EXPRESS, INC.
Form 10-K
April 04, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 3, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-34742
EXPRESS, INC.
(Exact name of registrant as specified in its charter)

Delaware	26-2828128
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Express Drive Columbus, Ohio	43230
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (614) 474-4001
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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. Yes o No x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

Aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of July 29, 2017: $472,627,020.
The number of outstanding shares of the registrant's common stock was 75,596,549 as of March 16, 2018.

DOCUMENT INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement for its Annual Meeting of Stockholders, to be held on June 13, 2018, are incorporated by reference into Part III of this Annual Report on Form 10-K.

1

Table of Contents

Table Of Contents

Table of Contents

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact included in this Annual Report are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance, and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “will,” “should,” “can have,” “likely,” “contin 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, objectives, strategies, and initiatives for future operations or growth; the expected outcome of such plans, objectives, strategies, and initiatives; or 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, but not limited to those under the heading "Risk Factors" in Part I, Item 1A in this Annual Report on Form 10-K. Those factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements included in this Annual Report on Form 10-K. We caution you not to place undue reliance on these forward-looking statements. We do not undertake any obligation to make any revisions to these forward-looking statements to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect the occurrence of unanticipated events, except as required by law, including the securities laws of the United States and rules and regulations of the Securities and Exchange Commission ("SEC").

Table of Contents

PART I
ITEM 1. BUSINESS.
In this section, "Express", "we", "us", "the Company", and "our" refer to Express, Inc. and its consolidated subsidiaries as a combined entity. Our fiscal year ends on the Saturday closest to January 31. Fiscal years are referred to by the calendar year in which the fiscal year commences. All references herein to "2017", "2016", and "2015" refer to the 53-week period ended February 3, 2018, and the 52-week periods ended January 28, 2017 and January 30, 2016, respectively.
General
Express is a specialty retailer offering both women's and men's apparel and accessories. We have over 35 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 aspects of their lifestyles, including work, casual, jeanswear, and going-out occasions.
As of February 3, 2018, we operated 635 stores across the United States and in Puerto Rico, including 145 factory outlet stores. Our stores are located primarily in high-traffic shopping malls, lifestyle centers, outlet centers, and street locations, and average approximately 8,500 gross square feet. We also sell our products through our e-commerce website, www.express.com, and our mobile app, and have franchise agreements with franchisees who operate Express locations in Latin America. Our 2017 merchandise sales were comprised of approximately 62% women's merchandise and approximately 38% men's merchandise.
We report one segment, which includes the operation of our brick-and-mortar retail and outlet stores, e-commerce operations, and franchise operations. Additional information about our reportable segment can be found in Note 2 of our Consolidated Financial Statements included elsewhere in this Annual Report of Form 10-K.
Competition and Competitive Strengths
The apparel retail market is highly competitive. We compete with other brick-and-mortar and e-commerce retailers that engage in the retail sale of women's and men's apparel, accessories, and similar merchandise. We compete on the basis of a combination of factors, including, among others, style, breadth, quality, and price of merchandise offered, in-store and online customer experience, and brand image.
We believe we differentiate ourselves from our competitors as follows:
Established Lifestyle Brand. With over 35 years of heritage, the Express brand represents a distinctive fashion point of view that is confident, sexy, and vibrant. We believe that our customers view Express as a fashion authority and look to us to provide them with the latest fashions that meet their multifaceted lifestyles and allow them to express their individual styles. The Express brand differentiates itself by offering (1) a balanced assortment of core styles and the latest fashions; (2) products that address fashion needs across multiple wearing occasions, including work, casual, jeanswear, and going-out; and (3) quality products at an attractive value.
Data Driven Processes. Our data driven processes allow us to test approximately three-quarters of our merchandise in select stores and online before placing orders for our broader store base. In addition, we assess sales data on a weekly basis in order to make in-season inventory adjustments where possible, which allows us to respond to the latest trends. We have an efficient, diversified, and flexible supply chain, including a network of buying agents and third-party manufacturers located throughout the world, that allows us to quickly identify and respond to trends and bring a tested assortment of high quality products at competitive prices to our stores.
Strong and Tenured Team. Our leadership team has extensive experience in the specialty retail apparel business, including in the areas of fashion design and merchandising, supply chain, marketing, customer experience, e-commerce, store operations, technology, planning and allocation, and real estate, as well as other diverse business experiences that we believe are valuable to us as we continue to execute our growth strategy. Experience and tenure with Express extends deep into our organization, including district and store managers.
Our future success will depend on our ability to maintain these strengths, offer compelling merchandise at an attractive value, provide an exceptional omni-channel customer experience, maintain the strength and increase awareness of the Express brand, and retain and acquire new customers.

4

Table of Contents

Our Products

The majority of our apparel designs are created by our in-house design team, and we believe we have developed a portfolio of apparel products that have significant brand value, including the Editor pant and 1MX shirt. We focus on providing our customers with attractively-priced merchandise that is well-constructed and made from quality materials that are designed to last for several seasons, and believe our customers value our consistent fits and detailing.

We plan our product assortments and display them in our stores and online in a coordinated manner to encourage our customers to purchase multi-item outfits as opposed to individual items. We believe this allows us to better meet our customers' shopping objectives while differentiating our product offerings from competitors. On average, our customers purchase two to three items per transaction. We monitor cross-selling trends in order to optimize our in-store and online product assortment.

Omni-Channel Customer Experience

We are committed to creating an omni-channel customer experience that offers a seamless shopping experience whether the customer is shopping in a store or online through a desktop, tablet, or mobile device. We believe the lines between our store and e-commerce channels are disappearing as customers increasingly interact with us both in-store and online and often through mobile devices while in stores. As a result, we are focused on leveraging the best of both channels to create an exceptional omni-channel shopping experience.

We design our stores to create a distinctive and engaging shopping environment and project our image of Express as a fashion authority for our target demographic. Our stores feature a vibrant and youthful look, bright signage, and popular music. Our stores are constructed and finished to allow us to efficiently shift merchandise displays throughout the year as seasons dictate. To further enhance our customers' experience, we seek to attract enthusiastic store associates who are committed to offering a high level of customer service. We believe our managers and associates deliver a superior shopping experience as a result of the training we provide, the culture of accountability we foster, the incentives we offer, and the decision-making authority we grant to store managers. On average, our store managers have been with Express for over five years.

Similar to our stores, our e-commerce capabilities focus on creating an engaging and easy shopping experience that supports a vibrant, young fashion consumer, whether on a mobile device, tablet, or at a desktop, with a particular focus on mobile. We recognize the growing preference for online shopping and continue to make enhancements to the online customer experience through improved search, site navigation, and checkout capabilities, and targeted customer messaging, making shopping easier for customers.

In 2017, we expanded our omni-channel capabilities with the launch of ship from store in 200 stores. Ship from store allows us to ship merchandise from select stores directly to the customer. In addition, we piloted "buy online pickup in store" which allows customers to order online and pick up at certain Express stores. We believe that these new and expanded capabilities will enhance the overall customer experience and have a positive impact on our overall business, including sales, margins, and inventory productivity.

Marketing

We use a variety of marketing vehicles designed to acquire new customers, engage with existing customers, increase customer traffic in-store and online, and build brand loyalty. These include direct mail, e-mail communications, promotional offers, social media, print, television, and digital advertising, celebrity brand ambassador campaigns, arrangements with social influencers and bloggers, in-store visuals, earned media mentions, and other features through public relations activities.

We use a proprietary customer database, together with data analytics, to customize our communications and make targeted offers to customers in an effort to increase customer traffic in-store and online and to increase conversion. In addition, we offer a customer loyalty program, Express NEXT, which allows customers to earn rewards for purchases and offers other incentives to engage with the Express brand. We also offer a private-label credit card through an agreement with Comenity Bank (“Comenity”) under which Comenity owns the credit card accounts and Alliance Data Systems Corporation provides services to our private-label credit card customers. All of our proprietary credit cards carry the Express logo. We believe that our loyalty and credit card programs encourage frequent store and website visits, promote multiple-item purchases, and cultivate customer loyalty to the Express brand.

Table of Contents

Technology

We rely on information technology to operate our business. Our information technology provides a full range of business process support and information to our store, e-commerce, merchandising, financial, and real estate teams. We utilize a combination of customized and industry standard software systems to provide various functions related to point-of-sale, inventory management, design, planning and allocation, and financial reporting. In 2016, we launched multiple systems upgrades, including a new order management system, a new retail management system, and a new enterprise planning system to further enhance our omni-channel capabilities. With the completion of these systems upgrades, we have modernized approximately 95% of our systems. We believe these new systems will allow us to increase speed-to-market, conduct planning and allocation with more precision, and ultimately give us the ability to maximize inventory productivity and reduce markdowns over time.

Sourcing

Our Sourcing Methods

We utilize a broad base of manufacturers located throughout the world that we believe produce goods at the level of quality that our customers desire and can supply products to us on a timely basis at competitive prices. We do not own or operate any manufacturing facilities and, as a result, contract with third-party vendors for the production of all of our merchandise. We purchase both apparel and accessories through buying agents and directly from vendors. In exchange for a commission, our buying agents identify suitable vendors and coordinate our purchasing requirements with vendors by placing orders for merchandise on our behalf, ensuring the timely delivery of goods to us, obtaining samples of merchandise produced in factories, inspecting finished merchandise, and carrying out vendor compliance monitoring and administrative communications on our behalf.

