Vera Bradley, Inc.
Form 10-K
April 03, 2018

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

FORM 10-K

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
¨ 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: 001-34918

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

Indiana	27-2935063
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12420 Stonebridge Road, Roanoke, Indiana	46783
(Address of principal executive offices)	(Zip Code)

(877) 708-8372
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	The NASDAQ Global Select Market

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 ¨ 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 ¨ 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 ¨
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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. ¨

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

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

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

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

The aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant as of July 29, 2017 was $206,807,728.

The registrant had 35,519,809 shares of its common stock outstanding as of March 27, 2018.

DOCUMENT INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement for the 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

Forward-Looking Statements

This annual report contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this report are forward-looking statements. Forward-looking statements include references to our current expectations and projections relating to our financial condition, results of operations, plans, objectives, strategies, 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,” “might,” “will,” “should,” “can have,” other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected earnings, revenues, costs, expenditures, cash flows, growth rates, and financial results, our plans and objectives for future operations, growth, initiatives, or strategies, or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- possible inability to successfully implement our long-term strategic plan, including our Vision 20/20 initiatives;
- possible continued declines in our comparable sales;
- possible inability to maintain and enhance our brand;
- possible failure of our multi-channel distribution model;
- possible adverse changes in general economic conditions and their impact on consumer confidence and consumer spending;
- possible inability to predict and respond in a timely manner to changes in consumer demand;
- possible inability to successfully open new stores and/or operate current stores as planned;
- possible loss of key management or design associates or inability to attract and retain the talent required for our business;
- possible ramifications from the payment card incident disclosed in October 2016; and
- possible data security or privacy breaches or disruptions in our computer systems or website.

We derive many of our forward-looking statements from our operating plans and forecasts, which are based upon detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. For a discussion of the above described risks and other risks and uncertainties that could cause actual results to differ materially from those contained in our forward-looking statements, please refer to “Risk Factors” in Item 1A of this report.

We caution you that the risks and uncertainties identified by us may not be all of the factors that are important to you. Furthermore, the forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events, or otherwise, except as required by law.

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PART I

In this Form 10-K, references to "Vera Bradley," "we," "our," "us" and the "Company" refer to Vera Bradley, Inc. and its subsidiaries, including Vera Bradley Designs, Inc. The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to January 31. The fiscal year ended February 3, 2018 ("fiscal 2018") was a 53-week period. The fiscal years ended January 28, 2017 ("fiscal 2017") and January 30, 2016 ("fiscal 2016") were each 52-week periods. The fiscal year ending February 2, 2019 ("fiscal 2019") will be a 52-week period.

Item 1. Business

Our Company

Vera Bradley is a leading designer of women's handbags, luggage and travel items, fashion and home accessories, and unique gifts. Founded in 1982 by friends Barbara Bradley Baekgaard and Patricia R. Miller, the brand's innovative designs, iconic patterns, and brilliant colors inspire and connect women across the country.

Vera Bradley offers a multi-channel sales model, as well as a focus on service and a high level of customer engagement. The Company sells its products through two reportable segments: Direct and Indirect. The Direct business consists of sales of Vera Bradley products through the Company's full-line and factory outlet stores in the United States, verabradley.com, the Company's online outlet site, direct-to-consumer eBay sales, and the Company's annual outlet sale in Fort Wayne, Indiana. As of February 3, 2018, the Company operated 109 full-line stores and 51 factory outlet stores. The Indirect business consists of sales of Vera Bradley products to approximately 2,400 specialty retail locations, substantially all of which are located in the United States, as well as department stores, national accounts, third party e-commerce sites, third-party inventory liquidators, and sales generated through licensing agreements. For financial information about our reportable segments, refer to Note 15 of the Notes to Consolidated Financial Statements set forth in Part II, "Item 8. Financial Statements and Supplementary Data," of this report.

Our History

Barbara Bradley Baekgaard and Patricia Miller founded the Company in 1982 in Fort Wayne, Indiana, after recognizing a lack of stylish travel accessories in the market. Within weeks, the friends created Vera Bradley, named after Ms. Bradley Baekgaard's mother, and began manufacturing and marketing their distinctive products. The founders, together with past and present members of the executive management team, have been instrumental in our growth and success. The following timeline sets forth a summary of significant milestones in Vera Bradley's history by calendar year:

1982 – Barbara Bradley Baekgaard and Patricia Miller launched Vera Bradley by introducing three products: the handbag, the sports bag, and the duffel bag.

1987 – Ernst & Young honored our Co-Founders with an "Entrepreneur of the Year" award.

1991 – To accommodate the increasing number of attendees, we relocated our annual outlet sale from a tent in our parking lot to its present location at the Allen County War Memorial Coliseum Exposition Center in Fort Wayne, Indiana.

1998 – We founded our primary philanthropy, the Vera Bradley Foundation for Breast Cancer.

1999 – Our products were sold in all 50 states through Indirect retailers.

2005 – We launched the Vera Bradley Visual Merchandising Program, providing our retail partners a framework for presenting the brand and merchandising our products in a consistent manner.

2006 – We launched our e-commerce business through our website, verabradley.com.

2007 –

We opened a state-of-the-art distribution facility in Roanoke, Indiana and also opened our first full-line store at the Natick Collection, in greater Boston.

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2009 – We opened our first outlet store at Chicago Premium Outlets in Aurora, Illinois.

2010 – We completed our initial public offering.

2011 – We opened the Vera Bradley Design Center in Roanoke, Indiana, and launched our products in Dillard's department stores.

2012 – We completed a 200,000 square-foot expansion of our distribution facility in Roanoke, Indiana; increased our presence to all Dillard's locations; and launched a relationship with Von Maur department stores.

2013 – We migrated verabradley.com to a more responsive design, providing an enhanced shopping experience and improved product viewing regardless of the device being used to shop.

2014 – We introduced leather and full coordinating collections; began our relationship with Macy's; and launched our first national ad campaign.

2015 – We launched several new collections including Collegiate; launched our "I AM" national ad campaign; increased our presence in Macy's; and introduced our products in Belk and Bon-Ton department stores.

2016 – We opened our first flagship store in New York, New York in the SoHo neighborhood; introduced our Gallatin relaxed leather collection; launched our "It's Good to Be a Girl" national marketing campaign; and expanded our collegiate collection to over 70 schools.

2017 – We launched our new digital flagship; created an online outlet site; and introduced our Iconic cotton collection.

The passion for design and customer service established by our founders has driven our Company for over 30 years and remains the cornerstone of Vera Bradley today. Ms. Baekgaard continues to focus on various Vera Bradley-related projects. Ms. Miller retired in October 2012 as our National Spokesperson, but continues to serve on the Board of Directors along with Ms. Baekgaard.

Vision 20/20 Initiatives

During fiscal 2018, we launched "Vision 20/20" which is an aggressive plan to turnaround our business and restore brand and Company health over the next three years. Integrating our Vision 20/20 initiatives into our long-term strategic plan is expected to lay the foundation for growth, a more profitable future, and continued strong cash flows.

The key focus of Vision 20/20 is moving to a significantly less clearance-driven business model combined with a meaningful reduction in SG&A expenses. To move to a significantly less clearance driven business model, we are focusing on three key product and pricing initiatives: reducing the amount of clearance merchandise offered, narrowing our current product offerings, and introducing tighter assortment guardrails.

We will significantly reduce the amount of clearance merchandise offered on verabradley.com and in our full-line stores. This will help to reset our customers' pricing expectations and restore our full-price business. To reduce certain clearance sales from verabradley.com, we began the use of our online outlet site in the third quarter of fiscal 2018 by conducting two flash sales.

We are focusing on our best categories and will narrow our current product offerings by eliminating unproductive or incongruent categories and SKUs from our assortments. We began to narrow our product offerings in fiscal 2018 and are discontinuing our fragrance and jewelry collections in spring of fiscal 2019.

We are building tighter assortment guardrails around introducing new categories, patterns, and pricing, assuring the right fit for our brand and that our products not only provide thoughtful solutions but also reflect our signature attributes of being comfortable, casual, and affordable. These initiatives should be reflected in our product by fall of fiscal 2019.

We expect these product and pricing initiatives to negatively affect revenues in fiscal 2019, but we believe these are the right actions to take for the future health of the business.

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As we reduce revenues, we will also continue to reduce SG&A expenses. These SG&A expense reductions began in fiscal 2018 by right-sizing our corporate and retail store infrastructure to align with the size of our business. Additional initiatives to reduce SG&A expenses include continuing to identify corporate efficiencies, reducing our marketing expenses and optimizing return on marketing spending, and taking a more aggressive stance on reducing store operating expenses and closing underperforming stores. We are forecasting to close up to 45 additional full-line stores (approximately 15 per year) by the end of fiscal 2021, primarily as leases expire. We closed five underperforming full-line stores and one underperforming factory outlet store during fiscal 2018.

Growth Strategies

Our long-term vision is to build on the Company's rich heritage and establish Vera Bradley as a premium global lifestyle brand, expand our customer reach, and grow our customer connections. Our long-term strategic plan, integrated with Vision 20/20, is centered upon the three planks of product, distribution, and marketing.

We call our target aspirational customer the Day Maker. She is organized, thoughtful and, most of all, appreciates femininity and beauty - in color, print, and thoughtful details. We are focused on creating thoughtful solutions for the Day Maker and believe we have a great opportunity to attract more Day Makers to our brand through our product offerings, our distribution channels, and our marketing efforts.

Product. We have identified four key businesses where we can offer the Day Maker thoughtful solutions that we believe will propel our future growth. We are optimizing our existing core portfolio by eliminating product categories and specific SKUs that are unproductive or incongruent, as well as expanding into relevant new categories that reflect our brand and signature attributes of comfortable, casual, and affordable. We will continue to use licenses and strategic partnerships as appropriate to expand our product categories.

- Our Fashion Bag and Accessories business continues to be our largest opportunity and allows us to highlight our innovation, function, and fashion. Both patterns and solids are important in this category.
- Travel remains a core differentiator for Vera Bradley and allows us to both embrace our heritage and to showcase newness and functionality with products like Lighten Up and our unique collapsible luggage.
- Our Campus business including backpacks, has been successful, and we believe there are further opportunities to expand our Campus authority going forward.
- We believe Home can continue to be a significant growth opportunity for Vera Bradley, with market attractiveness and a great brand fit. The Day Maker’s fashion statement is often her home. Licensing will continue to play a key role in the home area.

In each of these areas, fabric, pattern innovation, and newness remain critical in staying relevant.

Distribution Channels. Vera Bradley products are available through our Direct channel including full-line and factory outlet stores, online through verabradley.com and our online outlet site, and our annual outlet sale, as well as through the Indirect channel including department and specialty retail stores, national accounts, third-party e-commerce sites, and third-party inventory liquidators. We continue to focus on tightly integrating our multi-channel business by strengthening and right-sizing both our Direct and Indirect distribution channels.

In 2007 and 2009, we opened our first full-line and factory outlet stores, respectively. We believe there continues to be long-term opportunities for new stores throughout the United States. We opened one new full-line pop-up store and six new factory outlet stores in fiscal 2018; however, we have slowed our short-term plans for new factory outlet store openings and suspended full-line store growth until we begin to produce comparable store sales growth.

We closed five underperforming full-line stores in fiscal 2018 and expect to close up to 45 additional underperforming full-line stores by fiscal 2021, primarily as leases expire. During fiscal 2017 and 2018, we completed 34 full-line store renovations and updated the facade and exterior signage in an additional 14 full-line stores. These renovations were made to our continuing locations. Nearly 40 of our full-line stores reflect our new design aesthetic.

We plan to open six new factory outlet stores in fiscal 2019. At February 3, 2018, nearly 80% of the product in the outlet channel was made specifically for our factory outlet stores. This percentage is expected to increase in fiscal 2019.

In 2006, we began selling directly to consumers through verabradley.com. Building our digital flagship remains a key part of our distribution strategy. The redesign and conversion of our website to a new platform was completed in February 2017. This new platform offers enhanced ease of shopping and incremental functionality. This incremental functionality includes an upgraded mobile experience; additional navigation and search enhancements; improved product pages with enhanced imagery, product videos, and user-generated content; and new capabilities like eGift cards, “order on-line, pick up in store” and the

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GiftNow feature. The GiftNow feature allows customers to purchase gifts from verabradley.com that can be modified by the recipient before shipment. The new platform also gives us capabilities to create deeper customer relationships and create value through more personalization and strategic customization. As part of the Company's Vision 20/20 initiatives, we created an online outlet site during the third quarter of fiscal 2018 to allow us to reduce clearance sales from verabradley.com. In fiscal 2018, we had over 46 million visits to our website and our online outlet site.

Our department store relationships allow us to expose our brand to new customers and showcase our new product assortments. We are currently in approximately 660 department store locations, including Dillard’s, Macy's, Bon-Ton, Belk, and Von Maur. In the department stores, we are continuing to work on enhancing our brand presentation and to explore expansion of our lifestyle brand offerings.

The specialty retail channel is the heritage of our business and remains important to us. We continue to add select accounts while discontinuing unproductive accounts. While the specialty retail business is becoming a smaller percentage of our total revenue base, we are working to stabilize it by assisting retailers with optimizing their businesses.

We had a small wholesale presence in Japan during fiscal 2018 with a licensed partner but will be exiting Japan in mid fiscal 2019. We are exploring the possibility of expanding into other countries in the long-term but do not foresee any international country expansion in fiscal 2019.

Marketing. Marketing and brand positioning are both critical elements as we continue to engage new consumers and strengthen our bond with existing customers.

We activated our new branding and brand positioning in fiscal 2017, which included updating elements of our visual identity such as our logo and further evolving our marketing to speak more directly to the Day Maker. We increased our brand awareness in fiscal 2018 through our “digital first” strategy by partnering with key influencers and leveraging social media channels.

Well-timed and well-executed brand activation is critical to increasing our brand relevancy and increasing purchase intent. Through comprehensive consumer research, we have designed a media plan that we believe effectively targets our Day Maker customers and attracts both lapsed and new Day Maker consumers to our brand. Our media efforts include a fully-integrated mix of digital, social, experiential, and print, with our goal being to surround the Day Maker with our brand.

We reduced our marketing expenditures in fiscal 2018 by focusing on efficiencies and becoming more targeted while working to keep our most loyal customers engaged, as well as working to attract new consumers.

Competitive Strengths

We believe the following competitive strengths differentiate us within the marketplace:

Strong Brand Identity and Positioning. We believe the Vera Bradley brand is highly recognized for its distinctive and vibrant style. Vera Bradley is positioned in the market as a lifestyle brand that inspires consumers to express their femininity, individuality, and sense of style. We have also positioned our brand to highlight the high quality and functional attributes of our products. The Vera Bradley brand is more price accessible than many competing brands, which allows us to attract a wide range of consumers and increases our ability to achieve repeat purchases.

Customer Loyalty. We believe we have a segment of long-term consumers who act as loyal and enthusiastic brand advocates. We believe this enthusiasm for our brand by our loyal customers inspires repeat purchases. Our customers often purchase our products as gifts for family members and friends, who we strive to turn into brand enthusiasts.

Product Development Expertise. Our product development team combines an understanding of consumer preferences with a knowledge of color, fashion, and style trends to design our products. Our creative design associates utilize a disciplined product design process that seeks to maximize the productivity of our product releases, including our print designs, and drive consumer demand.

Dynamic Multi-Channel Distribution Model. We offer our products through a diverse choice of shopping options across channels that are intimate, highly shop-able, fun, and characteristic of our brand. Whether they visit a Vera Bradley store, specialty retail store, department store, or verabradley.com, we believe consumers can find the brand in places that match their unique shopping interests. Our multi-channel distribution model enables us to maximize customer access to our products.

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Unique Company Culture. We were founded in 1982 by two friends, Barbara Bradley Baekgaard and Patricia Miller, who built our business around their passion for design and commitment to customer service. We believe our founders created a unique culture that attracts passionate and motivated employees who are excited about our products and our brand. Our employees share our founders' commitment to Vera Bradley customers and to the Company's core values of Kindness, Ingenuity, Thoughtfulness, Optimism, Tenacity, and Empathy. We believe that a fun, friendly, and welcoming work environment fosters creativity and collaboration. By empowering our employees to become personally involved in product design, testing, and marketing, they become passionate and devoted brand advocates.
Experienced Management Team. Our senior management team, led by our Chief Executive Officer Robert Wallstrom, has extensive experience across a diverse range of disciplines in product design, merchandising, marketing, store operations and development, supply chain management, and finance.

Our Product Release Strategy

We introduce new collections approximately ten times per year. Each launch typically consists of one to three signature cotton-quilted prints, as well as other fabrications including microfiber, leather, Lighten Up, and Midtown, many of which are also available in solid colors. These collections of prints and solids are incorporated into the designs of a wide range of products, including bags, accessories, and travel items. These collections typically include classic styles, updates to existing designs, and new product introductions.
To keep our assortment current and fresh, and to focus our inventory investments on our best performers, we discontinue prints and fabrications as necessary. We sell our remaining inventory of retired products primarily through our website (including our online outlet site), factory outlet stores, annual outlet sale, and third-party liquidators.

Our Products

The following chart presents net revenues generated by each of our four product categories and other revenues as a percentage of our total net revenues for fiscal 2018, 2017, and 2016.

	Fiscal Year Ended					
	February 3, 2018		January 28, 2017		January 30, 2016	
Bags	40.6	%	42.8	%	42.9	%
Travel	26.1	%	24.5	%	24.9	%
Accessories	22.0	%	21.9	%	22.3	%
Home	6.8	%	5.7	%	4.5	%
Other (1)	4.5	%	5.1	%	5.4	%
Total	100.0	%	100.0	%	100.0	%

(1) Includes primarily apparel/footwear, stationery, freight, licensing, merchandising, and gift card breakage revenue.

Bags. Bags are a core part of our product offerings and are the primary component of every seasonal assortment. The category consists of classic and new styles developed by our product development team. Our bag product category includes items such as totes, crossbodies, satchels, clutches, backpacks, baby bags, and lunch bags. Bags play a prominent role in our visual merchandising, and we showcase the different fabrications, patterns, colors, and features of each bag.
Travel. Our travel product category includes rolling luggage, cosmetics, travel and packing accessories, and travel bags which includes our iconic duffel and weekend bags. The first Vera Bradley product offering included duffel bags, which have consistently have been strong performers. We believe their popularity, as well as the appeal of our other travel items, results from our vibrant designs, functional styles, and lightweight fabrications.
Accessories. Accessories include fashion accessories such as wallets, wristlets, eyeglass cases, scarves, and various technology accessories. Our accessories are attractively priced and allow the consumer to include some color in her wardrobe, even if tucked into another bag. Our product development team consistently updates the accessories assortment based on consumer demand and fashion trends.
Home. Our home category includes textiles, including throw blankets, beach towels, and comforters, as well as items such as mugs and tumblers.

