

EXPRESS, INC.  
Form 10-Q  
September 03, 2015  
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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 August 1, 2015  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_  
Commission File Number 001-34742

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

43230  
(Zip Code)

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

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

Large accelerated filer  Accelerated filer

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Non-accelerated filer  (Do not check if a smaller reporting company)  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The number of outstanding shares of the registrant's common stock was 84,714,181 as of August 29, 2015.

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## FORWARD-LOOKING STATEMENTS

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

- changes in consumer spending and general economic conditions;
- our ability to identify and respond to new and changing fashion trends, customer preferences, and other related factors;
- fluctuations in our sales, 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 merchandise mix we sell, and promotions;
- competition from other retailers;
- customer traffic at malls, shopping centers, and at our stores and customer traffic to our website;
- our dependence on a strong brand image;
- our ability to develop and maintain a reliable omni-channel experience for our customers;
- the failure or breach of information systems upon which we rely;
- our ability to protect our customer data from fraud and theft;
- 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;
- our dependence upon key executive management;
- our growth strategy, including our new store, e-commerce, and international expansion plans;
- our reliance on third parties to provide us with certain key services for our business;
- 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 which may preclude the use of our trademarks or other intellectual property around the world;
- impairment charges on long-lived assets;
- substantial lease obligations;
- changes in tax requirements, results of tax audits, and other factors that may cause fluctuations in our effective tax rates; and
- restrictions imposed on us under the terms of our revolving credit facility.

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 January 31, 2015 ("Annual Report"), filed with the Securities and Exchange Commission ("SEC") on March 27, 2015. The forward-looking statements included in this Quarterly Report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events, or otherwise, except as otherwise required by law.



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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## EXPRESS, INC.

## CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands, Except Per Share Amounts)

(Unaudited)

	August 1, 2015	January 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 155,645	\$ 346,159
Receivables, net	22,073	23,272
Inventories	272,011	241,063
Prepaid minimum rent	29,926	29,465
Other	27,563	14,277
Total current assets	507,218	654,236
<b>PROPERTY AND EQUIPMENT</b>	894,246	840,340
Less: accumulated depreciation	(467,230	) (432,733
Property and equipment, net	427,016	407,607
<b>TRADENAME/DOMAIN NAME</b>	197,597	197,562
<b>DEFERRED TAX ASSETS</b>	12,348	12,371
<b>OTHER ASSETS</b>	3,097	6,374
Total assets	\$ 1,147,276	\$ 1,278,150
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 179,120	\$ 153,745
Deferred revenue	22,151	28,575
Accrued expenses	110,554	105,139
Total current liabilities	311,825	287,459
<b>LONG-TERM DEBT</b>	—	199,527
<b>DEFERRED LEASE CREDITS</b>	132,597	128,450
<b>OTHER LONG-TERM LIABILITIES</b>	105,123	106,375
Total liabilities	549,545	721,811
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
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; 91,040 shares and 90,400 shares issued at August 1, 2015 and January 31, 2015, respectively, and 84,713 shares and 84,298 shares outstanding at August 1, 2015 and January 31, 2015, respectively	910	904
Additional paid-in capital	161,232	149,789
Accumulated other comprehensive loss	(3,513	) (3,057
Retained earnings	550,875	516,785

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Treasury stock – at average cost; 6,327 shares and 6,102 shares at August 1, 2015 and January 31, 2015, respectively	(111,773	) (108,082	)
Total stockholders' equity	597,731	556,339	
Total liabilities and stockholders' equity	\$1,147,276	\$1,278,150	

See notes to unaudited consolidated financial statements.

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EXPRESS, INC.

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Amounts in Thousands, Except Per Share Amounts)

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
NET SALES	\$535,582	\$481,420	\$1,037,960	\$942,072
COST OF GOODS SOLD, BUYING AND OCCUPANCY COSTS	358,392	345,395	694,326	668,674
Gross profit	177,190	136,025	343,634	273,398
OPERATING EXPENSES:				
Selling, general, and administrative expenses	140,573	121,923	273,749	244,783
Other operating expense (income), net	752	(506)	) 72	(984)
Total operating expenses	141,325	121,417	273,821	243,799
OPERATING INCOME	35,865	14,608	69,813	29,599
INTEREST EXPENSE, NET	1,231	5,941	13,544	11,838
OTHER EXPENSE (INCOME), NET	419	22	70	(3)
INCOME BEFORE INCOME TAXES	34,215	8,645	56,199	17,764
INCOME TAX EXPENSE	13,187	1,778	22,109	5,814
NET INCOME	\$21,028	\$6,867	\$34,090	\$11,950
OTHER COMPREHENSIVE INCOME:				
Foreign currency translation (loss) gain	(1,177)	) 102	(456)	) 484
COMPREHENSIVE INCOME	\$19,851	\$6,969	\$33,634	\$12,434
EARNINGS PER SHARE:				
Basic	\$0.25	\$0.08	\$0.40	\$0.14
Diluted	\$0.25	\$0.08	\$0.40	\$0.14
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	84,677	84,172	84,560	84,088
Diluted	85,201	84,440	85,089	84,432

See notes to unaudited consolidated financial statements.



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

	Twenty-Six Weeks Ended	
	August 1, 2015	August 2, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$34,090	\$11,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,085	39,048
Loss on disposal of property and equipment	1,314	121
Impairment charge	—	2,800
Excess tax benefit from share-based compensation	(262)	(32)
Share-based compensation	11,069	10,267
Non-cash loss on extinguishment of debt	5,314	—
Deferred taxes	22	—
Landlord allowance amortization	(5,980)	(5,842)
Payment of original issue discount	(2,812)	—
Changes in operating assets and liabilities:		
Receivables, net	1,201	(2,721)
Inventories	(31,049)	(27,298)
Accounts payable, deferred revenue, and accrued expenses	13,320	(21,372)
Other assets and liabilities	171	(2,116)
Net cash provided by operating activities	63,483	4,805
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(50,904)	(59,466)
Purchase of intangible assets	(35)	(10)
Net cash used in investing activities	(50,939)	(59,476)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt	(198,038)	—
Costs incurred in connection with debt arrangements	(852)	—
Payments on lease financing obligations	(773)	(752)
Excess tax benefit from share-based compensation	262	32
Proceeds from exercise of stock options	361	—
Repurchase of shares for tax withholding obligations under the 2010 Plan	(3,690)	(3,343)
Net cash used in financing activities	(202,730)	(4,063)
EFFECT OF EXCHANGE RATE ON CASH	(328)	177
NET DECREASE IN CASH AND CASH EQUIVALENTS	(190,514)	(58,557)
CASH AND CASH EQUIVALENTS, Beginning of period	346,159	311,884
CASH AND CASH EQUIVALENTS, End of period	\$155,645	\$253,327
See notes to unaudited consolidated financial statements.		

