Vera Bradley, Inc.
Form 10-Q
December 06, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended October 28, 2017
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From to
Commission File Number: 001-34918

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

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

(877) 708-8372
(Registrant’s telephone number, including area code)
None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

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 registrant had 35,482,734 shares of its common stock outstanding as of November 29, 2017.

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FORWARD-LOOKING STATEMENTS

This 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 refer 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," and "li 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. 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;
- 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 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 our Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

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.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	October 28, 2017	January 28, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 71,272	$ 86,375
Short-term investments	21,733	30,152
Accounts receivable, net	27,380	23,313
Inventories	100,121	102,283
Income taxes receivable	3,589	3,217
Prepaid expenses and other current assets	10,948	10,237
Total current assets	235,043	255,577
Property, plant, and equipment, net	89,230	101,577
Long-term investments	15,052	—
Deferred income taxes	13,532	13,539
Other assets	1,548	2,816
Total assets	$ 354,405	$ 373,509
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 21,001	$ 32,619
Accrued employment costs	13,054	12,474
Other accrued liabilities	15,128	16,906
Income taxes payable	964	508
Total current liabilities	50,147	62,507
Long-term liabilities	26,319	27,216
Total liabilities	76,466	89,723
Commitments and contingencies		
Shareholders' equity:		
Preferred stock; 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, without par value; 200,000 shares authorized, 41,099 and 40,927 shares issued and 35,670 and 36,218 shares outstanding, respectively	—	—
Additional paid-in-capital	90,651	88,739
Retained earnings	262,270	263,767
Accumulated other comprehensive loss	(48)	(50)
Treasury stock	(74,934)	(68,670)
Total shareholders' equity	277,939	283,786
Total liabilities and shareholders' equity	$ 354,405	$ 373,509

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net revenues	$114,095	$ 126,662	$322,648	$ 351,088
Cost of sales	50,266	53,749	142,826	150,131
Gross profit	63,829	72,913	179,822	200,957
Selling, general, and administrative expenses	63,511	61,831	181,029	178,512
Other income	144	320	574	1,117
Operating income (loss)	462	11,402	(633)	23,562
Interest (income) expense, net	(122)	59	(257)	170
Income (loss) before income taxes	584	11,343	(376)	23,392
Income tax expense	225	2,563	1,121	7,085
Net income (loss)	$359	$ 8,780	$(1,497)	$ 16,307
Basic weighted-average shares outstanding	35,885	36,557	36,081	37,045
Diluted weighted-average shares outstanding	35,959	36,682	36,081	37,173
Basic net income (loss) per share	$0.01	$ 0.24	$(0.04)	$ 0.44
Diluted net income (loss) per share	$0.01	$ 0.24	$(0.04)	$ 0.44

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net income (loss)	$ 359	$ 8,780	$(1,497)	$ 16,307
Unrealized (loss) gain on available-for-sale investments	(22)	—	12	—
Cumulative translation adjustment	7	(2)	(10)	(5)
Comprehensive income (loss), net of tax	$ 344	$ 8,778	$(1,495)	$ 16,302

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

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Vera Bradley, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016
Cash flows from operating activities		
Net (loss) income	$(1,497)	$ 16,307
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation of property, plant, and equipment	14,992	14,542
Impairment charges	5,852	2,214
Provision for doubtful accounts	138	330
Stock-based compensation	2,522	3,111
Deferred income taxes	7	1,187
Cash gain on investments	154	—
Other non-cash charges (gain), net	38	(78)
Changes in assets and liabilities:		
Accounts receivable	(4,205)	(6,808)
Inventories	2,162	17,844
Prepaid expenses and other assets	670	(2,326)
Accounts payable	(11,085)	(5,381)
Income taxes	84	(11,707)
Accrued and other liabilities	(2,341)	(2,741)
Net cash provided by operating activities	7,491	26,494
Cash flows from investing activities		
Purchases of property, plant, and equipment	(8,923)	(17,430)
Purchases of investments	(44,412)	(30,000)
Proceeds from maturities and sales of investments	37,600	—
Proceeds from disposal of property, plant, and equipment	—	8
Net cash used in investing activities	(15,735)	(47,422)
Cash flows from financing activities		
Tax withholdings for equity compensation	(610)	(647)
Repurchase of common stock	(6,126)	(23,210)
Payments of debt-issuance costs	(113)	—
Other financing activities, net	—	(27)
Net cash used in financing activities	(6,849)	(23,884)
Effect of exchange rate changes on cash and cash equivalents	(10)	(5)
Net decrease in cash and cash equivalents	(15,103)	(44,817)
Cash and cash equivalents, beginning of period	86,375	97,681
Cash and cash equivalents, end of period	$71,272	$ 52,864
Supplemental disclosure of cash flow information		
Cash paid for income taxes, net	$852	$ 19,458
Supplemental disclosure of non-cash activity		
Non-cash operating, investing, and financing activities		
Repurchase of common stock		
Expenditures incurred but not yet paid as of October 28, 2017 and October 29, 2016	$138	$ 535

Expenditures incurred but not yet paid as of January 28, 2017 and January 30, 2016	$—	$ 436
Purchases of property, plant, and equipment		
Expenditures incurred but not yet paid as of October 28, 2017 and October 29, 2016	$1,779	$ 2,774
Expenditures incurred but not yet paid as of January 28, 2017 and January 30, 2016	$2,204	$ 2,872

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

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Vera Bradley, Inc.
Notes to the Condensed Consolidated Financial Statements
(unaudited)

1. Description of the Company and Basis of Presentation

The terms “Company” and “Vera Bradley” refer to Vera Bradley, Inc. and its subsidiaries, except where the context requires otherwise or where otherwise indicated.

Vera Bradley is a leading designer of women’s handbags, luggage and travel items, fashion and home accessories, and unique gifts. Founded in 1982 by friends Barbara Bradley Baekgaard and Patricia R. Miller, the brand’s innovative designs, iconic patterns, and brilliant colors 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, direct-to-consumer eBay sales, and the Company's annual outlet sale in Fort Wayne, Indiana. As of October 28, 2017, the Company operated 112 full-line stores and 52 factory outlet stores. The Indirect business consists of sales of Vera Bradley products to approximately 2,400 specialty retail locations, substantially all of which are located in the United States, as well as department stores, national accounts, third-party e-commerce sites, the Company's wholesale customer in Japan, third-party inventory liquidators, and licensing.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted as permitted by such rules and regulations. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 28, 2017, filed with the SEC.

The interim financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly the results for the interim periods presented. All such adjustments are of a normal, recurring nature. The results of operations for the thirteen and thirty-nine weeks ended October 28, 2017, are not necessarily indicative of the results to be expected for the full fiscal year.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company has eliminated intercompany balances and transactions in consolidation.