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Product Development

We have implemented a fully integrated and cross-functional product development process that aligns design, trend and market research, merchandising, planning, sales, marketing, and sourcing. Product development is a core capability that makes our products unique. Our designs and aesthetics set our products apart and drive customer loyalty. Our design and product development teams combine an understanding of the needs of our target Day Maker customers, with knowledge of upcoming color and fashion trends, to design new collections, as well as new product categories, that will resonate in the market.

We typically begin the development stage of our products in the Vera Bradley portfolio twelve to eighteen months in advance of their release. The development of each new pattern includes the design of a primary, secondary, and sometimes a tertiary print. To seek fresh perspectives, we often collaborate with independent designers to create unique patterns for each season and also maintain an internal print design team. We oversee the development and exercise the final approval of all patterns and designs. Once developed, we generally copyright our patterns as appropriate. We believe that great design is not only central to our product, but also is a fundamental part of our brand development and growth strategies.

Our product development team works to ensure that new collections contain an assortment of products and styles that are in line with both fashion trends and Day Maker customer needs and regularly updates classic styles to enhance functionality. In addition, we actively pursue opportunities to expand our product offerings through new line and brand extensions. Our product development team monitors fashion trends and customer needs by attending major trend shows in Europe and the United States, subscribing to trend monitoring services, and engaging in comparison-shopping.

Our product development team works closely with our marketing team to gather consumer insights through seasonal market research and in-store testing. We gather seasonal market research through a variety of methodologies, including scheduled interviews and online and in-person surveys conducted by our in-house team. The design and product development teams ensure that we offer products that are constructed to meet our standards of design, function, and quality in a cost-effective manner. We believe that with our cross-functional, collaborative approach, we are able to introduce and sell our merchandise in a way that clearly communicates the Vera Bradley brand.

In addition to products developed in-house, we also pursue brand extensions through strategic partnerships and licensing agreements. We currently have licenses in place for eyewear, collegiate, bedding, hosiery, swimwear, technology accessories, stationery, publishing, and health care uniform and accessories collections. We will continue to look for the right strategic partners and licensees that can augment the brand and provide established distribution networks for certain categories of business.

Marketing

We believe that the growth of our brand and our business is influenced by our ability to introduce and sell our merchandise in a way that clearly conveys the Vera Bradley brand personality. We use marketing as a critical tool in our efforts to promote our brand.

Retention Advertising. Vera Bradley communicates with our established customers consistently throughout the year with regular e-mails, social media, and seasonal direct mail catalogs, brochures, and notifications. Our retention advertising is geared to keeping Vera Bradley top of mind with our customers, rewarding our customers, and providing them with news of our seasonal launches and new product introductions.

New Customer Acquisition Advertising. We primarily employ digital (i.e., display banner, mobile, geo-targeting, and pre-roll video) and print advertising to increase overall brand awareness and attract new customers. Our advertisements are placed in fashion, lifestyle, and family publications and websites that complement the wide breadth of appeal of our brand. Our ads have recently appeared in StyleWatch, InStyle, Glamour, Cosmopolitan, Vogue, Elle, and O the Oprah Magazine.

Public Relations and Product Placement. Vera Bradley has received considerable editorial exposure in the press, with mentions in O the Oprah Magazine, Good Housekeeping, Real Simple, Woman's Day, InStyle, Racked, and The Huffington Post. In addition, we have expanded our public relations efforts to reach popular online influencers and bloggers.

Product placement in feature-length films and on prime-time television shows remains strong with television placements in Life in Pieces, The Big Bang Theory, Blackish, Speechless, and American Housewife. Movie placements include: Pitch Perfect 3, La La Land, Girl's Trip, Baywatch, A Bad Moms Christmas, and Den of Thieves.
Partnerships. We work with high-profile partners to enhance our brand image and expand our customer reach. During fiscal 2017, we partnered with Madison Square Garden which, among other things, featured our new logo and video content. In fiscal 2018, we participated in a new six-episode reality competition television show called Girl Starter which aired on TLC

beginning in early April. The show integrated our product and "It's Good to be a Girl" marketing campaign clips. One episode featured a challenge in which our co-founder, Barbara Bradley Baekgaard, was a guest judge.

Social Media and Online Marketing. We use online marketing and social networking sites as tools to increase brand awareness and drive traffic to verabradley.com and to our stores. We have captured approximately 4.6 million active customer e-mail addresses in our online customer file, with many of these customers providing age, occupation, and location data. This information provides us with deeper insight into the products and categories that are of the highest interest to our customers, and allows us to better target our customers with appropriate messages. As of February 3, 2018, we had approximately 1.8 million Facebook fans and approximately 84,000 Twitter followers. Our Instagram, which we launched in October 2012, has grown to approximately 330,000 followers and is our most highly engaged social medium. In addition, we often partner with brand-right bloggers to promote product.

Direct Mail. Seasonal Vera Bradley catalogs are a vehicle for promoting our brand and product portfolio. Each catalog is sent to a targeted customer mailing list. In addition to distributing the catalog, we produce and distribute a number of other marketing pieces, including postcards and mini-mailers. We believe our direct mail medium generates excitement and awareness about the brand and seasonal introductions and allows us to reach both new and loyal customers in their homes.

Seasonality

Because Vera Bradley products are frequently given as gifts, we have historically realized, and expect to continue to realize, higher sales and operating income in the fourth quarter of our fiscal year, which includes the holiday months of November and December. In addition, fluctuations in sales and operating income in any fiscal quarter are affected by the timing of seasonal wholesale shipments and other events affecting retail sales.

Channels of Distribution

We distribute our products through our Direct and Indirect segments. This multi-channel distribution model is designed to enable operational flexibility and maximizes the methods by which we can access potential customers.

Direct Segment

Full-Line Stores. We have developed a retail presence through our full-line stores, all located in the United States, which provides us with a format to showcase our brand and the full array of Vera Bradley products. As of February 3, 2018, we operated 109 full-line stores averaging approximately 1,900 square feet per store. In fiscal 2017, we opened our first flagship store in the SoHo neighborhood of New York City which offers customers a unique store experience, as well as exclusive product. Our sales associates are passionate about our products and customer service, which, we believe, translates into a superior shopping experience.

Factory Outlet Stores. Our factory outlet stores are a vehicle for selling factory exclusive styles, as well as retired merchandise at discounted prices, while maintaining brand integrity. At the end of fiscal 2018, nearly 80% of the merchandise found in our factory outlet stores was factory exclusive styles. We believe our factory outlet stores are an integral part of our distribution strategy, as this format provides an additional channel of distribution for our products and enables us to better target value-oriented customers. Our factory outlet stores average approximately 3,200 square feet per store. As of February 3, 2018, we operated 51 factory outlet stores, all located in the United States.

Store Location Selection Strategy. Our store location decisions for both full-line and factory outlet stores are made based upon our comprehensive retail strategy that includes actual and planned penetration in both Indirect and Direct segments, as well as existing e-commerce demand. At this time, we do not believe all geographical markets have been fully penetrated by our distribution channels. We believe that long-term expansion of our store base will increase brand awareness and reinforce our brand image. In addition to analyzing store economics, we pay particular attention to the location within the shopping center, the size and shape of the space, and desirable co-tenancies. Along with seeking co-tenants that we believe share our target customer, we seek a balanced mix of moderate and high-end retailers to encourage high levels of traffic. Our target full-line store size is approximately 1,800 square feet and our target factory outlet store size is approximately 3,000 square feet.

Store Operations. The focus of our store operations is providing consumers with a comfortable and memorable shopping experience. We strive to make the experience interactive through special store events, such as showcasing newly launched products or celebrating our namesake's birthday. Our customer service philosophy emphasizes friendly service, merchandise knowledge, and passion for the brand. Consequently, an essential requirement for the success of our stores is our ability to attract, train, and retain talented, highly motivated district managers, store managers, and sales associates.

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Store Economics. We expect our full-line stores to average approximately 1,800 square feet per store, and we expect to invest approximately $0.4 million per new store, consisting of inventory, pre-opening costs, and build-out costs, less tenant-improvement allowances.

We expect our factory outlet stores to average approximately 3,000 square feet per store, and we expect to invest approximately $0.4 million per new store, consisting of inventory, pre-opening costs, and build-out costs, less tenant-improvement allowances.

E-Commerce. In 2006, we began selling our products through the verabradley.com website. The objective of verabradley.com is to provide both a mechanism for marketing directly to consumers and a storefront where consumers can find the entire full-line Vera Bradley collection. Since fiscal 2013, we have continually invested in upgrades to our website allowing for a more user-friendly homepage; enabling us to ship internationally; enhancing the checkout experience; adding product recommendations; enhancing product descriptions; adding silhouettes for product scale; generating cart and site abandonment emails; gathering and analyzing customer feedback; and enhancing our search capabilities. To continue to enhance our website engagement, we completed a redesign and conversion of our website to a new platform in February 2017. This new platform offers enhanced ease of shopping and incremental functionality including an upgraded mobile experience; additional navigation and search enhancements; improved product pages with enhanced imagery, product videos, and user-generated content; and new capabilities like the GiftNow feature, eGift cards, and “order on-line, pick up in store.” In addition, during the third quarter of fiscal 2018, we created an online outlet site to reduce clearance sales from verabradley.com. We had over 46 million visits to verabradley.com and our online outlet site during fiscal 2018.

Annual Outlet Sale. Our annual outlet sale is held in the Allen County War Memorial Coliseum Exposition Center in Fort Wayne, Indiana each spring. The annual outlet sale is an important tradition for Vera Bradley, has many loyal followers, and is an opportunity for us to sell our retired merchandise at discounted prices in a brand-right fashion. We attracted approximately 46,000 attendees to our 2017 annual outlet sale.

Indirect Segment

As of February 3, 2018, we sold our products in approximately 2,400 specialty retail locations, as well as department stores, national accounts, third party e-commerce sites, third-party inventory liquidators, and through licensing agreements. In fiscal 2012, we launched our products in the department store channel. We are currently in approximately 660 department store locations, including approximately 260 Dillard's locations, approximately 240 Macy's, nearly 80 Bon-Ton, 45 Belk, and approximately 35 Von Maur locations.

The top 30% of our specialty retailers account for approximately 70% of total specialty retailer revenue. No single Indirect retailer represented more than 10% of consolidated net revenues in fiscal 2018, with the top ten Indirect retailers representing in the aggregate approximately 40% of total Indirect net revenues. The majority of our Indirect retailers have been customers for over five years.

Indirect Sales Force

We believe that having a combination of an in-house field sales force and a third-party agency, covering certain geographies, results in a more consistent brand presentation and messaging, enhanced support for our Indirect customers, and a more predictable, scalable, and cost-efficient business model. As of February 3, 2018, our in-house sales team consisted of approximately 25 full-time sales consultants. The compensation structure for our sales consultants consisted of a combination of fixed pay and sales-based incentives during fiscal 2018. Beginning in fiscal 2019, the compensation structure will be based upon a full commission model.

In addition to acquiring new and growing existing accounts, our sales consultants serve as a support center for our Indirect customers by assisting and educating them in areas such as merchandising and visual presentation, marketing the brand, product selection, and inventory management. Our visual merchandising program provides our sales consultants with a framework to guide our Indirect customers regarding optimal product placement and display that is intended to reinforce the message that our brand is distinct from those of our competitors.

Manufacturing and Supply Chain Model

Our multi-country manufacturing and supply chain model is designed to achieve efficient, timely, and accurate order fulfillment while maintaining appropriate levels of inventory.

Our manufacturing and sourcing strategy is part of the larger cross-functional product development process. The overall objective for our sourcing team is to build and sustain collaborative partnerships throughout our supply chain, with a focus on identifying appropriate countries and partners to manufacture our products. The sourcing team leverages its expertise in negotiation, relationship management, and change management to maintain a strong global supply chain.

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We strive to maintain the appropriate balance of inventory to enable us to provide a high level of service to our customers, including prompt and accurate delivery of our products. We have an active and nimble sales and operations planning process that helps us balance the supply and demand issues that we encounter in our business, optimize our inventory levels, and anticipate inventory needs. We have also integrated our planning, forecasting, and segmentation processes under one function called Merchandise Planning and Allocation.

Approximately half of our products are cotton-based. Our other fabrics include primarily nylon, polyester, microfiber, and leather. We source our materials from various suppliers in Asia, with the majority coming from China and South Korea. Our global sourcing team works with select suppliers enabling us to optimize the mix of cost, lead time, quality, and reliability within our global supply network. All of our suppliers must comply with our quality standards, and we use only a limited number of pre-approved suppliers who have demonstrated a commitment to delivering the highest quality products. In April 2016, we opened an office in Hong Kong to lead the global supply chain in Asia, including the oversight of sourcing and procurement.

The majority of our finished goods, not sourced through licenses or strategic partners, are manufactured by a variety of global manufacturers located primarily in China, Vietnam, Myanmar, and Cambodia. We are not dependent upon any single manufacturer for our products. When determining the size of orders placed with our manufacturers, we take into account forward-looking demand, lead times for specific products, current inventory levels, and minimum order quantity requirements. Overseas production has resulted in substantial cost savings and a reduction of capital investment. With the oversight of our office in Hong Kong and our independent contractors, we believe these financial benefits have been realized without sacrificing the level of quality inherent in our products or service to our customers.

Distribution Center

In 2007, we consolidated our warehousing and shipping functions into one distribution center, located in Roanoke, Indiana. In fiscal 2013 and fiscal 2015, we expanded the facility by 200,000 and 10,000 square-feet, respectively, which resulted in a total distribution center space of approximately 428,500 square-feet. This automated, computerized facility allows Vera Bradley employees to receive information directly from the order-collection center and quickly identify the products and quantities necessary for a particular order. The expansion resulted in capacity gains in the areas of inbound receiving, inventory storage, order fulfillment, value-add processing, and shipping. The facility’s technology enables us to more accurately process and pack orders, as well as track shipments and inventory. We believe that our systems for the processing and shipment of orders from our distribution center have enabled us to improve our overall customer service through enhanced order accuracy and reduced turnaround time.

Our products are shipped primarily via third-party common carriers to our stores, our Indirect retailers, department stores, and directly to our customers who purchase through our website. We believe we are positioned well to support the order fulfillment requirements of our business, including business generated through our website.

Management Information Systems

We believe that high levels of automation and technology are essential to maintain our competitive position. We maintain computer hardware, applications, and networks to enhance and accelerate the design process, to support the sale and distribution of our products to our customers, and to improve the integration and efficiency of our operations. Our information systems are designed to provide, among other things, comprehensive order processing, production, accounting, and management information and analytics for the product development, retail, sales, marketing, distribution, finance, and human resources functions of our business. We constantly evaluate and optimize the efficiency and cost of our on premise and cloud technology platforms to enable the business to provide an exceptional customer experience and increased shareholder value.

Competition

We face strong competition in each of the product lines and markets in which we compete. We believe that all of our products are in similar competitive positions with respect to the number of competitors they face and the level of competition within each product line. Due to the number of different products we offer, it is not practicable for us to quantify the number of competitors we face. Our products compete with other branded products within their product categories and with private label products sold by retailers. In our Indirect business, we compete with numerous manufacturers, importers, and distributors of handbags, accessories, and other products for the limited space available for the display of such products to the consumer. Moreover, the general availability of contract manufacturing allows new entrants access to the markets in which we compete, which may increase the number of competitors and adversely affect our competitive position and our business. In our Direct business, we compete against other independent retailers, department stores, catalog retailers, gift retailers, and Internet businesses that engage in the retail sale of similar products.

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The market for handbags, in particular, is highly competitive. Our competitors include not only established companies that are expanding their production and marketing of handbags, but also frequent new entrants to the market. We directly compete with wholesalers and direct sellers of branded handbags and accessories.

In varying degrees, depending on the product category involved, we compete on the basis of design (aesthetic appeal), quality (construction), function, price point, distribution, and brand positioning. We believe that our primary competitive advantages are consumer recognition of our brand, customer loyalty, product development expertise, and our widespread presence through our multi-channel distribution model. Some of our competitors have achieved significant recognition for their brand names or have substantially greater financial, distribution, marketing, and other resources than we do. Further, we may face new competitors and increased competition from existing competitors as we expand into new markets and increase our presence in existing markets.

Copyrights and Trademarks

The development of new patterns includes the design of primary and secondary prints. Once developed, we generally copyright our patterns as appropriate. We currently have approximately 900 copyrights.

We also own the material trademark rights used in connection with the production, marketing, and distribution of all of our products, both in the United States and in the other countries in which our products are principally sold. Our trademarks include “Vera Bradley.” We aggressively police our trademarks and copyrights and pursue infringers and counterfeiters both domestically and internationally. Our trademarks will remain in existence for as long as we continue to use and renew them in advance of their expiration dates. We have no material patents.

Employees

As of February 3, 2018, we had approximately 2,730 employees. Of the total, approximately 2,140 were engaged in retail selling positions, approximately 290 were engaged in distribution, sourcing and quality functions, approximately 40 were engaged in product design, and approximately 260 were engaged in corporate support and administrative functions. None of our employees are represented by a union. We believe that our relations with our employees are good, and we have never encountered a significant work stoppage.

Government Regulation

Many of our imported products are subject to existing or potential duties, tariffs, or quotas that may limit the quantity of products that we may import into the United States and other countries or impact the cost of such products. To date, we have not been restricted by quotas in the operation of our business, and customs duties have not comprised a material portion of the total cost of a majority of our products. In addition, we are subject to foreign governmental regulation and trade restrictions, including U.S. retaliation against prohibited foreign practices, with respect to our product sourcing and international sales operations.

We are subject to federal, state, local, and foreign laws and regulations governing environmental matters, including the handling, transportation, and disposal of our products and our non-hazardous and hazardous substances and wastes, as well as emissions and discharges into the environment, including discharges to air, surface water, and groundwater. Failure to comply with such laws and regulations could result in costs for corrective action, penalties, or the imposition of other liabilities. Compliance with environmental laws and regulations has not had a material effect upon our earnings or financial position. If we violate any laws or regulations, however, it could have a material adverse effect on our business or financial performance.