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Notes to Unaudited Consolidated Financial Statements  
(unaudited)

1. Description of Business and Basis of Presentation

Business Description

Express, Inc., together with its subsidiaries ("Express" or the "Company"), is a specialty apparel and accessories retailer of women's and men's merchandise, targeting the 20 to 30 year old customer. Express merchandise is sold through retail and factory outlet stores and the Company's e-commerce website, [www.express.com](http://www.express.com), as well as its mobile apps. As of August 1, 2015, Express operated 577 primarily mall-based retail stores in the United States, Canada, and Puerto Rico as well as 60 factory outlet stores. Additionally, the Company earned revenue from 33 franchise stores in the Middle East, Latin America, and South Africa. These franchise stores are operated by franchisees pursuant to franchise agreements. Under the franchise agreements, the franchisees operate stores that sell Express-branded apparel and accessories purchased directly from the Company.

Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31. Fiscal years are referred to by the calendar year in which the fiscal year commences. References herein to "2015" and "2014" represent the 52-week periods ended January 30, 2016 and January 31, 2015, respectively. All references herein to "the second quarter of 2015" and "the second quarter of 2014" represent the thirteen weeks ended August 1, 2015 and August 2, 2014, respectively.

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information 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 2015. Therefore, these statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the year ended January 31, 2015, included in the Company's Annual Report on Form 10-K, filed with the SEC on March 27, 2015.

Principles of Consolidation

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

Use of Estimates in the Preparation of Financial Statements

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

2. Segment Reporting

The Company defines an operating segment on the same basis that it uses to evaluate performance internally. The Company has determined that, together, its Chief Executive Officer and 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.

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 1, 2015 (in thousands)	August 2, 2014	August 1, 2015 (in thousands)	August 2, 2014
Apparel	\$468,521	\$418,029	\$911,986	\$820,913
Accessories and other	52,967	51,486	102,212	101,291
Other revenue	14,094	11,905	23,762	19,868
Total net sales	\$535,582	\$481,420	\$1,037,960	\$942,072
	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 1, 2015 (in thousands)	August 2, 2014	August 1, 2015 (in thousands)	August 2, 2014
Stores	\$446,527	\$407,735	\$861,601	\$791,393
E-commerce	74,961	61,780	152,597	130,811
Other revenue	14,094	11,905	23,762	19,868
Total net sales	\$535,582	\$481,420	\$1,037,960	\$942,072

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, and revenue from franchise agreements.

Revenue and long-lived assets relating to the Company's international operations for the thirteen and twenty-six weeks ended and as of August 1, 2015 and August 2, 2014, respectively, were not material for any period presented and, therefore, are not reported separately from domestic revenue or long-lived assets.

### 3. Earnings Per Share

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 1, 2015 (in thousands)	August 2, 2014	August 1, 2015	August 2, 2014
Weighted-average shares - basic	84,677	84,172	84,560	84,088
Dilutive effect of stock options, restricted stock units, and restricted stock	524	268	529	344
Weighted-average shares - diluted	85,201	84,440	85,089	84,432

Equity awards representing 2.2 million and 3.3 million shares of common stock were excluded from the computation of diluted earnings per share for the thirteen and twenty-six weeks ended August 1, 2015, respectively, as the inclusion of these awards would have been anti-dilutive. Equity awards representing 4.3 million and 3.9 million shares of common stock were excluded from the computation of diluted earnings per share for the thirteen and twenty-six weeks ended August 2, 2014, respectively, as the inclusion of these awards would have been anti-dilutive.

Additionally, for the thirteen and twenty-six weeks ended August 1, 2015, there were 0.8 million shares 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 August 1, 2015.

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## 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 measured at fair value on a recurring basis as of August 1, 2015 and January 31, 2015, aggregated by the level in the fair value hierarchy within which those measurements fall.

	August 1, 2015		
	Level 1	Level 2	Level 3
	(in thousands)		
U.S. treasury securities money market funds	\$2,002	\$—	\$—
	January 31, 2015		
	Level 1	Level 2	Level 3
	(in thousands)		
U.S. treasury securities money market funds	\$166,602	\$—	\$—

The carrying amounts reflected on the unaudited Consolidated Balance Sheets for cash, cash equivalents, receivables, prepaid expenses, and payables as of August 1, 2015 and January 31, 2015 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 twenty-six weeks ended August 1, 2015, the Company did not recognize any impairment charges. During the thirteen and twenty-six weeks ended August 2, 2014, the Company recognized impairment charges of approximately \$2.0 million and \$2.8 million, respectively. These charges were related to two stores for the thirteen weeks ended August 2, 2014 and six stores for the twenty-six weeks ended August 2, 2014, all of which were fully impaired.

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## 5. Intangible Assets

The following table provides the significant components of intangible assets:

	August 1, 2015		
	Cost	Accumulated Amortization	Ending Net Balance
	(in thousands)		
Tradename	\$ 196,144	\$—	\$ 196,144
Internet domain names/trademarks	1,453	—	1,453
Licensing arrangements	1,425	230	1,195
	\$ 199,022	\$ 230	\$ 198,792
	January 31, 2015		
	Cost	Accumulated Amortization	Ending Net Balance
	(in thousands)		
Tradename	\$ 196,144	\$—	\$ 196,144
Internet domain names/trademarks	1,418	—	1,418
Net favorable lease obligations/licensing arrangements	21,175	19,906	1,269
	\$ 218,737	\$ 19,906	\$ 198,831

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. Amortization expense was nominal for the thirteen weeks ended August 1, 2015 and \$0.1 million for the twenty-six weeks ended August 1, 2015. Amortization expense was \$0.2 million and \$0.4 million during the thirteen and twenty-six weeks ended August 2, 2014, respectively. The net favorable lease assets were fully amortized as of January 31, 2015.

