. Both lawsuits seek unspecified monetary damages and attorneys' fees. The case filed by Mr. Jaurigue has been stayed by the court pending resolution of the case filed by Mr. Chacon. In July 2018, former associate Ms. Christie Carr filed suit in Alameda County Superior Court for the State of California naming certain subsidiaries of the Company in a representative action alleging violations of California State wage and hour statutes and other labor standards. The lawsuit seeks unspecified monetary damages and attorneys' fees. The Company is vigorously defending itself against these claims and, as of November 3, 2018, has established an estimated liability based on its best estimate of the outcome of the matters.

The Company is subject to various other claims and contingencies arising out of the normal course of business.

Management

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

11. Investment in Equity Interests

In the second quarter of 2016, the Company made a \$10.1 million investment in Homage, LLC, a privately held retail company based in Columbus, Ohio. The non-controlling investment in the entity is being accounted for under the equity method. Under the terms of the agreement governing the investment, the Company's investment was increased by \$0.5 million during both the second quarter of 2017 and 2018 as the result of an accrual of a non-cash preferred yield. The total \$11.1 million investment is included in other assets on the unaudited Consolidated Balance Sheets.

12. Restructuring Costs

In April of 2017, Express made the decision to close all 17 of its retail stores in Canada and discontinue all operations through its Canadian subsidiary, Express Fashion Apparel Canada Inc. ("Express Canada"). In connection with the plan to close all of

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its Canadian stores, on May 4, 2017, certain of Express, Inc.'s Canadian subsidiaries filed an application with the Ontario Superior Court of Justice (Commercial List) in Toronto (the "Court") seeking protection for Express, Inc.'s Canadian subsidiaries under the Companies' Creditors Arrangement Act in Canada (the "Filing") and the appointment of a monitor to oversee the liquidation and wind-down process. Express Canada began conducting store closing liquidation sales in the middle of May and closed all of its Canadian stores in June of 2017. On September 27, 2017, a Joint Plan of Compromise and Arrangement (the "Plan") which sets forth the amounts to be distributed to creditors and others in connection with the liquidation of Express Canada was sanctioned and approved by the Court and the creditors of Express Canada. The Plan is in the process of being implemented and substantially all of the creditor distributions under the Plan have been made.

Asset Impairment

As a result of the decision to close the Canadian stores, Express determined that it was more likely than not that the fixed assets associated with the Canadian stores would be sold or otherwise disposed of prior to the end of their useful lives and therefore evaluated these assets for impairment in the first quarter of 2017. As a result of this evaluation, the Company recognized an impairment charge of \$5.5 million on the fixed assets in the first quarter of 2017, which is included in restructuring costs in the unaudited Consolidated Statements of Income and Comprehensive Income.

Exit Costs

As of October 28, 2017, in addition to the impairment charges noted above, the Company incurred a \$6.4 million write off of the investment in Express Canada, \$5.5 million in lease related accruals, \$4.2 million related to the reclassification into earnings of the cumulative translation loss, and approximately \$1.3 million in professional fees. During the thirteen and thirty-nine weeks ended November 3, 2018, the Company incurred \$0.2 million in lease related expenses.

A \$1.2 million lease related accrual as of February 3, 2018 was settled during the third quarter of 2018. The Company does not expect to incur significant additional restructuring costs and does not have any remaining liabilities related to the Canada exit.

13. Retirement Benefits

The Company previously sponsored a non-qualified deferred compensation plan for certain eligible employees. In the first quarter of 2017, the Company elected to terminate the non-qualified plan effective March 31, 2017. Outstanding participant balances were distributed via lump sum in the first quarter of 2018 in the amount of \$25.6 million. The Company had no further liability under the non-qualified plan as of November 3, 2018. The Company continues to sponsor a qualified defined contribution retirement plan for eligible employees.

