Vera Bradley, Inc.
Form 10-K
April 02, 2019

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

FORM 10-K

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x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended February 2, 2019
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 (State or other jurisdiction of incorporation or organization)	27-2935063 (I.R.S. Employer Identification No.)
12420 Stonebridge Road, Roanoke, Indiana (Address of principal executive offices)	46783 (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 every Interactive Data File required to be submitted 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 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. x

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	¨	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 August 4, 2018 was $308,855,957.

The registrant had 34,164,831 shares of its common stock outstanding as of March 26, 2019.

DOCUMENT INCORPORATED BY REFERENCE:

Portions of the registrant’s definitive proxy statement for the 2019 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Vera Bradley, Inc. intends to file such proxy statement with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after its fiscal year ended February 2, 2019.

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 2, 2019 ("fiscal 2019") and January 28, 2017 ("fiscal 2017") were each 52-week periods. February 3, 2018 ("fiscal 2018") was a 53-week period. The fiscal year ending February 1, 2020 ("fiscal 2020") 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 in Fort Wayne, Indiana, the brand's innovative designs, iconic patterns, and brilliant colors continue to inspire and connect women.

Vera Bradley offers a unique 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; and the Company's annual outlet sale in Fort Wayne. As of February 2, 2019, the Company operated 99 full-line stores and 57 factory outlet stores. The Indirect business consists of sales of Vera Bradley products to approximately 2,300 specialty retail locations, department stores, national accounts, third-party e-commerce sites, and third-party inventory liquidators, as well as royalties recognized through licensing agreements. For financial information about our reportable segments, refer to Note 16 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 some 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.

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 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.

2018 – We launched customization on verabradley.com; were named “Vendor of the Year” by Giftbeat; and partnered with “Blessings in Backpack” to host nationwide events for at-risk children.

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 by the end of fiscal 2021. 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. During fiscal 2019, the key focus areas of Vision 20/20 were moving to a significantly less clearance-driven business model and increasing full-price selling, meaningfully reducing selling, general, and administrative (“SG&A”) expenses and cost of sales expenses, maximizing retention of our customer base, and driving cash flow from operations.

Clearance Reduction, Product Offerings, and Assortment Guardrails. To move to a significantly less clearance driven business model, we focused on three key product and pricing initiatives: reducing the amount of clearance merchandise offered, narrowing our current product offerings, and introducing tighter assortment guardrails.

During fiscal 2019, we significantly reduced the amount of clearance merchandise offered on verabradley.com and in our full-line stores 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. This site is marketed to certain members of our customer base. During fiscal 2019, we reduced our clearance activity on verabradley.com and our full-line stores by approximately 70% and increased comparable full-price selling in these two channels by over 20%.

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We are continuing to focus on our best categories and narrowing our current product offering by eliminating unproductive or incongruent categories and SKUs from our assortments. We began to narrow our product offerings in fiscal 2018 and discontinued our fragrance and jewelry collections in the spring of fiscal 2019.
We have built 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 product and pricing initiatives negatively affected revenues in fiscal 2019, but we believe these are the right actions to take for the future health of our business.
Expense Reduction. We also continued to reduce SG&A and cost of sales expenses. 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. These initiatives continued into fiscal 2019 where we continued to identify corporate efficiencies, closely monitored our marketing spending to ensure our return was optimized, and reduced store operating expenses by closing ten full-line stores. We have closed a total of 15 underperforming full-line stores and one underperforming factory outlet store since the beginning of fiscal 2018 and forecast that we will close up to an additional 30 full-line stores by the end of fiscal 2022, primarily as leases expire.
Our reduced level of clearance activity, combined with other efforts in sourcing and distribution, drove a meaningful year-over-year gross margin rate improvement.
Customer Retention. While, as expected, our overall customer count was down in the mid-single digit range for the fiscal year due to the dramatic reduction in clearance promotions and lower than anticipated factory traffic, the customer count in our full-line stores and on verabradley.com exceeded our expectations. In addition, a higher percentage of new customers entered the brand through full-price purchasing.
Driving Cash Flows. During fiscal 2019, we generated operating cash flow of $43.6 million and increased our cash and investment position by nearly $20 million compared to the prior-year period, while completing over $16 million in share repurchases.
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 are focused on creating thoughtful solutions for our customers and believe we have a great opportunity to attract more customers 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 our customers thoughtful solutions that we believe will propel our future growth. We are continuing to optimize 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. 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 six new factory outlet stores in fiscal 2019 and

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suspended full-line store growth. We have closed a total of 15 underperforming full-line stores and one underperforming factory outlet store since the beginning of fiscal 2018 and forecast that we will close up to an additional 30 full-line stores by fiscal 2022, primarily as leases expire.

We plan to open six new factory outlet stores in fiscal 2020. At February 2, 2019, over 95% of the product in the outlet channel was made specifically for our factory outlet stores.

In 2006, we began selling directly to consumers through verabradley.com. Building our digital flagship remains a key part of our distribution strategy. 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 2019, we had approximately 44 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 new product assortments. We are currently in approximately 560 department store locations, including Dillard's, Macy's, 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.

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. We continued to increase our brand awareness in fiscals 2018 and 2019 through our "digital first" strategy by partnering with key influencers and leveraging social media channels. During fiscal 2019, we emphasized marketing on our full-price offerings and less on our clearance and sale.

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 customers and attracts both lapsed and new consumers to our brand. Our media efforts include a fully-integrated mix of digital, social, experiential, and print, with our goal being to surround consumers with our brand.

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 more frequent purchases.

Customer Loyalty. The Vera Bradley brand is authentic and has a deep connection with its customers. 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 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 monthly. 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 fiscals 2019, 2018, and 2017.

	Fiscal Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Bags	41.1 %	40.6 %	42.8 %
Travel	25.8 %	26.1 %	24.5 %
Accessories	22.3 %	22.0 %	21.9 %
Home	7.1 %	6.8 %	5.7 %
Other [(1)]	3.7 %	4.5 %	5.1 %
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 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 customers, with knowledge of upcoming color, material, consumer, and fashion trends to design new collections, as well as new product categories, which 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 print and sometimes a secondary coordinating print. All print development is managed by our internal print design team. 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 design team works to ensure that new collections contain an assortment of products and styles that are in line with both trends and customer needs and regularly updates classic styles to enhance functionality. Our team monitors fashion trends and customer needs by attending major trend and industry shows in Europe, Asia, and the United States, subscribing to trend monitoring services, and engaging in comparison-shopping.