## 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 tax rate was 38.5% and 20.6% for the thirteen weeks ended August 1, 2015 and August 2, 2014, respectively. The Company's effective tax rate was 39.3% and 32.7% for the twenty-six weeks ended August 1, 2015 and August 2, 2014, respectively. The 2014 rates reflect a net \$1.7 million tax benefit from the release of uncertain tax positions following the conclusion of a multi-year Internal Revenue Service ("IRS") examination in the second quarter of 2014.

## 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 lease terms of the lease arrangements, for which the Company is considered the owner, are expected to expire in 2023 and 2030. 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 \$69.2 million and \$71.0 million, as of August 1, 2015 and January 31, 2015, respectively. There was also \$70.2 million and \$70.9 million of lease financing obligations as of August 1, 2015 and January 31, 2015, respectively, in Other Long-Term Liabilities on the unaudited Consolidated Balance Sheets. Transactions involving the initial recording of these assets and liabilities are classified as non-cash items for purposes of the unaudited Consolidated Statements of Cash Flows.

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 lease obligations which are

owned for accounting

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purposes. Rather, this portion of the rent payment under the lease is recognized as interest expense and a reduction of the lease financing obligations.

#### 8. Debt

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

##### Senior Notes

On March 5, 2010, Express, LLC and Express Finance Corp. ("Express Finance"), wholly-owned subsidiaries of the Company, co-issued, in a private placement, \$250.0 million of 8<sup>3</sup>/<sub>4</sub>% Senior Notes due in 2018 (the "Senior Notes") at an offering price of 98.6% of the face value. As of January 31, 2015, there were \$200.9 million of Senior Notes outstanding.

On March 1, 2015, all of the outstanding notes in the amount of \$200.9 million were fully redeemed at 102.19% of the principal amount, with total payments equal to \$205.3 million, plus accrued and unpaid interest to, but not including, the redemption date.

##### Revolving Credit Facility

On July 29, 2011, Express Holding, LLC, a wholly-owned subsidiary ("Express Holding"), and its subsidiaries entered into an Amended and Restated \$200.0 million secured Asset-Based Credit Facility ("Revolving Credit Facility"). On May 20, 2015, the Company further amended and restated its existing Revolving Credit Facility. The amendment increased the borrowing capacity under the facility from \$200 million to \$250 million and extended the expiration date of the facility to May 20, 2020. As of August 1, 2015, there were no borrowings outstanding and approximately \$247.2 million available under the Revolving Credit Facility.

Under the Revolving Credit Facility, revolving loans may be borrowed, repaid and reborrowed until May 20, 2020, at which time all amounts borrowed must be repaid. The Revolving Credit Facility allows for a swingline sublimit of up to \$30.0 million and for the issuance of letters of credit in the face amount of up to \$45.0 million. Borrowings under the Revolving Credit Facility bear interest at a rate equal to either the rate appearing on Reuters Screen LIBOR01 page (the "Eurodollar Rate") plus an applicable margin rate or the highest of (1) the prime lending rate, (2) 0.50% per annum above the federal funds rate, and (3) 1% above the Eurodollar Rate, in each case plus an applicable margin rate. The applicable margin rate is determined based on excess availability as determined by reference to the borrowing base. The applicable margin for Eurodollar Rate-based advances is between 1.50% and 2.00% based on the borrowing base. The unused line fee payable under the Revolving Credit Facility is incurred at 0.250% per annum of the average daily unused revolving commitment during each quarter, payable quarterly in arrears on the first day of each May, August, November, and February. In the event that (1) an event of default has occurred and is continuing or (2) excess availability plus eligible cash collateral is less than 12.5% of the borrowing base for 5 consecutive days, such unused line fees are payable on the first day of each month.

Interest payments under the Revolving Credit Facility are due quarterly on the first day of each May, August, November, and February for base rate-based advances, provided, however, in the event that (1) an event of default has occurred and is continuing or (2) excess availability plus eligible cash collateral is less than 12.5% of the borrowing base for 5 consecutive days, interest payments are due on the first day of each month. Interest payments under the Revolving Credit Facility are due on the last day of the interest period for Eurodollar Rate-based advances for interest periods of 1, 2, and 3 months, and additionally every 3 months after the first day of the interest period for Eurodollar Rate-based advances for interest periods of greater than 3 months.

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 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 its fiscal year, and permitted activities of Express Holding. 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.

Loss on Extinguishment

In connection with the redemption of the Senior Notes in the first quarter of 2015, the Company recognized a \$9.7 million loss on extinguishment of debt, which was recorded as interest expense in the unaudited Consolidated Statements of Income and

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Comprehensive Income. Of this loss on extinguishment, the redemption premium represented approximately \$4.4 million. The remaining loss on extinguishment was attributable to the unamortized debt issuance costs and unamortized debt discount write-offs totaling \$5.3 million. The unamortized debt issuance costs and unamortized debt discount write-offs are presented as a non-cash adjustment to reconcile net income to net cash provided by operating activities within the unaudited Consolidated Statements of Cash Flows.

**Letters of Credit**

The Company may enter into various trade letters of credit ("trade LCs") in favor of certain vendors to secure merchandise. These trade LCs are issued for a defined period of time, for specific shipments, and generally expire three weeks after the merchandise shipment date. As of August 1, 2015 and January 31, 2015, there were no outstanding trade LCs. Additionally, the Company enters into stand-by letters of credit ("stand-by LCs") on an as-needed basis to secure merchandise and fund other general and administrative costs. As of August 1, 2015 and January 31, 2015, outstanding stand-by LCs totaled \$2.8 million and \$2.5 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**

The following summarizes share-based compensation expense:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
	(in thousands)			
Restricted stock units and restricted stock	\$6,451	\$2,444	\$9,058	\$5,347
Stock options	767	1,488	2,011	4,920
Total share-based compensation	\$7,218	\$3,932	\$11,069	\$10,267

The stock compensation related income tax benefit recognized by the Company during the thirteen and twenty-six weeks ended August 1, 2015 was \$1.1 million and \$3.8 million, respectively. The stock compensation related income tax benefit recognized by the Company during the thirteen and twenty-six weeks ended August 2, 2014 was \$0.2 million and \$3.4 million, respectively.