14. Stockholders' Equity

On November 28, 2017, the Company's Board of Directors ("Board") approved a new share repurchase program that authorized the Company to repurchase up to \$150 million of the Company's outstanding common stock using available cash (the "2017 Repurchase Program"). Under the 2017 Repurchase Program, the Company may repurchase shares on the open market, including through Rule 10b5-1 plans, in privately negotiated transactions, through block purchases, or otherwise in compliance with applicable laws, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. The timing and amount of stock repurchases will depend on a variety of factors, including business and market conditions as well as corporate and regulatory considerations. The share repurchase program may be suspended, modified, or discontinued at any time and the Company has no obligation to repurchase any amount of its common stock under the program. In 2017, the Company repurchased 2.1 million shares of its common stock under the 2017 Repurchase Program for an aggregate amount equal to \$17.3 million, including commissions. During the thirteen and thirty-nine weeks ended November 3, 2018, the Company repurchased 2.5 million and 6.5 million shares of its common stock under the 2017 Repurchase Program, respectively, for an aggregate amount equal to \$24.2

million and \$56.2 million, respectively, including commissions. In addition, subsequent to November 3, 2018 through December 11, 2018, the Company repurchased an additional 3.5 million shares of its common stock under the 2017 Repurchase Program for an aggregate amount equal to \$27.0 million, including commissions.

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

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity, and cash flows of the Company as of the dates and for the periods presented below. The following discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended February 3, 2018 and our unaudited Consolidated Financial Statements and the related notes included in Item 1 of this Quarterly Report. This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors. See "Forward-Looking Statements."

Overview

Express is a leading fashion destination and apparel brand for both women and men. Since 1980, Express has provided the latest apparel and accessories for work, casual, jeanswear, and going-out, offering a distinct combination of fashion and quality at an attractive value. The Company operates more than 600 retail and factory outlet stores in the United States and Puerto Rico, as well as a best-in-class shopping experience through its website and mobile app.

Q3 2018 vs. Q3 2017

- Net sales increased 2% to \$515.0 million
- Comparable sales were flat
- Comparable sales (excluding e-commerce sales) decreased 7%
- E-commerce sales increased 26% to \$149.1 million (23% on a comparable sales basis)
- Gross margin percentage increased 70 basis points to 30.7%
- Operating income decreased \$0.6 million to \$10.2 million
- Net income increased \$2.0 million to \$8.0 million
- Diluted earnings per share (EPS) increased \$0.03 to \$0.11

The following charts show key performance metrics for the third quarter of 2018 compared to the third quarter of 2017.

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Strategic Objectives

We remain committed to our long-term growth strategy that includes (1) improving profitability through sales growth, margin expansion, and expense leverage, (2) providing an exceptional brand and customer experience, (3) transforming and leveraging our systems and processes, and (4) cultivating a strong Company culture. In furtherance of our strategy, for 2018 and beyond, we are focused on the following strategic key areas:

First, driving customer acquisition and retention through more consistent product execution, more effective marketing spend, and delivering a continuous and holistic brand and customer experience across all channels. This includes successful product introductions, such as extended sizing, building customer engagement through more personalized service offerings, and further growth in our NEXT loyalty program.

Second, driving retail sales through solid double-digit e-commerce growth, while improving overall store productivity.

Third, realizing the benefits from our systems investments and omni-channel capabilities. We have begun to see the initial benefits and expect to capture more significant benefits going forward.

And fourth, we will continue to pursue cost savings. We have been successful in realizing our targeted savings to date and have also begun to benefit from reduced occupancy costs.

Third quarter 2018 update

Store Productivity

In the third quarter of 2018, comparable sales (excluding e-commerce sales) decreased 7%. We believe this decrease was primarily driven by the following:

- Decreased traffic at our stores as a result of shifting consumer shopping patterns which are leading to continued traffic challenges in malls.

E-Commerce

In the third quarter of 2018, our e-commerce sales increased 26% compared to the third quarter of 2017. We believe the increase was primarily driven by:

- The shift in customer shopping patterns towards e-commerce and mobile;
- Expanded assortment online; and
- Omni-channel capabilities delivering incremental sales.