Our product development team works closely with our marketing and merchandising teams to gather consumer insights through a variety of methodologies, including seasonal market research, in-store testing, scheduled interviews, and online and in-person surveys conducted by our internal team. The design and product development teams ensure that we offer products that are constructed to meet our design, function, construction, and quality standards in a cost-effective manner. We believe that with our cross-functional, collaborative approach, we are able to introduce and market our products 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, licensing agreements, and brand collaborations. We currently have licenses in place for eyewear, collegiate, bedding, hosiery, swimwear, technology accessories, stationery, health care uniforms and accessories, sleepwear and loungewear, and bath 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, Magnolia Journal, Garden & Gun, InStyle, and Southern Living. 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 Modern Family, 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. During fiscal 2019, we partnered with the non-profit organization “Blessings in a Backpack” and a variety of celebrity co-hosts to provide carnival themed charity events at seven elementary schools across the country. We donated 25,000 backpacks filled with food supplies for children in need.

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 5.5 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 2, 2019, we had nearly 1.9 million Facebook fans and approximately 80,000 Twitter followers. Our Instagram, which we launched in October 2012, has grown to approximately 420,000 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 2, 2019, we operated 99 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 2019, over 95% of the merchandise found in our factory outlet stores consisted of factory exclusive styles. 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 2, 2019, we operated 57 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 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 3,500 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 3,200 square feet per store, and we expect to invest approximately $0.5 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. During the third quarter of fiscal 2018, we created an online outlet site to reduce clearance sales from verabradley.com. We continue to assess our website for potential upgrades and enhancements, ensuring optimal design and performance. We had approximately 44 million visits to verabradley.com and our online outlet site during fiscal 2019.

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 over 45,000 attendees to our 2018 annual outlet sale.

Indirect Segment

As of February 2, 2019, we sold our products in approximately 2,300 specialty retail locations, as well as department stores, national accounts, third party e-commerce sites, and third-party inventory liquidators, as well as through licensing agreements. In fiscal 2012, we launched our products in the department store channel. We are currently in approximately 560 department store locations, including Dillard's, Macy's, Belk, and Von Maur.

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 2019, 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 2, 2019, our in-house sales team consisted of approximately 25 full-time sales consultants. Beginning in fiscal 2019, the compensation structure was 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 distinctive.

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. Our sourcing team also focuses on achieving the right mix of production sites to mitigate the risk of concentrated production, including potential incremental tariffs. During fiscal 2019, to assist in this risk mitigation, our sourcing team reduced our production in China from approximately 70% in fiscal 2018 to approximately 54% in fiscal 2019.

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.

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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

We own a 428,500 square-foot distribution center in Roanoke, Indiana. 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 to fulfill a particular order. The facility’s technology enables us to 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; however, we continue to assess our distribution center processes and technology to ensure optimal output.

Our products are shipped primarily via third-party common carriers to our stores, our Indirect retailers, 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 continue to assess our on premise and cloud-based technology solutions to ensure we have the optimal solutions for our business.

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.

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

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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 1,000 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 2, 2019, we had approximately 2,620 employees. Of the total, approximately 2,045 were engaged in retail selling positions, approximately 280 were engaged in distribution, sourcing and quality functions, approximately 35 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	53	Chief Executive Officer, President and Director
John Enwright	46	Chief Financial Officer
Daren Hull	45	Chief Customer Officer
Kevin Korney	49	Chief Merchandising Officer
Beatrice Mac Cabe	40	Chief Creative Officer
Stephanie Scheele	42	Chief Marketing Officer
Mark C. Dely	43	Chief Administrative & Legal Officer and Corporate Secretary
Mary Beth Trypus	53	Chief Sales Officer

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.

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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.

Daren Hull has served as our Chief Customer Officer since July 2018 and is responsible for all sales, marketing, and digital initiatives. Prior to joining Vera Bradley, Mr. Hull served as Senior Vice President, Stores and West Elm Digital for Williams-Sonoma where he evolved the technology and customer experience from November 2016 until July 2018. Between November 2015 and September 2016, he served as Chief Operating Officer of Outdoor Voices where, among other things, he developed the team, process, programs, and infrastructure to drive revenue growth. Between July 2015 and November 2015 he served as SVP Global eCommerce, Head of Disruptive Innovation at PepsiCo and between January 2012 and April 2015, he served as General Manager for MyHabitat at Amazon. Mr. Hull gained additional experience with L'Oreal and Guthy-Renker.

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. From 2013 until joining Vera Bradley, Ms. Mac Cabe served as Vice President, Chief Creative Director at Fossil 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 was named Chief Marketing Officer in April 2018 and before that 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 has spent over 15 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 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.

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. 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 Executive Vice President 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 Senior Vice President 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 by the end of fiscal 2021. 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, political turmoil, 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, and our annual outlet sale in Fort Wayne, Indiana; and through our Indirect wholesale business which consists of sales to specialty retail locations, department stores, national accounts, third party e-commerce sites,

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third-party inventory liquidators, as well as royalties recognized 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 prospects include 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 2020. As part of our Vision 20/20 initiatives, we have closed a total of 15 underperforming full-line stores and one underperforming factory outlet store since the beginning of fiscal 2018 and forecast that we will close up to an additional 30 full-line stores by the end of fiscal 2022, primarily as leases expire. We have closed 19 underperforming stores since December 2014. We plan to open six new factory outlet stores during fiscal 2020 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;

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- timing of marketing campaigns or promotions;
- 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.

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 the transmission of 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, including back-up systems, 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 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.

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Closing stores could result in significant costs to us.

Since December 2014, we have closed 19 underperforming stores. We have closed a total of 15 underperforming full-line stores and one underperforming factory outlet store since the beginning of fiscal 2018 and forecast that we will close up to an additional 30 full-line stores by the end of fiscal 2022, 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;
- 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.

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.

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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.
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.

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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. We 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. 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. 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.

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.

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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, 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 departures 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.

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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 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, 28.6% of our outstanding shares of common stock as of February 2, 2019. 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.

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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;
- 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 2, 2019. The leases on the leased properties expire at various times through 2029, 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 2, 2019, we also leased 162 store locations in the United States, including six store locations opened or to be opened in fiscal 2020. See below for more information regarding the locations of our open stores as of February 2, 2019.
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 2, 2019:

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	1	—	Mississippi	—	1
California	3	—	Missouri	2	2
Colorado	3	1	Nebraska	—	1
Connecticut	2	1	Nevada	—	1
Delaware	1	1	New Jersey	8	2
Florida	6	8	New York	8	4
Georgia	1	2	North Carolina	1	4
Hawaii	1	1	Ohio	4	1
Illinois	6	1	Oklahoma	2	1
Indiana	2	2	Pennsylvania	5	3
Iowa	1	1	Rhode Island	1	—
Kansas	1	—	South Carolina	—	2
Kentucky	2	1	Tennessee	3	2
Louisiana	2	—	Texas	13	6
Maryland	4	—	Virginia	3	2

Massachusetts	4	1	Wisconsin	1	1
Michigan	5	2	Totals	99	57

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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 incidental 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”.