Fiscal Periods

The Company’s fiscal year ends on the Saturday closest to January 31. References to the fiscal quarters ended October 28, 2017, and October 29, 2016, refer to the thirteen-week periods ended on those dates.

Operating Leases and Tenant-Improvement Allowances

The Company has leases that contain rent holidays and predetermined, fixed escalations of minimum rentals. For each of these leases, the Company recognizes the related rent expense on a straight-line basis commencing on the date of initial possession of the leased property. The Company records the difference between the recognized rent expense and the amount payable under the lease as a deferred rent liability. As of October 28, 2017 and January 28, 2017, deferred rent liability was $12.9 million and $12.7 million, respectively, and is included within long-term liabilities on the Condensed Consolidated Balance Sheets.

The Company receives tenant-improvement allowances from some of the landlords of its leased properties. These allowances generally are in the form of cash received by the Company from its landlords as part of the negotiated lease terms. The Company records each tenant-improvement allowance as a deferred credit and amortizes the allowance on a straight-line basis as a reduction to rent expense over the term of the lease, commencing on the possession date. As of October 28, 2017 and January 28, 2017, the deferred lease credit liability was $14.7 million and $15.8 million, respectively. Of these amounts, $2.4 million is included within other accrued liabilities as of October 28, 2017 and

Vera Bradley, Inc.
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(unaudited)

January 28, 2017; $12.3 million and $13.4 million is included within long-term liabilities as of October 28, 2017 and January 28, 2017, respectively.

Recently Issued Accounting Pronouncements

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. This guidance requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard allows for either a full retrospective or a modified retrospective transition method. In August 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 for all entities by one year to annual periods beginning after December 15, 2017, including interim periods within that reporting period, which for the Company is February 4, 2018 (the beginning of the Company's fiscal 2019). Earlier application is permitted as of the original effective date, annual reporting periods beginning after December 2016, including interim periods within that reporting period.

In its preliminary assessment, the provisions of the standard the Company believes to be most significant is the determination of when a customer receives control of the product upon a sale, as this could result in earlier recognition of revenue as compared to the Company's current practice of adjusting for shipments not yet received. The Company is still evaluating the final impact on its consolidated results of operations, financial position and cash flows, as well as additional provisions that may impact the Company's recognition of revenue. The Company will adopt the standard in the first quarter of fiscal 2019 and currently anticipates adoption using the modified retrospective method with a cumulative adjustment to retained earnings recorded during the first quarter of fiscal 2019.

In February 2016, the FASB issued ASU 2016-02, Leases, which increases transparency and comparability among organizations by requiring lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases and disclosing key information about leasing arrangements. This guidance is effective for interim and annual periods beginning on or after December 15, 2018. The Company has operating leases at all of its retail stores; therefore, the adoption of this standard will result in a material increase of assets and liabilities on the Company's Consolidated Balance Sheets. The Company is continuing to evaluate the impact on its consolidated results of operations and cash flows.

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2. Earnings Per Share

Basic earnings per share is computed based on the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed based on the weighted-average number of common shares outstanding, plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares represent outstanding restricted stock units. As a result of the net loss in the current-year thirty-nine week period, dilutive potential common shares were anti-dilutive. The components of basic and diluted earnings per share were as follows (in thousands, except per share data):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Numerator:				
Net income (loss)	$359	$8,780	$(1,497)	$ 16,307
Denominator:				
Weighted-average number of common shares (basic)	35,885	36,557	36,081	37,045
Dilutive effect of stock-based awards	74	125	—	128
Weighted-average number of common shares (diluted)	35,959	36,682	36,081	37,173
Earnings (loss) per share:				
Basic	$0.01	$0.24	$(0.04)	$ 0.44
Diluted	$0.01	$0.24	$(0.04)	$ 0.44

As of October 28, 2017 and October 29, 2016, there were an immaterial number of additional shares issuable upon the vesting of restricted stock units that were excluded from the diluted share calculations because they were anti-dilutive.

3. Fair Value of Financial Instruments

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly;
- Level 3 – Unobservable inputs based on the Company’s own assumptions.

The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement.

The carrying amounts reflected on the Condensed Consolidated Balance Sheets for cash and cash equivalents, receivables, other current assets, and payables as of October 28, 2017, and January 28, 2017, approximated their fair values.

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The following table details the fair value measurements of the Company's investments as of October 28, 2017 and January 28, 2017 (in thousands):

	Level 1		Level 2		Level 3	
	October 28, 2017	January 28, 2017	October 28, 2017	January 28, 2017	October 28, 2017	January 28, 2017
Cash equivalents[1]	$ 1,090	$ —	$ 12,566	$ —	$ —	$ —
Short-term investments:						
U.S. corporate debt securities	—	—	9,650	—	—	—
Commercial paper	—	—	4,995	—	—	—
Municipal securities	—	—	3,643	—	—	—
Non-U.S. corporate debt securities	—	—	3,445	—	—	—
Certificate of deposit	—	—	—	30,152	—	—
Long-term investments:						
U.S. corporate debt securities	—	—	5,617	—	—	—
Non-U.S. corporate debt securities	—	—	5,284	—	—	—
Municipal securities	—	—	2,147	—	—	—
U.S. treasury securities	2,004	—	—	—	—	—

(1) Cash equivalents include a money market fund, commercial paper and municipal securities that have a maturity of three months or less at the date of purchase. Due to their short maturity, the Company believes the carrying value approximates fair value.

The Company has certain assets that are measured on a non-recurring basis under circumstances and events described in Note 12 herein. The categorization of the framework to price these assets are within Level 3 due to the subjective nature of unobservable inputs.

4. Inventories

The components of inventories were as follows (in thousands):

	October 28, 2017	January 28, 2017
Finished goods	$ 100,121	$ 102,283
Total inventories	$ 100,121	$ 102,283

5. Debt

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

Amounts outstanding under the Credit Agreement bear interest, at VBD's option, at a per annum rate equal to either (A) the Alternate Base Rate (“ABR”) plus the Applicable Margin, where the ABR is the highest of (i) the prime rate, (ii) the federal funds rate plus 0.5%, and (iii) Adjusted LIBOR for a one-month interest period plus 1%, and the

Applicable Margin is a percentage ranging from 0.00% to 0.70% depending upon the Company's leverage ratio or (B) Adjusted LIBOR plus the Applicable Margin, where Adjusted LIBOR means LIBOR, as adjusted for statutory reserve requirements for eurocurrency liabilities, and Applicable Margin is a percentage ranging from 1.00% to 1.70%

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depending upon the Company's leverage ratio. Any loans made, or letters of credit issued, pursuant to the Credit Agreement mature on July 15, 2020.