**Stock Options**

During the twenty-six weeks ended August 1, 2015, the Company granted stock options under the Amended and Restated Express, Inc. 2010 Incentive Compensation Plan (the "2010 Plan"). The fair value of the stock options is determined using the Black-Scholes-Merton option-pricing model as described later in this note. Stock options granted in 2015 under the 2010 Plan vest 25% per year over four years or upon reaching retirement eligibility, defined as providing 10 years of service and being at least 55 years old. These options have a ten year contractual life. The expense for stock options is recognized using the straight-line attribution method.

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The Company's activity with respect to stock options during the twenty-six weeks ended August 1, 2015 was as follows:

	Number of Shares	Grant Date 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, January 31, 2015	3,470	\$18.45		
Granted	249	\$16.37		
Exercised	(21 )	\$16.95		
Forfeited or expired	(136 )	\$18.53		
Outstanding, August 1, 2015	3,562	\$18.31	6.5	\$5,371
Expected to vest at August 1, 2015	821	\$17.21	8.4	\$1,960
Exercisable at August 1, 2015	2,705	\$18.67	5.8	\$3,324

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

	Twenty-Six Weeks Ended	
	August 1, 2015	August 2, 2014
	(in thousands, except per share amounts)	
Weighted average grant date fair value of options granted (per share)	\$7.79	\$8.51
Total intrinsic value of options exercised	\$19	\$—

As of August 1, 2015, there was approximately \$4.6 million of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted average period of approximately 1.5 years.

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

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

	Twenty-Six Weeks Ended	
	August 1, 2015	August 2, 2014
Risk-free interest rate <sup>(1)</sup>	1.60	% 1.90
Price volatility <sup>(2)</sup>	47.81	% 54.73
Expected term (years) <sup>(3)</sup>	6.25	6.25
Dividend yield <sup>(4)</sup>	—	—

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

For the first two years following the initial public offering of the Company's common stock, this was based on the historical volatility of selected comparable companies over a period consistent with the expected term of the stock

(2) options because the Company had a limited history of being publicly traded. Comparable companies were selected primarily based on industry, stage of life cycle, and size. Beginning in May 2012, the Company began using its own volatility as an additional input in the determination of expected volatility.

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

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

#### Restricted Stock Units and Restricted Stock

During the twenty-six weeks ended August 1, 2015, the Company granted restricted stock units ("RSUs") under the 2010 Plan, including 0.4 million RSUs with performance conditions. 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. The expense for RSUs without performance conditions is recognized using the straight-line attribution method. The expense for RSUs

with performance conditions is recognized using the graded vesting method based on the expected achievement of the performance conditions.

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The RSUs with performance conditions are also subject to time-based vesting. All of the RSUs granted during the twenty-six weeks ended August 1, 2015 that are earned based on the achievement of performance criteria will vest on April 15, 2018. RSUs without performance conditions vest ratably over four years.

The Company's activity with respect to RSUs and restricted stock, including awards with performance conditions, for the twenty-six weeks ended August 1, 2015 was as follows:

	Number of Shares	Grant Date Weighted Average Fair Value Per Share
	(in thousands, except per share amounts)	
Unvested, January 31, 2015	1,435	\$ 17.75
Granted <sup>(1)</sup>	1,285	\$ 16.39
Performance Shares Adjustment <sup>(2)</sup>	358	\$ 15.88
Vested	(505)	) \$ 18.10
Forfeited	(147)	) \$ 17.03
Unvested, August 1, 2015	2,426	\$ 16.72

Approximately 0.5 million RSUs with three-year performance conditions are included in this amount which (1) represents 125% of the number of shares granted. This is based on current estimates against predefined financial performance targets ranging from 0% to 125%.

(2) Relates to a change in estimate of RSUs with performance conditions granted in 2014. This amount represents 75% of the number of shares granted for which performance conditions are now expected to be met.

The total fair value/intrinsic value of RSUs and restricted stock that vested during the twenty-six weeks ended August 1, 2015 was \$9.1 million. As of August 1, 2015, there was approximately \$27.1 million of total unrecognized compensation expense related to unvested RSUs and restricted stock, which is expected to be recognized over a weighted-average period of approximately 2.1 years.

#### 10. Commitments and Contingencies

From time to time the Company is subject to various 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. Stockholders' Equity

##### Share Repurchase Programs

On May 28, 2014, the Company's Board of Directors (the "Board") authorized the repurchase of up to \$100.0 million of the Company's common stock (the "2014 Repurchase Program"). Any repurchases under the 2014 Repurchase Program will be funded using available cash, including cash on hand or cash available for borrowing under the Company's Revolving Credit Facility, and are expected to be made during the 18 month period following the authorization. There have been no purchases made under the 2014 Repurchase Program.

##### Stockholder Rights Plan

On June 12, 2014, the Board adopted a Stockholder Rights Plan (the "Rights Plan"). Under the Rights Plan, one right was distributed for each share of common stock outstanding at the close of business on June 23, 2014 and one right is to be issued for each new share of common stock issued thereafter. If any person or group acquires 10% or more of the Company's outstanding common stock without the approval of the Board, there would be a triggering event entitling a registered holder to purchase from the Company one one-hundredth of a share of Participating Preferred Stock, par value \$0.01 per share, for \$70.00 subject to adjustment. Existing 10% or greater stockholders are grandfathered to the extent of their June 12, 2014 ownership levels.

The Rights Plan was set to expire one year after it was adopted, on June 12, 2015. On June 10, 2015, the Board resolved to amend the Rights Plan in order to extend the expiration date. The amended Rights Plan is set to expire on June 10, 2016, unless it is ratified by a majority vote of the Company's stockholders on or prior to such date (in which

case the Rights Plan will expire on June 12, 2017) or unless earlier redeemed or terminated by the Company, as provided in the Rights Plan. The rights

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have no voting or dividend privileges, and, unless and until they become exercisable, have no dilutive effect on the earnings of the Company.

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 January 31, 2015 and our unaudited Consolidated Financial Statements and the related notes included in Item 1 of this Quarterly Report. This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors. See "Forward-Looking Statements."