E-commerce sales represented 29% of our total net sales in the third quarter of 2018 compared to 23% in the third quarter of 2017.

Store Fleet Optimization

As of November 3, 2018, we operated 634 stores, including 181 factory outlet stores.

Third quarter of 2018 store openings and closures:

- Opened 3 new factory outlet stores in the U.S.
- Converted 2 retail stores to factory outlet stores

Other Business Achievements

Product

- Saw improved performance in our men's business and improving trends in our women's business.

Customer Experience

- Continue to realize benefits from our omni-channel capabilities, primarily through ship from stores; and
- Launched Express Style Trial, a subscription-based rental service.

Brand

- Continued and expanded our relationship with the NBA; and
-

Further grew Express NEXT member base.

Other

-

Repurchased 2.5 million shares for \$24.2 million.

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How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of performance and financial measures. These key measures include net sales, comparable sales, cost of goods sold, buying and occupancy costs, gross profit/gross margin, and selling, general, and administrative expenses. The following table describes and discusses these measures.

Financial Measures	Description	Discussion
Net Sales	Revenue from the sale of merchandise, less returns and discounts, as well as shipping and handling revenue related to e-commerce, revenue from the rental of our LED sign in Times Square, gift card breakage, revenue earned from our private label credit card agreement, and revenue earned from our franchise agreements.	Our business is seasonal, and we have historically realized a higher portion of our net sales in the third and fourth quarters due primarily to the impact of the holiday season. Generally, approximately 45% of our annual net sales occur in the Spring season (first and second quarters) and 55% occur in the Fall season (third and fourth quarters).
Comparable Sales	<p>Comparable sales is a measure of the amount of sales generated in a period relative to the amount of sales generated in the comparable prior year period. Comparable sales for the third quarter of 2018 were calculated using the 13-week period ended November 3, 2018 as compared to the 13-week period ended November 4, 2017.</p> <p>Comparable sales includes:</p> <ul style="list-style-type: none"> • Sales from stores that were open 12 months or more as of the end of the reporting period, including conversions • E-commerce sales <p>Comparable sales excludes:</p> <ul style="list-style-type: none"> • Sales from stores where the square footage has changed by more than 20% due to remodel or relocation activity • Sales from stores in a phased remodel where a portion of the store is under construction and therefore not productive selling space • Sales from stores where the store cannot open due to weather damage or other catastrophe 	Our business and our comparable sales are 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.
Cost of goods sold, buying and occupancy costs	<p>Includes the following:</p> <ul style="list-style-type: none"> • Direct cost of purchased merchandise • Inventory shrink and other adjustments • Inbound and outbound freight 	<p>Our cost of goods sold typically increases in higher volume quarters because the direct cost of purchased merchandise is tied to sales.</p> <p>The primary drivers of the costs of individual goods are raw materials, labor in the countries where our merchandise is sourced, and</p>

- 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)
 - Logistics costs associated with our e-commerce business
- logistics costs associated with transporting our merchandise.
- Buying and occupancy costs related to stores are largely fixed and do not necessarily increase as volume increases.
- Changes in the mix of products sold by type of product or by channel may also impact our overall cost of goods sold, buying and occupancy costs.

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Financial Measures	Description	Discussion
		Gross profit/gross margin is impacted by the price at which we are able to sell our merchandise and the cost of our product.
Gross Profit/Gross Margin	Gross profit is net sales minus cost of goods sold, buying and occupancy costs. Gross margin measures gross profit as a percentage of net sales.	<p>We review our inventory levels on an on-going basis in order to identify slow-moving merchandise and generally use markdowns to clear such merchandise. The timing and level of markdowns are driven primarily by seasonality and customer acceptance of our merchandise and have a direct effect on our gross margin.</p> <p>Any marked down merchandise that is not sold is marked-out-of-stock. We use third-party vendors to dispose of this marked-out-of-stock merchandise.</p>
Selling, General, and Administrative Expenses	<p>Includes operating costs not included in cost of goods sold, buying and occupancy costs such as:</p> <ul style="list-style-type: none"> • Payroll and other expenses related to operations at our corporate offices • Store expenses other than occupancy costs • Marketing expenses, including production, mailing, print, and digital advertising costs, among other things 	<p>With the exception of store payroll, certain marketing expenses, and incentive compensation, selling, general, and administrative expenses generally do not vary proportionally with net sales. As a result, selling, general, and administrative expenses as a percentage of net sales are usually higher in lower volume quarters and lower in higher volume quarters.</p>