Executive Officers of the Company

The following table sets forth certain information concerning each of our executive officers:

Name	Age	Position(s)
Robert Wallstrom	52	Chief Executive Officer, President and Director
John Enwright	45	Chief Financial Officer
Kevin Korney	48	Chief Merchandising Officer
Beatrice Mac Cabe	39	Chief Creative Officer
Stephanie Scheele	41	Chief Marketing Officer
Mark C. Dely	42	Chief Administrative & Legal Officer and Corporate Secretary
Mary Beth Trypus	52	Chief Sales Officer

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Robert Wallstrom has served as our Chief Executive Officer, President and Director since November 2013. Prior to joining Vera Bradley, Mr. Wallstrom served as President of Saks Fifth Avenue's OFF 5TH division from 2007 until November 2013. Previously, he was Group Senior Vice President and General Manager of Saks' flagship New York store from 2002 to 2007, where he articulated a vision to return the store to its luxury heritage and dramatically improve merchandising, service, and the in-store experience.

John Enwright joined the Company in May 2014 as our Senior Director of Financial, Planning and Analysis and was soon promoted to Vice President, Financial, Planning and Analysis. Mr. Enwright was named Chief Financial Officer in April 2017. Prior to joining Vera Bradley, Mr. Enwright spent 15 years with Tiffany & Co. in various financial roles of increasing responsibility, including his most recent position of Director of Financial, Planning and Analysis.

Kevin Korney has served as our Chief Merchandising Officer since January 2018. Prior to joining Vera Bradley, Mr. Korney served as Vice President, Global Merchandising for Converse where he introduced the Global Merchandising function in June 2015. Between November 2012 and June 2015, he served as Senior Divisional Merchandise Manager for Fossil. From July 2011 to November 2012, he served as the General Merchandise Manager for Dallas Cowboys Merchandising and from September 2006 to March 2009, he served as Global Vice President within various Merchandising and Creative functions at The Walt Disney Company. Mr. Korney gained prior experience with Nautica, Ralph Lauren, and Gap.

Beatrice Mac Cabe joined the Company in January 2016 as our Vice President – Design and was promoted to her current post as Chief Creative Officer in September 2017. Prior to joining Vera Bradley, Ms. Mac Cabe served as Vice President, Chief Creative Director at Fossil since 2013 where she directed the design process from initial concept for lifestyle categories. From 2012 to 2013 she was Design and Merchandising Director, Private Brand Accessories for JC Penney and from 2011 to 2012 she was Creative Director, Handbags for Vince Camuto. Ms. Mac Cabe gained prior design and brand development experience at other fashion brands including Diane von Furstenberg, John Galliano in Paris, and Marni in Milan.

Stephanie Scheele has served as our Vice President – Marketing Strategy and Operations since 2015, leading the insights and customer database programs and overseeing the marketing strategy team. Ms. Scheele was named Chief Marketing Officer in April 2018. Ms. Scheele has spent 16 years with Vera Bradley in various roles of increasing responsibility.

Mark C. Dely joined the Company in August 2016 as our Vice President, Chief Legal Officer and Corporate Secretary and was promoted to also serve as the Chief Administrative Officer in September 2017. Between January 2013 and August 2016, Mr. Dely served as Senior Vice President, Chief Legal Officer, General Counsel and Secretary of Fred's, Inc., a publicly-traded retailer and pharmacy with over 650 locations throughout the Southeast. From July 2007 to December 2012, Mr. Dely was Vice President and Divisional General Counsel of the Franchise Services Group for The ServiceMaster Company, where he managed the legal function for the Company's global franchise businesses. Mr. Dely's additional experience includes being the first in-house counsel for NYSE-listed seed and agricultural-biotech company, Delta & Pine Land Company. Mr. Dely began his legal career at New York law firm Fried Frank, LLP. He earned his law degree from the New York University School of Law.

Mary Beth Trypus joined the Company in May 2016 as our Vice President – Global Wholesale Sales and was promoted to her current post as Chief Sales Officer in March 2018. Prior to joining Vera Bradley, from September 2015 to May 2016, Ms. Trypus consulted for accessories start-ups and non-profit businesses where she developed brand architecture, defined the financial structure, and engineered sales and customer acquisition strategy. From August 2014 to August 2015, she was E.V.P. Sales and Marketing for Bulova Corporation where she drove marketing strategy and revenue growth across a multi-brand watch portfolio in the wholesale and e-commerce channels. From March 2011 to July 2014, Ms. Trypus was S.V.P. Sales and Planning at Nine West Group in the handbag division and held prior leadership positions at Liz Claiborne, Inc. and May Department Stores.

Available Information

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 are available free of charge on our website, www.verabradley.com, as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission (“SEC”). No information contained on our website is intended to be included as part of, or incorporated by reference into, this Annual Report on Form 10-K.

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Item 1A. Risk Factors

You should carefully consider all of the information in this report, including the following factors, which could materially affect our business, financial condition, and results of operations in future periods. The risks described below are not the only risks that we face. Additional risks not currently known to us, or that we currently deem to be immaterial, also may materially adversely affect our business, financial condition, and results of operations in future periods.

Risks Related to Our Business

If we are unable to successfully implement our long-term strategic plan, including Vision 20/20, and growth strategies, our future operating results could suffer.

In fiscal 2018, we began to implement our Vision 20/20 plan, which is integrated into our long-term strategic plan, aimed to turnaround our business and restore brand and Company health over the next three years. The success of our long-term strategic plan and growth strategies, alone or collectively, will depend on various factors, including the appeal of our product designs, retail presentation to consumers, effectiveness of our marketing initiatives, expense saving initiatives, competitive conditions, and economic conditions. There is no assurance that we will be able to successfully implement our strategic plan and Vision 20/20 initiatives. If we are unsuccessful in implementing some or all of our strategies or initiatives, our future operating results could be adversely impacted.

Changes in general economic conditions, and their impact on consumer confidence and consumer spending, could adversely impact our results of operations.

Our performance is subject to general economic conditions and their impact on levels of consumer confidence and consumer spending. Consumer confidence and consumer spending may be influenced by fluctuating interest rates and credit availability, changing fuel and other energy costs, fluctuating commodity prices, levels of unemployment and consumer debt levels, changes in net worth based on market conditions, general uncertainty regarding the overall future economic environment, and weather and weather-related phenomena. Consumer purchases of discretionary items, including our merchandise, generally decline during periods when disposable income is adversely affected or there is economic uncertainty, and this could adversely impact our results of operations. In the event that the U.S. economy worsens, or if there is a decline in consumer-spending levels or other unfavorable conditions, including inflation, we could experience lower than expected net revenues, which could force us to delay or slow the implementation of our growth strategies and adversely impact our results of operations.

Our inability to predict and respond in a timely manner to changes in consumer demand could adversely affect our net revenues and results of operations.

Our success depends on our ability to gauge the fashion tastes of our customers and to provide merchandise that satisfies consumer demand in a timely manner. Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to rapid change. We cannot assure you that we will be able to develop appealing patterns and styles or meet changing consumer demands in the future. If we misjudge the market for our products, we may be faced with significant excess inventories for some products and missed opportunities for other products. In addition, changes to our product assortment and to our available fabrications, as well as the availability and breadth of pattern assortment may not gain consumer acceptance. Merchandise misjudgments could adversely impact our net revenues and results of operations.

We may continue to experience declines in comparable sales and there can be no guarantee that the strategic initiatives we are implementing to improve our results will be successful.

We may not be able to regain the levels of comparable sales that we have experienced in the past, and comparable sales may also further deteriorate. If our future comparable sales fail to meet market expectations, then the price of our common stock could decline. Also, the aggregate results of operations of our stores have fluctuated in the past and will fluctuate in the future. Numerous factors influence comparable sales, including fashion trends, competition, national and regional economic conditions, pricing, inflation, the timing of the release of new merchandise and promotional events, changes in our merchandise mix, marketing programs, changes in consumer shopping trends, site selection strategy, and weather conditions. These factors may cause our comparable sales results to be lower in the future than in recent periods or lower than expectations, either of which could result in a decline in the price of our common stock.

If our multi-channel distribution model is not successful, our business and results of operations may suffer.
We currently sell into two segments: Direct to consumers through our full-line and factory outlet stores in the United States, verabradley.com, our online outlet site, direct-to-consumer eBay sales, and our annual outlet sale in Fort Wayne, Indiana; and through our Indirect wholesale business which consists of sales to approximately 2,400 specialty retail locations, substantially all of which are located in the United States, as well as department stores, national accounts, third party e-commerce sites,

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third-party inventory liquidators, and sales generated through licensing agreements. These channels are sometimes in direct competition and sales through these channels may not be incremental to total sales.

We may not be able to successfully open new stores and/or operate new and current stores as planned, which could adversely impact our results of operations.

Our long-term future growth includes our ability to successfully open and operate new and current stores. In recent years, however, comparable store sales have declined. Consequently, the rate in which we have opened new stores has slowed and we do not currently have any new full-line stores planned to be opened during fiscal 2019. As part of our Vision 20/20 initiatives, we are forecasting to close up to an additional 45 full-line stores by the end of fiscal 2021. We have closed nine underperforming stores since December 2014. We plan to open six new factory outlet stores during fiscal 2019 and will continue to evaluate our plans for store openings in future years in light of demand and store performance.

Our ability to successfully open and operate stores depends on many factors, including our ability to:

- identify suitable store locations, the availability of which may be uncertain;
- negotiate acceptable lease terms, including desired tenant improvement allowances;
- hire, train, and retain store personnel and management;
- assimilate new store personnel and management into our corporate culture;
- source and manufacture inventory; and
- successfully integrate new stores into our existing operations and information technology systems.

The success of new store openings may also be affected by our ability to initiate marketing efforts in advance of opening our first store in a particular region. Additionally, we will incur pre-opening costs and we may encounter initial losses while new stores commence operations, which could strain our resources and adversely impact our results of operations.

Our business depends on a strong brand. If we are unable to execute our marketing strategy, intended to enhance our brand, then revenues and our results of operations could be adversely impacted.

We believe that the brand image that we have developed has contributed significantly to the success of our business. We also believe that enhancing the Vera Bradley brand through our marketing strategy is critical to maintaining and expanding our customer base. Enhancing our brand and implementing our marketing strategy may require us to make substantial investments in areas such as product design, store operations, store design, community relations, and marketing. These investments might not succeed. If we are unable to successfully execute our brand strategy, our results of operations could be adversely impacted.

Our results of operations could suffer if we lose key management or design associates or are unable to attract and retain the talent required for our business.

Our performance depends largely on the efforts and abilities of our senior management and product development teams. These executives and design associates have substantial experience in our business and have made significant contributions to our growth and success. Although we have entered into an employment agreement with our Chief Executive Officer, we may not be able to retain his services or those of other key individuals in the future. The unexpected loss of services of key employees could have adverse impacts on our business and results of operations. As our business grows and we open new stores, we will need to attract and retain additional qualified employees and develop, train, and manage an increasing number of management-level, sales, and other employees. Competition for qualified employees is intense. We cannot assure you that we will be able to attract and retain employees as needed in the future.

Our results of operations are subject to quarterly fluctuations, which could adversely affect the market price of our common stock.

Our quarterly results of operations may fluctuate significantly as a result of a variety of factors, including, among other things:

- timing of new store openings and store closings;
- net revenues and profits contributed by new stores;
- increases or decreases in store traffic and comparable sales;
- shifts in the timing of holidays, particularly in the United States and China;

- changes in our merchandise mix;
- timing of marketing campaigns or promotions;

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- timing of sales to Indirect retailers; and
- timing of new pattern and collection releases and new product introductions.

Any quarterly fluctuations that we report in the future may not match the expectations of market analysts and investors. This could cause the trading price of our common stock to fluctuate significantly.

A data security or privacy breach could damage our reputation and our relationships with our customers, expose us to litigation risk and adversely affect our business.

On September 15, 2016, we received information from law enforcement regarding a potential data security issue related to our retail store network. Findings from the investigation showed unauthorized access to our payment processing system and the installation of a program that looked for payment card data. The program was specifically designed to find track data in the magnetic stripe of a payment card that may contain the card number, cardholder name, expiration date, and internal verification code as the data was being routed through the affected payment systems. Although we believe that we have resolved this incident, as more fully described within Management's Discussion and Analysis of Financial Condition and Results of Operations herein, we remain dependent on information technology systems and networks, including the Internet, for a significant portion of our sales, primarily through our e-commerce operations and credit card transaction authorization and processing. We are also responsible for storing data relating to our customers and employees and rely on third parties for the operation of our e-commerce websites and for the various social media tools and websites we use as part of our marketing strategy. As part of our normal course of business, we often collect, retain, and transmit certain sensitive and confidential customer information, including credit card information, over public networks. There is a significant concern by consumers and employees over the security of personal information transmitted over the Internet, consumer identity theft and user privacy. Despite the security measures we currently have in place, our facilities and systems and those of our third-party service providers may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any electronic or physical security breach involving the misappropriation, loss or other unauthorized disclosure of confidential or personally identifiable information, including penetration of our network security, whether by us or by a third party, could disrupt our business, severely damage our reputation and our relationships with our customers, expose us to risks of litigation and liability and adversely affect our business and results of operations. We do not control third-party service providers and cannot guarantee that electronic or physical computer break-ins and security breaches will not occur in the future. Any perceived or actual unauthorized disclosure of personally identifiable information regarding our customers or website visitors could harm our reputation and credibility, reduce our e-commerce net sales, impair our ability to attract website visitors, and reduce our ability to attract and retain customers. We may also incur significant costs in complying with the various applicable state, federal, and foreign laws regarding unauthorized disclosure of personal information.

Our business could suffer if our computer systems and websites are disrupted or cease to operate effectively.

We are dependent on our computer systems to record and process transactions and manage and operate our business, including in designing, marketing, manufacturing, importing, tracking and distributing our products, processing payments, and accounting for and reporting results. We also utilize an automated replenishment system to facilitate the processing of basic replenishment orders, the movement of goods through distribution channels, and the collection of information for planning and forecasting. In addition, we have an e-commerce website in the U.S. Given the complexity of our business and the significant number of transactions that we engage in on an annual basis, it is imperative that we maintain constant operation of our computer hardware and software systems. Despite our preventive efforts, our systems are vulnerable from time to time to damage or interruption from, among other things, security breaches, computer viruses or power outages. Any material disruptions in our information technology systems could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to business risks as a result of our e-commerce operations.

We operate an e-commerce store at www.verabradley.com, which includes an online outlet site we created in fiscal 2018. Expanding our e-commerce business is one of the key objectives of our business strategy. Our e-commerce operations are subject to numerous risks, including unanticipated operating problems, reliance on third-party computer hardware and software providers, system failures and the need to invest in additional computer systems. Specific risks include: (i) diversion of sales from our stores; (ii) rapid technological change; (iii) liability for e-commerce content; and (iv) risks related to the failure of the computer systems that operate the websites and their related support systems, including from computer viruses, telecommunication failures and electronic break-ins and similar disruptions. Internet operations involve risks which may be beyond our control that could have a direct material adverse effect on our operating results, including: (i) price competition involving the items we intend to sell; (ii) the entry of our vendors into the Internet business in direct competition with us; (iii) the level of merchandise returns experienced by us; (iv) governmental regulation; (v) e-commerce security breaches involving

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unauthorized access to our and/or customer information; (vi) credit card fraud; and (vii) competition and general economic conditions specific to the Internet, e-commerce, and the accessories industry. Our inability to effectively address these risks and any other risks that we face in connection with our Internet operations could materially adversely affect our business, financial condition, results of operations, and/or cash flows.

Closing stores could result in significant costs to us.

Since December 2014, we have closed nine underperforming stores and are forecasting to close 45 additional full-line stores by the end of fiscal 2021, primarily as leases expire. We could, in the future, decide to close additional stores that are producing losses or that are not as profitable as we expect. If we decide to close any stores before the expiration of their lease terms, we may incur payments to landlords to terminate or “buy out” the remaining term of the lease. We also may incur costs related to the employees at such stores, whether or not we terminate the leases early. Upon any such closure, the closing costs, including fixed assets and inventory write-downs, could adversely affect our results and could adversely affect our cash on hand.

Our ability to attract customers to our stores depends heavily on the success of the shopping centers in which many of our stores are located.

Substantially all of our Direct stores are located in regional mall shopping centers, and many of our Indirect customers are also located in these shopping centers. Factors beyond our control impact mall traffic, such as general economic conditions and consumer spending levels. Consumer spending and mall traffic have been depressed in recent years. As a result, mall operators have been facing increasing operational and financial difficulties. The increasing inability of mall “anchor” tenants and other area attractions to generate consumer traffic around our stores, the increasing inability of mall operators to attract “anchor” tenants and maintain viable operations, and the increasing departures of existing “anchor” and other mall tenants due to declines in the sales volume and in the popularity of certain malls as shopping destinations, have reduced and may continue to reduce our sales volume and, consequently, adversely affect our financial condition, results of operations, and cash flows.

We are subject to risks associated with leasing substantial amounts of space, including future increases in occupancy costs.

We lease all of our store locations. We typically occupy our stores under operating leases with terms of ten years. We have been able to negotiate favorable rental rates in recent years due in part to the state of the economy and high vacancy rates within some shopping centers, but there is no assurance that we will be able to continue to negotiate such favorable terms. 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 shopping center does not meet specified occupancy standards. In addition to requiring future minimum lease payments, some of our store leases provide for the payment of common area maintenance charges, real property insurance, and real estate taxes. Many of our lease agreements have escalating rent provisions over the initial term and any extensions. If we expand our store base, our lease expense and our cash outlays for rent under lease agreements will increase. Our substantial operating lease obligations could have significant negative consequences, including:

- requiring that a substantial portion of our available cash be applied to pay our rental obligations, thus reducing cash available for other purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our flexibility in planning for or reacting to changes in our business or industry; and
- limiting our ability to obtain additional financing.

Any of these consequences could place us at a disadvantage with respect to our competitors. We depend on cash flow from operating activities to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities to fund these expenses and needs, we may not be able to service our lease expenses, grow our business, respond to competitive challenges, or fund our other liquidity and capital needs, which would harm our business.

Additional sites that we lease may be subject to long-term non-cancelable leases if we are unable to negotiate our current standard lease terms. 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 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 the lease. Our inability to enter new leases or renew existing leases on acceptable terms or be released from our obligations under leases for stores that we close would, in any such case, affect us adversely.

Our failure to effectively compete with other retailers for sales could have a material adverse effect on our financial condition, results of operations, and cash flows.

The market for bags, accessories, and travel items is increasingly competitive. Our competitive challenges include:

- attracting customer traffic;

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- sourcing and manufacturing merchandise efficiently;
- competitively pricing our products and achieving customer perception of value;
- maintaining favorable brand recognition and effectively marketing our products to consumers in diverse market segments;
- developing designs that appeal to a broad range of demographic and age segments;
- developing high-quality products;
- offering attractive promotional incentives while maintaining profit margins; and
- establishing and maintaining good working relationships with our Indirect retailers.