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

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

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

As of October 28, 2017 and January 28, 2017, the Company had no borrowings outstanding and availability of $125.0 million under its Credit Agreement.

6. Income Taxes

The provision for income taxes for interim periods is based on an estimate of the annual effective tax rate adjusted to reflect the impact of discrete items. Management judgment is required in projecting ordinary income to estimate the Company’s annual effective tax rate. A provision for U.S. income tax has not been recorded on the temporary difference related to the Company’s foreign subsidiary. The Company has determined that this temporary difference is indefinitely reinvested outside of the U.S.

The effective tax rate for the thirteen weeks ended October 28, 2017, was 38.5%, compared to 22.6% for the thirteen weeks ended October 29, 2016. The year-over year effective tax rate increase is primarily due to the release of approximately $1.6 million of certain income tax reserves as a result of the conclusion of an Internal Revenue Service audit in the prior-year period that did not recur in the current-year period.

The effective tax rate for the thirty-nine weeks ended October 28, 2017, was (298.1)%, compared to 30.3% for the thirty-nine weeks ended October 29, 2016. The year-over year effective tax rate increase is primarily due to the relative impact of permanent and discrete items on the nominal pre-tax loss, including a tax shortfall from stock-based compensation.

7. Stock-Based Compensation

The Company recognizes stock-based compensation expense, for its awards of restricted stock units, in an amount equal to the fair market value of the underlying stock on the grant date of the respective award.

The Company reserved 6,076,001 shares of common stock for issuance or transfer under the 2010 Equity and Incentive Plan, which allows for grants of restricted stock units, as well as other equity awards.

Awards of Restricted Stock Units

During the thirteen weeks ended October 28, 2017, the Company granted 851 time-based restricted stock units with an aggregate fair value of $7 thousand under the 2010 Equity and Incentive Plan compared to a total of 11,325 time-based restricted stock units with an aggregate fair value of $0.2 million granted in the same period of the prior year.

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(unaudited)

During the thirty-nine weeks ended October 28, 2017, the Company granted 507,423 time-based and performance-based restricted stock units with an aggregate fair value of $4.7 million to certain employees and non-employee directors under the 2010 Equity and Incentive Plan compared to a total of 413,457 time-based and performance-based restricted stock units with an aggregate fair value of $7.6 million granted in the same period of the prior year. The Company determined the fair value of the awards based on the closing price of the Company's common stock on the grant date.

The majority of the time-based restricted stock units vest and settle in shares of the Company's common stock, on a one-for-one basis, in equal installments on each of the first three anniversaries of the grant date. Restricted stock units issued to non-employee directors vest after a one-year period from the grant date. The Company recognizes the expense relating to these units, net of estimated forfeitures, on a straight-line basis over the vesting period.

Performance-based restricted stock units vest upon the completion of a three-year period of time (cliff vesting), subject to the employee's continuing employment throughout and the Company's achievement of annual earnings per share targets, or other Company performance targets, during the three-year performance period. The Company recognizes the expense relating to these units, net of estimated forfeitures, based on the probable outcome of achievement of the financial targets, on a straight-line basis over three years.

The following table sets forth a summary of restricted stock unit activity for the thirty-nine weeks ended October 28, 2017 (units in thousands):

	Time-based Restricted Stock Units		Performance-based Restricted Stock Units	
	Number of Units	Weighted-Average Grant Date Fair Value (per unit)	Number of Units	Weighted-Average Grant Date Fair Value (per unit)
Nonvested units outstanding at January 28, 2017	487	$ 18.04	375	$ 19.10
Granted	295	9.31	212	9.31
Vested	(242)	18.06	—	—
Forfeited	(119)	13.89	(206)	18.83
Nonvested units outstanding at October 28, 2017	421	$ 13.08	381	$ 13.79

As of October 28, 2017, there was $4.4 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested restricted stock units. That cost is expected to be recognized over a weighted-average period of 1.6 years, subject to meeting performance conditions.

8. Commitments and Contingencies

Payment Card Incident

Description of Event

On September 15, 2016, the Company received information from law enforcement regarding a potential data security issue related to its retail store network. Findings from the investigation show unauthorized access to the Company's 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.

The Company has resolved this incident and continues to work with a computer security firm to further strengthen the security of its systems to help prevent this from happening in the future. The Company continues to support law

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enforcement's investigation and also promptly notified the payment card networks so that the banks that issue payment cards could initiate heightened monitoring on the affected cards.

Expenses Incurred

During the thirteen and thirty-nine weeks ended October 28, 2017, the Company recorded an immaterial amount of expense relating to remediation activities as a result of the Payment Card Incident.

Future Costs

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

Insurance Coverage

The Company maintains $15.0 million of cyber security insurance coverage above a $0.1 million deductible.

Other Commitments and Contingencies

The Company is also subject to various claims and contingencies arising in the normal course of business, including those relating to product liability, legal claims, employee benefits, environmental, and other matters. Management believes that at this time it is not probable that any of these claims will have a material adverse effect on the Company's financial condition, results of operations, or cash flows. However, the outcomes of legal proceedings and claims brought against the Company are subject to uncertainty and future developments could cause these actions or claims, individually or in aggregate, to have a material adverse effect on the Company's financial condition, results of operations or cash flows of a particular reporting period.

9. Common Stock

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. The 2015 Share Repurchase Program expires on December 31, 2017. On November 30, 2017, the Company's board of directors authorized the Company to extend the 2015 Share Repurchase Program during an open window period until December 31, 2018. The Company will amend its 10b5-1 repurchase plan to accomplish the extension of the 2015 Share Repurchase Program effective December 8, 2017.

The Company purchased 347,132 shares at an average price of $8.47 per share, excluding commissions, for an aggregate amount of $2.9 million during the thirteen weeks ended October 28, 2017, under the 2015 Share Repurchase Program.

The Company purchased 720,521 shares at an average price of $8.69 per share, excluding commissions, for an aggregate amount of $6.3 million during the thirty-nine weeks ended October 28, 2017, under the 2015 Share Repurchase Program. As of October 28, 2017, there was $15.1 million remaining available to repurchase shares of the Company's common stock under the 2015 Share Repurchase Program.

As of October 28, 2017, the Company held as treasury shares 5,428,975 shares of its common stock at an average price of $13.80 per share, excluding commissions, for an aggregate carrying amount of $74.9 million. The Company's treasury shares may be issued under the 2010 Equity and Incentive Plan or for other corporate purposes.