We purchase the majority of our merchandise outside of the United States through arrangements with approximately 95 vendors utilizing approximately 375 manufacturing facilities located in approximately 20 countries throughout the world, primarily in Asia. The top five countries from which we sourced our merchandise in 2017 were Vietnam, China, Indonesia, the Philippines, and Sri Lanka, based on total cost of merchandise purchased. The top 10 manufacturing facilities, based on cost, supplied approximately 25% of our merchandise in 2017. We purchase merchandise using purchase orders, and therefore are not subject to long-term production contracts with any vendors, manufacturers, or buying agents.

Quality Assurance and Compliance Monitoring

Each supplier, factory, and subcontractor that manufactures our merchandise is required to adhere to our Code of Vendor Conduct and certain other purchasing terms and conditions, including those related to product quality. This is designed to ensure that each of our suppliers' operations are conducted in a legal, ethical, and responsible manner. Our Code of Vendor Conduct requires that each of our suppliers provides minimum wages and benefits, limits working hours, complies with all laws, including environmental laws, and provides a safe and healthy work environment. It also forbids the use of child labor or forced labor and prohibits unauthorized subcontracting. We monitor compliance through third parties who conduct regular factory audits on our behalf as well as through our buying agents.

Distribution

We utilize two facilities for the distribution of our product, both of which are owned and operated by third parties. Virtually all of the merchandise sold in our stores and on our website is first received and processed at a central distribution facility in Columbus, Ohio. From there, merchandise allocated to be sold in stores is shipped to our stores and merchandise to be sold online direct-to-consumer is shipped to a distribution facility in Richwood, Kentucky (the "Richwood Facility"). Merchandise is typically shipped to such stores and to the Richwood Facility via third-party delivery services multiple times per week, providing them with a steady flow of inventory. The third party who operates the Richwood Facility is responsible for fulfilling the majority of the orders placed through our website and shipping merchandise directly to customers via third-party delivery services, however in 2017 we began to ship select online orders from 200 retail stores. In addition, we piloted buy online pick up in stores in 2017, which allows our customers to make purchases through our website and then pick up their merchandise in certain retail stores. We intend to expand these capabilities in 2018.

Table of Contents

Stores

As of February 3, 2018, we operated a total of 635 stores in 47 states across the United States, as well as in Puerto Rico.

The following list shows the number of stores we operated in the United States and Puerto Rico as of February 3, 2018:

Location	Count	Location	Count	Location	Count
Alabama	5	Louisiana	7	Ohio	19
Arizona	10	Maine	3	Oklahoma	5
Arkansas	3	Maryland	13	Oregon	5
California	80	Massachusetts	18	Pennsylvania	29
Colorado	10	Michigan	21	Puerto Rico	4
Connecticut	11	Minnesota	15	Rhode Island	3
Delaware	2	Mississippi	1	South Carolina	7
Florida	51	Missouri	11	South Dakota	1
Georgia	18	Nebraska	4	Tennessee	8
Hawaii	2	Nevada	9	Texas	57
Idaho	1	New Hampshire	5	Utah	6
Illinois	32	New Jersey	23	Vermont	1
Indiana	13	New Mexico	3	Virginia	16
Iowa	9	New York	45	Washington	9
Kansas	4	North Carolina	16	West Virginia	1
Kentucky	6	North Dakota	1	Wisconsin	12
				Total	635

The following list shows the number of stores operated by our franchisees by country as of February 3, 2018:

Location	Count
Mexico	11
Costa Rica	2
Panama	2
El Salvador	1
Guatemala	1
Total	17

Intellectual Property

The Express trademark and certain variations thereon, such as Express World Brand, are registered or are subject to pending trademark applications with the United States Patent and Trademark Office and/or with the registries of many foreign countries. In addition, we own domain names for many of our trademarks, including express.com. We believe our material trademarks have significant value, and we vigorously protect them against infringement.

Regulation and Legislation

We are subject to labor and employment laws and regulations, including minimum wage requirements, intellectual property laws, consumer protection laws and regulations, including those governing advertising and promotions, privacy, and product safety, and laws and regulations with respect to the operation of our stores and business generally, including the Foreign Corrupt Practices Act and as a result of being a public company. In addition, we are subject to United States customs laws and similar laws of other countries associated with the import and export of merchandise.

Table of Contents

Employees

We currently employ approximately 16,000 employees. Approximately 900 employees are based at our home office locations in either Columbus or New York City, approximately 60 are field-based regional and district managers, approximately 1,600 are in-store managers or co-managers, and approximately 13,400 are in-store sales associates. Approximately 20% and 80% of our associates are full-time and part-time, respectively. None of our employees are represented by a union, and we have had no labor-related work stoppages. We believe our relations with our employees are good.

Seasonality

Our business is seasonal. We define our seasons as Spring (first and second quarters) and Fall (third and fourth quarters). Historically, we have realized a higher portion of our net sales and net income in the Fall season due primarily to the impact of the holiday season. In 2017, approximately 56% of our net sales were generated in the Fall season, while approximately 44% were generated in the Spring season. Cash needs are typically higher in the third quarter 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.

Corporate History

We opened our first store in 1980, in Chicago, Illinois as a division of The Limited, Inc. (now known as L Brands, Inc.), and launched our men’s apparel line in 1987, which was rebranded under the name Structure in 1989. In 2001, we began to consolidate our separate women’s and men’s stores into combined dual-gender stores under the Express brand. In 2007, Golden Gate Capital acquired 75% of the equity interests in our business from an affiliate of Limited Brands, Inc. and we began to operate as a standalone company. In May 2010, the Company converted to a Delaware corporation, held an initial public offering, and listed its shares on the New York Stock Exchange. Subsequent to our initial public offering, Golden Gate Capital and Limited Brands, Inc. sold their remaining interests in the Company and are no longer affiliated with Express.

Available Information

We make available, free of charge, on our website, www.express.com, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act of 1934"), as soon as reasonably practicable after filing such material electronically with, or otherwise furnishing it to, the SEC. The SEC maintains a website that contains electronic filings at www.sec.gov. In addition, the public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330. References to our website address do not constitute incorporation by reference of the information contained on the website, and such information is not part of this Annual Report on Form 10-K.

Table of Contents

ITEM 1A. RISK FACTORS.

Our business faces a number of risks. The risks described below are the items of most concern to us, however these are not all of the risks we face. Additional risks and uncertainties not presently known to us, that apply to similar businesses more generally, or that we currently consider immaterial may also impair our business operations.

RISK FACTORS

External Risk Factors

Our business is sensitive to consumer spending and general economic conditions. Recessionary, slow growth, or other difficult economic conditions could adversely affect our financial performance.

Consumer purchases of discretionary items, including our merchandise, generally decline during recessionary periods and other periods where disposable income is adversely affected. Our business is impacted by factors that affect domestic and worldwide economic conditions and disposable income, particularly those that affect our target demographic, including unemployment levels, levels of consumer debt, availability of consumer credit, levels of student debt, healthcare costs, reductions in net worth, residential real estate and mortgage markets, taxation, fuel and energy prices, interest rates, consumer confidence, value of the United States dollar versus foreign currencies, and other macroeconomic factors. A deterioration in economic conditions may reduce the level of consumer spending and inhibit consumers' use of credit, which may adversely affect our revenues and profits. In recessionary periods or periods of slow growth, we may have to increase the number of promotional sales or otherwise dispose of inventory, including fabric, for which we have previously paid to manufacture or committed to, which could adversely affect our profitability. Our financial performance may be particularly susceptible to economic and other conditions in regions or states where we have a significant number of stores.

In addition, difficult economic conditions may exacerbate some of the other risks described in this Item 1.A. Risk Factors, including those risks associated with increased competition, decreases in mall traffic, brand reputation, our ability to develop and maintain a reliable omni-channel customer experience, our ability to execute our growth strategy and achieve our strategic objectives, the interruption of the production and flow of merchandise, and leasing substantial amounts of space. The risks could be exacerbated individually or collectively.

Our ability to attract customers to our stores that are located in malls or other shopping centers depends heavily on the success of these malls and shopping centers, and continued decreases in customer traffic in these malls or shopping centers, whether due to the growing preference for online shopping or otherwise, could cause our net sales and our profitability to be less than expected.

A significant number of our stores are located in malls and other shopping centers and many of these malls and shopping centers have been experiencing declines in customer traffic. Our sales at these stores are dependent, to a significant degree, upon the volume of traffic in those shopping centers and the surrounding area, however our costs associated with these stores are essentially fixed. In times of declining traffic and sales, our ability to leverage these costs and our profitability are negatively impacted. Our stores benefit from the ability of a shopping center's other tenants to generate consumer traffic in the vicinity of our stores and the continuing popularity of the shopping center as a shopping destination. Our sales volume and traffic has been and we expect will continue to be adversely affected by, among other things, the decrease in popularity of malls or other shopping centers in which our stores are located, the closing of anchor stores important to our business, and declines in popularity of other stores in the malls or shopping centers in which our stores are located. Furthermore, a deterioration in the financial condition of shopping center operators or developers could, for example, limit their ability to invest in improvements and finance tenant improvements for us and other retailers. Further reduction in consumer traffic as a result of these or any other factors could have a material adverse effect on us.