In our Indirect business, we compete with numerous manufacturers, importers, and distributors of handbags, accessories, and other products for the limited space available for the display of such products to the consumer. In our Direct business, we compete against other gift and specialty retailers, department stores, catalog retailers, and Internet businesses that engage in the retail sale of similar products. Moreover, the general availability of contract manufacturing allows new entrants easy access to the markets in which we compete, which may increase the number of competitors and adversely affect our competitive position and our business.

In addition, in light of a continued difficult consumer environment, pricing is a significant driver of consumer choice in our industry and we regularly engage in price competition, particularly through our promotional programs. To the extent that we decrease our promotional activity, our ability to maintain sales levels may be impacted.

We rely on various contract manufacturers to produce all of our products and generally do not have long-term contracts with our manufacturers.

Our various contract manufacturers produce all of our products. We generally do not enter into long-term formal written agreements with our manufacturers and instead transact business with each of them on an order-by-order basis. In the event of a disruption in our contract manufacturers' systems, we may be unable to locate alternative manufacturers of comparable quality at an acceptable price, or at all. Identifying a suitable manufacturer is an involved process that requires us to become satisfied with the prospective manufacturer's quality control, responsiveness and service, financial stability, labor practices, and environmental compliance. Any delay, interruption, or increased cost in the manufactured products that might occur for any reason, such as the lack of long-term contracts or regulatory requirements and the loss of certifications, power interruptions, fires, hurricanes, war, or threats of terrorism, could affect our ability to meet customer demand for our products, adversely affect our net revenues, increase our cost of sales, and hurt our results of operations. In addition, manufacturing disruption could injure our reputation and customer relationships, thereby harming our business.

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We rely on various suppliers to supply a significant majority of our raw materials.

We generally do not enter into long-term formal written agreements with our suppliers and typically transact business with each of them on an order-by-order basis. In the event of a significant disruption in the supply of fabrics or raw materials from our current sources, we may not be able to locate alternative suppliers of materials of comparable quality at an acceptable price, or at all. In such a case, we could have difficulty meeting consumer demand and net revenues could be adversely impacted.

We rely on a single distribution facility for all of the products we sell.

Our distribution operations are currently concentrated in a single, company-owned distribution center in Roanoke, Indiana. Any significant disruption in the operation of the facility due to natural disaster or severe weather, or events such as fire, accidents, power outages, system failures, or other unforeseen causes, could devalue or damage a significant portion of our inventory and could adversely affect our product distribution and sales until such time as we could secure an alternative facility. If we encounter difficulties with our distribution facility or other problems or disasters arise, we cannot ensure that critical systems and operations will be restored in a timely manner or at all, and this would have a material adverse effect on our business. In addition, growth could require us to further expand our current facility, which could affect us adversely in ways that we cannot predict.

The cost of raw materials could increase our cost of sales and cause our results of operations to suffer.

Fluctuations in the price, availability, and quality of fabrics or other raw materials used to manufacture our products, as well as the price for labor, marketing, and transportation, could have adverse impacts on our cost of sales and our ability to meet our customers' demands. In particular, fluctuations in the price of cotton, our primary raw material, could have an adverse impact on our cost of sales. In addition, because a key component of our products is petroleum-based, the cost of oil affects the cost of our products. Upward movement in the price of oil in the global oil markets would also likely result in rising fuel and freight prices, which could increase our shipping costs. In the future, we may not be able to pass all or a portion of higher costs on to our customers.

Our business is subject to the risks inherent in global sourcing and manufacturing activities.

We source our fabrics primarily from manufacturers in China and South Korea and outsource the production of a significant majority of our products to companies in Asia. We are subject to the risks inherent in global sourcing and manufacturing, including, but not limited to:

- exchange rate fluctuations and trends;
- availability of raw materials;
- compliance with labor laws and other foreign governmental regulations;
- compliance with U.S. import and export laws and regulations;
- disruption or delays in shipments;
- loss or impairment of key manufacturing sites;
- product quality issues;
- political unrest;
- natural disasters, acts of war and terrorism, changing macroeconomic trends, and other external factors over which we have no control; and
- quotas, duties, tariffs, or other trade restrictions or regulations.

Significant disruption of manufacturing for any of the above reasons could interrupt product supply and, if not remedied in a timely manner, could have an adverse impact on our results of operations. Additionally, we do not have complete oversight over our contract manufacturers. Violation of labor or other laws by those manufacturers, or the divergence of a contract manufacturer's labor or other practices from those generally accepted as ethical in the United States or in other markets in which we may in the future do business, could also draw negative publicity for us and our brand, diminishing the value of our brand and reducing demand for our products.

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Our ability to source our products at favorable prices, or at all, could be harmed, with adverse effects on our results of operations, if new trade restrictions are imposed or if existing trade restrictions become more burdensome.

A significant majority of our products are currently manufactured for us in Asia. The United States and the countries in which our products are produced have imposed and may impose additional quotas, duties, tariffs, or other restrictions or regulations or may adversely adjust prevailing quotas, duties, or tariffs. Countries impose, modify, and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political conditions, which make it impossible for us to predict future developments regarding tariffs and other trade restrictions. Trade restrictions, which include embargoes, safeguards, and customs restrictions, could increase the cost or reduce the supply of products available to us or could require us to modify our supply chain organization or other current business practices, any of which could harm our results of operations.

We may be subject to unionization, work stoppages, slowdowns, or increased labor costs.

Currently, none of our employees are represented by a union. Nevertheless, our employees have the right at any time under the National Labor Relations Act to organize or affiliate with a union. If some or all of our workforce were to become unionized, our business could be exposed to work stoppages and slowdowns as a unionized business. In addition, if the terms of the collective bargaining agreement were significantly more favorable to union workers than our current pay-and-benefits arrangements, our costs would increase and our results of operations would suffer.

We rely on independent transportation providers for substantially all of our product shipments.

We currently rely on independent transportation service providers for substantially all of our product shipments. Our utilization of these delivery services, or those of any other shipping companies that we may elect to use, is subject to risks, including increases in fuel prices, which would increase our shipping costs, employee strikes and inclement weather, which may impact the shipping company’s ability to provide delivery services sufficient to meet our shipping needs.

If for any reason we were to change shipping companies, we could face logistical difficulties that might adversely affect deliveries, and we would incur costs and expend resources in the course of making the change. Moreover, we might not be able to obtain terms as favorable as those received from the service providers that we currently use, which in turn would increase our costs. We also would face shipping and distribution risks and uncertainties associated with any expansion of our distribution facility and related systems.

Our inability or failure to protect our intellectual property or our infringement of other’s intellectual property could have a negative impact on our operating results.

We believe that our registered copyrights, registered and common law trademarks, and other proprietary rights have significant value and are critical to our ability to create and sustain demand for our products. Although we have not been inhibited from selling our products in connection with intellectual property disputes, we cannot assure you that obstacles will not arise as we expand our product line and extend our brand as well as the geographic scope of our sales and marketing. We also cannot assure you that the actions taken by us to establish and protect our proprietary rights will be adequate to prevent imitation of our products or infringement of our rights by others. The legal regimes of some foreign countries, particularly China, may not protect proprietary rights to the same extent as the laws of the United States, and it may be more difficult for us to successfully challenge the use of our proprietary rights by others in these countries. The loss of copyrights, trademarks, and other proprietary rights could adversely impact our results of operations. Any litigation regarding our proprietary rights could be time consuming and costly.

We are also subject to the risk that claims will be brought against us for infringement of the intellectual property rights of third parties, seeking to block the sale of our products considered to violate their intellectual property rights or payment of monetary amounts. In particular, we are subject to copyright infringement claims for which we may not be entitled to indemnification from our suppliers. In addition, in recent years, companies in the retail industry, including us, have been subject to patent infringement claims from non-practicing entities, or “patent trolls.” Any infringement or other intellectual property claim made against us, whether or not it has merit, could be time-consuming and result in costly litigation. As a result, any such claim, or the combination of multiple claims, could have a material adverse effect on our operating results. If we are required to stop using any of our registered or nonregistered trademarks, our sales could decline and, consequently, our business and results of operations could be adversely affected.

Fluctuations in our tax obligations and effective tax rate may result in volatility of our operating results and stock price.

We are subject to income taxes in many U.S. and certain foreign jurisdictions. We record tax expense based on our estimates of future payments, which includes reserves for uncertain tax positions in multiple tax jurisdictions. At any one time, many tax years are subject to audit by various taxing jurisdictions. Further, possible changes in federal, state, local, and non-U.S. tax laws bearing upon our revenues, income, property, or other aspects of our operations or business would, if enacted, affect our results of operations in ways and to a degree that we cannot currently predict.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act includes, among other things, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, bonus depreciation that will allow for full expensing for qualified property, the transition of U.S. international taxation from a worldwide system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. Section 15 of the Internal Revenue Code stipulates that our fiscal year ending February 3, 2018, has a blended federal statutory tax rate of approximately 32.9%, which is based on the applicable tax rates before and after the effectiveness of the Tax Act.

The Company recorded $2.1 million in provisional income tax expense during the fourth quarter of fiscal 2018 based upon its understanding of the Tax Act and guidance as of the date of this filing.

The ultimate impact of the Tax Act may differ from the provisional income tax expense recognized in the consolidated financial statements during the fourth quarter of fiscal 2018. The accounting for the Tax Act is expected to be complete when the fiscal 2018 federal income tax return is filed in fiscal 2019. Any resulting changes to the provisional estimates and amounts not yet estimated will be recognized as an adjustment to tax expense in the reporting period that the amounts are determined. These provisional amounts may differ due to, among other things, additional analysis, changes in interpretations and assumptions that the Company has made, additional regulatory guidance issued, and any additional actions the Company may take as a result of the Tax Act. Any of these items could lessen or increase certain adverse impacts of the Tax Act. Further, there may be material adverse effects on our business, results of operations, and liquidity resulting from the Tax Act that we have not yet identified.

We have recorded asset impairment charges in the past and we may record material asset impairment charges in the future.

Quarterly, we assess whether events or changes in circumstances have occurred that indicate the carrying value of long-lived assets may not be recoverable. If we determine that the carrying value of long-lived assets is not recoverable, we will be required to record impairment charges relating to those assets. For example, our assessments during fiscal 2018 indicated that operating losses or insufficient operating income existed at certain retail stores, with a projection that the operating losses or insufficient operating income for those locations would continue. As such, we recorded non-cash charges of $6.3 million during fiscal 2018 within selling, general, and administrative expenses in the consolidated statements of operations to write down the carrying values of these stores' long-lived assets to their estimated fair values.

Our quarterly evaluation of store assets includes consideration of current and historical performance and projections of future profitability. The profitability projections rely upon estimates made by us, including store-level sales, gross margins, and direct expenses, and, by their nature, include judgments about how current strategic initiatives will impact future performance. If we are not able to achieve the projected key financial metrics for any reason, including because any of the strategic initiatives being implemented do not result in significant improvements in our current financial performance trend, this would indicate that the value of our long-lived assets was not recoverable and we would incur additional impairment of assets in the future.

In the event we record additional impairment charges, this could have a material adverse effect on our results of operations and financial condition.

Our Indirect business could suffer as a result of decisions by our Indirect retailers to decrease or eliminate the amount of merchandise purchased from us.

We do not enter into long-term agreements with any of our Indirect retailers. Instead, we enter into a number of purchase order commitments with our customers for each of our lines every season. A decision by a significant number of Indirect retailers, whether motivated by competitive conditions, operational or financial difficulties, reduced access to capital, or otherwise, to decrease or eliminate the amount of merchandise purchased from us or to change their manner of doing business with us could adversely impact our results of operations. Although we recommend retail sale prices for our products to our Indirect retailers, we typically do not provide dealer allowances or other economic incentives to support those prices. Possible promotional pricing or discounting by Indirect retailers in response to softening retail demand could have a negative effect on our brand image and prestige, which might be difficult to counteract.

Bankruptcies or other operational or financial difficulties of our Indirect retailers could adversely impact our business. We sell our Indirect merchandise primarily to specialty retail and department stores across the United States and extend trade credit based on an evaluation of each Indirect retailer's financial condition, usually without requiring collateral. Perceived or actual financial difficulties of a customer could cause us to curtail or eliminate business with that customer or could decrease demand for our products by that customer. Pending the resolution of a relationship with a financially troubled Indirect retailer,

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we might assume credit risk that we would otherwise avoid relating to our receivables from that customer. Inability to collect on accounts receivable from our Indirect retailers would adversely impact our results of operations.

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 or damage to our brand image.

We increasingly face the risk of litigation and other claims against us. Litigation and other claims may arise in the ordinary course of our business and include employee claims, custom and duty claims, commercial disputes, intellectual property issues, product-oriented allegations, and slip and fall claims. Often these cases raise complex factual and legal issues, which are subject to risks and uncertainties and which could require significant management time. Litigation and other claims against us could result in unexpected expenses and liability, as well as materially adversely affect our operations and our reputation.

We may suffer negative publicity and our business may be harmed if we need to recall any products we sell.

We have in the past needed to, and may in the future need to, recall products that we determine may present safety issues. If products we sell have safety problems of which we are not aware, or if we or the Consumer Product Safety Commission recall a product sold in our stores, we may suffer negative publicity and, potentially, product liability lawsuits, which could have a material adverse impact on our reputation, financial condition and results of operations or cash flows.

Risks Related to the Securities Markets and Ownership of Our Common Stock

Our stock price may be volatile or may decline regardless of our operating performance, and you may not be able to resell shares at or above the price at which you purchase them.

The market price of our common stock may fluctuate significantly in response to a number of factors, most of which we cannot control, including:

- actions by other shopping mall or lifestyle center tenants;
- weather conditions, particularly during the holiday shopping period;
- unexpected departure of key executives;
- financial projections that we may choose to provide to the public, any changes in these projections or our failure for any reason to meet these projections;
- the public’s response to press releases or other public announcements by us or others, including our filings with the SEC and announcements relating to litigation and other matters;
- speculation about our business in the press or the investment community;
- future sales of our common stock by our significant shareholders, officers, and directors;
- our entry into new markets;
- changes in laws or regulations that impact the retail industry;
- strategic actions by us or our competitors, such as acquisitions or restructurings; and
- changes in accounting principles.

These and other factors may result in a lower market price of our common stock, regardless of our actual operating performance.

In addition, the stock markets, including The NASDAQ Global Select Market, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many retail companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were involved in securities litigation, we could incur substantial costs and our resources and the attention of management could be diverted from our business.

Our business could be negatively affected as a result of the actions of activist stockholders.

Over the last few years, proxy contests and other forms of stockholder activism have been directed against numerous public companies in retail businesses. We could become engaged in a consent solicitation, or proxy contest, or experience other stockholder activism, in the future. Activist shareholders may advocate for certain governance and strategic changes at our company. In the event of stockholder activism, particularly with respect to matters which our Board of Directors (“Board”), in exercising their fiduciary duties, disagree with or have determined not to pursue, our business could be adversely affected because responding to actions by activist stockholders can be costly and time-consuming, disrupting our operations and

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diverting the attention of management, and perceived uncertainties as to our future direction may result in the loss of potential business opportunities and may make it more difficult to attract and retain qualified personnel, business partners, and customers.

In addition, if faced with a consent solicitation or proxy contest, we may not be able to respond successfully to the contest or dispute, which would be disruptive to our business. If individuals are elected to our Board with a differing agenda, our ability to effectively and timely implement our strategic plan and create additional value for our stockholders may be adversely affected.

A limited number of shareholders control a large percentage of the voting power of our common stock, and therefore investors may have limited ability to determine the outcome of shareholder votes.

Michael Ray (our former CEO and Ms. Bradley Baekgaard's son in-law), Robert Hall, Barbara Bradley Baekgaard, Joan Hall (Mr. Hall's wife and Ms. Bradley Baekgaard's daughter), Patricia R. Miller, and P. Michael Miller, directly or indirectly, beneficially own and have the ability to exercise voting control over, in the aggregate, 36.7% of our outstanding shares of common stock as of February 3, 2018. As a result, these shareholders are able to exercise significant influence over all matters requiring shareholder approval, including the election of directors, any amendments to our second amended and restated articles of incorporation, and significant corporate transactions. This concentrated ownership of outstanding common stock may limit your ability to influence corporate matters, and the interests of these shareholders may not coincide with our interests or your interests. As a result, we may take actions that you do not believe to be in our interests or your interests and that could depress our stock price. In addition, this significant concentration of stock ownership may adversely affect the trading price of our common stock should investors perceive disadvantages in owning shares of common stock in a company that has such concentrated ownership.

Our actual operating results may differ significantly from our guidance, which could cause incongruous fluctuation in our stock price.

From time to time, we provide guidance regarding our future performance that represents our management's estimates as of the date of release. This guidance, which consists of forward-looking statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in the release. Our guidance is not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our independent registered public accounting firm nor any other independent expert or outside party compiles or examines the guidance and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed, but are not intended to represent that actual results could not fall outside of the suggested ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the further in the future that the data are forecast.

In light of the foregoing, if investors, analysts, and others fail to review our guidance within the proper context or place undue reliance on our guidance, deviations from such guidance may result in incongruous fluctuation in our stock price.

Anti-takeover provisions in our organizational documents and Indiana law may discourage or prevent a change in control, even if a sale of the Company would be beneficial to our shareholders, which could cause our stock price to decline and prevent attempts by shareholders to replace or remove our current management.

Our second amended and restated articles of incorporation and amended and restated bylaws contain provisions that may delay or prevent a change in control, discourage bids at a premium over the market price of our common stock, harm the market price of our common stock, and diminish the voting and other rights of the holders of our common stock. These provisions include:

- dividing our board of directors into three classes serving staggered three-year terms;

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- authorizing our board of directors to issue preferred stock and additional shares of our common stock without shareholder approval;
- prohibiting shareholder action by written consent;
- prohibiting our shareholders from calling a special meeting of shareholders;
- prohibiting our shareholders from amending our amended and restated bylaws; and
- requiring advance notice for raising business matters or nominating directors at shareholders' meetings.

As permitted by our second amended and restated articles of incorporation and amended and restated bylaws, our board of directors also has the ability, should they so determine, to adopt a shareholder rights agreement, sometimes called a "poison pill," providing for the issuance of a new series of preferred stock to holders of common stock. In the event of a takeover attempt, this preferred stock would give rights to holders of common stock (other than the potential acquirer) to buy additional shares of common stock at a discount, leading to the dilution of the potential acquirer's stake. The adoption of a poison pill, or the board's ability to do so, can have negative effects such as those described above.