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10. Vision 20/20 Restructuring and Other Charges

Vision 20/20 Initiatives and Charges

During fiscal 2018, the Company launched its Vision 20/20 strategic plan, which involves a more aggressive approach to turn around its business over the next three years. The Vision 20/20 initiatives are primarily focused on product and pricing, as well as selling, general, and administrative expense reductions. The product and pricing initiatives include restoring the Company's full-price business by significantly reducing the amount of clearance merchandise offered on verabradley.com and in its full-line stores, as well as streamlining current product offerings by eliminating unproductive or incongruent categories and SKUs. The Company expects to reduce selling, general, and administrative expenses by right sizing the corporate infrastructure to better align with the reduced size of the business and closing underperforming stores. The implementation of the plan began in the third quarter of fiscal 2018, but the majority of the product and pricing initiatives will not be completed until fiscal 2019. There were no charges relating to Vision 20/20 during fiscal 2017.

The Company has incurred the following Vision 20/20-related charges during the thirteen weeks ended October 28, 2017 (in thousands):

	Thirteen Weeks Ended Statements of Income Line Item		Total Expense	Reportable Segment		Unallocated Corporate Expenses
	SG&A	Cost of Sales		Direct	Indirect	
Asset impairment charges[1]	$5,852	$—	$5,852	$5,852	$—	$ —
Strategic consulting charges[2]	2,325	—	2,325	—	—	2,325
Severance charges	2,767	84	2,851	115	680	2,056
Inventory-related charges[3]	—	935	935	—	935	—
Other charges[4]	603	—	603	433	115	55
Total	$11,547	$1,019	$12,566 [5]	$6,400	$1,730	$ 4,436

(1) Refer to Note 12 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 were $7.9 million

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The Company has incurred the following Vision 20/20-related charges during the thirty-nine weeks ended October 28, 2017 (in thousands):

	Thirty-Nine Weeks Ended Statements of Income Line Item		Total Expense	Reportable Segment		Unallocated Corporate Expenses
	SG&A	Cost of Sales		Direct	Indirect	
Asset impairment charges[1]	$5,852	$—	$5,852	$5,852	$—	$ —
Strategic consulting charges[2]	4,649	—	4,649	—	—	4,649
Severance charges	2,767	84	2,851	115	680	2,056
Inventory-related charges[3]	—	935	935	—	935	—
Other charges[4]	603	—	603	433	115	55
Total	$13,871	$1,019	$14,890 [5]	$6,400	$1,730	$ 6,760

(1) Refer to Note 12 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 were $9.4 million

A summary of charges and related liabilities associated with the Vision 20/20 initiatives are as follows (in thousands):

	Asset Impairment Charges	Strategic Consulting Charges	Severance Charges	Inventory-Related Charges	Other
Fiscal 2018 charges	$ 5,852	$ 4,649	$ 2,851	$ 935	$603
Cash payments	—	(2,324)	(989)	—	(411)
Non-cash charges	(5,852)	—	—	(935)	(192)
Liability as of October 28, 2017	$ —	$ 2,325	$ 1,862	$ —	$—

The Company expects $1.0 million to $1.5 million of pre-tax restructuring charges associated with Vision 20/20 initiatives during the remainder of fiscal 2018. Material charges could occur if any additional initiatives are identified. The Company does not expect a material revenue impact from Vision 20/20 in the current fiscal year.

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Other Charges

Thirteen and Thirty-Nine Weeks Ended October 28, 2017

The Company recognized the following other charges in fiscal 2018 (in addition to the aforementioned Vision 20/20-related charges):

- The Company recognized $2.5 million in severance charges ($1.5 million after the associated tax benefit) during the thirty-nine weeks ended October 28, 2017, reflected in selling, general, and administrative expenses within corporate unallocated expenses. By quarter, the charges were as follows:
  - In the first quarter of fiscal 2018, the Company recognized $1.3 million ($0.8 million after the associated tax benefit) primarily for the Company's former Chief Financial Officer and
  - In the second quarter of fiscal 2018, the Company recognized $1.2 million ($0.7 million after the associated tax benefit) for the Company's former Chief Merchandising Officer.
- The Company recognized $0.3 million for a net lease termination charge ($0.2 million after the associated tax benefit) during the thirty-nine weeks ended October 28, 2017, reflected in selling, general, and administrative expenses within the Direct segment. This net charge was recognized in the second quarter.

Thirteen and Thirty-Nine Weeks Ended October 29, 2016

In the second quarter of fiscal 2017, the Company recognized $0.9 million for an executive severance charge ($0.6 million after the associated tax benefit) reflected in selling, general, and administrative expenses within corporate unallocated expenses.

Refer to Note 6 herein regarding the release of certain income tax reserves related to uncertain tax positions reflected in income tax expense during the third quarter of fiscal 2017.

11. Investments

Cash Equivalents

Investments classified as cash equivalents relate to highly-liquid investments with a maturity of three months or less at the date of purchase. As of October 28, 2017, these investments in the Company's portfolio consisted of a money market fund, commercial paper, and municipal securities.

Short-Term Investments

As of October 28, 2017, short-term investments consisted of U.S. and non-U.S. corporate debt securities, commercial paper, and municipal securities with a maturity within one year of the balance sheet date. These securities are classified as available-for-sale; therefore, unrealized gains and losses are recorded within other comprehensive income. Interest income earned is recorded within interest (income) expense, net, in the Company's Condensed Consolidated Statements of Income. As of January 28, 2017, short-term investments consisted of a certificate of deposit with an original maturity of one year and a one-time option to accelerate maturity to 31 days without penalty. The certificate of deposit matured during the first quarter fiscal 2018. Interest income from the certificate of deposit is included in interest (income) expense, net, in the Company's Condensed Consolidated Statements of Income.

The Company held $21.7 million and $30.2 million in short-term investments as of October 28, 2017 and January 28, 2017, respectively. The following table summarizes the Company's short-term investments (in thousands):

	October 28, 2017	January 28, 2017
U.S. corporate debt securities	$ 9,650	$ —
Commercial paper	4,995	—
Municipal securities	3,643	—
Non-U.S. corporate debt securities	3,445	—
Certificate of deposit	—	30,152

Total short-term investments	$ 21,733	$ 30,152

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Long-Term Investments

As of October 28, 2017, long-term investments consisted of U.S. and non-U.S. corporate debt securities and U.S. treasury and municipal securities with a maturity greater than one year from the balance sheet date. These securities are classified as available-for-sale; therefore, unrealized gains and losses are recorded within other comprehensive income. Interest income earned is recorded within interest (income) expense, net, in the Company's Condensed Consolidated Statements of Income.