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Results of Operations

The Third Quarter of 2018 compared to the Third Quarter of 2017

Net Sales

	Thirteen Weeks Ended	
	November 3, 2018	October 28, 2017
Net sales (in thousands)	\$514,961	\$503,419
Comparable sales percentage change	—	% (1)%
Comparable sales percentage change (excluding e-commerce sales)	(7)%	(7)%
Gross square footage at end of period (in thousands)	5,400	5,471
Number of:		
Stores open at beginning of period	631	635
New retail stores	—	—
New outlet stores	5	9
Retail stores converted to outlets	(2)	(2)
Closed stores	—	(2)
Stores open at end of period	634	640

Net sales increased approximately \$11.5 million compared to the third quarter of 2017. The increase was primarily attributable to an increase in e-commerce sales as well as non-comparable sales and other revenue in the third quarter of 2018 compared to the third quarter of 2017. These increases were partially offset by a decrease in comparable store sales. The increase in e-commerce sales is attributable to the aforementioned shift in consumer shopping patterns, our expanded assortment online, and improvements in our online and mobile customer experience. In addition, we are also seeing a benefit from our expanded omni channel capabilities, specifically ship from store. The increase in non-comparable sales resulted, in part, from sales at stores impacted by the hurricanes that occurred in the prior year. The increase in other revenue resulted from the timing of sell-off revenue related to mark-out-of-stock inventory sold to a third party in addition to revenue from the Card Agreement. The decrease in comparable store sales (excluding e-commerce) was the result of decreased traffic at our stores, due in part to decreases in mall traffic overall.

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Gross Profit

The following table shows cost of goods sold, buying and occupancy costs, gross profit in dollars, and gross margin percentage for the stated periods:

	Thirteen Weeks Ended			
	November 3, 2018		October 28, 2017	
	2018		2017	
	(in thousands, except percentages)			
Cost of goods sold, buying and occupancy costs	\$356,812		\$352,227	
Gross profit	\$158,149		\$151,192	
Gross margin percentage	30.7	%	30.0	%

The 70 basis point increase in gross margin percentage, or gross profit as a percentage of net sales, in the third quarter of 2018 compared to the third quarter of 2017 was comprised of a 10 basis point increase in merchandise margin and a 60 basis point decrease in buying and occupancy costs as a percentage of net sales. The increase in merchandise margin was driven by a decrease in clearance inventory, partially offset by incremental shipping and handling costs due to higher shipping and handling rates and increased volume related to increased e-commerce sales as well as higher promotional activity. The decrease in buying and occupancy costs as a percentage of net sales was primarily the result of lower rent expense due to favorable lease renewals. These were partially offset by increased fulfillment costs as a result of increased e-commerce sales.

Selling, General, and Administrative Expenses

The following table shows selling, general, and administrative expenses in dollars and as a percentage of net sales for the stated periods:

	Thirteen Weeks Ended			
	November 3, 2018		October 28, 2017	
	2018		2017	
	(in thousands, except percentages)			
Selling, general, and administrative expenses	\$148,294		\$140,493	
Selling, general, and administrative expenses, as a percentage of net sales	28.8	%	27.9	%

The \$7.8 million increase in selling, general, and administrative expenses in the third quarter of 2018 as compared to the third quarter of 2017 was the result of wage inflationary costs, as well as higher marketing expenses in our efforts to increase brand awareness.