As an Indiana corporation, we are governed by the Indiana Business Corporation Law (as amended from time to time, the "IBCL"). Under specified circumstances, certain provisions of the IBCL related to control share acquisitions, business combinations, and constituent interests may delay, prevent, or make more difficult unsolicited acquisitions or changes of control of us. These provisions also may have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions that shareholders might deem to be in their best interest.

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Item 1B. Unresolved Staff Comments
None.

Item 2. Properties
The following table sets forth the location, use, and size of our distribution, corporate facilities, and showrooms as of February 3, 2018. The leases on the leased properties expire at various times through 2028, subject to renewal options.

Location	Primary Use	Approximate Square Footage	Leased/Owned
Roanoke, Indiana	Corporate headquarters, design center, and showroom	188,000	Owned
Roanoke, Indiana	Warehouse and distribution	428,500	Owned
New York, New York	Office and showroom	3,700	Leased
Hong Kong	Asia sourcing office	5,100	Leased
Atlanta, Georgia	Showroom	5,200	Leased
Dallas, Texas	Showroom	1,800	Leased
Las Vegas, Nevada	Showroom	2,200	Leased

As of February 3, 2018, we also leased 166 store locations in the United States, including six store locations opened or to be opened in fiscal 2019. See below for more information regarding the locations of our open stores as of February 3, 2018.
We consider these properties to be in good condition generally and believe that our facilities are adequate for our operations and provide sufficient capacity to meet our anticipated requirements. The properties in the above table are used by both the Direct segment and Indirect segment, excluding the three showrooms which are used exclusively by the Indirect segment.
Store Locations
Our full-line stores are located primarily in high-traffic regional malls, lifestyle centers, and mixed-use shopping centers across the United States. The following table shows the number of full-line and factory outlet stores we operated in each state as of February 3, 2018:

State	Total Number of Full-Line Stores	Total Number of Factory Outlet Stores	State	Total Number of Full-Line Stores	Total Number of Factory Outlet Stores
Alabama	1	1	Minnesota	2	1
Arizona	3	—	Missouri	2	2
California	5	—	Nebraska	—	1
Colorado	3	1	Nevada	—	1
Connecticut	2	1	New Jersey	9	1
Delaware	1	1	New York	8	3
Florida	7	8	North Carolina	2	4
Georgia	2	2	Ohio	4	1
Hawaii	2	1	Oklahoma	2	1
Illinois	6	1	Pennsylvania	5	2
Indiana	2	2	Rhode Island	1	—
Iowa	1	1	South Carolina	—	1
Kansas	1	—	Tennessee	3	2
Kentucky	2	1	Texas	13	6
Louisiana	2	—	Virginia	3	2
Maryland	4	—	Wisconsin	1	—

Massachusetts	5	1	Totals	109	51
Michigan	5	2			

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We lease all of our stores. Lease terms for our retail stores are generally ten years with options to renew for varying terms. The leases generally provide for a fixed minimum rental plus contingent rent, which is determined as a percentage of sales in excess of specified levels.

Item 3. Legal Proceedings

We may be involved from time to time, as a plaintiff or a defendant, in various routine legal proceedings incident to the ordinary course of our business. In the ordinary course, we are involved in the policing of our intellectual property rights. As part of our policing program, from time to time we file lawsuits in the United States and abroad, alleging acts of trademark counterfeiting, trademark infringement, trademark dilution, and ancillary and pendent state and foreign law claims. These actions often result in seizure of counterfeit merchandise and negotiated settlements with defendants. Defendants sometimes raise as affirmative defenses, or as counterclaims, the purported invalidity or unenforceability of our proprietary rights. We believe that the outcome of all pending legal proceedings in the aggregate will not have a material adverse effect on our business or financial condition.

Item 4. Mine Safety Disclosure

Not Applicable

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the NASDAQ Global Select Market under the symbol "VRA". The following table sets forth the high and low sales prices of our common stock, as reported by the NASDAQ Global Select Market, for each quarterly period in our two most recent fiscal years:

	High	Low
Fiscal 2018 Quarter ended:		
February 3, 2018	$12.83	$6.99
October 28, 2017	11.40	7.25
July 29, 2017	10.24	7.70
April 29, 2017	11.60	8.40
Fiscal 2017 Quarter ended:		
January 28, 2017	$15.86	$11.29
October 29, 2016	17.20	12.97
July 30, 2016	17.84	13.55
April 30, 2016	20.69	13.71

As of March 27, 2018, we had approximately 25 registered shareholders of record. The number of shareholders of record is based upon the actual number of shareholders registered at such date and does not include holders of shares in "street name" or persons, partnerships, associations, corporations, or other entities identified in security position listings maintained by depositories.

Unregistered Sales of Equity Securities and Use of Proceeds

On December 8, 2015, the Company's board of directors approved a share repurchase program (the "2015 Share Repurchase Program") authorizing up to $50.0 million of repurchases of shares of the Company's common stock. On November 30, 2017, the board of directors authorized the Company to extend the 2015 Share Repurchase Plan to December 31, 2018. The prior share repurchase program (the "2014 Share Repurchase Program") was approved by the board of directors on September 9, 2014, and authorized share repurchases up to $40.0 million. The 2014 Share Repurchase Program was completed in fiscal 2016.

During the fiscal year ended February 3, 2018, the Company purchased and held 934,031 shares at an average price of $8.47 per share, excluding commissions, for an aggregate amount of $7.9 million, under the 2015 Share Repurchase Program.

During the fiscal year ended January 28, 2017, the Company purchased and held 1,606,102 shares at an average price of $15.27 per share, excluding commissions, for an aggregate amount of $24.5 million, under the 2015 Share Repurchase Program.

During the fiscal year ended January 30, 2016, the Company purchased and held 2,481,367 shares at an average price of $12.57 per share, excluding commissions, for an aggregate amount of $31.2 million. Of these purchases, 283,354 shares at an average price of $14.64 per share, for an aggregate amount of $4.1 million, were purchased under the 2015 Share Repurchase Plan.

As of February 3, 2018, there was $13.4 million remaining available to repurchase shares of the Company's common stock under the 2015 Share Repurchase Program.

As of February 3, 2018, the Company held as treasury shares 5,642,485 shares of its common stock at an average price of $13.57 per share, excluding commissions, for an aggregate carrying amount of $76.6 million. The Company's treasury shares may be issued under the 2010 Equity and Incentive Plan or for other corporate purposes.

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Details on the shares repurchased under the program during the fourteen weeks ended February 3, 2018 are as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
October 29, 2017 - November 25, 2017	168,377	$ 7.47	168,377	$ 13,807,827
November 26, 2017 - December 30, 2017	45,133	8.54	45,133	13,422,471
December 31, 2017 - February 3, 2018	—	—	—	13,422,471
	213,510	$ 7.70	213,510	

Dividends

Our common stock began trading on October 21, 2010, following our initial public offering. Since that time, we have not declared any cash dividends, and we do not anticipate declaring any cash dividends in the foreseeable future.

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Stock Performance Graph

The graph set forth below compares the cumulative shareholder return on our common stock between February 2, 2013, and February 3, 2018, to the cumulative return of (i) the S&P 500 Index and (ii) the S&P 500 Apparel, Accessories, and Luxury Goods Index over the same period. This graph assumes an initial investment of $100 on February 2, 2013, in our common stock, the S&P 500 Index, and the S&P 500 Apparel, Accessories, and Luxury Goods Index and assumes the reinvestment of dividends, if any.

The comparisons shown in the graph below are based on historical data. We caution that the stock price performance presented in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock. Information used in the graph was obtained from The NASDAQ Stock Market website. As such, although we believe the information to be accurate, we cannot assure you of its accuracy.

Company/Market/Peer Group	2/2/2013	2/1/2014	1/31/2015	1/30/2016	1/28/2017	2/3/2018
Vera Bradley, Inc.	$ 100.00	$ 93.10	$ 73.91	$ 57.29	$ 44.96	$ 36.16
S&P 500 Index	$ 100.00	$ 120.30	$ 137.42	$ 136.50	$ 164.99	$ 202.66
S&P 500 Apparel, Accessories, and Luxury Goods Index	$ 100.00	$ 115.95	$ 120.21	$ 100.72	$ 85.81	$ 109.53

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Item 6. Selected Financial Data

The following tables present selected consolidated financial and other data as of and for the years indicated. The selected income statement data for the most recent three fiscal years presented and the selected balance sheet data as of February 3, 2018 and January 28, 2017 are derived from our audited consolidated financial statements included in Item 8 of this report. The selected income statement data for the fiscal years ended January 31, 2015, and February 1, 2014, and selected balance sheet data as of January 30, 2016, January 31, 2015, and February 1, 2014, are derived from our audited consolidated financial statements that are not included elsewhere in this report. These results include adjustments necessary for comparability, including discontinued operations related to our former Japan operations which occurred during fiscal 2015. The historical results presented below are not necessarily indicative of the results to be expected for any future period. You should read this selected consolidated financial and other data in conjunction with the consolidated financial statements and related notes and the information under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this report.

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($ in thousands, except per share data and as otherwise indicated)	Fiscal Year Ended [1] February 3, 2018	January 28, 2017	January 30, 2016	January 31, 2015	February 1, 2014
Consolidated Statement of Income Data [2]:					
Net revenues	$454,648	$485,937	$502,598	$508,990	$530,896
Cost of sales	200,639	209,891	221,409	239,981	238,684
Gross profit	254,009	276,046	281,189	269,009	292,212
Selling, general, and administrative expenses [6]	239,810	249,155	236,836	208,675	201,231
Other income	782	1,329	2,369	3,736	4,776
Operating income	14,981	28,220	46,722	64,070	95,757
Interest (income) expense, net	(413)	178	263	407	571
Income from continuing operations before income taxes	15,394	28,042	46,459	63,663	95,186
Income tax expense [7]	8,378	8,284	18,901	22,828	35,057
Income from continuing operations	7,016	19,758	27,558	40,835	60,129
Loss from discontinued operations, net of taxes	—	—	—	(2,386)	(1,317)
Net income	$7,016	$19,758	$27,558	$38,449	$58,812
Basic weighted-average shares outstanding	35,925	36,838	38,795	40,568	40,599
Diluted weighted-average shares outstanding	36,026	36,970	38,861	40,632	40,648
Net income (loss) per share - basic					
Continuing operations	$0.20	$0.54	$0.71	$1.01	$1.48
Discontinued operations	—	—	—	(0.06)	(0.03)
Net income per share	$0.20	$0.54	$0.71	$0.95	$1.45
Net income (loss) per share - diluted					
Continuing operations	$0.19	$0.53	$0.71	$1.00	$1.48
Discontinued operations	—	—	—	(0.06)	(0.03)
Net income per share	$0.19	$0.53	$0.71	$0.95	$1.45
Net Revenues by Segment [2]:					
Direct	$351,786	$355,175	$351,286	$335,602	$321,092
Indirect	102,862	130,762	151,312	173,388	209,804
Total	$454,648	$485,937	$502,598	$508,990	$530,896
Store Data [3]:					
Total stores open at end of year	160	159	150	125	99
Comparable sales (including e-commerce) decrease [4]	(6.7)%	(7.0)%	(10.6)%	(7.6)%	(1.3)%
Total gross square footage at end of year	377,861	368,640	342,362	278,779	207,096
Average net revenues per gross square foot [5]	$640	$642	$703	$760	$887

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($ in thousands)	As of February 3, 2018	January 28, 2017	January 30, 2016	January 31, 2015	February 1, 2014
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$68,751	$ 86,375	$ 97,681	$ 112,292	$ 59,215
Short-term investments	54,150	30,152	—	—	—
Working capital	201,749	193,070	187,090	204,648	193,511
Long-term investments	15,515	—	—	—	—
Total assets	350,669	373,509	380,679	377,284	334,383
Shareholders' equity	285,283	283,786	285,255	284,471	255,147

(1) The Company utilizes a 52-53 week fiscal year. Fiscal year 2018 consisted of 53 weeks. Fiscal years 2017, 2016, 2015, and 2014 consisted of 52 weeks. The extra week contributed approximately $4.1 million in net revenues and added an estimated $0.01 to diluted net income per share in fiscal 2018. By segment, the extra week contributed net revenues of approximately $3.0 million to Direct and $1.1 million to Indirect.

(2) Includes restructuring and other charges described further in Note 13 to the Notes to the Consolidated Financial Statements herein. Financial data recasts Japan results of operations as discontinued operations for all years presented. Japan results of operations were formerly included in the Direct segment results.

(3) Includes full-line and factory outlet stores.

(4) Comparable sales are calculated based upon our stores that have been open for at least 12 full fiscal months and net revenues from our e-commerce operations. Decrease is reported as a percentage of the comparable sales for the same period in the prior fiscal year. Remodeled stores are included in comparable sales unless the store was closed for a portion of the current or comparable prior period, in which case the non-comparable temporary closure periods are not included, or the remodel resulted in a significant change in square footage. Calculation excludes sales for the 53rd week in fiscal 2018.

(5) Dollars not in thousands. Average net revenues per gross square foot are calculated by dividing total net revenues for our stores that have been open at least 12 full fiscal months as of the end of the period by total gross square footage for those stores. Remodeled stores are included in average net revenues per gross square foot unless the store was closed for a portion of the period. Calculation excludes sales for the 53rd week in fiscal 2018.

(6) Impairment charges, related to underperforming stores, totaled $6.3 million, $12.7 million, $2.8 million, $0.4 million, and $1.2 million during the fiscal years ended February 3, 2018, January 28, 2017, January 30, 2016, January 31, 2015, and February 1, 2014, respectively.

(7) Fiscal 2018 includes a $2.1 million net charge as a result of the Tax Cuts and Jobs Act. Refer to Note 5 to the Notes to the Consolidated Financial Statements herein for additional information.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with the consolidated financial statements and accompanying notes and the information contained in other sections of this report, particularly under the headings "Risk Factors," "Selected Financial Data" and "Business." This discussion and analysis is based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. The statements in this discussion and analysis concerning expectations regarding our future performance, liquidity, and capital resources, as well as other non-historical statements in this discussion and analysis, are forward-looking statements. See "Forward-Looking Statements." These forward-looking statements are subject to numerous risks and uncertainties, including those described under "Risk Factors." Our actual results could differ materially from those suggested or implied by any forward-looking statements.

Executive Summary

As more fully described herein, we began the implementation of our Vision 20/20 strategic plan, including product and pricing initiatives and SG&A expense reduction initiatives, in the third quarter of fiscal 2018, as well as achieved strategic product, distribution, and marketing initiatives.

Strategic Progress

- We made progress on our Vision 20/20 product and pricing initiatives by implementing an online outlet site to reduce clearance sales from verabradley.com and our SG&A expense reduction initiatives by right-sizing our corporate and retail store infrastructure to align with the size of the business, including closing five underperforming full-line stores and one underperforming factory outlet store.
- We made progress in the product area, including:
  - Continuing to reinvigorate and reinvent our cotton assortment, including the introduction of our Iconic cotton collection which features micro-quilting, added functionality and innovation, and several updated silhouettes and
  - Expanding our licensing program by launching products in the technology, swimwear, bedding, stationery, hosiery, and medical uniforms categories.
- We made progress in the distribution area, including:
  - Launching our new platform for verabradley.com in February 2017, creating a dynamic digital flagship. The new site offers a number of enhancements including, among other things, the ability to strategically segment and personalize messaging, express check-out, "order on-line, pick up in store," and the addition of the GiftNow feature, which allows customers to purchase gifts from verabradley.com that can be modified by the recipient before shipment;
  - Opening six factory outlet stores and one full-line pop-up store; and
  - Completing store renovations on 20 of our continuing full-line stores to reflect our new design aesthetic by updating the storefront facade, brand logo, and interior.
- In the marketing area, we increased brand awareness through our "digital first" strategy by partnering with key influencers and leveraging social media channels.

Financial Summary

Fiscal 2018 was a 53-week period compared to fiscal 2017 which was a 52-week period.

- Net revenues decreased 6.4% to $454.6 million in fiscal 2018 compared to $485.9 million in fiscal 2017. The extra week in fiscal 2018 added approximately $4.1 million to net revenues.
- Direct segment sales decreased 1.0% to $351.8 million in fiscal 2018 compared to $355.2 million in fiscal 2017. The extra week in fiscal 2018 added approximately $3.0 million to net revenues. Comparable sales for fiscal 2018 decreased 6.7%.
- Indirect segment sales decreased 21.3% to $102.9 million in fiscal 2018 compared to $130.8 million in fiscal 2017. The extra week in fiscal 2018 added approximately $1.1 million to net revenues.
- Gross profit was $254.0 million (55.9% of net revenue) in fiscal 2018 compared to $276.0 million (56.8% of net revenue) in fiscal 2017.
- Selling, general, and administrative expenses were $239.8 million (52.7% of net revenue) in fiscal 2018 compared to $249.2 million (51.3% of net revenue) in fiscal 2017.

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- Operating income was $15.0 million (3.3% of net revenue) in fiscal 2018 compared to $28.2 million (5.8% of net revenue) in fiscal 2017.
- Net income was $7.0 million in fiscal 2018 compared to $19.8 million in fiscal 2017.
- Diluted net income per share decreased 64.2% to $0.19 in fiscal 2018 from $0.53 in fiscal 2017. The extra week in fiscal 2018 added an estimated $0.01 to diluted net income per share.
- Vision 20/20-related charges and other charges (including store impairment charges) were $19.5 million ($12.3 million after the associated tax benefit) in fiscal 2018 compared to other charges (including store impairment charges) of $13.6 million ($8.6 million after the associated tax benefit) in fiscal 2017.
- Income tax expense was negatively impacted by a $2.1 million net charge related to the Tax Cuts and Jobs Act (“Tax Act”) and benefited by $1.6 million related to the release of certain income tax reserves for fiscal 2018 and fiscal 2017, respectively.
- Cash, cash equivalents, and investments were $138.4 million at February 3, 2018 compared to $116.5 million at January 28, 2017.
- Capital expenditures for fiscal 2018 totaled $11.8 million compared to $20.8 million for fiscal 2017.
- Repurchases of common stock for fiscal 2018 totaled $7.9 million, or 0.9 million shares, compared to $24.5 million, or 1.6 million shares, in fiscal 2017.

How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of performance and financial measures.

Net Revenues

Net revenues reflect revenues from the sale of our merchandise and from distribution and shipping and handling fees, less returns and discounts. Revenues for the Direct segment reflect sales through our full-line and factory outlet stores, verabradley.com, our online outlet site, direct-to-consumer eBay sales, and our annual outlet sale in Fort Wayne, Indiana. Revenues for the Indirect segment reflect sales to approximately 2,400 specialty retail partners, department stores, national accounts, third party e-commerce sites, third-party inventory liquidators, and sales generated through licensing agreements.