The Company held $15.1 million in long-term investments as of October 28, 2017. The Company did not have long-term investments as of January 28, 2017. The following table summarizes the Company's long-term investments (in thousands):

	October 28, 2017	January 28, 2017
U.S. corporate debt securities	$ 5,617	$ —
Non-U.S. corporate debt securities	5,284	—
Municipal securities	2,147	—
U.S. treasury securities	2,004	—
Total long-term investments	$ 15,052	$ —

There were no material gross unrealized gains or losses on available-for-sale securities as of October 28, 2017 and January 28, 2017.

12. Property, Plant, and Equipment

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, the Company recognizes a loss equal to the difference between the carrying value and the fair value, typically determined by an estimated discounted cash flow analysis of the asset.

Impairment charges for the thirteen and thirty-nine weeks ended October 28, 2017, and October 29, 2016 were as follows (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Impairment charges	$5,852	$ 636	$5,852	$ 2,214

These impairment charges were recognized using level 3 inputs and were for assets related to underperforming stores. The charges are included in selling, general, and administrative expenses in the Condensed Consolidated Statements of Income and in impairment charges in the Condensed Consolidated Statements of Cash Flows. The impairment charges are included in the Direct segment.

13. Subsequent Event

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. The 2015 Share Repurchase Program expires on December 31, 2017. On November 30, 2017, the Company's board of directors authorized the Company to extend the 2015 Share Repurchase Program during an open window period until December 31, 2018. The Company will amend its 10b5-1 repurchase plan to accomplish the extension of the 2015 Share Repurchase Program effective December 8, 2017.

14. Segment Reporting

The Company has two operating segments, which are also its reportable segments: Direct and Indirect. These operating segments are components of the Company for which separate financial information is available and for

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which operating results are evaluated on a regular basis by the chief operating decision maker in deciding how to allocate resources and in assessing the performance of the segments.

The Direct segment includes the Company’s full-line and factory outlet stores, the Company’s website, verabradley.com, direct-to-consumer eBay sales, and the annual outlet sale. Revenues generated through this segment are driven through the sale of Company-branded products from Vera Bradley to end consumers.

The Indirect segment represents revenues generated through the distribution of Company-branded products to specialty retailers representing approximately 2,400 locations, substantially all of which are located in the United States; key accounts, which include department stores, national accounts, third-party e-commerce sites, the Company's wholesale customer in Japan, and third-party inventory liquidators; and licensing.

Corporate costs represent the Company’s administrative expenses, which include, but are not limited to: human resources, legal, finance, information technology, design, merchandising, corporate-level marketing and advertising, and various other corporate-level-activity-related expenses. All intercompany-related activities are eliminated in consolidation and are excluded from the segment reporting.

Company management evaluates segment operating results based on several indicators. The primary or key performance indicators for each segment are net revenues and operating income. Net revenues and operating income (loss) information for the Company’s reportable segments during the thirteen and thirty-nine weeks ended October 28, 2017 and October 29, 2016, respectively, consisted of the following (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Segment net revenues:				
Direct	$83,168	$86,101	$241,347	$246,288
Indirect	30,927	40,561	81,301	104,800
Total	$114,095	$126,662	$322,648	$351,088
Segment operating income:				
Direct	$11,238	$17,104	$35,362	$47,390
Indirect	10,519	16,920	27,797	41,526
Total	$21,757	$34,024	$63,159	$88,916
Reconciliation:				
Segment operating income	$21,757	$34,024	$63,159	$88,916
Less:				
Unallocated corporate expenses	(21,295)	(22,622)	(63,792)	(65,354)
Operating income (loss)	$462	$11,402	$(633)	$23,562

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

The following discussion summarizes the significant factors affecting the condensed consolidated operating results, financial condition, liquidity, and cash flows of the Company as of and for the thirteen and thirty-nine weeks ended October 28, 2017 and October 29, 2016. The following discussion should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended January 28, 2017, and our unaudited condensed consolidated financial statements and the related notes included in Item 1 of this Quarterly Report. The results of operations for the thirteen and thirty-nine weeks ended October 28, 2017, are not necessarily indicative of the results to be expected for the full fiscal year.

Executive Summary

Below is a summary of our strategic progress and financial results for the third quarter of fiscal 2018:

Strategic Progress

- We began the implementation of our Vision 20/20 strategic plan initiatives, which included the creation of a flash sale website to allow us to segregate certain clearance sales from verabradley.com (refer to "Vision 20/20 Initiatives" below for additional details).
- We are continuing work on our store renovation strategy by adding our new branding, including storefront facade, logo, and interior changes to our higher-volume and traffic full-line stores. Six full-line store renovations were completed in the third quarter.
- During the third quarter, we opened one full-line store in Boston, Massachusetts and three factory outlet stores in Edinburgh, Indiana; Altoona, Iowa; and Fort Worth, Texas.

Financial Summary (all comparisons are to the third quarter of fiscal 2017)

- Net revenues decreased 9.9% to $114.1 million.
- Direct segment sales decreased 3.4% to $83.2 million. Comparable sales decreased 7.4%.
- Indirect segment sales decreased 23.8% to $30.9 million.
- Gross profit was $63.8 million, or 55.9% of net revenue.
- Operating income was $0.5 million and net income was $0.4 million, or $0.01 per diluted share. These results included Vision 20/20-related charges of $12.6 million pre-tax, which consisted of store impairment charges of $5.9 million; severance charges of $2.9 million; strategic consulting charges of $2.3 million; inventory adjustments of $0.9 million; and other charges of $0.6 million. Collectively, these charges were $7.9 million after the associated tax benefit, or $0.22 per diluted share.
- Cash and cash equivalents and investments were $108.1 million at October 28, 2017.
- Capital expenditures for the thirteen weeks totaled $2.9 million.
- Repurchases of common stock for the thirteen weeks totaled $2.9 million.

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 sales of our merchandise and revenue 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, direct-to-consumer eBay sales, and our annual outlet sale in Fort Wayne, Indiana. Revenues for the Indirect segment reflect sales to specialty retail partners, department stores, national accounts, third-party e-commerce sites, our wholesale customer in Japan, third-party inventory liquidators, and licensing.

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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 both comparable sales and comparable store sales unless the store was closed for a portion of the current or comparable prior period 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.

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

- Overall economic trends;
- Consumer preferences and fashion trends;
- Competition;
- The timing of our releases of new patterns and collections;
- Changes in our product mix;
- Pricing and level of promotions;
- Amount of store, mall and e-commerce traffic;
- The level of customer service that we provide in stores and to our on-line customers;
- Our ability to source and distribute products efficiently;
- The number of stores we open and close in any period; and
- The timing and success of promotional and marketing 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, including free shipping; commodity prices, such as for cotton; 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, 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

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

Operating Income (Loss)

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

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Net Income (Loss)

Net income (loss) is equal to operating income (loss) plus net interest income less net interest expense and income taxes.