We face significant competition that could adversely affect our ability to generate higher net sales and margins.

We face substantial competition in the specialty retail apparel and accessories industry. Some of our competitors have greater financial, marketing, and other resources available. Many of our competitors sell their products in stores that are located in the same shopping malls or lifestyle centers as our stores and many also sell their products online either exclusively or in addition to brick-and-mortar stores. We expect the retail environment for apparel to remain highly competitive which may result in lower prices, more promotions, and lower product margins. In addition to competing for sales, we compete for favorable site locations and lease terms in shopping malls and lifestyle centers, and our competitors may be able to secure more favorable locations than us as a result of their relationships with, or appeal to, landlords or their willingness and ability to pay more for leased space. We also compete with other retailers and service-based businesses for personnel. The competition for retail talent is increasing, and we may not be able to secure the talent we need to operate our stores without increasing wages. We cannot

Table of Contents

assure you that we will be able to compete successfully against existing or future competitors or maintain our product margins, and our inability to do so could have a material adverse effect on us.

We do not own or operate any manufacturing facilities and therefore depend upon third parties for the manufacture of all of our merchandise. The inability of a manufacturer to ship goods on-time to our specifications or to operate in compliance with our Vendor Code of Conduct or applicable laws could negatively impact our business.

We do not own or operate any manufacturing facilities. As a result, we are dependent upon the timely receipt of quality merchandise from third-party vendors. A manufacturer's inability to ship orders to us in a timely manner or meet our quality standards could cause inventory shortages or high levels of out-of-season inventory and negatively affect consumer confidence in the quality and value of our brand and our competitive position, all of which could have a material adverse effect on our financial condition and results of operations.

If any of our manufacturers fail to comply with applicable laws or our Vendor Code of Conduct, or engage in any socially unacceptable business practices such as poor working conditions, child labor, disregard for environmental standards, or otherwise, our brand reputation could be negatively impacted and our results of operations could in turn be materially adversely affected.

The raw materials used to manufacture our products and our transportation and labor costs are subject to availability constraints and price volatility, which could result in increased costs.

The raw materials used to manufacture our merchandise are subject to availability constraints and price volatility caused by demand for cotton, petroleum-based synthetic textiles, and other fabrics, weather conditions, supply conditions, government regulations, economic climate, and other unpredictable factors. In addition, our transportation and labor costs are subject to price volatility caused by the price of energy, supply of labor, governmental regulations, economic climate, and other unpredictable factors.

Increases in the demand for, or the price of, raw materials used to manufacture our merchandise and increases in transportation and labor costs could each have a material adverse effect on our cost of sales or our ability to meet our customers' needs. We may not be able to pass all or a material portion of such increased costs on to our customers, which could negatively impact our profitability.

The interruption of the flow of merchandise from international manufacturers or increased tariffs on imports could disrupt our supply chain.

We purchase the majority of our merchandise outside of the United States through arrangements with approximately 95 vendors, utilizing approximately 375 manufacturing facilities located throughout the world, primarily in Asia and Central and South America. Political, social, or economic instability in Asia, Central, or South America, or in other regions where our products are made, could cause disruptions in trade, including exports. Other events that could also cause disruptions to our supply chain include:

- the imposition of additional trade law provisions or regulations;
- the imposition of additional duties, tariffs, and other charges on imports and exports;
- quotas imposed by bilateral textile agreements;
- foreign currency fluctuations;
- natural disasters and theft;
- restrictions on the transfer of funds;
- the financial instability or bankruptcy of manufacturers; and
- significant labor disputes.

We cannot predict whether the countries in which our merchandise is manufactured, or may be manufactured in the future, will be subject to new or additional trade restrictions imposed by the United States or other foreign governments, including the likelihood, type, or effect of any such restrictions. The U.S. government is contemplating various actions regarding trade with China, including the possibility of levying various tariffs on imports from China. We source a significant amount of our goods from China and so any tariffs or other trade restrictions impacting the import of apparel and accessories from China would have a material adverse impact on us. Trade restrictions, including new or increased tariffs or quotas, embargoes, safeguards, and customs restrictions against apparel items, as well as labor strikes and work stoppages or boycotts, could increase the cost or

10

Table of Contents

reduce or delay the supply of apparel available to us and adversely affect our business, financial condition, or results of operations.

If we encounter difficulties associated with distribution facilities or if they were to shut down for any reason, we could face shortages of inventory in our stores, delayed shipments to our online customers, and harm to our reputation.

Our distribution facilities are operated by third parties. Our Columbus facility operates as our central distribution facility and supports our entire North American business. All of our merchandise is shipped to the central distribution facility from our vendors and is then packaged and shipped to our stores or the Richwood Facility for further distribution to our online customers. The success of our stores and the satisfaction of our online customers depend on their timely receipt of merchandise. The efficient flow of our merchandise requires that the third parties who operate the distribution facilities have adequate capacity and labor to support our current level of operations and any anticipated increased levels that may follow from the growth of our business or during peak seasons.

If we encounter labor and capacity constraints, difficulties with the distribution facilities or in our relationships with the third parties who operate the facilities, or if either facility were to shut down for any reason, including as a result of fire or other natural disaster or work stoppage, we could face shortages of inventory, resulting in “out of stock” conditions in our stores, incur significantly higher costs and longer lead times associated with distributing our products to both our stores and online customers, and experience dissatisfaction from our customers. Any of these issues could have a material adverse effect on our business and harm our reputation.

Natural disasters, fire, and other events beyond our control may cause business disruption and result in unexpected adverse operating results.

Our corporate offices and other facilities on which we rely are vulnerable to damage from natural disasters, fire, acts of terrorism, and other unexpected events which could cause us to experience significant disruption in our business, resulting in lost sales and productivity, and causing us to incur significant expense to repair, any of which could have a material adverse effect on our business.

We rely upon independent third-party transportation providers for substantially all of our product shipments and are subject to increased shipping costs as well as the potential inability of our third-party transportation providers to deliver on a timely basis.

We currently rely upon independent third-party transportation providers for substantially all of our product shipments, including shipments to and from all of our stores and to our customers. Our utilization of these delivery services for shipments is subject to risks which may impact a shipping company’s ability to provide delivery services that adequately meet our shipping needs, include risks related to employee strikes, labor and capacity constraints, and inclement weather. In addition, we are subject to increased shipping costs when fuel prices increase, when we use expedited means of transportation such as air freight, and due to other economic factors affecting supply and demand within the transportation industry. If we change the shipping companies we use, we could face logistical difficulties that could adversely affect deliveries, and we would incur costs and expend resources in connection with such change. Moreover, we may not be able to obtain terms as favorable as those received from our current independent third-party transportation providers which, in turn, would increase our costs.

We rely on third parties to provide us with certain key services for our business. If any of these third parties fails to perform their obligations to us or declines to provide services to us in the future, we may suffer a disruption to our business. Furthermore, we may be unable to provide these services or implement substitute arrangements on a timely basis with terms favorable to us.

We rely on many different third parties to provide us with key services. For example, we rely on a third party to operate our central distribution facility in Columbus, Ohio and to provide certain inbound and outbound transportation and delivery services, distribution services, and customs services. We also rely on another third party to provide us with logistics and other services related to our e-commerce operations and another third party to provide telephone and online support to our customers. In connection with our sourcing activities, we rely on approximately 95 buying agents and vendors to help us source products from approximately 375 manufacturing facilities, and in connection with our marketing activities, we rely on third parties to administer our customer database, our loyalty program, our private label credit card program, and our gift cards. We also rely on third-party technology providers to provide us with various technology services and we rely on a third party to administer certain aspects of our payroll. If any of these third parties fails to perform their obligations to us or declines to provide services to us in the future, we may suffer a disruption to our business, increased costs, harm to our brand, and loss of customers. Furthermore, we may be unable to provide these services or implement substitute arrangements on a timely and cost-effective basis on terms favorable to us.

Table of Contents

Strategic Risk Factors

Our business is highly dependent upon our ability to identify and respond to new and changing fashion trends, customer preferences, and other related factors. Our inability to identify and respond to these new trends may lead to inventory markdowns and write-offs, which could adversely affect us and our brand image.

Our focus on fashion-conscious young women and men means that we have a target market of customers whose preferences cannot be predicted with certainty and are subject to frequent change. Our success depends in large part upon our ability to effectively identify and respond to changing fashion trends and consumer demands and to translate market trends into desired product offerings. Our failure to identify and react appropriately to new and changing fashion trends or tastes, or to accurately forecast demand for certain product offerings could lead to, among other things, excess or insufficient amounts of inventory, markdowns, and write-offs, which could materially adversely affect our business. Because our success depends significantly on our brand image, damage to our brand image as a result of our failure to identify and respond to changing fashion trends could have a material negative impact on us. We often place orders for the manufacture and purchase of merchandise, including fabric, well ahead of the season in which that merchandise will be sold. Therefore, we are vulnerable to changes in consumer preference and demand between the time we design and order our merchandise and the season in which this merchandise will be sold. There can be no assurance that we will be able to adequately and timely respond to the preferences of our customers. The failure of any of our product offerings to appeal to our customers could have a material adverse effect on our business, results of operations, and financial condition.