Comparable Sales

Comparable sales are calculated based upon our stores that have been open for at least 12 full fiscal months and net revenues from our e-commerce operations. Comparable store sales are calculated based solely upon our stores that have been open for at least 12 full fiscal months. Remodeled stores are included in comparable sales and comparable store sales unless the store was closed for a portion of the current or comparable prior period, in which case the non-comparable temporary closure periods are not included, or the remodel resulted in a significant change in square footage. Some of our competitors and other retailers calculate comparable or “same store” sales differently than we do. As a result, data in this report regarding our comparable sales and comparable store sales may not be comparable to similar data made available by other companies. Non-comparable sales include sales from stores not included in comparable sales or comparable store sales. The 53rd week in fiscal 2018 is excluded from comparable sales and comparable store sales.

Measuring the change in year-over-year comparable sales allows us to evaluate how our store base and e-commerce operations are performing. Various factors affect our comparable sales, including:

- Overall economic trends;
- Consumer preferences and fashion trends;
- Competition;
- Timing of our releases of new patterns and collections;
- Changes in our product mix;
- Pricing and level of promotions;
- Amount of store and mall traffic;
- Level of customer service that we provide in stores;
- Our ability to source and distribute products efficiently;
- Number of stores we open and close in any period; and

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- Timing and success of promotional and advertising efforts.

In recent years, comparable store sales have declined. Consequently, the rate in which we have opened new stores has slowed and we do not currently have any new full-line stores planned to be opened during fiscal 2019. As part of our Vision 20/20 initiatives, we are forecasting to close up to an additional 45 full-line stores by the end of fiscal 2021. During fiscal 2018, we closed five underperforming full-line stores and one underperforming factory outlet store. We plan to open six new factory outlet stores during fiscal 2019 and will continue to evaluate our plans for store openings in future years in light of demand and store performance.

Gross Profit

Gross profit is equal to our net revenues less our cost of sales. Cost of sales includes the direct cost of purchased merchandise, distribution center costs, operations overhead, duty, and all inbound freight costs incurred. The components of our reported cost of sales may not be comparable to those of other retail and wholesale companies. Gross profit can be impacted by changes in volume; fluctuations in sales price; operational efficiencies, such as leveraging of fixed costs; promotional activities, such as free shipping; commodity prices, such as cotton prices; and labor costs.

Selling, General, and Administrative Expenses (SG&A)

SG&A expenses include selling; advertising, marketing, and product development; and administrative. Selling expenses include Direct business expenses such as store expenses, employee compensation, and store occupancy and supply costs, as well as Indirect business expenses consisting primarily of employee compensation and other expenses associated with sales to Indirect retailers. Advertising, marketing, and product development expenses include employee compensation, media costs, creative production expenses, marketing agency fees, new product design costs, public relations expenses, and market research expenses. A portion of our advertising expenses may be reimbursed by Indirect retailers, and such amount is classified as other income. Administrative expenses include employee compensation for corporate functions, corporate headquarters occupancy costs, consulting and software expenses, and charitable donations.

Impairment charges are included in SG&A expenses and totaled \$6.3 million, \$12.7 million, and \$2.8 million for the fiscal years ended February 3, 2018, January 28, 2017, and January 30, 2016, respectively.

Other Income

We support many of our Indirect retailers' marketing efforts by distributing certain catalogs and promotional mailers to current and prospective customers. Our Indirect retailers reimburse us for a portion of the cost to produce these materials. Reimbursement received is recorded as other income. The related cost to design, produce, and distribute the catalogs and mailers is recorded as SG&A expense. Other income also includes proceeds from the sales of tickets to our annual outlet sale.

Operating Income

Operating income is equal to gross profit less SG&A expenses plus other income. Operating income excludes interest income, interest expense, and income taxes.

Income Before Income Taxes

Income before income taxes is equal to operating income plus interest income less interest expense.

Net Income

Net income is equal to income before income taxes less income tax expense.

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Results of Operations

The following tables summarize key components of our consolidated results of operations for the last three fiscal years, both in dollars and as a percentage of our net revenues.

($ in thousands)	Fiscal Year Ended [1] February 3, 2018	January 28, 2017	January 30, 2016
Statement of Income Data:			
Net revenues	$454,648	$485,937	$502,598
Cost of sales	200,639	209,891	221,409
Gross profit	254,009	276,046	281,189
Selling, general, and administrative expenses [5]	239,810	249,155	236,836
Other income	782	1,329	2,369
Operating income	14,981	28,220	46,722
Interest (income) expense, net	(413)	178	263
Income before income taxes	15,394	28,042	46,459
Income tax expense [6]	8,378	8,284	18,901
Net income [7]	$7,016	$19,758	$27,558
Percentage of Net Revenues:			
Net revenues	100.0 %	100.0 %	100.0 %
Cost of sales	44.1 %	43.2 %	44.1 %
Gross profit	55.9 %	56.8 %	55.9 %
Selling, general, and administrative expenses	52.7 %	51.3 %	47.1 %
Other income	0.2 %	0.3 %	0.5 %
Operating income	3.3 %	5.8 %	9.3 %
Interest (income) expense, net	(0.1)%	— %	0.1 %
Income before income taxes	3.4 %	5.8 %	9.2 %
Income tax expense	1.8 %	1.7 %	3.8 %
Net income	1.5 %	4.1 %	5.5 %

The following tables present net revenues by operating segment, both in dollars and as a percentage of our net revenues, and full-line and factory outlet store data for the last three fiscal years:

($ in thousands, except as otherwise indicated)	Fiscal Year Ended [1] February 3, 2018	January 28, 2017	January 30, 2016
Net Revenues by Segment:			
Direct	$351,786	$355,175	$351,286
Indirect	102,862	130,762	151,312
Total	$454,648	$485,937	$502,598
Percentage of Net Revenues by Segment:			
Direct	77.4 %	73.1 %	69.9 %
Indirect	22.6 %	26.9 %	30.1 %
Total	100.0 %	100.0 %	100.0 %

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	Fiscal Year Ended February 3, 2018	January 28, 2017	January 30, 2016
Store Data (2):			
Total stores opened during period	7	10	26
Total stores closed during period	(6)	(1)	(1)
Total stores open at end of period	160	159	150
Comparable sales (including e-commerce) decrease (3)	(6.7)%	(7.0)%	(10.6)%
Total gross square footage at end of period	377,861	368,640	342,362
Average net revenues per gross square foot (4)	$640	$ 642	$ 703

(1) The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to January 31. Fiscal year 2018 consisted of 53 weeks. Fiscal years 2017 and 2016 consisted of 52 weeks. The extra week contributed approximately $4.1 million in net revenues and added an estimated $0.01 to diluted net income per share in fiscal 2018. By segment, the extra week contributed net revenues of approximately $3.0 million to Direct and $1.1 million to Indirect.

(2) Includes full-line and factory outlet stores.

(3) Comparable sales are calculated based upon our stores that have been open for at least 12 full fiscal months and net revenues from our e-commerce operations. Decrease is reported as a percentage of the comparable sales for the same period in the prior fiscal year. Remodeled stores are included in comparable sales unless the store was closed for a portion of the current or comparable prior period, in which case the non-comparable temporary closure periods are not included, or the remodel resulted in a significant change in square footage. Calculation excludes sales for the 53rd week in fiscal 2018.

(4) Dollars not in thousands. Average net revenues per gross square foot are calculated by dividing total net revenues for our stores that have been open at least 12 full fiscal months as of the end of the period by total gross square footage for those stores. Remodeled stores are included in average net revenues per gross square foot unless the store was closed for a portion of the period. Calculation excludes sales for the 53rd week in fiscal 2018.

(5) Impairment charges, related to underperforming stores, totaled $6.3 million, $12.7 million, and $2.8 million, during the fiscal years ended February 3, 2018, January 28, 2017, and January 30, 2016, respectively.

(6) Fiscal 2018 includes a $2.1 million net charge as a result of the Tax Act. Refer to Note 5 to the Notes to the Consolidated Financial Statements herein for additional information.

(7) Refer to Note 13 to the Notes to the Consolidated Financial Statement herein for restructuring and other charges affecting the comparability of results.

Payment Card Incident

Description of Event

On September 15, 2016, we received information from law enforcement regarding a potential data security issue related to our retail store network. Findings from the investigation showed unauthorized access to our payment processing system and the installation of a program that looked for payment card data. The program was specifically designed to find track data in the magnetic stripe of a payment card that may contain the card number, cardholder name, expiration date, and internal verification code as the data was being routed through the affected payment systems. There is no indication that other customer information was at risk. Payment cards used at Vera Bradley store locations between July 25, 2016 and September 23, 2016 may have been affected. Not all cards used in stores during this time frame were affected. Cards used on verabradley.com were not affected.

We have resolved this incident and continue to work with a computer security firm to further strengthen the security of our system to help prevent events of this nature from happening in the future. We continue to support law enforcement's investigation and also promptly notified the payment card networks so that the banks that issue payment cards could initiate heightened monitoring on the affected cards. Claims have been received by some, not all, of the payment card networks for this incident which is expected to be covered by our insurance, as described below.

Expenses Incurred and Amounts Accrued

During the fiscal years ended February 3, 2018 and January 28, 2017, we recorded an immaterial amount of expense relating to the Payment Card Incident. Expenses included remediation activities during fiscal 2018 and costs to investigate the Payment Card Incident and obtain legal and other professional services during fiscal 2017. There was no incremental expense associated with the claims received in fiscal 2018 as they are expected to be reimbursable and probable of recovery under our insurance coverage. The insurance deductible was accrued during fiscal 2017.

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Future Costs

Additional payment card companies and associations may require us to reimburse them for unauthorized card charges and costs to replace cards and may also impose fines or penalties in connection with the Payment Card Incident, and enforcement authorities may also impose fines or other remedies against us. At this time, we cannot reasonably estimate the potential loss or range of loss related to the additional fines or penalties that may be assessed, if any. The Payment Card Incident, including customer response and any possible third party claims or the additional assessments from payment card companies, could materially adversely affect our financial condition and operating results. However, we expect our insurance coverage will offset most of the expenses for the investigation and other legal and professional services associated with the incident, possible third party claims, as well as fines, penalties, or other expenses, if any additional, imposed by payment card companies, as discussed above.

Insurance Coverage

We maintain $15.0 million of cyber security insurance coverage above a $0.1 million deductible.

Vision 20/20 Initiatives

Fifty-Three Weeks Ended February 3, 2018

During fiscal 2018, we launched our Vision 20/20 strategic plan, which involves a more aggressive approach to turn around our business over the next three years. This plan is primarily focused on product and pricing initiatives, as well as selling, general, and administrative expense reduction initiatives.

The product and pricing initiatives include restoring our full-price business by significantly reducing the amount of clearance merchandise offered on verabradley.com and in our full-line stores, streamlining current product offerings by eliminating unproductive or incongruent categories and SKUs from our assortment, and introducing tighter guardrails around new categories, patterns, and pricing. We expect fiscal 2019 revenues will be negatively impacted by these initiatives by $30.0 million to $50.0 million from fiscal 2018 levels.

We continue to reduce selling, general, and administrative expenses by right-sizing the corporate infrastructure to better align with the size of the business, lowering our marketing spending by focusing on efficiencies while keeping our most loyal customers engaged, and taking a more aggressive stance on reducing store operating costs and closing underperforming full-line stores. We expect to reduce annual selling, general, and administrative expenses by up to $30.0 million (off of our fiscal 2017 base level and excluding severance, store impairment, and Vision 20/20 charges from all periods). We expect that $20.0 million to $25.0 million of the annualized selling, general, and administrative expense reductions will be made by the end of fiscal 2019. We are forecasting to close up to 45 additional full-line stores by the end of fiscal 2021, primarily as leases expire.

The implementation of the plan began in the third quarter of fiscal 2018, but the majority of the product and pricing initiatives will not be completed until fiscal 2019.

We have incurred the following Vision 20/20-related charges during the fiscal year ended February 3, 2018 (in thousands):

	Fiscal 2018 Statements of Income Line Item		Total Expense	Reportable Segment		Unallocated Corporate Expenses
	SG&A	Cost of Sales		Direct	Indirect	
Asset impairment charges (1)	$6,298	$—	$6,298	$6,298	$—	$ —
Strategic consulting charges (2)	4,649	—	4,649	—	—	4,649
Severance charges	3,867	199	4,066	826	1,184	2,056
Inventory-related charges (3)	—	935	935	—	935	—
Other charges (4)	751	—	751	466	230	55
Total	$15,565	$1,134	$16,699 (5)	$7,590	$2,349	$ 6,760

(1) Refer to Note 3 to the Notes to the Consolidated Financial Statements herein for additional details

(2) Consulting charges for the identification and implementation of Vision 20/20 initiatives

(3) Inventory adjustments for the discontinuation of certain inventory categories
(4) Includes a net lease termination charge and accelerated depreciation charges
(5) After the associated tax benefit, the charges totaled \$10.6 million

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Other Charges Affecting Comparability of the Fifty-Three Weeks Ended February 3, 2018, Fifty-Two Weeks Ended January 28, 2017, and Fifty-Two Weeks Ended January 30, 2016

Fifty-Three Weeks Ended February 3, 2018

Other charges recognized in selling, general, and administrative expenses during fiscal 2018, before the implementation of Vision 20/20, totaled $2.8 million ($1.7 million after the associated tax benefit). These pre-tax charges consisted of $2.5 million in severance charges (recognized within corporate unallocated expenses) and $0.3 million for a net lease termination charge (recognized within the Direct segment).

Other charges recognized in tax expense during fiscal 2018 totaled $2.1 million related to the Tax Act further described below.

Fifty-Two Weeks Ended January 28, 2017

Other charges recognized in selling, general, and administrative expenses during fiscal 2017 totaled $13.6 million ($8.6 million after the associated tax benefit) and consisted of store impairment charges of $12.7 million (recognized within the Direct segment) and a severance charge of $0.9 million (recognized within corporate unallocated expenses). Refer to Note 3 to the Notes to the Consolidated Financial Statements herein for additional details regarding the store impairment charges. Fiscal 2017 also included a $1.6 million tax benefit (reflected in income tax expense) related to the release of certain income tax reserves.

Fifty-Two Weeks Ended January 30, 2016

In the first quarter of fiscal 2016, we closed our manufacturing facility located in New Haven, Indiana. We incurred restructuring and other charges during the first quarter of fiscal 2016 of approximately $3.4 million ($2.1 million after the associated tax benefit), related to the facility closing. These pre-tax charges included:

- Severance and benefit costs of approximately $1.7 million;
- Lease termination costs of approximately $0.7 million;
- Inventory-related charges of approximately $0.6 million; and
- Other associated net costs, which include accelerated depreciation related to fixed assets, of approximately $0.4 million.

These charges are reflected in cost of sales in our Consolidated Financial Statements ($2.3 million was recognized within the Direct segment and $1.1 million was recognized within the Indirect segment). All production from the facility was absorbed by our third-party manufacturing suppliers.

Additional charges, incurred in the first quarter of fiscal 2016, totaled approximately $5.3 million ($3.3 million after the associated tax benefit). These pre-tax charges included:

- $2.8 million for store impairment charges (recognized within the Direct segment; refer to Note 3 to the Notes to the Consolidated Financial Statements herein for additional details);
- $1.3 million for a severance charge (recognized within corporate unallocated expenses); and
- $1.2 million due to a retail store early lease termination agreement (recognized within the Direct segment).

The first quarter of fiscal 2016 also included a $0.6 million tax expense (reflected in income tax expense) related to an increase in income tax reserves for uncertain federal and state tax positions related to research and development tax credits.

Tax Act

On December 22, 2017, the Tax Act was signed into law. The Tax Act includes, among other things, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, bonus depreciation that will allow for full expensing for qualified property, the transition of U.S. international taxation from a worldwide system to a territorial system with a new provision designed to tax global intangible low-taxed income (“GILTI”), and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings. As a result of the enactment of the Tax Act, we recorded $2.1 million in provisional income tax expense during the fourth quarter of fiscal 2018 based upon our understanding of the Tax Act and guidance as of the date of this filing. Any resulting changes to the provisional estimates and amounts not yet estimated will be recognized as an adjustment to tax expense in the reporting period that the amounts are determined. Refer to Note 5 to the Notes to the Consolidated Financial Statements herein for additional information regarding the Tax Act.

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Impairment Charges

Property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The reviews are conducted at the lowest identifiable level of cash flows. If the estimated undiscounted future cash flows related to the property, plant, and equipment are less than the carrying value, we recognize a loss equal to the difference between the carrying value and the fair value, as further defined in Note 2 to the Notes to the Consolidated Financial Statements herein. Impairment charges of $6.3 million, $12.7 million, and $2.8 million were recognized in the fiscal years ended February 3, 2018, January 28, 2017, and January 30, 2016, respectively, for assets related to underperforming stores and are included in selling, general, and administrative expenses in the Consolidated Statements of Income and in impairment charges in the Consolidated Statements of Cash Flows. The impairment charges are included in the Direct segment.

Fiscal 2018 Compared to Fiscal 2017

Net Revenues

For fiscal 2018, net revenues decreased $31.3 million, or 6.4%, to $454.6 million, from $485.9 million for fiscal 2017. Fiscal 2018 includes approximately $4.1 million of net revenues related to the 53rd week.

Direct. For fiscal 2018, net revenues decreased $3.4 million, or 1.0%, to $351.8 million, from $355.2 million for fiscal 2017. This change resulted from approximately $3.0 million of net revenues generated from the 53rd week in fiscal 2018 and a $17.8 million contribution of revenue from our non-comparable stores, which included seven additional stores in the current year, more than offset by a comparable sales decrease of $23.1 million, or 6.7%. The decrease in comparable sales includes a 9.3% decrease in e-commerce sales and a 5.5% decrease in comparable store sales. The decline in comparable sales was primarily due to year-over-year declines in store and e-commerce traffic. The aggregate number of full-line and factory outlet stores grew from 159 at the end of fiscal 2017 to 160 at the end of fiscal 2018, which excludes six stores closed during fiscal 2018.

Indirect. For fiscal 2018, net revenues decreased $27.9 million, or 21.3%, to $102.9 million, from $130.8 million for fiscal 2017, primarily due to a decline in orders from the Company's specialty retail accounts and certain key accounts along with a reduction in the number of specialty retail accounts. This decline was partially offset by approximately $1.1 million of net revenues generated from the 53rd week in fiscal 2018.