Income Tax Expense

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

	Thirteen Weeks Ended	
	November 3, 2018	October 28, 2017
	2018	2017
	(in thousands)	
Income tax expense	\$2,203	\$4,174

The effective tax rate was 21.7% for the thirteen weeks ended November 3, 2018 compared to 40.9% for the thirteen weeks ended October 28, 2017. The effective tax rate for the thirteen weeks ended November 3, 2018 includes a net tax benefit of approximately \$0.7 million attributable to certain discrete items that occurred during the third quarter of 2018. The effective tax rate, excluding discrete items, was 28.1% and 39.8% for the thirteen weeks ended November 3, 2018 and October 28, 2017, respectively. The effective tax rate, excluding discrete items, is lower for the current year primarily due to income tax reform.

We anticipate that our effective tax rate, excluding discrete items, will be approximately 30% in 2018.

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The Thirty-Nine Weeks Ended November 3, 2018 compared to the Thirty-Nine Weeks Ended October 28, 2017
Net Sales

	Thirty-Nine Weeks Ended	
	November 3, 2018	October 28, 2017
Net sales (in thousands)	\$1,487,918	\$1,458,820
Comparable sales percentage change	1	% (5)%
Comparable sales percentage change (excluding e-commerce sales)	(8	)% (11)%
Gross square footage at end of period (in thousands)	5,400	5,471
Number of:		
Stores open at beginning of period	635	656
New retail stores	—	—
New outlet stores	36	37
Retail stores converted to outlets	(29	) (21)
Closed stores	(8	) (32)
Stores open at end of period	634	640

Net sales increased approximately \$29.1 million compared to the thirty-nine weeks ended October 28, 2017. The increase was primarily attributable to an increase in comparable sales of 1% in the thirty-nine weeks ended November 3, 2018 compared to the thirty-nine weeks ended October 28, 2017. The increase in comparable sales resulted primarily from an increase in e-commerce sales. We attribute these increases to the aforementioned shift in consumer shopping patterns, our expanded assortment online, and improvements in our online and mobile customer experience. These increases were partially offset by a decrease in comparable sales (excluding e-commerce) as a result of decreased traffic at our stores, due in part to decreases in mall traffic overall.

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Gross Profit

The following table shows cost of goods sold, buying and occupancy costs, gross profit in dollars, and gross margin percentage for the stated periods:

	Thirty-Nine Weeks Ended		
	November 3,	October 28,	
	2018	2017	
	(in thousands, except percentages)		
Cost of goods sold, buying and occupancy costs	\$1,046,204	\$1,041,590	
Gross profit	\$441,714	\$417,230	
Gross margin percentage	29.7	% 28.6	%

The 110 basis point increase in gross margin percentage, or gross profit as a percentage of net sales, in the thirty-nine weeks ended November 3, 2018 compared to the thirty-nine weeks ended October 28, 2017 was comprised of a 30 basis point increase in merchandise margin and a 80 basis point decrease in buying and occupancy costs as a percentage of net sales. The improvement in merchandise margin was driven by our sourcing-related cost savings initiatives, partially offset by higher shipping and handling costs. The decrease in buying and occupancy costs was primarily the result of the exit from Canada in 2017 and lower rent expense due to favorable lease renewals. These were partially offset by increased fulfillment costs as a result of increased e-commerce sales.

Selling, General, and Administrative Expenses

The following table shows selling, general, and administrative expenses in dollars and as a percentage of net sales for the stated periods:

	Thirty-Nine Weeks Ended		
	November 3,	October 28,	
	2018	2017	
	(in thousands, except percentages)		
Selling, general, and administrative expenses	\$426,583	\$407,001	
Selling, general, and administrative expenses, as a percentage of net sales	28.7	% 27.9	%

The \$19.6 million increase in selling, general, and administrative expenses in the thirty-nine weeks ended November 3, 2018 as compared to the thirty-nine weeks ended October 28, 2017 was primarily the result of investments in marketing, technology, and e-commerce initiatives. The increase was also partially due to incentive compensation and increased payroll due to inflationary wage increases.