Our sales, profitability, and cash levels fluctuate on a seasonal basis and are affected by a variety of factors, including consumer demand, our product offerings relative to customer demand, the mix of merchandise we offer, promotions, inventory levels, and our sales mix between stores and e-commerce.

Our sales and results of operations are affected on a seasonal basis by a variety of factors, including consumer demand, our product offerings relative to customer demand, changes in our merchandise mix, the timing, number, and types of promotions we offer, actions of our competitors or mall anchor tenants, the ratio of online sales to store sales, the effectiveness of our inventory management, holiday and seasonal periods, changes in general economic conditions and consumer spending patterns, customer traffic, and weather conditions. As a result, our results of operations fluctuate on a quarterly basis and relative to corresponding periods in prior years, and any of these factors could adversely affect our business and could cause our financial results to decline. For example, our third and fourth quarter net sales are impacted by early Fall shopping trends and the holiday season. Any significant decrease in net sales during the early Fall selling period or the holiday season would have a material adverse effect on us. In addition, in order to prepare for these seasons, we must order and keep in stock significantly more merchandise than we carry during other parts of the year. This inventory build-up may require us to expend cash faster than we generate it by our operations during this period. Any unanticipated decrease in demand for our products during these peak shopping seasons could require us to sell excess inventory at a substantial markdown. Our profitability is negatively impacted by the shift of sales from stores, which have higher fixed costs, to e-commerce, which has higher variable costs. A continued shift in sales away from stores to e-commerce could have a material adverse effect on our business, results of operations, and financial condition.

Our business depends in part on a strong brand image. If we are unable to maintain and enhance our brand, or our brand reputation is damaged for any reason, we may fail to attract customers and suffer a significant decline in sales.

Our ability to maintain our reputation and meet the expectations of our customers is critical to our brand image. Our reputation could be jeopardized if we fail to maintain high standards for merchandise quality and customer experience, fail to maintain high ethical, social, and environmental standards for all of our operations and activities, or we fail to appropriately respond to concerns associated with any of the foregoing or any other concerns from our customers. Failure to comply with local laws and regulations, to maintain an effective system of internal controls, or to provide accurate and timely financial statement information could also hurt our reputation. We also rely on franchisees to help us maintain our brand image and any failure to do so could have a negative impact on us. Damage to our reputation or loss of consumer confidence for any of these reasons may reduce demand for our products and have a material adverse effect on our business, financial condition, and results of operations, as well as require additional resources to rebuild our reputation.

12

Table of Contents

Consumer behavior is rapidly changing, and if we are unable to successfully adapt to consumer shopping preferences and develop and maintain a relevant and reliable omni-channel experience for our customers, our financial performance and brand image could be adversely affected.

Our business continues to evolve from a largely brick-and-mortar retail business to an omni-channel retail business. While historically we interacted with our customers largely through our in-store experience, the traditional mall retail landscape is changing and increasingly we interact with our customers across a variety of different channels, including in-store, online at www.express.com, through mobile technologies, including the Express mobile app, and social media. Our customers are increasingly using tablets and mobile phones to make purchases online and to help them in making purchasing decisions when in our stores. Our customers also engage with us online, including through social media, by providing feedback and public commentary about all aspects of our business. Consumer shopping patterns are rapidly changing and our success depends on our ability to anticipate and implement innovations in customer experience and logistics in order to appeal to customers who increasingly rely on multiple channels to meet their shopping needs. If for any reason we are unable to implement our omni-channel initiatives, provide a convenient and consistent experience for our customers across all channels, or provide our customers the products they want, when and where they want them at a compelling value proposition, then our financial performance and brand image could be adversely affected.

We depend on key executive management and may not be able to retain or replace these individuals or recruit additional personnel, which could harm our business.

We depend on the leadership and experience of our key executive management. The loss of the services of any of our key executives could have a material adverse effect on our business and prospects, as we may not be able to find suitable individuals to replace them on a timely basis or without incurring increased costs, or at all. We believe that our future success will depend greatly on our continued ability to attract and retain highly skilled and qualified personnel. There is a high level of competition for experienced, successful talent in the retail industry. Our inability to meet our talent requirements in the future could impair our growth and harm our business.

Our growth strategy includes: improving profitability through sales growth, margin expansion, and expense leverage; providing an exceptional brand and customer experience; transforming and leveraging our systems and processes; and cultivating a strong company culture. In furtherance of our growth strategy, we are focused on the following strategic objectives: 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. The success of our growth strategy depends on our ability to achieve our strategic objectives. Failure to execute our growth strategy or achieve our strategic objectives could have a material negative effect on the value of the Company.

Our ability to improve the profitability of the Company is dependent on our ability to deliver compelling new merchandise at an attractive value, retain and acquire new customers, grow our e-commerce business, expand our omni-channel capabilities, such as ship-from-store and buy-online-pick-up-in-store capabilities, provide an exceptional customer experience, optimize our retail store footprint, open new outlet stores, and manage our overall cost structure. The success of these initiatives is dependent on a number of factors. For example, our ability to deliver compelling new merchandise at an attractive value is dependent on our ability to accurately forecast fashion trends and customer demand for products. Also, given the rapid pace of change, our ability to provide an exceptional customer experience, transform and leverage our systems and processes, increase brand awareness, retain and acquire new customers, grow our e-commerce business, and expand our omni-channel capabilities, may require significant financial investments that may not provide a return in the near term or at all.

Our ability to close stores, convert retail stores to outlet stores, or make other changes to our store fleet is limited by the terms of our existing leases. We are also reliant upon our ability to obtain desirable store locations, negotiate acceptable leases, and open stores on budget and in a timely manner. We historically have received landlord allowances related to store build outs which offset certain capital expenditures we must make to open a new store. If landlord allowances cease to be available to us in the future or are decreased, opening new stores would require more capital outlay. Furthermore, to the extent we open new outlet stores in markets where we have existing stores, our existing stores in those markets may experience reduced net sales.

Furthermore, our efforts to reduce expenses may have an adverse impact on our ability to achieve our strategic objectives by limiting the funding necessary to achieve such objectives or may impact product quality or in-store customer experience as we seek to reduce costs in our supply chain. Successful execution of our growth strategy is dependent on our ability to achieve our strategic objectives. There can be no guarantee that we will achieve our strategic objectives or that our that our growth strategy will result in improved operating results or an increase in the value of the business.

Table of Contents

Information Technology Risk Factors

We rely significantly on information systems and any failure, inadequacy, interruption, or security failure of those systems could harm our ability to effectively operate our business, cause a decrease in our net sales, increase our expenses, and harm our reputation.

Our ability to effectively manage and maintain our inventory, ship products to our stores and our customers on a timely basis, communicate with our customers, conduct customer transactions, and otherwise operate our business depends significantly on our information systems. The failure of our information systems to operate effectively, problems with transitioning to upgraded or replacement systems, or a breach in security of these systems could adversely impact our merchandise distribution, transaction processing, financial accounting and reporting, the efficiency of our operations, and our ability to properly forecast earnings and cash requirements. We could be required to make significant additional expenditures to remediate any such failure, problem, or breach, and may be subject to legal claims as a result of such failure. To effectively carry out our growth strategy, we will need to continue to invest funds in order to maintain and improve our systems. Delays or issues during such implementations may have a material adverse effect on us.

We sell merchandise through our website, www.express.com. Our online sales may be adversely affected by interruptions in our ability to conduct sales through our website, due to failure of computer systems, failure of third-party technology and service providers on which we rely, telecommunications failures, security breaches, denial of service attacks, sabotage, or similar disruptions. Furthermore, functionality on our website may be limited or interrupted to the extent technology we use becomes the subject of a patent or other intellectual property dispute and we are unable to secure a license to use such technology or develop alternative functionality.

In addition, we may be the target of attempted cyber attacks, computer viruses, malicious code, phishing attacks, denial of service attacks and other information security threats. To date, cyber attacks have not had a material impact on our financial condition, results or business; however, we could suffer material financial or other losses in the future and we are not able to predict the severity of these attacks. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the current global economic and political environment, our prominent size and scale, the outsourcing of some of our business operations, the ongoing market shortage of qualified cyber security professionals, and the interconnectivity and interdependence of third parties to our systems. The occurrence of a cyber attack, breach, unauthorized access, misuse, computer virus, or other malicious code or other cyber security event could jeopardize or result in the unauthorized disclosure, gathering, monitoring, misuse, corruption, loss, or destruction of confidential and other information that belongs to us, our customers, our counterparties, or third-party service providers that is processed and stored in, and transmitted through, our computer systems and networks. The occurrence of such an event could also result in damage to our software, computers or systems, or otherwise cause interruptions or malfunctions in our counterparties' or third parties' operations. This could result in significant losses, loss of customers and business opportunities, reputational damage, litigation, regulatory fines, penalties or intervention, reimbursement or other compensatory costs, or otherwise adversely affect our business, financial condition or results of operations. Employee error, malfeasance, or other errors in the storage, use, or transmission of any such information could result in a disclosure of confidential information to third parties outside of our network. Any of these events could result in litigation and legal liability, harm to our reputation, loss of confidence in our ability to protect sensitive information, a distraction to our business, and the need to divert resources to remedy the issues, any of which could have a material adverse effect on our business.