Gross Profit

For fiscal 2018, gross profit decreased $22.0 million, or 8.0%, to $254.0 million, from $276.0 million for fiscal 2017. As a percentage of net revenues, gross profit decreased to 55.9% for fiscal 2018, from 56.8% for fiscal 2017. The decrease as a percentage of net revenues was primarily due to increased promotional activity in our factory outlet stores, inventory adjustments taken against certain product categories in the second and third quarters of the current year, and channel mix changes, partially offset by a reduction in product cost.

Selling, General and Administrative Expenses (SG&A)

For fiscal 2018, SG&A expenses decreased $9.4 million, or 3.8%, to $239.8 million, from $249.2 million for fiscal 2017. As a percentage of net revenues, SG&A expenses were 52.7% and 51.3% for fiscal 2018 and fiscal 2017, respectively. The current-year period included $18.4 million of Vision 20/20 and other charges, which consisted of $6.4 million of employee severance charges; $6.3 million of store impairment charges; $4.6 million of strategic consulting charges; and $1.1 million for net lease termination charges and other Vision 20/20 charges. The prior-year period included $13.6 million of other items consisting of $12.7 million of store impairment charges and $0.9 million for an executive severance charge. The $4.8 million increase in SG&A expenses for fiscal 2018, as a result of the aforementioned charges, was more than offset by a $14.2 million decrease in SG&A expenses for fiscal 2018. The decrease in SG&A expenses was primarily due to a reduction in both employee-related expenses and advertising expenses, partially offset by new store expenses, including expenses associated with stores opened during fiscal 2018 and incremental expenses associated with the annualization of stores opened during fiscal 2017. SG&A expenses as a percentage of net revenues increased primarily due to SG&A expense deleverage associated with lower sales, new store expenses, and the aggregate incremental impact of the fiscal 2018 Vision 20/20 charges and other charges, partially offset by the impact of the aforementioned incremental expense savings.

Other Income

For fiscal 2018, other income decreased $0.5 million, or 41.2%, to $0.8 million, from $1.3 million for fiscal 2017, primarily due to a decrease in participation in the co-op mailer program.

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Operating Income
For fiscal 2018, operating income decreased $13.2 million, or 46.9%, to $15.0 million from $28.2 million for fiscal 2017. As a percentage of net revenues, operating income was 3.3% and 5.8% for fiscal 2018 and fiscal 2017, respectively. Operating income decreased due to the factors described above.
The following table provides additional information about our operating income (in thousands).

	Fiscal Year Ended February 3, 2018	January 28, 2017	$ Change	% Change
Operating Income:				
Direct	$60,979	$ 62,577	$(1,598)	(2.6)%
Indirect	34,763	50,955	(16,192)	(31.8)%
Less: Unallocated corporate expenses	(80,761)	(85,312)	4,551	(5.3)%
Operating income	$14,981	$ 28,220	$(13,239)	(46.9)%

Direct. For fiscal 2018, operating income decreased $1.6 million, or 2.6%. As a percentage of Direct segment net revenues, operating income in the Direct segment was 17.3% and 17.6% for fiscal 2018 and 2017, respectively. The decrease in operating income as a percentage of Direct segment net revenues was primarily due to new store expenses, a decline in the gross profit as a percentage of net revenues as described above, and deleverage of SG&A expenses due to lower sales, partially offset by lower store impairment charges and employee-related expenses as compared to the prior-year period.
Indirect. For fiscal 2018, operating income decreased $16.2 million, or 31.8%. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 33.8% and 39.0% for fiscal 2018 and 2017, respectively. The decrease in operating income as a percentage of Indirect segment net revenues was primarily due to deleverage of selling, general, and administrative expenses as a result of lower sales and a decrease in gross profit as a percentage of net revenues, as described above.
Corporate Unallocated. For fiscal 2018, unallocated expenses decreased $4.6 million, or 5.3%. The decrease in unallocated expenses was primarily due to a decrease in advertising spending and employee-related expenses principally as a result of expense management, which was associated in part with the implementation of Vision 20/20 initiatives during the third quarter. These savings were partially offset by Vision 20/20 and other charges of $9.3 million in the current-year period which consisted of $4.6 million of strategic consulting charges, $4.6 million of employee severance charges, and $0.1 million of other Vision 20/20 charges. The prior-year period included $0.9 million for an executive severance charge.
Interest (Income) Expense, Net. For fiscal 2018, net interest (income) expense increased $0.6 million, or 332.0%, to $(0.4) million, from $0.2 million in fiscal 2017. The year-over-year increase was primarily a result of interest earned on our investment portfolio which was implemented during fiscal 2018. Refer to Note 14 to the Notes to the Consolidated Financial Statements herein for additional information regarding our investments.
Income Tax Expense. For fiscal 2018, we recorded income tax expense of $8.4 million at an effective tax rate of 54.4%, compared to 29.5% for fiscal 2017. The year-over-year increase in the effective tax rate was primarily due to the relative impact of $2.1 million of net charges associated with the Tax Act enacted during the fourth quarter of fiscal 2018 along with the relative impact of permanent and discrete items, including a tax shortfall from stock-based compensation. Refer to Note 5 to the Notes to the Consolidated Financial Statements herein for additional information regarding the Tax Act. The prior-year period included a $1.6 million income tax benefit for the release of certain income tax reserves.

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Net Income
For fiscal 2018, net income decreased $12.8 million, or 64.5%, to $7.0 million from $19.8 million in fiscal 2017. The current-year period included $19.5 million ($12.3 million after the associated tax benefit) of Vision 20/20-related charges (including store impairment charges) and other charges and $2.1 million of tax expense associated with the enactment of the Tax Act, as described further in Note 5 to the Notes to the Consolidated Financial Statements herein. The comparable prior-year period included other charges (including store impairment charges) of $13.6 million ($8.6 million after the associated tax benefit), partially offset by a $1.6 million income tax benefit related to the release of certain income tax reserves.

Fiscal 2017 Compared to Fiscal 2016
Net Revenues
For fiscal 2017, net revenues decreased $16.7 million, or 3.3%, to $485.9 million, from $502.6 million for fiscal 2016.
Direct. For fiscal 2017, net revenues increased $3.9 million, or 1.1%, to $355.2 million, from $351.3 million for fiscal 2016. This change resulted from a $28.0 million contribution of revenue from our non-comparable stores, which included ten additional stores in fiscal 2017, partially offset by a comparable sales decrease of $23.7 million, or 7.0%. The decrease in comparable sales includes a 6.7% decrease in e-commerce sales and a 7.1% decrease in comparable store sales. The decline in comparable sales was primarily due to year-over-year declines in store and e-commerce traffic, as well as lower levels of promotional activity in the first quarter of fiscal 2017. The aggregate number of full-line and factory outlet stores grew from 150 at the end of fiscal 2016 to 159 at the end of fiscal 2017, which excludes one store closed at the end of the fourth quarter of fiscal 2017.
Indirect. For fiscal 2017, net revenues decreased $20.5 million, or 13.6%, to $130.8 million, from $151.3 million for fiscal 2016, primarily due to lower orders from specialty retail accounts.
Gross Profit
For fiscal 2017, gross profit decreased $5.2 million, or 1.8%, to $276.0 million, from $281.2 million for fiscal 2016. As a percentage of net revenues, gross profit increased to 56.8% for fiscal 2017, from 55.9% for fiscal 2016. The increase as a percentage of net revenues was primarily due to sourcing efficiencies (partly due to reduced overhead costs resulting from the closing of our domestic manufacturing facility), partially offset by increased promotional activity at our factory outlet stores. In addition, gross profit in the first quarter of the comparable prior-year period was impacted by restructuring charges of $3.4 million related to the closure of our manufacturing facility in the first quarter of fiscal 2016, as discussed in more detail in Note 13 to the Notes to the Consolidated Financial Statements herein.
Selling, General and Administrative Expenses (SG&A)
For fiscal 2017, SG&A expenses increased $12.4 million, or 5.2%, to $249.2 million, from $236.8 million for fiscal 2016. As a percentage of net revenues, SG&A expenses were 51.3% and 47.1% for fiscal 2017 and fiscal 2016, respectively. The increase in SG&A expenses for fiscal 2017 was primarily due to $10.0 million in incremental store impairment charges and $7.1 million in new store expenses in fiscal 2017, partially offset by a $2.7 million reduction in incentive compensation due to Company performance. In addition, the first quarter of the prior-year period included $1.2 million in expense related to a retail store early termination agreement which did not recur in fiscal 2017. SG&A expenses as a percentage of net revenues increased primarily due to the aforementioned items and fixed expenses being spread over lower comparable sales and deleveraging of store operating expenses as a result of lower comparable store sales.
Other Income
For fiscal 2017, other income decreased $1.1 million, or 43.9%, to $1.3 million, from $2.4 million for fiscal 2016, primarily due to a decrease in participation in the co-op mailer program.
Operating Income
For fiscal 2017, operating income decreased $18.5 million, or 39.6%, to $28.2 million from $46.7 million for fiscal 2016. As a percentage of net revenues, operating income was 5.8% and 9.3% for fiscal 2017 and fiscal 2016, respectively. Operating income decreased due to the factors described above.

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The following table provides additional information about our operating income (in thousands).

	Fiscal Year Ended January 28, 2017	Fiscal Year Ended January 30, 2016	$ Change	% Change
Operating Income:				
Direct	$62,577	$ 74,114	$(11,537)	(15.6)%
Indirect	50,955	60,409	(9,454)	(15.6)%
Less: Unallocated corporate expenses	(85,312)	(87,801)	2,489	(2.8)%
Operating income	$28,220	$ 46,722	$(18,502)	(39.6)%

Direct. For fiscal 2017, operating income decreased $11.5 million, or 15.6%. As a percentage of Direct segment net revenues, operating income in the Direct segment was 17.6% and 21.1% for fiscal 2017 and 2016, respectively. The decrease in operating income as a percentage of Direct segment net revenues was primarily due to $10.0 million in incremental store impairment charges, $7.1 million in new store expenses, and deleveraging of store operating expenses as a result of lower comparable store sales, partially offset by $3.5 million in restructuring and other charges related to the closure of our manufacturing facility and a retail store early termination agreement in the comparable prior-year period, as well as an increase in gross profit as a percentage of net revenues, as described above.

Indirect. For fiscal 2017, operating income decreased $9.5 million, or 15.6%. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 39.0% and 39.9% for fiscal 2017 and 2016, respectively. The decrease in operating income as a percentage of Indirect segment net revenues was primarily due to lower sales, partially offset by an increase in gross profit as a percentage of net revenues, as described above, as well as $1.1 million in restructuring charges related to the closure of our manufacturing facility in the comparable prior-year period.

Corporate Unallocated. For fiscal 2017, unallocated expenses decreased $2.5 million, or 2.8%. The decrease in unallocated expenses was primarily due to a decrease in incentive compensation as a result of Company performance.

Interest Expense, Net. For fiscal 2017, net interest expense decreased $0.1 million, or 32.3%, to $0.2 million, from $0.3 million in fiscal 2016.

Income Tax Expense. For fiscal 2017, we recorded income tax expense of $8.3 million at an effective tax rate of 29.5%, compared to 40.7% for fiscal 2016. The year-over-year decrease in the effective tax rate was primarily due to the release of approximately $1.6 million of certain income tax reserves as a result of the conclusion of an IRS audit. The prior-year period included $0.6 million of income tax reserves for uncertain tax positions related to research and development tax credits.

Net Income

For fiscal 2017, net income decreased $7.8 million, or 28.3%, to $19.8 million from $27.6 million in fiscal 2016. Fiscal 2017 included other charges (including store impairment charges) of $13.6 million ($8.6 million after the associated tax benefit), partially offset by a $1.6 million income tax benefit related to the release of certain income tax reserves. The comparable prior-year period included restructuring and other charges of $5.9 million ($3.6 million after the associated tax benefit), as described in Note 13 to the Notes to the Consolidated Financial Statements herein, and $2.8 million in store impairment charges ($1.8 million after the associated tax benefit). The prior-year period also included $0.6 million of income tax expense related to an increase in income tax reserves for uncertain federal and state tax positions.

Liquidity and Capital Resources

General

Our primary sources of liquidity are cash on hand and cash equivalents, investments, and cash flow from operations. We also have access to additional liquidity, if needed, through availability under our $125.0 million second amended and restated credit agreement. There were no borrowings under this agreement during the fiscal year ended February 3, 2018, and there was no debt outstanding as of February 3, 2018. Historically, our primary cash needs have been for merchandise inventories; payroll; store rent; capital expenditures associated with operational equipment, buildings, information technology, and opening new stores; and share repurchases. The most significant components of our working capital are cash and cash equivalents, short-term investments, merchandise inventories, accounts receivable, accounts payable, and other current liabilities.

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We believe that cash on hand and cash equivalents, cash flows from operating activities, investments, and the availability of borrowings under our second amended and restated credit agreement or other financing arrangements will be sufficient to meet working capital requirements and anticipated capital expenditures, as well as share repurchases and debt payments, if any, for the foreseeable future.

Investments

Cash Equivalents. Investments classified as cash equivalents relate to highly-liquid investments with a maturity of three months or less from the date of purchase. As of February 3, 2018, these investments in our portfolio consisted of commercial paper, a money market fund, and municipal securities.

Short-Term Investments. As of February 3, 2018, short-term investments consisted of a certificate of deposit, municipal securities, U.S. and non-U.S. corporate debt securities, and commercial paper with a maturity within one year of the balance sheet date. As of January 28, 2017, short-term investments consisted of a certificate of deposit with an original maturity of one year and a one-time option to accelerate maturity to 31 days without penalty. The certificate of deposit from fiscal 2017 matured during the first quarter of fiscal 2018.

Long-Term Investments. As of February 3, 2018, long-term investments consisted of municipal securities, U.S. and non-U.S. corporate debt securities, and U.S. treasury securities with a maturity greater than one year from the balance sheet date.

Refer to Note 14 to the Notes to the Consolidated Financial Statements herein for additional information regarding our investments.

Cash Flow Analysis

A summary of operating, investing, and financing activities is shown in the following table (in thousands):

	Fiscal Year Ended		
	February 3, 2018	January 28, 2017	January 30, 2016
Net cash provided by operating activities	$42,642	$ 65,186	$ 43,270
Net cash used in investing activities	(51,604)	(50,770)	(26,322)
Net cash used in financing activities	(8,649)	(25,715)	(31,531)

Net Cash Provided by Operating Activities

Net cash provided by operating activities consists primarily of net income adjusted for non-cash items, including depreciation, amortization, impairment charges, deferred taxes, and stock-based compensation, the effect of changes in assets and liabilities, and tenant-improvement allowances received from landlords under our store leases.

Net cash provided by operating activities was $42.6 million during fiscal 2018, as compared to $65.2 million during fiscal 2017. The decrease in cash provided by operating activities was primarily a result of a decrease in net income of $12.8 million and a change in accounts payable which resulted in a use of cash of $18.2 million as compared to a source of cash of $9.0 million in the comparable prior-year period primarily as a result of a reduction in certain inventory categories along with timing of payments. These factors were partially offset by a change in income taxes which resulted in a use of cash of $0.9 million as compared to a use of cash of $12.0 million in the comparable prior-year period and a change in inventories that resulted in a source of cash of $14.4 million as compared to a source of cash of $11.3 million in the comparable prior-year period. The inventory change was primarily due to a reduction in certain inventory categories. The income tax change was primarily a result of the timing of an $11.5 million federal income tax payment in the prior-year period.

Net income included cash payments of approximately $7.6 million as a result of Vision 20/20 initiatives in the current-year period. Refer to Note 13 to the Notes to the Consolidated Financial Statements herein for additional information.

Net cash provided by operating activities was $65.2 million during fiscal 2017, as compared to $43.3 million during fiscal 2016. The increase in cash provided by operating activities was primarily a result of the timing of inventory receipts in fiscal 2017, which resulted in a source of cash for fiscal 2017 of $11.3 million, as compared to an inventory build in the comparable prior-year period for made-for-outlet product, which resulted in a use of cash of $15.2 million in the comparable prior-year period. In addition, accounts payable resulted in a source of cash for fiscal 2017 of $9.0

million, as compared to a use of cash of $8.7 million in the comparable prior-year period, primarily due to the timing of inventory payments. These sources of cash were partially offset by a change in income taxes which resulted in a use of cash of $12.0 million in fiscal 2017 as compared to a source of cash of $12.5 million in the comparable prior-year period. The income tax change was primarily a result of the timing of an $11.5 million federal income tax payment in fiscal 2017, as well as incremental payments as a result of increased income at certain points in time during fiscal 2017.

Net Cash Used in Investing Activities

Investing activities consist primarily of short-term investments, long-term investments, and capital expenditures for growth related to new store openings, buildings, operational equipment, and information technology investments.

Net cash used in investing activities was $51.6 million in fiscal 2018, compared to $50.8 million in fiscal 2017. There was a decrease of $9.0 million in spending for property, plant, and equipment in the current-year period primarily due to a $4.2 million reduction in information technology investment spending and the construction of seven retail stores and 20 store remodels in the current-year period as compared to the construction of ten retail stores and 14 store remodels in the comparable prior-year period. In addition, there was a net use of cash of $39.8 million as a result of investment activity in the current-year period compared to a use of cash of $30.0 million in the comparable prior-year period.

Net cash used in investing activities was $50.8 million in fiscal 2017, compared to $26.3 million in fiscal 2016. The increase in cash used in investing activities was due to a $30.0 million short-term investment in a certificate of deposit made in the first quarter of fiscal 2017, partially offset by a decrease in property, plant, and equipment spending compared to the prior-year period. The decrease in property, plant, and equipment spending was primarily a result of ten new stores opened in fiscal 2017 as compared to 26 stores in the comparable prior-year period, as well as spending for the campus consolidation in the prior-year period which did not recur in fiscal 2017, partially offset by an increase in information technology investments, including spending for our e-commerce platform upgrade.

Capital expenditures for fiscal 2019 are expected to be approximately $10.0 million.

Net Cash Used in Financing Activities

Net cash used in financing activities was $8.6 million in fiscal 2018 compared to $25.7 million in fiscal 2017. The decrease in cash used in financing activities was primarily due to $7.9 million of cash purchases of our common stock under the 2015 Share Repurchase Plan in the current-year period compared to $25.0 million of cash purchases of our common stock under the 2015 Share Repurchase Plan in the prior-year period.

Net cash used in financing activities was $25.7 million in fiscal 2017 compared to $31.5 million in fiscal 2016. The decrease in cash used in financing activities was primarily due to $25.0 million of cash purchases of our common stock under the 2015 Share Repurchase Plan in fiscal 2017 compared to $30.9 million of cash purchases of our common stock under the 2015 and 2014 Share Repurchase Plans in the prior-year period.