As of March 27, 2019, we had approximately 30 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 2015 Share Repurchase program was completed on November 27, 2018. On November 29, 2018, the Company's board of directors approved a new share repurchase plan (the “2018 Share Repurchase Program”) authorizing up to $50.0 million of repurchases of shares of the Company's common stock. The 2018 Share Repurchase Program is scheduled to expire on December 14, 2020.

During the fiscal year ended February 2, 2019, the Company purchased and held 1,293,138 shares at an average price of $12.58 per share, excluding commissions, for an aggregate amount of $16.3 million. Of these purchases, 320,296 shares at an average price of $8.86 per share, for an aggregate amount of $2.8 million, were purchased under the 2018 Share Repurchase Plan.

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.

As of February 2, 2019, there was $47.2 million remaining available to repurchase shares of the Company's common stock under the 2018 Share Repurchase Program.

As of February 2, 2019, the Company held as treasury shares 6,935,623 shares of its common stock at an average price of $13.39 per share, excluding commissions, for an aggregate carrying amount of $92.8 million. The Company’s treasury shares may be issued under the 2010 Equity and Incentive Plan or for other corporate purposes.

Details on the shares repurchased under the 2015 and 2018 Share Repurchase Programs during the thirteen weeks ended February 2, 2019 are as follows:

Period [(1)]	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
November 4, 2018 - December 1, 2018	188,976	$ 12.22	188,976	$ —
December 2, 2018 - January 5, 2019	159,400	8.48	159,400	48,647,810
January 6, 2019 - February 2, 2019	160,896	9.24	160,896	47,161,294
	509,272	$ 10.11	509,272	

(1) The Company began repurchasing shares under the 2018 Share Repurchase Program
in December 2018.

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 1, 2014, and February 2, 2019, 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 1, 2014, 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	2/1/2014	1/31/2015	1/30/2016	1/28/2017	2/3/2018	2/2/2019
Vera Bradley, Inc.	$ 100.00	$ 79.39	$ 61.53	$ 48.29	$ 38.84	$ 36.88
S&P 500 Index	$ 100.00	$ 114.22	$ 113.46	$ 137.14	$ 168.46	$ 168.36
S&P 500 Apparel, Accessories, and Luxury Goods Index	$ 100.00	$ 103.68	$ 86.86	$ 74.01	$ 94.47	$ 88.04

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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 2, 2019 and February 3, 2018 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 30, 2016, and January 31, 2015, and selected balance sheet data as of January 28, 2017, January 30, 2016, and January 31, 2015, are derived from our audited consolidated financial statements that are not included elsewhere in this report. 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 2, 2019	February 3, 2018	January 28, 2017	January 30, 2016	January 31, 2015
Consolidated Statement of Income Data [2]:					
Net revenues	$416,097	$454,648	$485,937	$502,598	$508,990
Cost of sales	177,510	200,639	209,891	221,409	239,981
Gross profit	238,587	254,009	276,046	281,189	269,009
Selling, general, and administrative expenses [3]	211,984	239,810	249,155	236,836	208,675
Other income	498	782	1,329	2,369	3,736
Operating income	27,101	14,981	28,220	46,722	64,070
Interest (income) expense, net	(1,125)	(413)	178	263	407
Income from continuing operations before income taxes	28,226	15,394	28,042	46,459	63,663
Income tax expense [4]	7,469	8,378	8,284	18,901	22,828
Income from continuing operations	20,757	7,016	19,758	27,558	40,835
Loss from discontinued operations, net of taxes	—	—	—	—	(2,386)
Net income	$20,757	$7,016	$19,758	$27,558	$38,449
Basic weighted-average shares outstanding	35,222	35,925	36,838	38,795	40,568
Diluted weighted-average shares outstanding	35,467	36,026	36,970	38,861	40,632
Net income (loss) per share - basic					
Continuing operations	$0.59	$0.20	$0.54	$0.71	$1.01
Discontinued operations	—	—	—	—	(0.06)
Net income per share	$0.59	$0.20	$0.54	$0.71	$0.95
Net income (loss) per share - diluted					
Continuing operations	$0.59	$0.19	$0.53	$0.71	$1.00
Discontinued operations	—	—	—	—	(0.06)
Net income per share	$0.59	$0.19	$0.53	$0.71	$0.95
Net Revenues by Segment [2]:					
Direct	$328,034	$351,786	$355,175	$351,286	$335,602
Indirect	88,063	102,862	130,762	151,312	173,388
Total	$416,097	$454,648	$485,937	$502,598	$508,990
Store Data [5]:					
Total stores open at end of year	156	160	159	150	125
Comparable sales (including e-commerce) decrease [6]	(10.3)%	(6.7)%	(7.0)%	(10.6)%	(7.6)%
Total gross square footage at end of year	379,792	377,861	368,640	342,362	278,779
Average net revenues per gross square foot [7]	$635	$640	$642	$703	$760

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($ in thousands)	As of February 2, 2019	February 3, 2018	January 28, 2017	January 30, 2016	January 31, 2015
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$113,493	$ 68,751	$ 86,375	$ 97,681	$ 112,292
Short-term investments	19,381	54,150	30,152	—	—
Working capital	208,912	201,749	193,070	187,090	204,648
Long-term investments	23,735	15,515	—	—	—
Total assets	362,148	350,669	373,509	380,679	377,284
Shareholders' equity	294,703	285,283	283,786	285,255	284,471

(1) The Company utilizes a 52-53 week fiscal year. Fiscal year 2018 consisted of 53 weeks. Fiscal years 2019, 2017, 2016, and 2015 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 in fiscal 2018.

(2) Refer to Notes 3 and 14 to the Notes to the Consolidated Financial Statements herein for accounting standard adoption and charges affecting the comparability of results.

(3) Impairment charges, related to underperforming stores, totaled $6.3 million, $12.7 million, $2.8 million, and $0.4 million, during the fiscal years ended February 3, 2018, January 28, 2017, January 30, 2016, and January 31, 2015, respectively. There were no impairment charges during the fiscal year ended February 2, 2019.

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

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

(6) Comparable sales are calculated based upon stores that have been open for at least 12 full fiscal months and net revenues from 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.