We may be exposed to risks and costs associated with the loss of customer information that would cause us to incur unexpected expenses, loss of revenues, and reputational harm.

We collect customer data, including encrypted credit card information, in our stores and online. For our sales channels to function successfully, we and third parties involved in processing customer transactions for us must be able to transmit confidential information, including credit card information, securely over public networks. We cannot guarantee that any of our security measures or the security measures of third parties with whom we work will effectively prevent others from obtaining unauthorized access to our customers' information. If such a breach were to occur, customers could lose confidence in our ability to secure their information and choose not to purchase from us.

Any unauthorized access to customer information could expose us to data loss or manipulation, litigation and legal liability, and could seriously disrupt operations, negatively impact our marketing capabilities, cause us to incur significant expenses to notify customers of the breach and for other remediation activities, and harm our reputation and brand, any of which could adversely affect our financial condition and results of operations.

In addition, state, federal, and foreign governments are increasingly enacting laws and regulations to protect consumers against identity theft and consumer privacy. These laws and regulations will likely increase the costs of doing business, and if we fail to implement appropriate procedures, security measures, or detect and provide prompt notice of unauthorized access as required

Table of Contents

by some of these laws and regulations, we could be subject to potential claims for damages and other remedies, which could adversely affect our business and results of operations.

Financial Risk Factors

We have, and will continue to have, significant lease obligations. We are subject to risks associated with leasing substantial amounts of space, including future increases in occupancy costs and the need to generate significant cash flow to meet our lease obligations.

We have, and will continue to have, significant lease obligations. We lease all of our store locations, our corporate offices, and our central distribution facility. We typically occupy our stores under operating leases with initial terms of ten years, with options to renew for additional multi-year periods thereafter. In the future, we may not be able to negotiate favorable lease terms for the most desired store locations. Our inability to do so may cause our occupancy costs to be higher in future years or may force us to close stores in desirable locations.

Some of our leases have early cancellation clauses, which permit the lease to be terminated by us or the landlord if certain sales levels are not met in specific periods or if the center does not meet specified occupancy standards. In addition to future minimum lease payments, some of our store leases provide for additional rental payments based on a percentage of net sales, or “percentage rent,” if sales at the respective stores exceed specified levels, as well as the payment of common area maintenance charges, real property insurance, energy costs, and real estate taxes. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions.

We depend on cash flow from operations to pay our lease expenses. If our business does not generate sufficient cash flow from operating activities to fund these expenses, due to continued decreases in mall traffic, the highly competitive retail environment, or other factors, we may not be able to service our lease expenses, which could materially harm our business. Furthermore, the significant cash flow required to satisfy our obligations under the leases increases our vulnerability to adverse changes in general economic, industry, and competitive conditions, and could limit our ability to fund working capital, incur indebtedness, and make capital expenditures or other investments in our business.

If an existing or future store is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Moreover, even if a lease has an early cancellation clause, we may not satisfy the contractual requirements for early cancellation under that lease. As of February 3, 2018, our minimum annual rental obligations under long-term lease arrangements for 2018 and 2019 were $229.9 million and $197.2 million, respectively. Our inability to enter into new leases or renew existing leases on terms acceptable to us or be released from our obligations under leases for stores that we close could materially adversely affect us.

The terms of our Revolving Credit Facility may restrict our current and future operations, which could adversely affect our ability to respond to changes in our business and to manage our operations.

We are party to an Asset Based Loan Credit Agreement ("Revolving Credit Facility") that allows us to borrow up to $250 million, subject to certain terms and conditions contained in the agreement. The terms of the Revolving Credit Facility contain, and any agreements governing any future indebtedness may contain, financial restrictions on us and our ability to, among other things:

- place liens on our assets;
- make investments other than permitted investments;
- incur additional indebtedness;
- prepay certain indebtedness;
- merge, consolidate or dissolve;
- sell assets;
- engage in transactions with affiliates;
- change the nature of our business;
- change our fiscal year or organizational documents; and
- make other restricted payments, including share repurchases and dividends.

Table of Contents

In addition, the Revolving Credit Facility requires us to maintain a fixed charge coverage ratio of 1.00 to 1.00, if excess availability plus eligible cash collateral is less than 10% of the borrowing base for 15 consecutive days.
A failure by us to comply with the covenants or to maintain the required financial ratios contained in the Revolving Credit Facility could result in an event of default under such indebtedness, which could adversely affect our ability to respond to changes in our business and manage our operations. Upon the occurrence of an event of default, the lenders under our Revolving Credit Facility could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in the agreement and there can be no assurance that our assets would be sufficient to repay any indebtedness in full, which could have a material adverse effect on our ability to continue to operate as a going concern. See Note 8 to our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for further information relating to our indebtedness.
We may recognize impairment on long-lived assets.
Our long-lived assets, primarily stores and intangible assets, are subject to periodic testing for impairment. Store assets are reviewed using factors including, but not limited to, our future operating plans and projected future cash flows. Failure to achieve our future operating plans or generate sufficient levels of cash flow at our stores could result in impairment charges on long-lived assets, which could have a material adverse effect on our financial condition or results of operations.
Regulatory and Legal Risk Factors
There are claims made against us from time to time that can result in litigation or regulatory proceedings which could distract management from our business activities and result in significant liability.
We face the risk of litigation and other claims against us. Litigation and other claims arise in the ordinary course of our business and include commercial disputes, employment related claims, including wage and hour claims, intellectual property disputes, such as trademark, copyright, and patent infringement disputes, consumer protection and privacy matters, product-related allegations, and premises liability claims. See Note 13 to our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K. The Company has been named as a defendant in two separate representative actions in the State of California alleging violations of the California state wage and hour statutes and other labor standards.
Any claims could result in litigation against us and could also result in regulatory proceedings being brought against us by various federal and state agencies that regulate our business, including the United States Equal Employment Opportunity Commission, the Federal Trade Commission, or the Consumer Product Safety Commission. Often these cases raise complex factual and legal issues, which are subject to risks and uncertainties and could require significant management time. Litigation and other claims and regulatory proceedings against us could result in unexpected expenses, legal liability, and injunctions against us or restrictions placed upon us, which could disrupt our operations, preclude us from selling products, or otherwise have a material adverse effect on our operations, financial results, and reputation.
Changes in laws, including employment laws and laws related to our merchandise, could make conducting our business more expensive or otherwise change the way we do business.
We are subject to numerous laws and regulations, including labor and employment, product safety, customs, consumer protection, privacy, zoning laws and ordinances, intellectual property laws, and other laws that regulate retailers generally or govern the import and export of goods, advertising and promotions, the sale of merchandise, product content, and the operation of stores, our website, and warehouse facilities. If these regulations were to change or were violated by our management, employees, vendors, or buying agents, the costs of certain goods could increase, or we could experience delays in shipments of our goods, be subject to fines or penalties, or suffer reputational harm, which could reduce demand for our merchandise and hurt our business and results of operations.
In addition to increased regulatory compliance requirements, changes in laws could make ordinary conduct of our business more expensive or require us to change the way we do business. For example, changes in federal and state minimum wage laws could continue to raise the wage requirements for certain of our employees. Other laws related to employee benefits and treatment of employees, including laws related to limitations on employee hours, work scheduling, supervisory status, leaves of absence, mandated health benefits, or overtime pay, could also negatively impact us, by increasing administrative compensation and benefits costs.

Moreover, changes in product safety or other consumer protection laws, environmental laws, and other regulations, could lead to increased compliance costs. It is often difficult for us to plan and prepare for potential changes to applicable laws and future compliance costs related to such changes could be material to us.

Table of Contents

We may be unable to protect our trademarks or other intellectual property rights, may be precluded from using trademarks in certain countries, and may face claims from third parties for intellectual property infringement, any of which could harm our business.

We rely on certain trademark registrations and common law trademark rights to protect the distinctiveness of our brand. However, there can be no assurance that the actions we have taken to establish and protect our trademarks will be adequate to prevent imitation of our trademarks by others or to prevent others from claiming that sales of our products infringe, dilute, or otherwise violate third-party trademarks or other proprietary rights that could block sales of our products.

The laws of certain foreign countries may not protect the use of unregistered trademarks to the same extent as do the laws of the United States. As a result, international protection of our brand may be limited, and our right to use our trademarks outside the United States could be impaired. Other persons or entities may have rights to trademarks that contain portions of our marks or may have registered similar or competing marks for apparel and/or accessories in foreign countries. There may also be other prior registrations of trademarks identical or similar to our trademarks in other foreign countries. Accordingly, it may be possible for others to prevent the sale or manufacture of our branded goods or the operation of Express brick-and-mortar or online stores in certain foreign countries. Our inability to register our trademarks or purchase or license the right to use the relevant trademarks in these jurisdictions could limit our ability to penetrate new markets in jurisdictions outside the United States.