Second Amended and Restated Credit Agreement

On July 15, 2015, Vera Bradley Designs, Inc. (“VBD”), a wholly-owned subsidiary of the Company, entered into a Second Amended and Restated Credit Agreement among VBD, the lenders from time to time party thereto, JPMorgan Chase Bank, National Association, as administrative agent, Wells Fargo Bank, National Association, as syndication agent, and KeyBank National Association, as documentation agent (the “Credit Agreement”), which amended and restated our prior credit agreement. The Credit Agreement provides for certain credit facilities to VBD in an aggregate principal amount not to initially exceed $125.0 million, the proceeds of which may be used for general corporate purposes of VBD and its subsidiaries, including but not limited to Vera Bradley International, LLC and Vera Bradley Sales, LLC (collectively, the “Named Subsidiaries”).

Amounts outstanding under the Credit Agreement bear interest, at VBD's option, at a per annum rate equal to either (A) the Alternate Base Rate (“ABR”) plus the Applicable Margin, where the ABR is the highest of (i) the prime rate, (ii) the federal funds rate plus 0.5%, and (iii) Adjusted LIBOR for a one-month interest period plus 1%, and the Applicable Margin is a percentage ranging from 0.00% to 0.70% depending upon the Company's leverage ratio or (B) Adjusted LIBOR plus the Applicable Margin, where Adjusted LIBOR means LIBOR, as adjusted for statutory reserve requirements for eurocurrency liabilities, and Applicable Margin is a percentage ranging from 1.00% to 1.70% depending upon the Company's leverage ratio. Any loans made, or letters of credit issued, pursuant to the Credit Agreement mature on July 15, 2020. As of February 3, 2018, the Company had no borrowings and availability of $125.0 million under the agreement.

VBD's obligations under the Credit Agreement are guaranteed by the Company and the Named Subsidiaries. The obligations of VBD under the Credit Agreement are secured by first priority security interests in all of the respective assets of VBD, the Company, and the Named Subsidiaries and a pledge of the equity interests of VBD and the Named Subsidiaries.

The Credit Agreement contains various restrictive covenants, including restrictions on the Company's ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to stockholders or repurchase outstanding

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stock, enter into related party transactions and make capital expenditures, other than upon satisfaction of the conditions set forth in the Credit Agreement. The Company is also required to comply with certain financial and non-financial covenants, including maintaining a maximum leverage ratio, a minimum ratio of EBITDAR to the sum of interest expense plus rentals (as defined in the Credit Agreement), and a limit on capital expenditures. Upon an event of default, which includes certain customary events such as, among other things, a failure to make required payments when due, a failure to comply with covenants, certain bankruptcy and insolvency events, a material adverse change (as defined in the Credit Agreement), defaults under other material indebtedness, and a change in control, the lenders may accelerate amounts outstanding, terminate the agreement and foreclose on all collateral.

On October 20, 2017, VBD entered into Amendment No. 2 (the "Amendment") to the Credit Agreement. The Amendment modifies the ratio requirements of certain financial covenants in the Credit Agreement including the maximum leverage ratio and the minimum ratio of EBITDAR to the sum of interest expense plus rentals (as defined in the Credit Agreement). The Amendment also modifies certain restrictive covenants including the acquisition of investments and the limit of investments in foreign subsidiaries. The Company was in compliance with these covenants as of February 3, 2018.

Contractual Obligations

We enter into long-term contractual obligations and commitments in the normal course of business, primarily non-cancellable operating leases. As of February 3, 2018, our contractual cash obligations over the next several periods are as follows:

	Payments Due by Period (4)				
($ in thousands)	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Operating leases (1)	$203,577	$ 32,778	$ 62,561	$ 53,374	$ 54,864
Purchase obligations (2)	37,435	37,435	—	—	—
Deemed mandatory repatriation tax (3)	345	345	—	—	—
Total	$241,357	$ 70,558	$ 62,561	$ 53,374	$ 54,864

(1) Our store leases are generally ten years with varying renewal options. Our future operating lease obligations would change if we were to extend these leases, terminate these leases early or if we were to enter into new operating leases. As part of our Vision 20/20 initiatives, we are forecasting to close up to an additional 45 full-line stores by fiscal 2021. These potential closures are not reflected in the table until an agreement with the landlord has been reached.

(2) Purchase obligations consist primarily of inventory purchases.

(3) The Company has elected to pay the U.S. federal tax on deemed mandatory repatriation, associated with the Tax Act, when its fiscal 2018 federal income tax return is filed in fiscal 2019.

(4) Due to the uncertainty with respect to the timing of future cash flows associated with our uncertain tax positions at February 3, 2018, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities. Therefore, $0.1 million of uncertain tax positions have been excluded from the contractual obligations table above.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing or unconsolidated special purpose entities.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of our assets, liabilities, revenues, and expenses, as well as the disclosures relating to contingent assets and liabilities at the date of the consolidated financial statements. We evaluate our accounting policies, estimates, and judgments on an on-going basis. We base our estimates and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

We evaluate the development and selection of our critical accounting policies and estimates and believe that the following policies and estimates involve a higher degree of judgment or complexity and are most significant to reporting our results of operations and financial position, and are therefore discussed as critical. The following critical accounting policies reflect the significant estimates and judgments used in the preparation of our consolidated financial statements. With respect to critical accounting policies, even a relatively minor variance between actual and expected experience can potentially have a materially favorable or unfavorable impact on subsequent results of operations. Our historical results for the periods presented in the consolidated financial statements, however, have not been materially impacted by such variances. More information on all of our significant accounting policies can be found in Note 2, "Summary of Significant Accounting Policies," to the consolidated financial statements.

Revenue Recognition

Revenue from the sale of our products is recognized upon customer receipt of the product when collection of the associated receivables is reasonably assured, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and ownership and risk of loss have been transferred to the customer, which, for e-commerce and most Indirect sales, reflects an estimate of shipments that customers have not yet received. The adjustment of these shipments is based on actual delivery dates to the customer. Significant changes in shipping terms or delivery times could materially impact our revenues in a given period.

We reserve for projected merchandise returns based on historical experience and other assumptions that we believe to be reasonable. In the Direct business, returns are refunded by issuing the same payment tender of the original purchase and in the Indirect business the customer is issued a credit to its account to apply to outstanding invoices. Merchandise exchanges of the same product at the same price are not considered merchandise returns. Product returns are often resalable through our annual outlet sale or other channels. Additionally, we reserve for customer allowances for certain Indirect retailers based upon various contract terms and other potential product credits granted to Indirect retailers. The balance of the reserve for returns, customer shipments not yet received, and retailer credits was $3.3 million and $6.2 million as of February 3, 2018, and January 28, 2017, respectively.

We sell gift cards with no expiration dates to customers and do not charge administrative fees on unused gift cards. Gift cards that we issue are recorded as a liability until they are redeemed, at which point revenue is recognized. In addition, we recognize revenue on unredeemed gift cards when the likelihood of the gift card being redeemed is remote and there is no legal obligation to remit the value of unredeemed gift cards to the relevant jurisdictions. We determine the gift card breakage rate based on historical redemption patterns. During each of the fiscal years ended February 3, 2018, January 28, 2017, and January 30, 2016, the Company recorded $0.3 million of revenue related to gift card breakage.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out ("FIFO") method. Appropriate consideration is given to obsolescence, excess quantities, and other factors, including the popularity of a pattern or product, in evaluating net realizable value. We record valuation adjustments to our inventories, which are reflected in cost of sales, if the cost of specific inventory items on hand exceeds the amount we expect to realize from the ultimate sale or disposal of the inventory. This adjustment calculation requires us to make assumptions and estimates, which are based on factors such as merchandise seasonality, historical trends, and estimated sales and inventory levels, including sell-through of remaining units. In addition, as part of inventory adjustments, we provide for inventory shrinkage based on historical trends from our physical inventory counts. We perform physical inventory counts throughout the year and adjust the shrinkage provision accordingly.

The balance of inventory adjustments was $2.7 million and $2.6 million for these matters as of the fiscal years ended February 3, 2018, and January 28, 2017, respectively. The balance related primarily to certain collections being discontinued or currently discontinued by the Company and retired patterns. Inventory adjustments during fiscal 2018 primarily related to product categories being discontinued, partially offset by the sell-through of certain reserved inventory categories. We have the ability to move retired finished goods through a number of channels, including the annual outlet sale, our website and online outlet site, factory outlet stores, and through third-party liquidators as needed.

Income Taxes

Our effective tax rate is based on our pre-tax income, statutory tax rates, tax laws and regulations, and tax planning opportunities available in the jurisdictions in which we operate. Significant judgment is required in determining our annual tax expense and in evaluating our tax positions. We establish reserves to remove some or all of the tax benefit of any of our tax positions at the time we determine that the positions become uncertain based upon one of the following: (1) the tax position is not "more likely than not" to be sustained; (2) the tax position is "more likely than not" to be sustained, but for a lesser amount; or (3) the tax position is "more likely than not" to be sustained, but not in the financial period in which the tax position was originally taken. Taxing authorities periodically audit our income tax returns. We believe that our tax filing positions are reasonable and legally supportable. Taxing authorities, however, may take a contrary position. Our results of operations and effective tax rate in a given period could be impacted if, upon final resolution with taxing authorities, we prevail in positions for which we have established reserves, or are required to pay amounts in excess of established reserves. The balance of the gross amount of unrecognized tax benefits (excluding interest and penalties) was $0.1 million, $0.9 million, and $3.1 million as of February 3, 2018, January 28, 2017, and January 30, 2016, respectively. A benefit of $0.5 million, a benefit of $1.9 million, and an expense of $0.1 million was recognized in income tax expense for these matters during the fiscal years ended February 3, 2018, January 28, 2017, and January 30, 2016, respectively.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act includes, among other things, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, bonus depreciation that will allow for full expensing for qualified property, the transition of U.S. international taxation from a worldwide system to a territorial system with a new provision designed to tax global intangible low-taxed income ("GILTI"), and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings. As a result of the enactment of the Tax Act, we recorded $2.1 million in provisional income tax expense during the fourth quarter of fiscal 2018 based upon our understanding of the Tax Act and guidance as of the date of this filing. Any resulting changes to the provisional estimates and amounts not yet estimated will be recognized as an adjustment to tax expense in the reporting period that the amounts are determined. Refer to Note 5 to the Notes to the Consolidated Financial Statements herein for additional information regarding the Tax Act.

Valuation of Long-lived Assets

Property, plant, and equipment assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating an asset for recoverability, we estimate the future cash flows expected to result from the use of the asset at the store level, the lowest identifiable level of cash flow, if applicable. If the sum of the estimated undiscounted future cash flows related to the asset is less than the carrying value, we recognize a loss equal to the difference between the carrying value and the fair value, usually determined by an estimated discounted cash flow analysis of the asset. Factors used in the valuation of long-lived assets include, but are not limited to, our plans for future operations, brand initiatives, recent operating results, and projected future cash flows. With respect to our stores, we analyze store economics, location within the shopping center, the size and shape of the space, and desirable co-tenancies in our selection process. Impairment charges are classified in SG&A expenses and were $6.3 million, $12.7 million, and $2.8 million for the periods ended February 3, 2018, January 28, 2017, and January 30, 2016, respectively.

The discounted cash flow models used to estimate the applicable fair values involve numerous estimates and assumptions that are highly subjective. Changes to these estimates and assumptions could materially impact the fair value estimates. The estimates and assumptions critical to the overall fair value estimates include: (1) estimated future cash flow generated at the store level; and (2) discount rates used to derive the present value factors used in determining the fair values. These and other estimates and assumptions are impacted by economic conditions and our expectations and may change in the future based on period-specific facts and circumstances. If economic conditions were to deteriorate, future impairment charges may be required.

Transactions with Related Parties

See Item 13, "Certain Relationships and Related Transactions, and Director Independence," of this report for information regarding transactions with related parties.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are subject to interest rate risk in connection with borrowings under our second amended and restated credit agreement, which bear interest at variable rates. The second amended and restated credit agreement allows for a revolving credit commitment of $125.0 million, bearing interest at a variable rate, based on (A) the ABR plus the Applicable Margin, where the ABR is the highest of (i) the prime rate, (ii) the federal funds rate plus 0.5%, and (iii) Adjusted LIBOR for a one-month interest period plus 1%, and the Applicable Margin is a percentage ranging from 0.00% to 0.70% depending upon the Company's leverage ratio or (B) Adjusted LIBOR plus the Applicable Margin, where Adjusted LIBOR means LIBOR, as adjusted for statutory reserve requirements for eurocurrency liabilities, and Applicable Margin is a percentage ranging from 1.00% to 1.70% depending upon the Company's leverage ratio. Assuming borrowings available under the second amended and restated credit agreement are fully extended, each quarter point increase or decrease in the interest rate would change our annual interest expense by approximately $0.3 million.

Impact of Inflation

Our results of operations and financial condition are presented based on historical cost. Although it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial.

Foreign Exchange Rate Risk

We source a majority of our materials from various suppliers primarily in China and South Korea. Substantially all purchases and sales involving foreign persons are denominated in U.S. dollars, and therefore we do not hedge using any derivative instruments. Historically, we have not been impacted materially by changes in exchange rates.

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Item 8. Financial Statements and Supplementary Data
Vera Bradley, Inc.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
Vera Bradley, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Vera Bradley, Inc. and subsidiaries (the “Company”) as of February 3, 2018 and January 28, 2017, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of February 3, 2018 and January 28, 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 3, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 3, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP
Indianapolis, Indiana
April 3, 2018

We have served as the Company’s auditor since calendar 2016.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
Vera Bradley, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Vera Bradley, Inc and subsidiaries (the "Company") as of February 3, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 3, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended February 3, 2018, of the Company and our report dated April 3, 2018, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
Indianapolis, Indiana
April 3, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Vera Bradley, Inc.

We have audited the accompanying consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year in the period ended January 30, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of their operations and their cash flows for year in the period ended January 30, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP
Indianapolis, Indiana
March 29, 2016

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Vera Bradley, Inc.
Consolidated Balance Sheets
(in thousands)

	February 3, 2018	January 28, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 68,751	$ 86,375
Short-term investments	54,150	30,152
Accounts receivable, net	15,566	23,313
Inventories	87,838	102,283
Income taxes receivable	4,391	3,217
Prepaid expenses and other current assets	11,327	10,237
Total current assets	242,023	255,577
Property, plant, and equipment, net	86,463	101,577
Long-term investments	15,515	—
Deferred income taxes	5,385	13,539
Other assets	1,283	2,816
Total assets	$ 350,669	$ 373,509
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable	$ 13,503	$ 32,619
Accrued employment costs	13,616	12,474
Other accrued liabilities	12,343	16,906
Income taxes payable	812	508
Total current liabilities	40,274	62,507
Long-term liabilities	25,112	27,216
Total liabilities	65,386	89,723
Commitments and contingencies		
Shareholders’ equity:		
Preferred stock; 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, without par value; 200,000 shares authorized, 41,102 and 40,927 shares issued and 35,459 and 36,218 outstanding, respectively	—	—
Additional paid-in capital	91,192	88,739
Retained earnings	270,783	263,767
Accumulated other comprehensive loss	(114)	(50)
Treasury stock	(76,578)	(68,670)
Total shareholders’ equity	285,283	283,786
Total liabilities and shareholders’ equity	$ 350,669	$ 373,509

The accompanying notes are an integral part of these consolidated financial statements.

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Vera Bradley, Inc.
Consolidated Statements of Income
(in thousands, except per share data)

	Fiscal Year Ended		
	February 3, 2018	January 28, 2017	January 30, 2016
Net revenues	$454,648	$ 485,937	$ 502,598
Cost of sales	200,639	209,891	221,409
Gross profit	254,009	276,046	281,189
Selling, general, and administrative expenses	239,810	249,155	236,836
Other income	782	1,329	2,369
Operating income	14,981	28,220	46,722
Interest (income) expense, net	(413)	178	263
Income before income taxes	15,394	28,042	46,459
Income tax expense	8,378	8,284	18,901
Net income	$7,016	$ 19,758	$ 27,558
Basic weighted-average shares outstanding	35,925	36,838	38,795
Diluted weighted-average shares outstanding	36,026	36,970	38,861
Basic net income per share	$0.20	$ 0.54	$ 0.71
Diluted net income per share	$0.19	$ 0.53	$ 0.71

The accompanying notes are an integral part of these consolidated financial statements.

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Vera Bradley, Inc.
Consolidated Statements of Comprehensive Income
(in thousands)

	Fiscal Year Ended		
	February 3, 2018	January 28, 2017	January 30, 2016
Net income	$7,016	$ 19,758	$ 27,558
Unrealized loss on available for sale investments	(51)	—	—
Cumulative translation adjustment	(13)	(7)	(28)
Comprehensive income, net of tax	$6,952	$ 19,751	$ 27,530

The accompanying notes are an integral part of these consolidated financial statements.

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Vera Bradley, Inc.
Consolidated Statements of Shareholders' Equity
($ in thousands, except share data)

	Number of Shares						
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Equity
Balance at January 31, 2015	40,074,310	620,985	$80,992	$216,451	$ (15)	$(12,957)	$284,471
Net income	—	—	—	27,558	—	—	27,558
Translation adjustments	—	—	—	—	(28)	—	(28)
Restricted shares vested, net of repurchase for taxes	108,228	—	(583)	—	—	—	(583)
Stock-based compensation	—	—	5,027	—	—	—	5,027
Treasury stock purchased	(2,481,367)	2,481,367	—	—	—	(31,190)	(31,190)
Balance at January 30, 2016	37,701,171	3,102,352	$85,436	$244,009	$ (43)	$(44,147)	$285,255
Net income		—	—	19,758	—	—	19,758
Translation adjustments	—	—	—	—	(7)	—	(7)
Restricted shares vested, net of repurchase for taxes	123,002	—	(729)	—	—	—	(729)
Stock-based compensation	—	—	4,032	—	—	—	4,032
Treasury stock purchased	(1,606,102)	1,606,102	—	—	—	(24,523)	(24,523)
Balance at January 28, 2017	36,218,071	4,708,454	$88,739	$263,767	$ (50)	$(68,670)	$283,786
Net income	—	—	—	7,016	—	—	7,016
Translation adjustments	—	—	—	—	(13)	—	(13)
Unrealized loss on available for sale investments	—	—	—	—	(51)	—	(51)
Restricted shares vested, net of repurchase for taxes	174,985	—	(618)	—	—	—	(618)
Stock-based compensation	—	—	3,071	—	—	—	3,071
Treasury stock purchased							