Overview

Express is a specialty apparel and accessories retailer offering both women's and men's merchandise. We have over 30 years of experience offering a distinct combination of style and quality at an attractive value, targeting women and men between 20 and 30 years old. We offer our customers an assortment of fashionable apparel and accessories to address fashion needs across multiple wearing occasions, including work, casual, jeanswear, and going-out occasions. The positive momentum the business experienced in the first quarter of 2015 continued into the second quarter of 2015. Comparable sales in the second quarter increased 7% and earnings per share increased by approximately 213% compared to the second quarter of 2014. These results were primarily driven by the strength of our product assortment and disciplined inventory management, which allowed us to reduce our promotional activity year over year, leading to improved merchandise margins. Our women's business continued its strong performance in the second quarter and our men's business showed improvement compared to the first quarter.

We continue to be focused on advancing our growth pillars and increasing profitability through the combination of an increase in net sales, margin improvement, and expense leverage. In addition, we continue to make progress against our 2015 objectives which include, along with increasing profitability, elevating our customer experience, sharpening our brand position, investing in systems to support our growth pillars, and continuing to support and develop our associates. We believe that the progress we are making in these areas is having a positive impact on business performance and will lead to long-term growth for the business.

Our second quarter 2015 results and near term plans with respect to our growth pillars are described below.

Improve Productivity of Our Stores

For the second quarter of 2015, comparable sales (excluding e-commerce sales) increased 5% compared to a decrease of 6% in the second quarter of 2014. We believe the increase is primarily the result of a better merchandise assortment in the stores and disciplined inventory management, which allowed us to reduce promotions and improve margins.

Optimization and Strategic Expansion of Our Store Base

In the second quarter of 2015, we opened 13 new factory outlet stores in the U.S., one of which was converted from an existing retail location. We continue to make progress against our previously announced plan to close approximately 50 retail stores over a 36 month time period, primarily at lease expiration. We closed 22 U.S. retail stores in the twenty-six weeks ended August 1, 2015.

As of August 1, 2015, we operated 637 stores, including 60 factory outlet stores, compared to 628 stores at August 2, 2014, which included 20 factory outlet stores. During the remainder of 2015, we expect to open approximately 20 factory outlet stores and one retail store, all in the U.S. In addition, we expect to convert one existing retail location to a factory outlet store, while also closing two U.S. retail stores.

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### Expand Our e-Commerce Platform

In the second quarter of 2015, our e-commerce sales increased 21% compared to the second quarter of 2014. The increase in e-commerce sales is reflective of our improved product assortment. As with our retail stores, the improved product assortment led to less promotional activity in e-commerce which allowed us to better showcase our full priced product online which we believe led to better conversion and increased revenue. In addition, the reduced promotional activities also allowed us to deliver a clearer pricing message in e-commerce and be more predictable in our e-commerce clearance events, providing our customer a more consistent experience. We continue to make progress in our initiatives to improve our digital to store connections and anticipate rolling out our in-store product availability feature during the second half of 2015. E-commerce sales represented 14% of our total net sales in the second quarter of 2015 compared to 13% in the second quarter of 2014.

### Expand Internationally

At quarter end, we were earning revenue from 33 franchise locations, a net increase of seven locations from the second quarter of 2014. These included three shop-in-shop locations inside Edgars' department stores in South Africa and one stand-alone store in South Africa which we opened in the second quarter of 2015. During the balance of 2015, we expect to open between one and three additional franchise locations.

### How We Assess the Performance of Our Business

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

**Net Sales.** Net sales reflects revenues from the sale of our merchandise, less returns and discounts, as well as shipping and handling revenue related to e-commerce, revenue from rental of our LED sign in Times Square, sell-off revenue, gift card breakage, and revenue earned from our franchise agreements.

**Comparable Sales and Other Individual Store Performance Factors.** Comparable sales are calculated based upon stores that were open twelve months or more as of the end of the reporting period. We include e-commerce in our comparable sales because we view and manage our business this way. We also believe it provides a more comprehensive view of our year over year performance. In addition, store conversions that do not meet any of the criteria for exclusion that follow, are included in our comparable sales. A store is not considered a part of the comparable sales base if the square footage of the store changed by more than 20% due to remodel or relocation activities, or if we execute a phased remodel whereby a portion of the store is under construction and, therefore, that portion of the store is not productive selling space. Under the latter scenario, the store is excluded from comparable sales during the construction period only, and is then considered a comparable store when construction is complete. We also review sales per gross square foot, average unit retail price, units per transaction, dollar per transaction, traffic, and conversion, among other things, to evaluate the performance of individual stores and on a company-wide basis.

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

Our cost of goods sold, buying and occupancy costs increase in higher volume quarters because the direct cost of purchased merchandise is tied to sales. Buying and occupancy costs related to stores are largely fixed and do not necessarily increase as volume increases. Changes in the mix of our products, such as changes in the proportion of accessories, which are higher margin, may also impact our overall cost of goods sold, buying and occupancy costs. 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. 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. The primary drivers of the costs of individual goods are raw materials, labor in the countries where our merchandise is sourced, and logistics costs

associated with transporting our merchandise.

**Selling, General, and Administrative Expenses.** Selling, general, and administrative expenses include all operating costs not included in cost of goods sold, buying and occupancy costs, with the exception of any proceeds received from insurance claims and gain/loss on disposal of assets, which are included in other operating expense, net. These selling, general, and administrative costs include payroll and other expenses related to operations at our corporate home office, store expenses other than occupancy, and marketing expenses, which include production, mailing, print, and digital advertising costs among other



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things. With the exception of store payroll, marketing, and incentive compensation, these 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.

## Results of Operations

## The Second Quarter of 2015 Compared to the Second Quarter of 2014

## Net Sales

	Thirteen Weeks Ended	
	August 1, 2015	August 2, 2014
Net sales (in thousands)	\$535,582	\$481,420
Comparable sales percentage change	7	% (5 )%
Comparable sales percentage change (excluding e-commerce sales)	5	% (6 )%
Gross square footage at end of period (in thousands)	5,555	5,511
Number of:		
Stores open at beginning of period	626	628
New retail stores	—	2
New outlet stores	13	3
Retail stores converted to outlets	(1 )	—
Closed stores	(1 )	(5 )
Stores open at end of period	637	628

Net sales increased approximately \$54.2 million, or 11%, compared to the second quarter of 2014. Comparable sales increased 7% in the second quarter of 2015 compared to the second quarter of 2014. The increase in comparable sales resulted from an increase in average dollar sales per transaction, partially offset by decreased store transactions at our retail stores. We attribute the increase in average dollar sales per transaction to our strong product assortment and less promotional activity during the quarter, while the decrease in the number of transactions can be attributed to fewer all-store promotions, less customer relationship marketing, and a shorter semi-annual sale. Non-comparable sales increased \$20.1 million, driven primarily by new outlet store openings, partially offset by closed retail stores.