Restructuring Costs

The following table shows restructuring costs in dollars for the stated periods:

	Thirty-Nine Weeks Ended	
	November 3,	October 28,
	2018	2017
	(in thousands)	
Restructuring costs	\$166	\$22,869

Restructuring costs represent the costs incurred related to the exit of our Canadian business in 2017. These costs included a \$6.4 million write off of the investment in Express Canada, \$5.5 million in impairment charges, \$5.5 million in lease related accruals, \$4.2 million related to the reclassification into earnings of the cumulative translation loss, and approximately \$1.3 million in professional fees for the thirty-nine weeks ended October 28, 2017.

The remaining lease obligation was finalized during the thirteen weeks ended November 3, 2018 and we do not expect to incur any significant additional restructuring costs. No liabilities are recorded as of November 3, 2018 related to the Canadian exit.

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Income Tax Expense

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

	Thirty-Nine Weeks Ended	
	November 3, 2018	October 28, 2017

(in thousands)

Income tax expense/(benefit)	\$5,268	\$ (4,981)
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The effective tax rate was 33.0% for the thirty-nine weeks ended November 3, 2018 compared to 36.9% for the thirty-nine weeks ended October 28, 2017. The effective tax rate for the thirty-nine weeks ended November 3, 2018 reflects a tax expense of \$1.3 million of discrete tax expense related to a tax shortfall for share-based compensation. This expense was partially offset by discrete tax benefits of \$0.6 million.

The effective tax rate for the thirty-nine weeks ended October 28, 2017 reflects \$3.4 million of discrete tax benefit related to the exit of our Canadian business. This benefit was partially offset by discrete charges of \$2.5 million related to a tax shortfall for share-based compensation and \$1.2 million for a valuation allowance that was recorded against the deferred tax asset for deferred compensation. The effective tax rate, excluding discrete items, was 28.4% and 39.8% for the thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively. The effective tax rate, excluding discrete items, is lower for the current year primarily due to income tax reform.

We anticipate that our effective tax rate, excluding discrete items, will be approximately 30% in 2018.

Non-GAAP Financial Measures

The following table presents adjusted operating income/(loss), adjusted net income/(loss) and adjusted diluted earnings per share, each non-GAAP financial measures, and operating income/(loss), net income/(loss), and diluted earnings per share, the most closely related GAAP measures, for the stated periods. Adjusted operating income/(loss), adjusted net income/(loss), and adjusted diluted earnings per share eliminate the impact of the exit of our Canadian business in 2017:

	Thirty-Nine Weeks Ended	
	November 3, 2018	October 28, 2017

(in thousands, except per share amounts)

Operating Income/(Loss)	\$15,654	\$ (11,976)
Adjusted Operating Income/(Loss)	\$15,654*	\$ 12,175
Net Income/(Loss)	\$10,718	\$ (8,528)
Adjusted Net Income/(Loss)	\$10,718*	\$ 3,154
Diluted Earnings Per Share	\$0.14	\$ (0.11)
Adjusted Diluted Earnings Per Share	\$0.14	*\$ 0.04

*No adjustments were made to operating income, net income, or diluted earnings per share for the thirty-nine weeks ended November 3, 2018.

We supplement the reporting of our financial information determined under GAAP with certain non-GAAP financial measures: adjusted operating income/(loss), adjusted net income/(loss), and adjusted diluted earnings per share. We believe that these non-GAAP measures provide additional useful information to assist stockholders in understanding our financial results and assessing our prospects for future performance. Management believes adjusted operating income/(loss), adjusted net income/(loss), and adjusted diluted earnings per share are important indicators of our business performance because they exclude items that may not be indicative of, or are unrelated to, our underlying operating results, and provide a better baseline for analyzing trends in our business. In addition, adjusted diluted earnings per share is used as a performance measure in our executive compensation program for purposes of

determining the number of equity awards that are ultimately earned. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. These adjusted financial measures should not be considered in isolation or as a substitute for reported operating income/(loss), reported net income/(loss), or reported diluted

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earnings per share. These non-GAAP financial measures reflect an additional way of viewing our operations that, when viewed with our GAAP results and the below reconciliations to the corresponding GAAP financial measures, provide a more complete understanding of our business. We strongly encourage investors and stockholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. The table below reconciles the non-GAAP financial measures, adjusted operating loss, adjusted net loss, and adjusted diluted earnings per share, with the most directly comparable GAAP financial measures, operating loss, net loss, and diluted earnings per share for the thirty-nine weeks ended October 28, 2017.