Results of Operations

The following tables summarize key components of our condensed consolidated results of operations for the periods indicated, both in dollars and as a percentage of our net revenues ($ in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Statement of Income Data:				
Net revenues	$114,095	$126,662	$322,648	$351,088
Cost of sales	50,266	53,749	142,826	150,131
Gross profit	63,829	72,913	179,822	200,957
Selling, general, and administrative expenses	63,511	61,831	181,029	178,512
Other income	144	320	574	1,117
Operating income (loss)	462	11,402	(633)	23,562
Interest (income) expense, net	(122)	59	(257)	170
Income (loss) before income taxes	584	11,343	(376)	23,392
Income tax expense	225	2,563	1,121	7,085
Net income (loss)	$359	$8,780	$(1,497)	$16,307
Percentage of Net Revenues:				
Net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	44.1 %	42.4 %	44.3 %	42.8 %
Gross profit	55.9 %	57.6 %	55.7 %	57.2 %
Selling, general, and administrative expenses	55.7 %	48.8 %	56.1 %	50.8 %
Other income	0.1 %	0.3 %	0.2 %	0.3 %
Operating income (loss)	0.4 %	9.0 %	(0.2)%	6.7 %
Interest (income) expense, net	(0.1)%	— %	(0.1)%	— %
Income (loss) before income taxes	0.5 %	9.0 %	(0.1)%	6.7 %
Income tax expense	0.2 %	2.0 %	0.3 %	2.0 %
Net income (loss)	0.3 %	6.9 %	(0.5)%	4.6 %

The following tables present net revenues and operating income by operating segment, both in dollars and as a percentage of associated net revenues, and store data for the periods indicated ($ in thousands, except as otherwise indicated):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net Revenues by Segment:				
Direct	$83,168	$86,101	$241,347	$246,288
Indirect	30,927	40,561	81,301	104,800
Total	$114,095	$126,662	$322,648	$351,088
Percentage of Net Revenues by Segment:				
Direct	72.9 %	68.0 %	74.8 %	70.1 %
Indirect	27.1 %	32.0 %	25.2 %	29.9 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

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	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Operating Income (Loss) by Segment:				
Direct	$11,238	$17,104	$35,362	$47,390
Indirect	10,519	16,920	27,797	41,526
Less: Corporate unallocated	(21,295)	(22,622)	(63,792)	(65,354)
Total	$462	$11,402	$(633)	$23,562
Operating Income as a Percentage of Net Revenues by Segment:				
Direct	13.5 %	19.9 %	14.7 %	19.2 %
Indirect	34.0 %	41.7 %	34.2 %	39.6 %
Store Data (1):				
Total stores open at end of period	164	159	164	159
Comparable sales (including e-commerce) decrease (2)	(7.4)%	(5.0)%	(7.7)%	(5.7)%
Total gross square footage at end of period (all stores)	385,786	367,874	385,786	367,874
Average net revenues per gross square foot (3)	$157	$162	$454	$460

(1) Includes our full-line and factory outlet stores.

(2) 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. Increase or 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.

(3) 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.

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

We have resolved this incident and continue to work with a computer security firm to further strengthen the security of our system to help prevent this from happening in the future. We continue to support law enforcement’s investigation and also promptly notified the payment card networks so that the banks that issue payment cards could initiate heightened monitoring on the affected cards.

Expenses Incurred

During the thirteen and thirty-nine weeks ended October 28, 2017, we recorded an immaterial amount of expense relating to remediation activities as a result of the Payment Card Incident.

Future Costs

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

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investigation and other non-remediation legal and professional services associated with the incident, possible third party claims, as well as fines, penalties, or other expenses, if any, imposed by payment card companies, as discussed above.

Insurance Coverage

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

Vision 20/20 Initiatives

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

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, as well as streamlining current product offerings by eliminating unproductive or incongruent categories and SKUs. We expect fiscal 2019 revenues will be negatively impacted by $30.0 million to $50.0 million by these initiatives from fiscal 2018 levels.

We are reducing selling, general, and administrative expenses by right sizing the corporate infrastructure to better align with the reduced size of the business and closing underperforming stores. We expect to reduce annual selling, general, and administrative expenses by up to $30.0 million (off of our fiscal 2017 base level and excluding severance, store impairment and Vision 20/20 charges from all periods). We expect that $20.0 million to $25.0 million of the annualized selling, general, and administrative expense reductions will be made by the end of fiscal 2019. We may close up to 50 stores by the end of fiscal 2021.

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

We have incurred the following Vision 20/20-related charges during the thirteen weeks ended October 28, 2017 (in thousands):

	Thirteen Weeks Ended Statements of Income Line Item		Total Expense	Reportable Segment		Unallocated Corporate Expenses
	SG&A	Cost of Sales		Direct	Indirect	
Asset impairment charges[1]	$5,852	$—	$5,852	$5,852	$—	$ —
Strategic consulting charges[2]	2,325	—	2,325	—	—	2,325
Severance charges	2,767	84	2,851	115	680	2,056
Inventory-related charges[3]	—	935	935	—	935	—
Other charges[4]	603	—	603	433	115	55
Total	$11,547	$1,019	$12,566 [5]	$6,400	$1,730	$ 4,436

(1) Refer to Note 12 “Property, Plant, and Equipment” within Item 1 “Financial Statements” of this Quarterly Report on Form 10-Q 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 were $7.9 million

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We have incurred the following Vision 20/20-related charges during the thirty-nine weeks ended October 28, 2017 (in thousands):

	Thirty-Nine Weeks Ended Statements of Income Line Item		Total Expense	Reportable Segment		Unallocated Corporate Expenses
	SG&A	Cost of Sales		Direct	Indirect	
Asset impairment charges[1]	$5,852	$—	$5,852	$5,852	$—	$ —
Strategic consulting charges[2]	4,649	—	4,649	—	—	4,649
Severance charges	2,767	84	2,851	115	680	2,056
Inventory-related charges[3]	—	935	935	—	935	—
Other charges[4]	603	—	603	433	115	55
Total	$13,871	$1,019	$14,890 [5]	$6,400	$1,730	$ 6,760

(1) Refer to Note 12 “Property, Plant, and Equipment” within Item 1 “Financial Statements” of this Quarterly Report on Form 10-Q 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 were $9.4 million

We expect $1.0 million to $1.5 million of pre-tax restructuring charges associated with Vision 20/20 initiatives during the remainder of fiscal 2018. Material charges could occur if any additional initiatives are identified. We do not expect a material revenue impact from Vision 20/20 in the current fiscal year.