## 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	
	August 1, 2015	August 2, 2014
	(in thousands)	
Cost of goods sold, buying and occupancy costs	\$358,392	\$345,395
Gross profit	\$177,190	\$136,025
Gross margin percentage	33.1	% 28.3 %

The 480 basis point increase in gross margin percentage, or gross profit as a percentage of net sales, in the second quarter of 2015 compared to the second quarter of 2014 was comprised of a 240 basis point increase in merchandise margin and a 240 basis point decrease in buying and occupancy costs as a percentage of net sales. The increase in merchandise margin was driven by reduced promotional activities and more disciplined inventory management leading to fewer markdowns. The decrease in buying and occupancy costs as a percentage of sales was primarily the result of the leveraging effect of the increase in sales and the fact that we did not recognize any impairment expense in the second quarter of 2015 versus a \$2.0 million impairment charge recognized in the second quarter of 2014. The improvements in buying and occupancy were partially offset by an increase in incentive compensation due to improved performance in 2015.

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## 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	
	August 1, 2015	August 2, 2014
	(in thousands)	
Selling, general, and administrative expenses	\$ 140,573	\$ 121,923
Selling, general, and administrative expenses, as a percentage of net sales	26.2	% 25.3

The \$18.7 million increase in selling, general, and administrative expenses in the second quarter of 2015 as compared to the second quarter of 2014 was the result of additional payroll related expenses of approximately \$14.3 million. The additional payroll expenses were primarily related to incentive compensation and store payroll resulting from improved performance and outlet expansion, partially offset by payroll savings from retail store closures. Payroll related expenses also included a \$3.5 million expense related to a change in estimate associated with the RSUs with performance conditions granted in 2014. Refer to Note 9 of our unaudited Consolidated Financial Statements for additional information regarding the RSUs with performance conditions. There was also an increase of \$2.6 million in information technology expenses primarily related to projects supporting our growth pillars.

## Interest Expense, Net

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

	Thirteen Weeks Ended	
	August 1, 2015	August 2, 2014
	(in thousands)	
Interest expense, net	\$ 1,231	\$ 5,941

The \$4.7 million decrease in interest expense is primarily related to the redemption of our Senior Notes in the first quarter of 2015.

## Income Tax Expense

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

	Thirteen Weeks Ended	
	August 1, 2015	August 2, 2014
	(in thousands)	
Income tax expense	\$ 13,187	\$ 1,778

The effective tax rate was 38.5% for the second quarter of 2015 compared to 20.6% for the second quarter of 2014.

The tax rate for the second quarter of 2014 reflected the release of uncertain tax positions following the conclusion of a multi-year IRS tax examination. Without the benefit of the release of uncertain tax positions in the quarter, the Company's 2014 second quarter effective tax rate would have been 40.5%.

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The Twenty-Six Weeks Ended August 1, 2015 Compared to the Twenty-Six Weeks Ended August 2, 2014

## Net Sales

	Twenty-Six Weeks Ended	
	August 1, 2015	August 2, 2014
Net sales (in thousands)	\$1,037,960	\$942,072
Comparable sales percentage change	7	% (8 )%
Comparable sales percentage change (excluding e-commerce sales)	5	% (9 )%
Gross square footage at end of period (in thousands)	5,555	5,511
Number of:		
Stores open at beginning of period	641	632
New retail stores	—	5
New outlet stores	19	20
Retail stores converted to outlets	(1 )	(15 )
Closed stores	(22 )	(14 )
Stores open at end of period	637	628

Net sales increased approximately \$95.9 million, or 10%, compared to the twenty-six weeks ended August 2, 2014. Comparable sales increased 7% in the twenty-six weeks ended August 1, 2015 compared to the twenty-six weeks ended August 2, 2014. The increase in comparable sales resulted from an increase in average dollar sales per transaction, partially offset by decreased store transactions at our retail stores. We attribute the increase in average dollar sales per transaction to our strong product assortment and less promotional activity during the quarter, while the decrease in the number of transactions can be attributed to fewer all-store promotions, less customer relationship marketing, and a shorter semi-annual sale. Non-comparable sales increased \$32.0 million, driven primarily by new outlet store openings, partially offset by closed retail stores.

## 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:

	Twenty-Six Weeks Ended	
	August 1, 2015	August 2, 2014
	(in thousands)	
Cost of goods sold, buying and occupancy costs	\$694,326	\$668,674
Gross profit	\$343,634	\$273,398
Gross margin percentage	33.1	% 29.0 %

The 410 basis point increase in gross margin percentage, or gross profit as a percentage of net sales, in the twenty-six weeks ended August 1, 2015 compared to the twenty-six weeks ended August 2, 2014 was comprised of a 220 basis point increase in merchandise margin and a 190 basis point decrease in buying and occupancy costs as a percentage of net sales. The increase in merchandise margin was driven by a better product assortment that led to greater customer acceptance of our merchandise. In addition, more disciplined inventory management led to fewer markdowns and, therefore, increases in average unit retail prices. The decrease in buying and occupancy costs as a percentage of sales was primarily the result of the leveraging effect of the increase in sales and the fact that we did not recognize any impairment expense in the twenty-six weeks ended August 1, 2015 versus a \$2.8 million impairment charge recognized in the twenty-six weeks ended August 2, 2014. The improvements in buying and occupancy were partially offset by an increase in incentive compensation due to improved performance in 2015.

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## 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:

	Twenty-Six Weeks Ended	
	August 1, 2015	August 2, 2014
	(in thousands)	
Selling, general, and administrative expenses	\$273,749	\$244,783
Selling, general, and administrative expenses, as a percentage of net sales	26.4	% 26.0

The \$29.0 million increase in selling, general, and administrative expenses in the twenty-six weeks ended August 1, 2015 compared to the twenty-six weeks ended August 2, 2014 was the result of additional payroll related expenses of approximately \$19.8 million. The additional payroll expenses were primarily related to incentive compensation and store payroll resulting from improved performance and outlet expansion, partially offset by payroll savings from retail store closures. Payroll related expenses also included a \$3.5 million expense related to a change in estimate associated with the RSUs with performance conditions granted in 2014. Refer to Note 9 of our unaudited Consolidated Financial Statements for additional information regarding the RSUs with performance conditions. There was also an increase of \$4.3 million in information technology expenses primarily related to projects supporting our growth pillars and an increase of \$2.5 million in marketing expenses primarily related to increased digital and television marketing.