Litigation may be necessary to protect and enforce our trademarks and other intellectual property rights, or to defend against claims by third parties alleging that we infringe, dilute, or otherwise violate third-party trademarks or other intellectual property rights. Any litigation or claims brought by or against us, whether with or without merit, and whether successful or not, could result in substantial costs and diversion of our resources, which could have a material adverse effect on our business, financial condition, results of operations, or cash flows. Any intellectual property litigation or claims against us could result in the loss or compromise of our intellectual property rights, could subject us to significant liabilities, require us to seek licenses on unfavorable terms, if available at all, prevent us from manufacturing or selling certain products, limit our ability to market or sell to our customers using certain methods or technologies, and/or require us to redesign or re-label our products or rename our brand, any of which could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

Changes in tax law, tax requirements, results of tax audits, and other factors may cause fluctuations in our effective tax rate and operating results.

We are subject to income tax in local, national, and international jurisdictions. Our tax returns and other tax matters are also subject to examination by the Internal Revenue Service and other tax authorities and governmental bodies. These examinations may challenge certain of our tax positions, such as the timing and amount of deductions and allocations of taxable income to various jurisdictions. The results of any tax audits could adversely affect our financial results. Furthermore, our effective tax rate in a given period may be materially impacted by changes in the mix and level of earnings by taxing jurisdiction and deductibility of stock based compensation.

On December 22, 2017, Congress passed the Tax Cuts and Jobs Act (the “TCJA”). Among a number of significant changes to the U.S. federal income tax rules, the TCJA reduces the marginal U.S. corporate income tax rate from 35% to 21%, limits the deduction for net interest expense, limits the deduction for net operating losses, eliminates net operating loss carrybacks, modifies or repeals many business deductions and credits, shifts the United States toward a more territorial tax system, and imposes new taxes to combat erosion of the U.S. federal income tax base. Certain of our assets and liabilities will be revalued at the newly enacted U.S. corporate rate, and the impact will be recognized in our tax expense in the year of enactment. We continue to examine the impact this tax reform legislation may have on our business. However, the effect of the TCJA on us and our affiliates, whether adverse or favorable, is uncertain, and may not become evident for some period of time.

Our products are subject to import and excise duties and/or sales or value-added taxes in many jurisdictions. Major changes in tax law, policy or trade relations, including but not limited to the foregoing, as well as the imposition of unilateral tariffs on imported products, could have a material adverse effect on our business, results of operations and liquidity.

If we fail to establish and maintain adequate internal controls over financial reporting, we may not be able to report our financial results in a timely and reliable manner, which could harm our business and impact the value of our securities.

We depend on our ability to produce accurate and timely financial statements in order to run our business. If we fail to do so, our business could be negatively affected and our independent registered public accounting firm may be unable to attest to the fair presentation of our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K in accordance with U.S. generally accepted accounting principles ("GAAP") and the effectiveness of our internal control over

Table of Contents

financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Effective internal controls are necessary for us to provide reliable financial reports and to effectively prevent fraud. If we cannot provide reliable financial reports and effectively prevent fraud, our reputation and operating results could be harmed. Even effective internal controls have inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal control over financial reporting in future periods are subject to the risk that the control may become inadequate because of changes in conditions or a deterioration in the degree of compliance with the policies or procedures.

If we fail to maintain adequate internal controls, including any failure to implement new or improved controls, or if we experience difficulties in their execution, we could fail to meet our reporting obligations, and there could be a material adverse effect on our business and financial results. In the event that our current control practices deteriorate, we may be unable to accurately report our financial results or prevent fraud, and investor confidence and the market price of our stock may be adversely affected.

Stock Ownership Risk Factors

Our ability to pay dividends and repurchase shares is subject to restrictions in our Revolving Credit Facility, results of operations, and capital requirements.

Any determination to pay dividends or repurchase additional shares in the future will be at the discretion of our Board of Directors and will depend upon our results of operations, our financial condition, restrictions imposed by applicable law, and other factors our Board of Directors deems relevant. Our ability to pay dividends on or repurchase our common stock is limited by the terms of the Revolving Credit Facility and may be further restricted by the terms of any future debt or preferred securities. Additionally, because we are a holding company, our ability to pay dividends on our common stock or repurchase shares is limited by restrictions on the ability of our subsidiaries to pay dividends or make distributions to us, including restrictions under the terms of the Revolving Credit Facility.

Anti-takeover provisions in our charter documents and Delaware law may discourage or delay acquisition attempts for us that our stockholders might consider favorable.

Our certificate of incorporation and bylaws contain provisions that may make the acquisition of the Company or a change in our management or Board of Directors more difficult without the approval of our Board of Directors. These provisions do the following:

- establish a classified Board of Directors so that not all members of our Board of Directors are elected at one time;
- authorize the issuance of undesignated preferred stock, the terms of which may be established, and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of common stock;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders; and
- establish advance notice requirements for nominations for elections to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Our certificate of incorporation also contains a provision that provides us with protections similar to Section 203 of the Delaware General Corporation Law, that will prevent us from engaging in a business combination with a person who acquires at least 15% of our common stock for a period of 3 years from the date such person acquired such common stock, unless Board or stockholder approval is obtained prior to the acquisition. These anti-takeover provisions and other provisions under Delaware law could discourage, delay, or prevent a transaction involving a change in control of our company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and to cause us to take other corporate actions desired by stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

Table of Contents

ITEM 2. PROPERTIES.

Home Office, Distribution Center, Design Studio, and Photo Studio

The lease for our corporate headquarters in Columbus, Ohio is scheduled to terminate in April 2021. The lease for our design offices in New York City expires in July 2026. We also lease a photo studio in downtown Columbus. That lease expires in December of 2024.

The lease for our distribution facility in Columbus, Ohio is scheduled to terminate in April 2021, but may be terminated by either party upon 36 months prior notice provided that the lease term may not end between the months of October and February.

Stores

All of our 635 stores are leased from third parties. See "Item 1. Business - Store Locations" for further information on the locations of our stores.

We may from time to time lease new facilities or vacate existing facilities as our operations require, including in connection with opening new stores.

ITEM 3. LEGAL PROCEEDINGS.

Information relating to legal proceedings is set forth in Note 13 to our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock trades on the NYSE under the symbol "EXPR". As of March 16, 2018, there were approximately 10 holders of record of our common stock. The number of holders of record is based upon the actual number of holders registered at such date and does not include holders of shares in “street name,” or persons, partnerships, associates, corporations, or other entities identified in security position listings maintained by depositories.

The table below sets forth the high and low sales prices per share of our common stock reported on the NYSE for 2017 and 2016.

	2017		2016	
	High	Low	High	Low
Fourth quarter	$11.34	$6.35	$14.39	$10.03
Third quarter	$7.45	$5.28	$16.38	$11.28
Second quarter	$10.00	$5.84	$18.26	$13.25
First quarter	$11.70	$7.89	$21.57	$15.53

Dividends

We did not pay any dividends in 2017 or 2016. Our ability to pay dividends is restricted by the terms of our Revolving Credit Facility. Any future determination to pay dividends will be made at the discretion of our Board of Directors and will depend on our results of operations, restrictions contained in our Revolving Credit Facility or future financing arrangements, and other factors as deemed relevant. For more information about the restrictions in our Revolving Credit Facility, see Note 8 to our Consolidated Financial Statements included elsewhere in this Annual Report on 10-K.

Share Repurchases

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

Month	Total Number of Shares Purchased (1)	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 (2)
	(in thousands, except per share amounts)			
October 29, 2017 - November 25, 2017	1	$ 6.93	—	$0
November 26, 2017 - December 30, 2017	449	$ 11.17	448	$145,000
December 31, 2017 - February 3, 2018	1,641	$ 7.47	1,640	$132,778
Total	2,091		2,088	

Table of Contents

[1] Includes shares purchased in connection with employee tax withholding obligations under the 2010 Plan.
[2] On November 28, 2017, the Board approved a new 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.

Performance Graph

The following graph compares the changes in the cumulative total return to holders of our common stock with that of the S&P 500 Index and the Dow Jones U.S. Apparel Retailers Index for the same period. The comparison of the cumulative total returns for each investment assumes that $100 was invested in our common stock and the respective indexes on February 2, 2013, and includes reinvestment of all dividends. The plotted points are based on the closing price on the last trading day of each fiscal year.

COMPARISON OF THE
CUMULATIVE TOTAL RETURN
among Express, Inc., S&P 500 Index,
and Dow Jones U.S. Apparel Retailers Index

	2/2/13	2/1/14	1/31/15	1/30/16	1/28/17	2/3/18
Express, Inc.	$100.00	$93.62	$70.70	$91.68	$54.81	$35.95
S&P 500 Index	$100.00	$117.81	$131.84	$128.22	$151.65	$182.54
Dow Jones U.S. Apparel Retailers Index	$100.00	$112.12	$133.75	$129.93	$124.06	$135.74

The Performance Graph in this Item 5 shall not be deemed "soliciting material" or "filed" with the SEC or subject to Regulation 14A or 14C under the Exchange Act of 1934 or to the liabilities of Section 18 of the Exchange Act of 1934 and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING DATA

The following tables set forth our key financial measures and our selected historical consolidated financial and operating data as of the dates and for the periods indicated. The selected historical consolidated financial and operating data as of February 3, 2018 and January 28, 2017 and for the years ended February 3, 2018, January 28, 2017, and January 30, 2016 are derived from our audited Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated financial data as of January 30, 2016, January 31, 2015, and February 1, 2014, and the selected operating data for the periods ended January 31, 2015 and February 1, 2014 are derived from our audited Consolidated Financial Statements, which are not included elsewhere in this Annual Report on Form 10-K.