	Thirty-Nine Weeks Ended October 28, 2017			
(in thousands, except per share amounts)	Operating Loss	Net Loss	Diluted Earnings per Share	Weighted Average Diluted Shares Outstanding
Reported GAAP Measure	\$(11,976)	\$(8,528)	\$(0.11)	78,679
Impact of Canadian Exit (a)	24,151	24,151	0.31	
Income Tax Benefit - Canadian Exit	—	(12,469)	(0.16)	
Adjusted Non-GAAP Measure	\$12,175	\$3,154	\$0.04	78,851 (b)

(a) Includes \$22.9 million in restructuring costs and an additional \$1.3 million in inventory adjustments related to the Canadian exit.

(b) Weighted average diluted shares outstanding for the purpose of calculating adjusted diluted earnings per share includes the dilutive effect of share-based awards as determined under the treasury stock method.

Liquidity and Capital Resources

A summary of cash provided by or used in operating, investing, and financing activities is shown in the following table:

	Thirty-Nine Weeks Ended	
	November 3, 2018	October 28, 2017
	(in thousands)	
Provided by operating activities	\$18,315	\$47,674
Used in investing activities	(32,402)	(51,439)
Used in financing activities	(60,946)	(4,876)
Decrease in cash and cash equivalents	(75,033)	(9,079)
Cash and cash equivalents at end of period	\$161,189	\$198,294

Our business relies on cash flows from operations as our primary source of liquidity, with the majority of those cash flows being generated in the fourth quarter of the year. Our primary operating cash needs are for merchandise inventories, payroll, store rent, and marketing. For the thirty-nine weeks ended November 3, 2018, our cash flows provided by operating activities were \$18.3 million compared to \$47.7 million in cash flows provided by operating activities for the thirty-nine weeks ended October 28, 2017. The decrease in cash flows from operating activities for the thirty-nine weeks ended November 3, 2018 was primarily driven by the distribution of \$25.6 million related to the termination of our non-qualified supplemental retirement plan, partially offset by increased net income due to increased business performance and the exit of our Canadian business in the prior year. Additionally, we received \$22.0 million in the third quarter of 2017 in conjunction with the amendment of our private label credit card agreement.

In addition to cash flows from operations, we have access to additional liquidity, if needed, through borrowings under our Revolving Credit Facility. As of November 3, 2018, we had \$247.0 million available for borrowing under our Revolving Credit Facility. Refer to Note 8 to our unaudited Consolidated Financial Statements for additional information on our Revolving Credit Facility.

We also use cash for capital expenditures and financing transactions. For the thirty-nine weeks ended November 3, 2018, we had capital expenditures of approximately \$32.4 million. These relate primarily to store remodels, new outlet stores, and information technology projects to support our strategic business initiatives. We expect capital expenditures for the remainder of 2018 to be approximately \$21 million to \$26 million, primarily driven by store remodels, new outlet stores, and investments

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in information technology. These capital expenditures do not include the impact of landlord allowances, which are expected to be approximately \$0.7 million for the remainder of 2018. During the thirty-nine weeks ended October 28, 2017, we incurred a cash loss upon the deconsolidation of Canada in the amount of \$9.2 million, which represented the balance of cash and cash equivalents in our Canadian subsidiary at the time of deconsolidation.