(7) 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.

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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, fiscal 2019 was the first full year of our Vision 20/20 strategic plan, which we began implementing in the third quarter of fiscal 2018. During fiscal 2019, our key focus areas were on product and pricing initiatives, SG&A and cost of sales expense reductions, maximizing retention of our customer base, and driving cash flow from operations. We also achieved various strategic product, distribution, and marketing initiatives.

Strategic Progress

- We made progress on our Vision 20/20 initiatives, including:
  - Reducing clearance activity in our full-line stores and on verabradley.com by approximately 70% and increasing comparable full-price selling in these two channels by over 20%;
  - Reducing SG&A expenses to our targeted level of $212 million during fiscal 2019, which reflects the closure of ten underperforming full-line stores and various expense management initiatives;
  - Exceeding our customer count retention expectations in our full-line stores and on verabradley.com, despite the reduction in clearance promotions. As expected, our overall customer count was down in the mid-single digit range for fiscal 2019; and
  - Generating operating cash flow of $43.6 million.
- We made progress in the product area, including:
  - Implementing tighter assortment guardrails around categories, patterns, and pricing assuring the right fit for our brand and that our products reflect our core attributes of comfortable, casual, and affordable;
  - Driving full-price selling by focusing on our top ten styles, solids, and category dominance in our signature categories like back-to-campus and travel;
  - Implementing processes that allow us to extend full-price selling periods and accelerate retirement as needed;
  - Continuing to expand our licensing program by entering into new agreements for a loungewear and soft bath collection, as well as expanding distribution of our licensed stationery and health-care apparel merchandise;
  - Reducing the impact of China tariffs by decreasing our reliance on China and increasing production in duty-free countries. Our production in China decreased from approximately 70% in fiscal 2018 to approximately 54% in fiscal 2019; and
  - Launching customization, where our customers can design their own duffel, hipster, tote, or shoulder bag.
- We made progress in the distribution area, including:
  - Opening six factory outlet stores;
  - Beginning to experiment with new store formats and customized product assortments;
  - Completing the rollout of our online outlet site which began in fiscal 2018; and
  - Continuing to segregate Vera Bradley from the online discount-driven marketplace by exiting our partnership with eBay.
- In the marketing area, we continued to increase brand awareness through our "digital first" strategy by focusing our marketing on high-quality placements and targeted digital efforts, with an emphasis on full-price offerings. Total impressions were up more than 50% to over 2.1 billion for the fiscal year. We also entered into several successful social media collaborations with our license partners and influencers, as well as partnered with "Blessings in a Backpack" to host nationwide events for at-risk children.

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Financial Summary

Fiscal 2019 was a 52-week period compared to fiscal 2018 which was a 53-week period.

- Net revenues were $416.1 million in fiscal 2019 compared to $454.6 million in fiscal 2018. The extra week in fiscal 2018 added approximately $4.1 million to net revenues.
- Direct segment sales were $328.0 million in fiscal 2019 compared to $351.8 million in fiscal 2018. The extra week in fiscal 2018 added approximately $3.0 million to net revenues. Comparable sales for fiscal 2019 decreased 10.3%.
- Indirect segment sales were $88.1 million in fiscal 2019 compared to $102.9 million in fiscal 2018. The extra week in fiscal 2018 added approximately $1.1 million to net revenues.
- Gross profit was $238.6 million (57.3% of net revenue) in fiscal 2019 compared to $254.0 million (55.9% of net revenue) in fiscal 2018.
- SG&A expenses were $212.0 million (50.9% of net revenue) in fiscal 2019 compared to $239.8 million (52.7% of net revenue) in fiscal 2018.
- Operating income was $27.1 million (6.5% of net revenue) in fiscal 2019 compared to $15.0 million (3.3% of net revenue) in fiscal 2018.
- Net income was $20.8 million in fiscal 2019 compared to $7.0 million in fiscal 2018.
- Diluted net income per share was $0.59 in fiscal 2019 compared to $0.19 in fiscal 2018. 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.
- Income tax expense was negatively impacted by a $2.1 million net charge related to the Tax Cuts and Jobs Act (“Tax Act”) for fiscal 2018.
- Cash, cash equivalents, and investments were $156.6 million at February 2, 2019 compared to $138.4 million at February 3, 2018.
- Capital expenditures for fiscal 2019 totaled $8.1 million compared to $11.8 million for fiscal 2018.
- Repurchases of common stock for fiscal 2019 totaled $16.3 million, or 1.3 million shares, compared to $7.9 million, or 0.9 million shares, in fiscal 2018.

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, and our annual outlet sale in Fort Wayne, Indiana. Revenues for the Indirect segment reflect sales to approximately 2,300 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:

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- 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
- Timing and success of promotional and advertising efforts.

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; tariffs; and labor costs.

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

SG&A expenses include selling; advertising, marketing, and product development; and administrative expenses. Selling expenses include Direct business expenses such as store expenses, employee compensation, and store occupancy and supply costs, including store impairment charges, 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.

Other Income

Other income includes certain legal settlements, proceeds from the sales of tickets to our annual outlet sale, and sales tax credits received for timely filings. In addition, 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.

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 2, 2019	February 3, 2018	January 28, 2017
Statement of Income Data:			
Net revenues	$416,097	$454,648	$485,937
Cost of sales	177,510	200,639	209,891
Gross profit	238,587	254,009	276,046
Selling, general, and administrative expenses [2]	211,984	239,810	249,155
Other income	498	782	1,329
Operating income	27,101	14,981	28,220
Interest (income) expense, net	(1,125)	(413)	178
Income before income taxes	28,226	15,394	28,042
Income tax expense [3]	7,469	8,378	8,284
Net income [4]	$20,757	$7,016	$19,758
Percentage of Net Revenues:			
Net revenues	100.0 %	100.0 %	100.0 %
Cost of sales	42.7 %	44.1 %	43.2 %
Gross profit	57.3 %	55.9 %	56.8 %
Selling, general, and administrative expenses	50.9 %	52.7 %	51.3 %
Other income	0.1 %	0.2 %	0.3 %
Operating income	6.5 %	3.3 %	5.8 %
Interest (income) expense, net	(0.3)%	(0.1)%	— %
Income before income taxes	6.8 %	3.4 %	5.8 %
Income tax expense	1.8 %	1.8 %	1.7 %
Net income	5.0 %	1.5 %	4.1 %

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 2, 2019	February 3, 2018	January 28, 2017
Net Revenues by Segment:			
Direct	$328,034	$351,786	$355,175
Indirect	88,063	102,862	130,762
Total	$416,097	$454,648	$485,937
Percentage of Net Revenues by Segment:			
Direct	78.8 %	77.4 %	73.1 %
Indirect	21.2 %	22.6 %	26.9 %
Total	100.0 %	100.0 %	100.0 %

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	Fiscal Year Ended February 2, 2019	February 3, 2018	January 28, 2017
Store Data [5]:			
Total stores opened during period	6	7	10
Total stores closed during period	(10)	(6)	(1)
Total stores open at end of period	156	160	159
Comparable sales (including e-commerce) decrease [6]	(10.3)%	(6.7)%	(7.0)%
Total gross square footage at end of period	379,792	377,861	368,640
Average net revenues per gross square foot [7]	$635	$ 640	$ 642

(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 2019 and 2017 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 in fiscal 2018.