The following selected historical consolidated data presented should be read in conjunction with the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our Consolidated Financial Statements and the related Notes and other financial data included elsewhere in this Annual Report on Form 10-K.

	Fiscal Year Ended				
	2017*	2016	2015	2014	2013
	(dollars in thousands, excluding net sales per gross square foot and per share data)				
Statement of Operations Data:					
Net sales	$2,138,030	$2,192,547	$2,350,129	$2,165,481	$2,219,125
Cost of goods sold, buying and occupancy costs	$1,522,797	$1,529,343	$1,554,852	$1,504,527	$1,501,418
Gross profit	$615,233	$663,204	$795,277	$660,954	$717,707
Selling, general, and administrative expenses	$562,088	$559,541	$587,747	$524,041	$504,277
Operating income	$29,740	$103,601	$207,238	$136,597	$214,259
Net income	$19,366	$57,417	$116,513	$68,325	$116,539
Dividends declared per share	$—	$—	$—	$—	$—
Earnings per share:					
Basic	$0.25	$0.73	$1.39	$0.81	$1.38
Diluted	$0.25	$0.73	$1.38	$0.81	$1.37
Weighted Average Diluted Shares Outstanding	78,870	79,049	84,591	84,554	85,068
Other Financial and Operating Data:					
Comparable sales [(1)]	(3)%	(9)%	6%	(5)%	3%
Comparable sales (excluding e-commerce sales) [(1)]	(10)%	(12)%	4%	(7)%	(1)%
Total gross square feet (in thousands) (average)	5,487	5,604	5,573	5,529	5,439
Number of stores (at year end)	635	656	653	641	632
Capital expenditures	57,435	98,712	$115,343	$115,088	$105,368
Balance Sheet Data (at period end):					
Cash and cash equivalents	$236,222	$207,373	$186,903	$346,159	$311,884
Working capital [(2)]	38,050	24,363	19,113	20,618	(27,630)
Total assets	1,187,607	1,185,189	1,178,644	1,278,150	1,182,670
Total debt	—	—	—	199,527	199,170
Total stockholders' equity	$654,000	$635,687	$617,953	$556,339	$474,569

* 2017 represents a 53-week year.

(1)

Comparable sales have been calculated based upon stores that were open at least twelve full months as of the end of the reporting period. For 2017, comparable sales were calculated based upon the 53-week period ended February 3, 2018 compared to the 53-week period ended February 4, 2017. See full definition of comparable sales in the section titled "How We Assess the Performance of Our Business" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

(2) Working capital is defined as current assets, less cash and cash equivalents, less current liabilities.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity, and cash flows of the Company as of and for the periods presented below. The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and the related Notes included elsewhere in this Annual Report on Form 10-K. 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, including those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in the section entitled "Risk Factors." All references herein to "2017," "2016," and "2015" refer to the 53-week period ended February 3, 2018 and the 52-week periods ended January 28, 2017, and January 30, 2016, respectively.

Overview

Express is a specialty apparel and accessories retailer offering both women's and men's merchandise. We have over 35 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.

2017 vs. 2016

- Net sales decreased 2% to $2.1 billion
- Comparable sales decreased 3%
- Comparable sales (excluding e-commerce sales) decreased 10%
- E-commerce sales increased 23% to $509 million
- Operating income decreased 71% to $29.7 million, which included restructuring charges of $22.9 million related to the exit of our Canadian business
- Net income decreased 66% to $19.4 million, which included a negative impact related to our exit from Canada of $12.1 million
- Diluted earnings per share decreased 66% to $0.25
- The 53rd week added approximately $26 million to net sales and $3 million to net income for 2017

The following charts show key performance metrics for 2015, 2016, and 2017:

Table of Contents

Update On Our Key Initiatives

Store Performance

In 2017, comparable sales (excluding e-commerce sales) decreased 10%. The decrease was primarily driven by the following:

- Decreased traffic at our stores as a result of shifting consumer shopping patterns which are leading to traffic challenges in malls; and
- Increased promotional activity in our stores.

Real Estate Activity

As of February 3, 2018, we operated 635 stores, including 145 factory outlet stores.

2017 store openings and closures:

- Opened 41 factory outlet stores in the U.S., 24 of which were converted from existing retail locations;
- Closed 45 U.S. retail stores, 24 of which were converted to outlet locations; and
- Closed all 17 Canadian retail stores.

We expect for 2018:

- Open 38 factory outlet stores, 28 of which will be converted from existing retail locations; and
- Close 36 U.S. retail stores, 28 of which will be converted to outlet locations.

E-commerce

In 2017, our e-commerce sales increased 23% compared to 2016. We believe the increase was primarily driven by:

- The shift in customer shopping patterns towards e-commerce and mobile;
- Expanded sizing and assortments online; and
- Incremental sales from the launch of ship-from-store capabilities.

E-commerce sales represented 24% of net sales in 2017 compared to 19% in 2016.

Progress Against our Other Key Initiatives

- Cost Savings Initiatives. In 2016, we announced cost savings opportunities of $44 to $54 million which we expect to realize through 2019. We achieved our target of $20 million in costs savings in 2017 and are on track to deliver the $44 to $54 million dollars of annualized cost savings by 2019.

- Increasing Brand Awareness. During 2017, we introduced a new brand architecture focusing on the individual style of our customers. In addition, we increased our content creation capabilities and expanded our relationships with fashion influencers. We also entered into a marketing agreement with the National Basketball Association ("NBA").

- Elevating our Customer Experience. In 2017, we relaunched our Express NEXT loyalty program, making it easier for our customers to enroll and earn rewards. This led to significant year-over-year growth in Express NEXT sign ups. In addition, we successfully launched ship-from-store capabilities, which allows us to fulfill orders that may be out of stock at our online fulfillment distribution center.

Outlook

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) fostering a strong Company culture. In furtherance of our strategy, for 2018, we are focused on the following strategic objectives:

Delivering Compelling Product at an Attractive Value. In the first quarter of 2018, we re-launched our Express One Eleven product line which is a key part of our Spring casual knits offering. The One Eleven line features newness and a wide range of fits. In the second quarter of 2018, we plan to extend our size offering in men’s and women’s merchandise in over 125 of our retail stores. This is in addition to the extended sizing we already offer online. Our wear-to-work merchandise will also be a key priority for us throughout 2018.

Investing in Growing Brand Awareness and Retaining and Acquiring New Customers to the Express Brand. In 2018, we will continue to invest in growing brand awareness and customer engagement through a variety of media and marketing programming, including search, digital, and social marketing. We will also continue to work with fashion influencers and a broad range of social media influencers. We believe that our Express NEXT loyalty program plays an important role in customer retention, engagement, and purchasing behavior. For 2018, we plan to add more services and improve the personalization for NEXT loyalty program members in order to increase customer engagement.

Growing e-Commerce and Expanding Omni-Channel Capabilities. In 2018, we will expand our assortment online and continue to invest in improving the speed, performance, functionality, and personalization across our e-commerce platforms, with a particular focus on mobile. We also plan to expand our ship-from-store capabilities so that the majority of our retail stores can fulfill e-commerce orders which we expect to allow us to better meet customer demand and optimize sales, margins, and inventory productivity. We will also continue to test buy online pick up in store capabilities in 2018 in select stores which allows customers to reserve merchandise online and then purchase and pick-up their reserved items.

Optimizing the Store Fleet and Executing Our Outlet Strategy. We will continue to respond to the rapidly changing retail environment through store closures, conversions of retail stores to outlets, opening new outlet stores, and negotiating favorable store lease terms. We expect to grow our outlet store base over 25% in 2018 through the conversion of 28 retail stores to outlets and the opening of 10 net outlets in 2018. We plan to close 8 retail stores in 2018.

Effectively manage our cost base.
We expect to realize approximately $12 million dollars in cost savings in 2018 through our cost savings initiatives, with the majority benefiting merchandise margin through lower sourcing costs, and remain on track to deliver a total of $44 to $54 million dollars of annualized cost savings over the 2016 to 2019 period.

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, advertising revenue from the rental of our LED sign in Times Square, gift card breakage, 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	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 includes: • Sales from stores that were open 12 months or more as of the end of the reporting period, including conversions • E-commerce sales Comparable sales excludes:	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.

- Sales from stores where the square footage has changed during the year 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 that cannot open due to weather damage or other catastrophe

Table of Contents

Financial Measures	Description	Discussion
Cost of goods sold, buying and occupancy costs	Includes the following: • Direct cost of purchased merchandise • Inventory shrink and other adjustments • Inbound and outbound freight • 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	Our cost of goods sold typically increases in higher volume quarters because the direct cost of purchased merchandise is tied to sales. 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. Buying and occupancy costs related to stores are largely fixed and do not necessarily increase as volume increases; however, buying and occupancy costs related to e-commerce sales are variable and 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.
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.	Gross profit/gross margin is impacted by the price at which we are able to sell our merchandise and the direct cost of goods sold and 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 and have a direct effect on our gross margin. 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.
Selling, General, and Administrative Expenses	Includes operating costs not included in cost of goods sold, buying and occupancy costs such as: • 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	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.