On November 28, 2017, the Board approved a new share repurchase program that authorizes us to repurchase up to \$150 million of our outstanding common stock using available cash. For the thirty-nine weeks ended November 3, 2018, we repurchased 6.5 million shares under the share repurchase program for an aggregate amount equal to \$56.2 million, including commissions. In addition, subsequent to November 3, 2018 through December 11, 2018, the Company repurchased an additional 3.5 million of its common stock under the 2017 Repurchase Program for an aggregate amount equal to \$27.0 million, including commissions. We have \$49.6 million remaining under the share repurchase program.

Our liquidity 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 three to five 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.

We believe that cash generated from future operations and the availability of borrowings under our Revolving Credit Facility will be sufficient to meet working capital requirements and anticipated capital expenditures for at least the next 12 months.

Contractual Obligations

Our contractual obligations and other commercial commitments did not change materially between February 3, 2018 and November 3, 2018. For additional information regarding our contractual obligations as of February 3, 2018, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended February 3, 2018.

Critical Accounting Policies

Management has determined that our most critical accounting policies are those related to revenue recognition, merchandise inventory valuation, long-lived asset valuation, claims and contingencies, and income taxes. We continue to monitor our accounting policies to ensure proper application of current rules and regulations. There have been no significant changes to the policies discussed in our Annual Report on Form 10-K for the year ended February 3, 2018.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our Revolving Credit Facility bears interest at variable rates, however, we did not borrow any amounts under the Revolving Credit Facility during the thirty-nine weeks ended November 3, 2018. Changes in interest rates are not expected to have a material impact on our future earnings or cash flows given our limited exposure to such changes.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934) that are designed to provide reasonable assurance that information required to be disclosed in our Securities Exchange Act of 1934 reports is recorded, processed, summarized, and reported within the time periods specified in the SEC’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 November 3, 2018.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the third quarter of 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Information relating to legal proceedings is set forth in Note 10 to our unaudited Consolidated Financial Statements included in Part I of this Quarterly Report and is incorporated herein by reference.

ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this Quarterly Report, careful consideration should be given to the risk factors set forth in “Item 1A. Risk Factors”, of our Annual Report on Form 10-K for the year ended February 3, 2018, any of which could materially affect our business, operations, financial position, stock price, or future results. The risks described herein and in our Annual Report on Form 10-K for the year ended February 3, 2018, are important to an understanding of the statements made in this Quarterly Report, in our other filings with the SEC, and in any other discussion of our business. These risk factors, which contain forward-looking information, should be read in conjunction with “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and the unaudited Consolidated Financial Statements and related notes included in this Quarterly Report.

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

The following table provides information regarding the purchase of shares of our common stock made by or on behalf of the Company or any “affiliated purchaser” as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, during each month of the quarterly period ended November 3, 2018:

Month	Total Number of Shares Purchased	Average Price Paid per Share ⁽¹⁾	Total	
			Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs ⁽²⁾
August 5, 2018 - September 1, 2018	—	\$—	—	\$ 100,841
September 2, 2018 - October 6, 2018	1,411	\$ 10.63	1,412	\$ 85,842
October 7, 2018 - November 3, 2018	1,066	\$ 8.56	1,067	\$ 76,718
Total	2,477		2,479	

(in thousands, except per share amounts)

(1) Includes shares purchased in connection with employee tax withholding obligations and shares issued under the 2010 Plan.

(2) On November 28, 2017, the Board approved a share repurchase program that authorizes the Company to repurchase up to \$150 million of the Company’s outstanding common stock using available cash. The Company may repurchase shares on the open market, including through Rule 10b5-1 plans, in privately negotiated transactions, through block purchases, or otherwise in compliance with applicable laws, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. The timing and amount of stock repurchases will depend on a variety of factors, including business and market conditions as well as corporate and regulatory considerations. The share repurchase program may be suspended, modified, or discontinued at any time and the Company has no obligation to repurchase any amount of its common stock under the program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

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ITEM 6. EXHIBITS.

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

Exhibit Number	Exhibit Description
<u>31.1</u> *	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2</u> *	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1</u> *	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: December 12, 2018 EXPRESS, INC.

By: /s/ Periclis Pericleous

Periclis Pericleous

Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)