## Interest Expense, Net

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

	Twenty-Six Weeks Ended	
	August 1, 2015	August 2, 2014
	(in thousands)	
Interest expense, net	\$13,544	\$11,838

The \$1.7 million increase in interest expense is primarily related to a \$9.7 million loss on extinguishment of debt in connection with the redemption of our Senior Notes in the first quarter of 2015, partially offset by the corresponding reduction in interest expense.

## Income Tax Expense

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

	Twenty-Six Weeks Ended	
	August 1, 2015	August 2, 2014
	(in thousands)	
Income tax expense	\$22,109	\$5,814

The effective tax rate was 39.3% for the twenty-six weeks ended August 1, 2015 compared to 32.7% for the twenty-six weeks ended August 2, 2014. The tax rate for the twenty-six weeks ended August 2, 2014 reflected the release of uncertain tax positions following the conclusion of a multi-year IRS tax examination in the second quarter of 2014.

We anticipate that our effective tax rate will be approximately 39% in 2015.

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## Adjusted Net Income

The following table presents Adjusted Net Income and Adjusted Earnings Per Diluted Share for the stated periods which eliminate the non-core operating costs incurred in connection with the redemption of our Senior Notes:

	Twenty-Six Weeks Ended		
	August 1, 2015	August 2, 2014	
	(in thousands)		
Adjusted Net Income	\$40,006	\$11,950	*
Adjusted Earnings Per Diluted Share	\$0.47	\$0.14	*

\* No adjustments were made to net income or earnings per diluted shares for the twenty-six weeks ended August 2, 2014.

We supplement the reporting of our financial information determined under GAAP with certain non-GAAP financial measures: adjusted net income and adjusted earnings per diluted share. We believe that these non-GAAP measures provide meaningful information to assist stockholders in understanding our financial results and assessing our prospects for future performance. Management believes adjusted net income and adjusted earnings per diluted share are important indicators of our operations because they exclude items that may not be indicative of, or are unrelated to, our core operating results, and provide a better baseline for analyzing trends in our underlying business. 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 net income and reported earnings per diluted 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 net income and adjusted earnings per diluted share, with the most directly comparable GAAP financial measures, net income and earnings per diluted share. No adjustments were made to net income or earnings per diluted share for the thirteen weeks ended August 1, 2015 or the thirteen and twenty-six weeks ended August 2, 2014, and therefore no tabular reconciliation has been included for those periods.

	Twenty-Six Weeks Ended August 1, 2015		
(in thousands, except per share amounts)	Net Income	Earnings per Diluted Share	Weighted Average Diluted Shares Outstanding
Reported GAAP Measure	\$34,090	\$0.40	85,089
Interest Expense (a) *	5,916	* 0.07	
Adjusted Non-GAAP Measure	\$40,006	\$0.47	

(a) Includes the redemption premium paid, the write-off of unamortized debt issuance costs, and the write-off of the unamortized debt discount related to the redemption of all \$200.9 million of our Senior Notes.

\* Items were tax affected at our statutory rate of approximately 39% for the twenty-six weeks ended August 1, 2015.

## Liquidity and Capital Resources

## General

Our business relies on cash flows from operations as our primary source of liquidity. We do, however, have access to additional liquidity, if needed, through borrowings under our Revolving Credit Facility. Our primary cash needs are for merchandise inventories, payroll, store rent, capital expenditures, and marketing. The most significant components of our working capital are merchandise inventories, accounts payable, and other accrued expenses. 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.



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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.

**Cash Flow Analysis**

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

	Twenty-Six Weeks Ended	
	August 1, 2015	August 2, 2014
	(in thousands)	
Provided by operating activities	\$63,483	\$4,805
Used in investing activities	(50,939	) (59,476
Used in financing activities	(202,730	) (4,063
Decrease in cash and cash equivalents	(190,514	) (58,557
Cash and cash equivalents at end of period	\$155,645	\$253,327
Net Cash Provided by Operating Activities		

The majority of our operating cash inflows are derived from sales. Our operating cash outflows generally consist of payments to vendors for merchandise, to employees for wages, salaries, and other employee benefits, and to landlords for rent. Operating cash outflows also include payments for income taxes and interest on our long-term debt through February 2015.

Net cash provided by operating activities was \$63.5 million for the twenty-six weeks ended August 1, 2015 compared to \$4.8 million during the twenty-six weeks ended August 2, 2014, a change of \$58.7 million. The change in cash provided by operations primarily related to the following:

Items included in net income provided \$79.9 million of cash for the twenty-six weeks ended August 1, 2015 compared to \$58.3 million for the twenty-six weeks ended August 2, 2014. The increase in the twenty-six weeks ended August 1, 2015 was primarily driven by the improved performance of the business during the first and second quarters and the resulting increase in net income as previously discussed.

In addition to the increase in cash provided by items included in net income discussed above, there was \$16.4 million of cash used due to working capital changes during the twenty-six weeks ended August 1, 2015 compared to \$53.5 million of cash used in the twenty-six weeks ended August 2, 2014. Working capital is subject to cyclical operating needs, and the timing of inventory receipts, the timing of receivable collections, and payable and expense payments, among other things. The \$37.1 million change is a result of numerous items, but primarily results from increased accrual for incentive compensation in 2015 compared to 2014 due to improved operating results, and no discretionary retirement contribution in 2015.

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**Net Cash Used in Investing Activities**

Investing activities consist primarily of capital expenditures for new and remodeled store construction and fixtures and information technology projects.

Net cash used in investing activities totaled \$50.9 million for the twenty-six weeks ended August 1, 2015 compared to \$59.5 million for the twenty-six weeks ended August 2, 2014, an \$8.6 million decrease from the prior year. The decrease primarily relates to a decrease in spending related to new store openings and remodels, partially offset by an increase in investments made in information technology projects to further support our growth pillars.

We expect capital expenditures for the remainder of 2015 to be approximately \$63 million to \$68 million, primarily driven by new store construction, remodels, and investments in information technology. These capital expenditures do not include the impact of landlord allowances, which are expected to be approximately \$13.5 million to \$15.5 million for the remainder of 2015.