Table of Contents

Fiscal Year Comparisons

Net Sales

	Year Ended		
	2017	2016	2015
Net sales (in thousands)	$2,138,030	$2,192,547	$2,350,129
Comparable sales	(3)%	(9)%	6%
Comparable sales (excluding e-commerce sales)	(10)%	(12)%	4%
Gross square footage at end of period (in thousands)	5,425	5,662	5,640
Number of:			
Stores open at beginning of period	656	653	641
New retail stores	—	—	1
New outlet stores	41	23	40
Retail stores converted to outlets	(24)	(4)	(2)
Closed stores	(38)	(16)	(27)
Stores open at end of period	635	656	653

Net sales decreased by approximately $54.5 million, or 2%, between 2017 and 2016. The 53rd week contributed approximately $26 million to net sales. Comparable sales decreased 3% in 2017 compared to 2016. The decrease in comparable sales resulted primarily from a decrease in transactions and in-store average dollar sales per transaction. We attribute these reductions to decreased traffic at our stores, due in part to negative trends in overall mall traffic due to the shift in customer shopping patterns, and increased markdowns due to the promotional retail landscape. This was partially offset by an increase in e-commerce sales which resulted from the aforementioned shift in customer shopping patterns, an expanded assortment online, and our omni-channel initiatives, including ship-from-store. Non-comparable sales increased $21.1 million, driven primarily by new outlet store openings, partially offset by closed retail stores.

Table of Contents

Net sales decreased by approximately $157.6 million, or 7%, between 2016 and 2015. Comparable sales decreased 9% in 2016 compared to 2015. The decrease in comparable sales resulted primarily from a decrease in transactions and in-store average dollar sales per transaction. We attribute these decreases to decreased traffic at our stores due in part to decreases in overall mall traffic, increased markdowns due to the promotional retail landscape, and a lack of fashion clarity in our product assortment, which offered too many choices and was overly targeted at the younger customers in our demographic in the first half of the year. This was partially offset by an increase in e-commerce sales which resulted from more targeted marketing as well as improvements to our website functionality and the online shopping experience. Non-comparable sales increased $37.5 million, driven primarily by new outlet store openings, and were 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:

	Year Ended		
	2017	2016	2015
	(in thousands, except percentages)		
Cost of goods sold, buying and occupancy costs	$1,522,797	$1,529,343	$1,554,852
Gross profit	$615,233	$663,204	$795,277
Gross margin percentage	28.8 %	30.2 %	33.8 %

The 140 basis point decrease in gross margin percentage, or gross profit as a percentage of net sales, in 2017 compared to 2016 was comprised of a 70 basis point decrease in merchandise margin and a 70 basis point increase in buying and occupancy costs as a percentage of net sales. The decrease in merchandise margin was driven by a highly promotional retail environment partially offset by reductions in sourcing costs as part of our cost savings initiatives. The increase in buying and occupancy costs as a percentage of sales was primarily the result of the deleveraging effect of the decrease in sales.

The 360 basis point decrease in gross margin percentage, or gross profit as a percentage of net sales, in 2016 compared to 2015 was comprised of a 210 basis point decrease in merchandise margin and a 150 basis point increase in buying and occupancy costs as a percentage of net sales. The decrease in merchandise margin was driven by increased promotions, including increased markdowns on clearance items in the first half of the year. The increase in buying and occupancy costs as a percentage of sales was primarily the result of the deleveraging effect of the decrease in sales, increased rent expense, and a $5.1 million impairment charge related to leasehold improvements at certain underperforming stores in 2016 versus a $1.8 million impairment charge in 2015.

Table of Contents

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:

	Year Ended		
	2017	2016	2015
	(in thousands)		
Selling, general, and administrative expenses	$562,088	$559,541	$587,747
Selling, general, and administrative expenses, as a percentage of net sales	26.3 %	25.5 %	25.0 %

The $2.5 million increase in selling, general, and administrative expenses in 2017 compared to 2016 was primarily the result of increased depreciation of $6.5 million related to new information technology systems and e-commerce technology partially offset by decreases in other operating costs, including supplies, taxes, and insurance.

The $28.2 million decrease in selling, general, and administrative expenses in 2016 compared to 2015 was primarily the result of decreased payroll related expenses of approximately $34.0 million. The reduction in payroll expenses was primarily related to decreases in incentive compensation and performance-based stock compensation resulting from decreased business performance. The decreases were partially offset by $7.8 million in additional depreciation primarily related to new information technology systems and e-commerce technology.

Restructuring Costs

The following table shows restructuring costs for the stated periods:

	Year Ended		
	2017	2016	2015
	(in thousands, except percentages)		
Restructuring costs	$22,869	$ —	$ —

Restructuring costs represent the costs incurred related to the exit of our Canadian business. These costs include a $6.5 million write-off of the investment in Express Canada, $5.5 million in impairment charges, $5.5 million in lease related expense, $4.2 million related to the write-off of the cumulative translation loss, and approximately $1.2 million in professional and other fees in 2017. Refer to Note 14 of the unaudited Consolidated Financial Statements for additional information regarding the exit of our Canadian business.

Interest Expense, Net

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

	Year Ended		
	2017	2016	2015
	(in thousands)		
Interest expense, net	$2,242	$13,468	$15,882

The $11.2 million decrease in interest expense in 2017 compared to 2016 was the result of the amortization of the debt discount related to the lease financing obligation associated with the amendment to our Times Square store lease agreement in the first quarter of 2016.

The $2.4 million decrease in interest expense in 2016 compared to 2015 is primarily related to a loss on extinguishment of debt in connection with the redemption of our 8 3/4% Senior Notes due 2018 (the "Senior Notes") in the first quarter of 2015, partially offset by the amortization of the debt discount related to the lease financing obligation associated with the amendment to our Times Square store lease agreement in the first quarter of 2016.

Table of Contents

Income Tax Expense

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

	Year Ended		
	2017	2016	2015
	(in thousands)		
Income tax expense	$8,669	$33,200	$74,171

The effective tax rate was 30.9% in 2017 compared to 36.6% in 2016. The effective tax rate for 2017 includes a net tax benefit of approximately $2.1 million attributable to certain discrete items, predominately related to the exit from Canada, executive compensation, and the impact of the U.S. tax law change described below.

On December 22, 2017, the TCJA was enacted into law. The TCJA will affect us through the reduction in the federal corporate income tax rate from 35% to 21% and the one-time re-measurement of our deferred taxes using this new lower tax rate. As a result of the reduction of the federal corporate income tax rate under TCJA, we remeasured our net deferred tax liabilities and recorded an income tax benefit of approximately $3.1 million in 2017. The provisional impact of the re-measurement of the our deferred taxes under TCJA was calculated considering all available information. The final impact of the TCJA may differ from this provisional amount due to the issuance of additional legislative guidance and further changes in interpretations and assumptions we have made in our calculations. The accounting is expected to be complete by the time the 2017 federal corporate income tax return is filed, but not later than one year from the enactment of TCJA.

We anticipate our effective tax rate will be approximately 28% in 2018, excluding the impact of share-based compensation or other discrete items which might occur.

The effective tax rate for 2016 was 36.6% compared to 38.9% for 2015. The effective tax rate for 2016 includes a net tax benefit of approximately $2.9 million attributable to certain discrete items that occurred during the third quarter of 2016.

Refer to Note 7 of the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for additional information regarding the tax rate.

Adjusted Net Income

The following table presents adjusted operating income, adjusted net income, and adjusted diluted earnings per share, each a non-GAAP financial measure, for the stated periods which eliminate certain non-core operating costs:

	Year Ended		
	2017	2016	2015
	(in thousands, except per share amounts)		
Operating Income	$29,740	$103,601	$207,238
Adjusted Operating Income	$53,891	$103,601*	$207,238*
Net Income	$19,366	$57,417	$116,513
Adjusted Net Income (Non-GAAP)	$28,399	$64,343	$122,429
Diluted Earnings Per Share	$0.25	$0.73	$1.38
Adjusted Diluted Earnings Per Share (Non-GAAP)	$0.36	$0.81	$1.45

* No adjustments were made to operating income for 2016 or 2015.

We supplement the reporting of our financial information determined under GAAP with certain non-GAAP financial measures: adjusted operating income, adjusted net income, 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, adjusted net income, 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 operating income is used as a performance measure to determine short-term cash incentive compensation and adjusted diluted earnings per share is used as a performance measure in our executive compensation program for purposes of determining the payout of the

30

Table of Contents

long-term incentive awards. 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, net income, and reported diluted 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 income, adjusted net income, and adjusted diluted earnings per share, with the most directly comparable GAAP financial measures, operating income, net income, and diluted earnings per share. No adjustments were made to operating income for 2016 or 2015, and therefore no tabular reconciliation has been included for these years.

	2017			
(in thousands, except per share amounts)	Operating Income	Net Income	Diluted Earnings per Share	Weighted Average Diluted Shares Outstanding
Reported GAAP Measure	$29,740	$19,366	$ 0.25	78,870
Impact of Canadian Exit	24,151			