Other Charges Affecting Comparability of the Thirteen and Thirty-Nine Weeks Ended October 28, 2017, and October 29, 2016

Thirteen and Thirty-Nine Weeks Ended October 28, 2017

We recognized the following other charges in fiscal 2018 (in addition to the aforementioned Vision 20/20-related charges):

- We recognized $2.5 million in severance charges ($1.5 million after the associated tax benefit) during the thirty-nine weeks ended October 28, 2017, reflected in selling, general, and administrative expenses within corporate unallocated expenses. By quarter, the charges were as follows:
  In the first quarter of fiscal 2018, we recognized $1.3 million ($0.8 million after the associated tax benefit) for severance charges primarily for our former Chief Financial Officer and
  In the second quarter of fiscal 2018, we recognized $1.2 million ($0.7 million after the associated tax benefit) for a severance charge for our former Chief Merchandising Officer.
- We recognized $0.3 million for a net lease termination charge ($0.2 million after the associated tax benefit) during the thirty-nine weeks ended October 28, 2017, reflected in selling, general, and administrative expenses within the Direct segment. This net charge was recognized in the second quarter.

Thirteen and Thirty-Nine Weeks Ended October 29, 2016

In the second quarter of fiscal 2017, we recognized $0.9 million for an executive severance charge ($0.6 million after the associated tax benefit) reflected in selling, general, and administrative expenses within corporate unallocated expenses.

In the third quarter of fiscal 2017, we recognized a benefit of $1.6 million for certain income tax reserve releases as a result of the conclusion of an IRS audit (reflected in income tax expense).

Thirteen Weeks Ended October 28, 2017, Compared to Thirteen Weeks Ended October 29, 2016

Net Revenues

For the thirteen weeks ended October 28, 2017, net revenues decreased $12.6 million, or 9.9%, to $114.1 million, from $126.7 million in the comparable prior-year period.

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Direct. For the thirteen weeks ended October 28, 2017, net revenues in the Direct segment decreased $2.9 million, or 3.4%, to $83.2 million, from $86.1 million in the comparable prior-year period. This change resulted from a $3.4 million contribution of revenue from our non-comparable stores, including seven additional stores opened in the current fiscal year, which was more than offset by a comparable sales decrease of $6.3 million, or 7.4%. The decrease in comparable sales includes an 8.6% decrease in e-commerce sales and a 6.9% decrease in comparable store sales. The decline in comparable sales was primarily due to year-over-year declines in store and e-commerce traffic.

Indirect. For the thirteen weeks ended October 28, 2017, net revenues in the Indirect segment decreased $9.7 million, or 23.8%, to $30.9 million, from $40.6 million in the comparable prior-year period. This change was 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.

Gross Profit

For the thirteen weeks ended October 28, 2017, gross profit decreased $9.1 million, or 12.5%, to $63.8 million, from $72.9 million in the comparable prior-year period. As a percentage of net revenues, gross profit decreased to 55.9% for the thirteen weeks ended October 28, 2017, from 57.6% in the comparable prior-year period. The decrease as a percentage of net revenues was primarily due to increased promotional activity at our factory outlet stores, adjustments taken against certain inventory categories as a result of Vision 20/20 initiatives and channel mix changes, partially offset by a reduction in product cost.

Selling, General, and Administrative Expenses

For the thirteen weeks ended October 28, 2017, SG&A expenses increased $1.7 million, or 2.7%, to $63.5 million, from $61.8 million in the comparable prior-year period. As a percentage of net revenues, SG&A expenses increased to 55.7% for the thirteen weeks ended October 28, 2017 from 48.8% in the comparable prior-year period. The increase in SG&A expenses for the thirteen weeks ended October 28, 2017 was primarily due to Vision 20/20-related charges, including incremental store impairment charges of $5.2 million, severance charges of $2.8 million, and strategic consulting charges of $2.3 million. These charges were partially offset by a decrease in employee-related expenses and a reduction in advertising spending primarily as a result of expense management, which was associated in part with the implementation of Vision 20/20 initiatives during the third quarter.

Other Income

For the thirteen weeks ended October 28, 2017, other income decreased $0.2 million, or 55.0%, to $0.1 million, from $0.3 million in the comparable prior-year period, primarily due to a decrease in participation in the co-op mailer program.

Operating Income

For the thirteen weeks ended October 28, 2017, operating income decreased $10.9 million, or 95.9%, to $0.5 million in the current-year period, from $11.4 million in the comparable prior-year period. As a percentage of net revenues, operating income was 0.4% and 9.0% for the thirteen weeks ended October 28, 2017 and October 29, 2016, respectively. Operating income decreased due to the factors described above.

Direct. For the thirteen weeks ended October 28, 2017, operating income in the Direct segment decreased $5.9 million, or 34.3%, to $11.2 million from $17.1 million in the comparable prior-year period. As a percentage of Direct segment net revenues, operating income in the Direct segment was 13.5% and 19.9% for the thirteen weeks ended October 28, 2017 and October 29, 2016, respectively. The decrease in operating income as a percentage of Direct segment net revenues was primarily due to incremental store impairment charges of $5.2 million and deleverage of selling, general, and administrative expenses as a result of lower sales.

Indirect. For the thirteen weeks ended October 28, 2017, operating income in the Indirect segment decreased $6.4 million, or 37.8%, to $10.5 million from $16.9 million in the comparable prior-year period. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 34.0% and 41.7% for the thirteen weeks ended October 28, 2017 and October 29, 2016, respectively. The decrease in operating income as a percentage of Indirect segment net revenues was primarily due to a decrease in gross profit as a percentage of net revenues, as described above, and deleverage of selling, general, and administrative expenses as a result of lower sales.

Corporate Unallocated. For the thirteen weeks ended October 28, 2017, unallocated expenses decreased $1.3 million, or 5.9%, to $21.3 million from $22.6 million in the comparable prior-year period. The decrease in unallocated expenses was primarily due to a decrease in advertising spending and a decrease in 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

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decreases were partially offset by $2.3 million in strategic consulting expenses and $2.1 million in severance charges, both as a result of Vision 20/20 initiatives.

Income Tax Expense

The effective tax rate for the thirteen weeks ended October 28, 2017, was 38.5%, compared to 22.6% for the thirteen weeks ended October 29, 2016. The year-over year effective tax rate increase is primarily due to the release of approximately $1.6 million of certain income tax reserves as a result of the conclusion of an Internal Revenue Service audit in the prior-year period that did not recur in the current-year period.