**Net Cash Used in Financing Activities**

Net cash used in financing activities totaled \$202.7 million for the twenty-six weeks ended August 1, 2015 as compared to \$4.1 million for the twenty-six weeks ended August 2, 2014, an increase of approximately \$198.6

million, which was primarily due to the redemption of our Senior Notes in the first quarter of 2015.



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On May 28, 2014, our Board authorized the repurchase of up to \$100 million of our common stock. Any repurchases made under the 2014 Repurchase Program will be funded using available cash, including cash on hand or cash available for borrowing under the Company's Revolving Credit Facility. No repurchases were made under the 2014 Repurchase Program in the second quarter of 2015. Refer to Note 11 of our unaudited Consolidated Financial Statements for additional information related to the 2014 Repurchase Program.

### Credit Facilities

The following provides an overview of the current status of our long-term debt arrangements. Refer to Note 8 of our unaudited Consolidated Financial Statements for additional information related to our long-term debt arrangements.

#### Revolving Credit Facility

On July 29, 2011, Express Holding and its domestic subsidiaries entered into an amended and restated \$200.0 million secured asset-based loan credit agreement that was scheduled to expire on July 29, 2016 (the "Revolving Credit Facility"). On May 20, 2015, Express Holding and its domestic subsidiaries further amended and restated the Revolving Credit Facility which, among other things, increased the maximum amount available for borrowing under the facility to \$250.0 million, extended the term of the facility to May 20, 2020, and reduced certain administrative fees.

As of August 1, 2015, there were no borrowings outstanding under the Revolving Credit Facility, and we had \$247.2 million of availability. We were not subject to the fixed charge coverage ratio covenant in the Revolving Credit Facility at August 1, 2015 because excess availability plus eligible cash collateral exceeded 10% of the borrowing base.

#### Contractual Obligations

With the exception of the redemption of \$200.9 million of Senior Notes and resulting elimination of \$61.5 million of scheduled cash interest payments through March 2018, our contractual obligations and other commercial commitments did not change materially between January 31, 2015 and August 1, 2015. For additional information regarding our contractual obligations as of January 31, 2015, 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 January 31, 2015.

#### Seasonality

Our business is seasonal and, historically, we have realized a higher portion of our net sales and net income in the third and fourth quarters due primarily to early Fall selling patterns as well as the impact of the holiday season. Generally, approximately 45% of our annual sales occur in the Spring season (first and second quarters) and 55% occur in the Fall season (third and fourth quarters). Normal cash requirements are typically higher in the first and third quarters due to inventory-related working capital requirements for early Fall and holiday selling periods. Our business is also subject, at certain times, to calendar shifts, which may occur during key selling periods close to holidays such as Easter, Thanksgiving, and Christmas, and regional fluctuations for events such as sales tax holidays.

#### 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, income taxes, and share-based payments. 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 January 31, 2015.

## 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 twenty-six weeks ended August 1, 2015. 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.

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Foreign Currency Exchange Risk

All of our merchandise purchases are denominated in U.S. dollars, therefore we are not exposed to foreign currency exchange risk on these purchases. However, we currently operate 17 stores in Canada, with the functional currency of our Canadian operations being the Canadian dollar. Our Canadian operations have intercompany accounts with our U.S. subsidiaries that eliminate upon consolidation, but the transactions resulting in such accounts do expose us to foreign currency exchange risk. Currently, we do not utilize hedging instruments to mitigate foreign currency exchange risks. As of August 1, 2015, a hypothetical 10% change in the Canadian dollar foreign exchange rate would not have had a material impact on our results of operations.

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 August 1, 2015.

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 second quarter of 2015 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 Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended January 31, 2015, 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 January 31, 2015 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 Part I, 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.

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## 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 August 1, 2015:

Month	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	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 <sup>(2)</sup>
	(in thousands, except per share amounts)			
May 3, 2015 - May 30, 2015	1	\$17.16	—	\$100,000
May 31, 2015 - July 4, 2015	2	\$18.38	—	\$100,000
July 5, 2015 - August 1, 2015	40	\$18.27	—	\$100,000
Total	43		—	

<sup>(1)</sup> Represents shares of restricted stock purchased in connection with employee tax withholding obligations under the 2010 Plan.

<sup>(2)</sup> On May 28, 2014, the Board authorized us to repurchase up to \$100 million of our common stock. Any repurchases made under the 2014 Repurchase Program will be funded using available cash, including cash on hand or cash available for borrowing under the Company's Revolving Credit Facility, and are expected to be made during the 18 month period following the authorization. Under the 2014 Repurchase Program, we may repurchase shares in 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 actual number of shares repurchased under the program will depend on a variety of factors including price, corporate and regulatory requirements, and other business and market conditions. The 2014 Repurchase Program may be suspended, modified, or discontinued at any time, and we have no obligation to repurchase any amount of our 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
4.1	Amendment No. 1, dated as of June 10, 2015, to the Stockholder Protection Rights Agreement, dated as of June 12, 2014, between Express, Inc. and Computershare Trust Company, N.A., as Rights Agent (incorporated by reference to Exhibit 4.1 to the Form 8-K filed by the Company with the SEC on June 11, 2015).
10.1	Second Amended and Restated \$250,000,000 Asset-Based Loan Credit Agreement, dated as of May 20, 2015, among Express Holding, LLC, as Parent, Express, LLC, as Borrower, the Initial Lenders, Initial Issuing Bank and Swing Line Bank, Wells Fargo Bank, National Association, as Administrative Agent and Collateral Agent, U.S. Bank National Association, as Syndication Agent, and Wells Fargo Bank, National Association, as Sole Lead Arranger and Sole Bookrunner (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by the Company with the SEC on May 27, 2015).
10.2+	Form of Severance Agreement (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by the Company with the SEC on July 7, 2015).
10.3+	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.2 to the Form 8-K filed by the Company with the SEC on July 7, 2015).
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification 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.

+ Indicates a management contract or compensatory plan or arrangement.

\* 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: September 3, 2015

EXPRESS, INC.

By: /s/ Periclis Pericleous  
Periclis Pericleous  
Senior Vice President, Chief Financial Officer and  
Treasurer (Principal Financial Officer)