(2) Impairment charges, related to underperforming stores, totaled $6.3 million and $12.7 million during the fiscal years ended February 3, 2018 and January 28, 2017, respectively. There were no impairment charges recorded during the fiscal year ended February 2, 2019.

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

(4) Refer to Notes 3 and 14 to the Notes to the Consolidated Financial Statement herein for accounting standard adoption and charges affecting the comparability of results.

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

(6) Comparable sales are calculated based upon stores that have been open for at least 12 full fiscal months and net revenues from 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.

(7) 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.

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 system. 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 timely resolved this incident and continue to work with a computer security firm to further strengthen the security of our systems to help prevent events of this nature from happening in the future. We promptly notified the payment card networks so that the banks that issue payment cards could initiate heightened monitoring on the affected cards. As of the date of this filing, we have resolved all claims associated with this incident and do not expect any material changes to our exposure.

Expenses Incurred and Amounts Accrued

During the fiscal years ended February 2, 2019, 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 fiscals 2019 and 2018 and costs to investigate the Payment Card Incident and obtain legal and other professional services during fiscal 2017. There were no incremental expenses associated with the claims received in fiscals 2019 or 2018 as they were reimbursed under our insurance coverage. The insurance deductible was accrued during fiscal 2017.

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Future Costs
We believe there are no outstanding amounts due with respect to this matter.
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 by the end of fiscal 2021. This plan is primarily focused on product and pricing initiatives, as well as SG&A 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. These initiatives negatively impacted fiscal 2019 revenues.
The SG&A expense reduction initiatives include right-sizing our corporate infrastructure to better align with the size of the business, optimizing our marketing spending by focusing on efficiencies while keeping our most loyal customer engaged, and taking a more aggressive stance on reducing store operating costs and closing underperforming full-line stores. We reduced SG&A expenses by $23.5 million in fiscal 2019 (based off of our fiscal 2017 base level and excluding severance, store impairment, and Vision 20/20 charges from all periods). We have closed a total of 15 underperforming full-line stores and one underperforming factory outlet store since the beginning of fiscal 2018 and forecast that we will close up to an additional 30 full-line stores by the end of fiscal 2022, primarily as leases expire.
The implementation of the plan began in the third quarter of fiscal 2018, with the majority of the product and pricing initiatives completed in the current fiscal year. The SG&A expense reductions began in the third quarter of fiscal 2018, largely aimed at right-sizing our corporate infrastructure. There have been $16.7 million of pre-tax Vision 20/20-related charges ($10.6 million after the associated tax benefit) since inception, all of which were recognized during fiscal 2018. There were no Vision 20/20-related charges during 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 4 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

Other Charges Affecting Comparability of the Fifty-Two Weeks Ended February 2, 2019, Fifty-Three Weeks Ended February 3, 2018, and Fifty-Two Weeks Ended January 28, 2017

Fifty-Three Weeks Ended February 3, 2018

Other charges recognized in SG&A 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 as described below.

Fifty-Two Weeks Ended January 28, 2017

Other charges recognized in SG&A 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 4 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.

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 allows 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 the fiscal 2018 filing. There were no material changes to the provisional estimates upon completion of the accounting during fiscal 2019. Refer to Note 6 to the Notes to the Consolidated Financial Statements herein for additional information regarding the Tax Act.

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 and \$12.7 million were recognized in the fiscal years ended February 3, 2018 and January 28, 2017, respectively, for assets related to underperforming stores and are included in SG&A 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. There were no impairment charges recorded during the fiscal year ended February 2, 2019.

Revenue from Contracts with Customers

We adopted Accounting Standards Codification (“ASC”) Topic 606 beginning in the first quarter of fiscal 2019 using the modified retrospective adoption method. The adoption of this standard impacted fiscal 2019 beginning retained earnings by \$0.5 million. As a result of the adoption of ASC Topic 606 using the modified retrospective method, the financial statements from the prior-year periods are not reported under ASC Topic 606 which affects the comparability of the Consolidated Financial Statements. The primary impacts from the adoption of the standard are that we are no longer reversing sales associated with shipments not yet received by customers, gift card breakage revenue recognition is accelerated, a change in the method of recognizing minimum guaranteed royalties in certain licensing agreements, and the re-classification of certain liabilities for estimated product returns to other accrued liabilities from a contra-asset within accounts receivable, net, in the current-year period. Refer to Note 3 to the Notes to the Consolidated Financial Statements herein for additional information, as well as what the reported financial results would have been under prior accounting principles generally accepted in the United States (“GAAP”).

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Fiscal 2019 Compared to Fiscal 2018

Net Revenues

For fiscal 2019, net revenues decreased $38.5 million, or 8.5%, to $416.1 million, from $454.6 million for fiscal 2018. Fiscal 2018 includes approximately $4.1 million of net revenues related to the 53rd week. The adoption of ASC 606 benefited the current-year period by $1.5 million.

Direct. For fiscal 2019, net revenues decreased $23.8 million, or 6.8%, to $328.0 million, from $351.8 million for fiscal 2018. This change resulted from a $14.0 million contribution of revenue from our non-comparable stores, which included six additional factory outlet stores in the current year, more than offset by a comparable sales decrease of $34.5 million, or 10.3%, and approximately $3.0 million of net revenues generated from the 53rd week in fiscal 2018. The decrease in comparable sales includes a 24.7% decrease in e-commerce sales and a 4.2% decrease in comparable store sales. Comparable sales (particularly for verabradley.com) were negatively impacted by the planned reduction in clearance activity. The aggregate number of full-line and factory outlet stores decreased from 160 at the end of fiscal 2018 to 156 at the end of fiscal 2019. The Company closed ten stores during the current year.

The adoption of ASC 606 negatively impacted Direct segment net revenues in the current-year period by $0.1 million.

Indirect. For fiscal 2019, net revenues decreased $14.8 million, or 14.4%, to $88.1 million, from $102.9 million for fiscal 2018, primarily due to a decline in orders from the Company's specialty retail accounts and certain key accounts, as well as approximately $1.1 million of net revenues generated from the 53rd week in fiscal 2018.

The adoption of ASC 606 benefited Indirect segment net revenues in the current-year period by $1.6 million primarily due to the timing of shipments to customers as a result of changes in the frequency of product launches compared to the prior-year period.

Gross Profit

For fiscal 2019, gross profit decreased $15.4 million, or 6.1%, to $238.6 million, from $254.0 million for fiscal 2018. As a percentage of net revenues, gross profit increased to 57.3% for fiscal 2019, from 55.9% for fiscal 2018. The increase as a percentage of net revenues was primarily due to reduced clearance activity and increased full-price selling on verabradley.com and in our full-line stores, freight and shipping savings, channel mix changes, and a reduction in product costs. The prior year included certain reserves taken against slow-moving inventory in the second quarter and adjustments taken against certain inventory categories as a result of Vision 20/20 initiatives in the third quarter that did not recur in the current year.

The adoption of ASC 606 benefited the current-year period gross profit by $0.8 million primarily due to the factors described above.

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

For fiscal 2019, SG&A expenses decreased $27.8 million, or 11.6%, to $212.0 million, from $239.8 million for fiscal 2018. As a percentage of net revenues, SG&A expenses were 50.9% and 52.7% for fiscal 2019 and fiscal 2018, respectively. The decrease in SG&A expenses was primarily due to expenses incurred in the prior-year period that did not recur in the current-year period that provided savings of approximately $18.4 million, of which $6.4 million related to severance expenses, $6.3 million related to store impairment charges, and $4.6 million related to strategic consulting charges. In addition, there were approximately $9.4 million in expense reductions due in part to expense management strategies associated with Vision 20/20, including a $4.7 million decrease in employee-related expenses and a $2.2 million decrease in depreciation expenses. SG&A expenses as a percentage of net revenues decreased primarily due to the aforementioned expense savings, partially offset by SG&A expense deleverage associated with lower sales.

Other Income

For fiscal 2019, other income decreased $0.3 million, or 36.3%, to $0.5 million, from $0.8 million for fiscal 2018, primarily due to a decrease in participation in the co-op mailer program.

Operating Income

For fiscal 2019, operating income increased $12.1 million, or 80.9%, to $27.1 million from $15.0 million for fiscal 2018. As a percentage of net revenues, operating income was 6.5% and 3.3% for fiscal 2019 and fiscal 2018, respectively. Operating income increased due to the factors described above.

The adoption of ASC 606 benefited the current-year period operating income by $0.8 million 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 February 2, 2019	February 3, 2018	$ Change	% Change
Operating Income:				
Direct	$67,862	$ 60,979	$6,883	11.3 %
Indirect	34,500	34,763	(263)	(0.8)%
Less: Unallocated corporate expenses	(75,261)	(80,761)	5,500	(6.8)%
Operating income	$27,101	$ 14,981	$12,120	80.9 %

Direct. For fiscal 2019, operating income increased $6.9 million, or 11.3%. As a percentage of Direct segment net revenues, operating income in the Direct segment was 20.7% and 17.3% for fiscals 2019 and 2018, respectively. The increase in operating income as a percentage of Direct segment net revenues was primarily due to $6.3 million in store impairment charges incurred in the prior-year period that did not recur in the current-year period, a $5.9 million reduction in employee-related expenses due in part to expense management strategies associated with Vision 20/20, and a reduction of $1.6 million in depreciation expense primarily as a result of prior-year store impairment charges. In addition, there was an increase in gross margin as a percentage of net revenues. These benefits were partially offset by SG&A expense deleverage associated with lower sales.

The adoption of ASC 606 negatively impacted the current-year period Direct segment operating income by $0.1 million.

Indirect. For fiscal 2019, operating income decreased $0.3 million, or 0.8%. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 39.2% and 33.8% for fiscals 2019 and 2018, respectively. The increase in operating income as a percentage of Indirect segment net revenues was primarily due to an increase in gross margin as a percentage of net revenues, a reduction in employee-related expenses, and severance expenses incurred in the prior-year period that did not recur in the current-year period, as described above, partially offset by SG&A expense deleverage associated with lower sales.

The adoption of ASC 606 benefited the current-year period Indirect segment operating income by $0.9 million due to the factors described above.

Corporate Unallocated. For fiscal 2019, unallocated expenses decreased $5.5 million, or 6.8%. The decrease in unallocated expenses was primarily due to expenses from the prior-year period that did not recur in the current-year period, including $4.6 million in severance charges and $4.6 million in strategic consulting charges. These savings were partially offset by an increase in incentive compensation expense of approximately $2.5 million primarily as a result of Company performance.

Interest Income, Net

For fiscal 2019, net interest income increased $0.7 million, or 172.4%, to $1.1 million, from $0.4 million in fiscal 2018. The year-over-year increase was primarily a result of interest earned on our investment portfolio and certificates of deposit. Refer to Note 15 to the Notes to the Consolidated Financial Statements herein for additional information regarding our investments.

Income Tax Expense

For fiscal 2019, we recorded income tax expense of $7.5 million at an effective tax rate of 26.5%, compared to 54.4% for fiscal 2018. The year-over-year decrease in the effective tax rate was primarily due to a decreased annual effective tax rate as a result of the reduction in the U.S. corporate income tax rate to 21% from 35%, and the relative impact of $2.1 million of net charges in the prior-year period associated with the Tax Act enacted during the fourth quarter. Refer to Note 6 to the Notes to the Consolidated Financial Statements herein for additional information regarding the Tax Act.

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Net Income

For fiscal 2019, net income increased $13.8 million, or 195.9%, to $20.8 million from $7.0 million in fiscal 2018 due to the factors described above. The prior-year period included severance charges of $6.6 million, store impairment charges of $6.3 million; strategic consulting charges of $4.6 million; inventory adjustments of $0.9 million; and net lease termination charges and other Vision 20/20 charges of $1.1 million ($12.3 million collectively after the associated tax benefit) that did not recur in the current-year period. There was an additional $2.1 million recorded in income tax expense in the prior-year period related to the Tax Act.

The adoption of ASC 606 benefited the current-year period net income by $0.6 million due to the factors described above.

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 fiscal 2018, 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 fiscal 2018, 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. Fiscal 2018 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	Fiscal Year Ended 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 fiscals 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 fiscals 2018 and 2017, respectively. The decrease in operating income as a percentage of Indirect segment net revenues was primarily due to deleverage of SG&A 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 fiscal 2018 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 15 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 6 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.

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. Fiscal 2018 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 6 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.

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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 $75.0 million asset-based revolving credit agreement (the "New Credit Agreement") which we entered into on September 7, 2018. Through September 6, 2018, we had access to additional liquidity under our $125.0 million second amended and restated credit agreement (the "Prior Credit Agreement"). There were no borrowings under the New Credit Agreement or Prior Credit Agreement during the fiscal year ended February 2, 2019, and there was no debt outstanding as of February 2, 2019.

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.

We believe that cash on hand and cash equivalents, cash flows from operating activities, investments, and the availability of borrowings under our New Credit Agreement or other financing arrangements will be sufficient to meet working capital requirements and anticipated capital expenditures, as well as share repurchases and other strategic uses of cash, if any, 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 2, 2019, these investments consisted of commercial paper and a money market fund. As of February 3, 2018, these investments also included municipal securities.

Short-Term Investments. As of February 2, 2019, short-term investments consisted of U.S. and non-U.S. corporate debt securities, municipal securities, U.S. treasury securities, and commercial paper with a maturity within one year of the balance sheet date. As of February 3, 2018, short-term investments consisted of U.S. and non-U.S. corporate debt securities, municipal securities, commercial paper, and a certificate of deposit.

Long-Term Investments. As of February 2, 2019, long-term investments consisted of U.S. and non-U.S. corporate debt securities, U.S. and non-U.S. asset-backed securities, and municipal securities with a maturity greater than one year from the balance sheet date. As of February 3, 2018, these investments consisted of U.S. and non-U.S. corporate debt securities, municipal securities, and U.S. treasury securities.

Refer to Note 15 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 2, 2019	February 3, 2018	January 28, 2017
Net cash provided by operating activities	$43,564	$ 42,642	$ 65,186
Net cash provided by (used in) investing activities	17,955	(51,604)	(50,770)
Net cash used in financing activities	(16,771)	(8,649)	(25,715)

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 $43.6 million during fiscal 2019, as compared to $42.6 million during fiscal 2018. The increase in cash provided by operating activities was primarily a result of the change in income taxes and accrued and other liabilities which resulted in a $4.9 million and $0.1 million source of cash in the current-year period, respectively as compared to a use of cash of $0.9 million and $5.4 million in the comparable prior-year period, respectively. These factors were partially offset by the change in accounts receivable which resulted in a $0.4 million source of cash as compared to a $7.3 million source of cash in the comparable prior-year period, primarily a result of timing and a decrease in Indirect segment net revenues, and an increase of $13.8 million in net income, more than offset by a reduction of $17.1 million in non-cash and cash adjustments. The change in non-cash and cash adjustments was primarily a result of non-cash deferred income taxes and store impairment charges.

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.

Cash payments of approximately $7.6 million were made as a result of Vision 20/20 initiatives during the fiscal 2018 period. Refer to Note 14 to the Notes to the Consolidated Financial Statements herein for additional information.

Net Cash Provided by (Used in) Investing Activities

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

Net cash provided by investing activities was $18.0 million in fiscal 2019, compared to net cash used in investing activities of $51.6 million in fiscal 2018. The increase in cash provided by investing activities was primarily a result of net investment activity related to debt securities and certificates of deposit in the current-year period compared to the comparable prior-year period.

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 fiscal 2018 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 fiscal 2018 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 fiscal 2018 compared to a use of cash of $30.0 million in the comparable prior-year period.

Capital expenditures for fiscal 2020 are expected to be approximately $13.0 million.

Net Cash Used in Financing Activities

Net cash used in financing activities was $16.8 million in fiscal 2019 compared to $8.6 million in fiscal 2018. The increase in cash used in financing activities was primarily due to an increase in cash purchases of our common stock under the 2015 Share Repurchase Plan and purchases of stock under the 2018 Share Repurchase Plan.

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 fiscal 2018 compared to $25.0 million of cash purchases of our common stock under the 2015 Share Repurchase Plan in the prior-year period.

New Credit Agreement

On September 7, 2018, Vera Bradley Designs, Inc. (“VBD”), a wholly-owned subsidiary of the Company, entered into an asset-based revolving Credit Agreement (the “New Credit Agreement”) among VBD, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders from time to time party thereto. The New Credit Agreement provides for certain credit facilities to VBD in an aggregate principal amount not to initially exceed the lesser of $75.0 million or the amount of borrowing availability determined in accordance with a borrowing base of certain assets. Any proceeds of the credit facilities will be used to finance 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”). The New Credit Agreement also contains an option for VBD to arrange with lenders to increase the aggregate principal amount by up to $25.0 million.

Amounts outstanding under the New Credit Agreement bear interest at a per annum rate equal to either (i) for CBFR borrowings (including swingline loans), the CB Floating Rate, where the CB Floating Rate is the prime rate which shall never be less than the adjusted one month LIBOR rate on such day, plus the Applicable Rate, where the Applicable Rate is a percentage spread ranging from -1.00% to -1.50% or (ii) for each eurodollar borrowing, the Adjusted LIBO Rate, where the

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Adjusted LIBO Rate is the LIBO rate for such interest period multiplied by the statutory reserve rate, for the interest period in effect for such borrowing, plus the Applicable Rate, where the Applicable Rate is a percentage ranging from 1.00% to 1.30%. The applicable CB Floating Rate, Adjusted LIBO Rate, or LIBO Rate shall be determined by the administrative agent. The New Credit Agreement also requires VBD to pay a commitment fee for the unused portion of the revolving facility of up to 0.20% per annum.

VBD's obligations under the New Credit Agreement are guaranteed by the Company and the Named Subsidiaries. The obligations of VBD under the New Credit Agreement are secured by substantially all of the respective assets of VBD, the Company, and the Named Subsidiaries and are further secured by the equity interests in VBD and the Named Subsidiaries.

The New Credit Agreement contains various affirmative and negative covenants, including restrictions on the Company's ability to incur debt or liens; engage in mergers or consolidations; make certain investments, acquisitions, loans, and advances; sell assets; enter into certain swap agreements; pay dividends or make distributions or make other restricted payments; engage in certain transactions with affiliates; and amend, modify, or waive any of its rights related to subordinated indebtedness and certain charter and other organizational, governing, and material agreements. The Company may avoid certain of such restrictions by meeting payment conditions defined in the New Credit Agreement. The Company was in compliance with these covenants as of February 2, 2019.

The New Credit Agreement also requires the loan parties, as defined in the New Credit Agreement, to maintain a minimum fixed charge coverage ratio of 1.00 to 1.00 during periods when borrowing availability is less than the greater of (A) $7.5 million, and (B) 10% of the lesser of (i) the aggregate revolving commitment, and (ii) the borrowing base. The fixed charge coverage ratio, availability, aggregate revolving commitment, and the borrowing base are further defined in the New Credit Agreement.

The New Credit Agreement contains customary events of default, including, among other things: (i) the failure to pay any principal, interest, or other fees under the New Credit Agreement; (ii) the making of any materially incorrect representation or warranty; (iii) the failure to observe or perform any covenant, condition, or agreement in the New Credit Agreement or related agreements; (iv) a cross default with respect to other material indebtedness; (v) bankruptcy and insolvency events; (vi) unsatisfied material final judgments; (vii) Employee Retirement Income Security Act of 1974 ("ERISA") events that could reasonably be expected to have a material adverse effect; and (viii) a change in control (as defined in the New Credit Agreement).

Any commitments made under the New Credit Agreement mature on September 7, 2023.

On July 15, 2015, VBD entered into the 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 "Prior Credit Agreement"). The Prior Credit Agreement provided for certain credit facilities to VBD in an aggregate principal amount not to initially exceed $125.0 million, the proceeds of which could 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. The Prior Credit Agreement was terminated concurrently with entering into the New Credit Agreement.

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 2, 2019, our contractual cash obligations over the next several periods are as follows:

	Payments Due by Period [3]				
($ in thousands)	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Operating leases [1]	$187,664	$ 32,658	$ 61,724	$ 48,183	$ 45,099
Purchase obligations [2]	49,667	49,667	—	—	—
Total	$237,331	$ 82,325	$ 61,724	$ 48,183	$ 45,099

(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 30 additional full-line stores by fiscal 2022. Additional 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) Due to the uncertainty with respect to the timing of future cash flows associated with our uncertain tax positions at February 2, 2019, 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

Vera Bradley product sales to Direct and Indirect customers, including amounts billed to customers for shipping fees, as well as royalties from our licensing arrangements, are included in net revenues. Costs related to shipping of product are classified in cost of sales in the Consolidated Statements of Income. We have elected to treat shipping and handling activities that occur after the customer has obtained control of a good as an activity to fulfill the promise to transfer the product rather than as an additional promised service. Net revenues exclude sales taxes collected from customers and remitted to governmental authorities from the transaction price.

Revenue from the sale of our products is recognized when control of the promised goods or services is transferred to customers, in the amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Revenue is recognized using the five-step model identified in Accounting Standards Codification (“ASC”) Topic 606. These steps are: (i) identify the contract with the customer; (ii) identify the performance obligations; (iii) determine the transaction price; (iv) allocate the transaction price to each performance obligation; and (v) recognize revenue as the performance obligations are satisfied.

We collect payment at the point of sale for full-line and factory outlet store transactions and upon shipment for e-commerce transactions. We generally collect payment in arrears in accordance with established payment terms for each customer within the Indirect segment.

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 and retailer credits was $1.9 million and $3.3 million as of February 2, 2019, and February 3, 2018, respectively. The balance as of February 3, 2018 included reserves for shipments to customers not yet received.

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

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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 $0.6 million and $2.7 million for these matters as of the fiscal years ended February 2, 2019, and February 3, 2018, respectively. The balance related primarily to certain collections being discontinued or currently discontinued by the Company and retired patterns. In the current-year period, the Company has significantly reduced the amount of clearance activity and increased full-price purchasing which helped to decrease the amount of necessary inventory reserves. The change in inventory adjustments during fiscal 2019 primarily related to 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, $0.1 million, and $0.9 million as of February 2, 2019, February 3, 2018, and January 28, 2017, respectively. Benefits of $17 thousand, $0.5 million, and $1.9 million were recognized in income tax expense for these matters during the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017, respectively.

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 allows 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 the fiscal 2018 filing. There were no material changes to the provisional estimates upon completion of the accounting during fiscal 2019. Refer to Note 6 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 and $12.7 million for the periods ended February 3, 2018 and January 28, 2017, respectively. There were no impairment charges recorded for the period ended February 2, 2019.

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

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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 asset-based revolving credit agreement (the “New Credit Agreement”). The New Credit Agreement allows for a revolving credit commitment of $75.0 million, bearing interest at a variable rate, based on a per annum rate equal to either (i) for CBFR borrowings (including swingline loans), the CB Floating Rate, where the CB Floating Rate is the prime rate which shall never be less than the adjusted one month LIBOR rate on such day, plus the Applicable Rate, where the Applicable Rate is a percentage spread ranging from -1.00% to -1.50% or (ii) for each eurodollar borrowing, the Adjusted LIBO Rate, where the Adjusted LIBO Rate is the LIBO rate for such interest period multiplied by the statutory reserve rate, for the interest period in effect for such borrowing, plus the Applicable Rate, where the Applicable Rate is a percentage ranging from 1.00% to 1.30%. The applicable CB Floating Rate, Adjusted LIBO Rate, or LIBO Rate shall be determined by the administrative agent. Assuming borrowings available under the New Credit Agreement are fully extended at $75.0 million, each quarter point increase or decrease in the interest rate would change our annual interest expense by approximately $0.2 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.
Index to Consolidated Financial Statements

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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 2, 2019 and February 3, 2018, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended February 2, 2019, 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 2, 2019 and February 3, 2018, and the results of its operations and its cash flows for each of the three years in the period ended February 2, 2019, 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 2, 2019, 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 2, 2019, 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 2, 2019

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 2, 2019, 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 2, 2019, 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 2, 2019, of the Company and our report dated April 2, 2019, 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 2, 2019

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

	February 2, 2019	February 3, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 113,493	$ 68,751
Short-term investments	19,381	54,150
Accounts receivable, net	15,604	15,566
Inventories	91,581	87,838
Income taxes receivable	809	4,391
Prepaid expenses and other current assets	11,600	11,327
Total current assets	252,468	242,023
Property, plant, and equipment, net	77,951	86,463
Long-term investments	23,735	15,515
Deferred income taxes	6,724	5,385
Other assets	1,270	1,283
Total assets	$ 362,148	$ 350,669
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 14,595	$ 13,503
Accrued employment costs	13,316	13,616
Other accrued liabilities	13,482	12,343
Income taxes payable	2,163	812
Total current liabilities	43,556	40,274
Long-term liabilities	23,889	25,112
Total liabilities	67,445	65,386
Commitments and contingencies		
Shareholders		