Net Income

For the thirteen weeks ended October 28, 2017, net income decreased $8.4 million, or 95.9%, to $0.4 million from $8.8 million in the comparable prior-year period. The current-year period included $12.6 million of pre-tax Vision 20/20-related charges which consisted of store impairment charges of $5.9 million; severance charges of $2.9 million; strategic consulting charges of $2.3 million; inventory adjustments of $0.9 million; and other charges of $0.6 million ($7.9 million collectively after the associated tax benefit). The prior-year period included $0.6 million in store impairment charges ($0.4 million after the associated tax benefit) and a $1.6 million income tax benefit related to the release of certain income tax reserves.

Thirty-Nine Weeks Ended October 28, 2017, Compared to Thirty-Nine Weeks Ended October 29, 2016

Net Revenues

For the thirty-nine weeks ended October 28, 2017, net revenues decreased $28.5 million, or 8.1%, to $322.6 million, from $351.1 million in the comparable prior-year period.

Direct. For the thirty-nine weeks ended October 28, 2017, net revenues in the Direct segment decreased $5.0 million, or 2.0%, to $241.3 million, from $246.3 million in the comparable prior-year period. This change resulted from a $14.2 million contribution of revenue from our non-comparable stores, including seven additional stores opened in the current fiscal year, which was more than offset by a comparable sales decrease of $18.1 million, or 7.7%. The decrease in comparable sales includes an 11.4% decrease in e-commerce sales and a 6.1% decrease in comparable store sales. The decline in comparable sales was primarily due to year-over-year declines in store and e-commerce traffic. In addition, first quarter e-commerce sales were partially impacted by the conversion to our new platform, which was completed in February 2017.

Indirect. For the thirty-nine weeks ended October 28, 2017, net revenues in the Indirect segment decreased $23.5 million, or 22.4%, to $81.3 million, from $104.8 million in the comparable prior-year period. This change was 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.

Gross Profit

For the thirty-nine weeks ended October 28, 2017, gross profit decreased $21.2 million, or 10.5%, to $179.8 million, from $201.0 million in the comparable prior-year period. As a percentage of net revenues, gross profit decreased to 55.7% for the thirty-nine weeks ended October 28, 2017, from 57.2% in the comparable prior-year period. The decrease as a percentage of net revenues was primarily due to increased promotional activity at our factory outlet stores, an adjustment taken against slow-moving inventory in the second quarter, as well as inventory adjustments taken against certain product categories as a result of Vision 20/20 initiatives in the third quarter, and channel mix changes, partially offset by a reduction in product cost.

Selling, General, and Administrative Expenses

For the thirty-nine weeks ended October 28, 2017, SG&A expenses increased $2.5 million, or 1.4%, to $181.0 million, from $178.5 million in the comparable prior-year period. As a percentage of net revenues, SG&A expenses increased to 56.1% for the thirty-nine weeks ended October 28, 2017, from 50.8% in the comparable prior-year period. The increase in SG&A expenses for the thirty-nine weeks ended October 28, 2017 was primarily due to strategic consulting charges of $4.6 million as a result of Vision 20/20 initiatives, incremental severance charges of $4.3 million, incremental store impairment charges of $3.6 million and new store expenses. These charges were partially offset by a decrease in certain employee-related expenses and a decrease in advertising spending primarily as a result of expense management, which was associated in part with the implementation of Vision 20/20 initiatives during the third quarter.

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Other Income
For the thirty-nine weeks ended October 28, 2017, other income decreased $0.5 million, or 48.6%, to $0.6 million, from $1.1 million in the comparable prior-year period, primarily due to a decrease in participation in the co-op mailer program.
Operating Income (Loss)
For the thirty-nine weeks ended October 28, 2017, operating income (loss) decreased $24.2 million, or 102.7%, to $(0.6) million in the current-year period, from $23.6 million in the comparable prior-year period. As a percentage of net revenues, operating income (loss) was (0.2)% and 6.7% for the thirty-nine weeks ended October 28, 2017 and October 29, 2016, respectively. Operating income (loss) decreased due to the factors described above.
Direct. For the thirty-nine weeks ended October 28, 2017, operating income in the Direct segment decreased $12.0 million, or 25.4%, to $35.4 million from $47.4 million in the comparable prior-year period. As a percentage of Direct segment net revenues, operating income in the Direct segment was 14.7% and 19.2% for the thirty-nine weeks ended October 28, 2017 and October 29, 2016, respectively. The decrease in operating income as a percentage of Direct segment net revenues was primarily due to incremental store impairment charges of $3.6 million, new store expenses, a decrease in gross profit as a percentage of net revenues, as described above, and deleverage of selling, general and administrative expenses as a result of lower sales.
Indirect. For the thirty-nine weeks ended October 28, 2017, operating income in the Indirect segment decreased $13.7 million, or 33.1%, to $27.8 million from $41.5 million in the comparable prior-year period. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 34.2% and 39.6% for the thirty-nine weeks ended October 28, 2017 and October 29, 2016, respectively. The decrease in operating income as a percentage of Indirect segment net revenues was primarily due to deleverage of selling, general, and administrative expenses as a result of lower sales and a decrease in gross profit as a percentage of net revenues, as described above.
Corporate Unallocated. For the thirty-nine weeks ended October 28, 2017, unallocated expenses decreased $1.6 million, or 2.4%, to $63.8 million from $65.4 million in the comparable prior-year period. The decrease in unallocated expenses was primarily due to a decrease in advertising spending and a decrease in certain 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 decreases were partially offset by $4.6 million in strategic consulting charges as a result of Vision 20/20 initiatives and $3.6 million in incremental severance charges.
Income Tax Expense
The effective tax rate for the thirty-nine weeks ended October 28, 2017, was (298.1)%, compared to 30.3% for the thirty-nine weeks ended October 29, 2016. The year-over year effective tax rate increase is primarily due to the relative impact of permanent and discrete items on the nominal pre-tax loss, including a tax shortfall from stock-based compensation.
Net Income (Loss)
For the thirty-nine weeks ended October 28, 2017, net income (loss) decreased $17.8 million, or 109.2%, to $(1.5) million from $16.3 million in the comparable prior-year period. The current-year period included store impairment charges of $5.9 million; severance charges of $5.4 million; strategic consulting charges of $4.6 million; inventory adjustments as a result of Vision 20/20 initiatives of $0.9 million; net lease termination charges of $0.7 million; and other Vision 20/20 charges of $0.2 million ($11.2 million collectively after the associated tax benefit). The prior-year period included $2.2 million in store impairment charges; $0.9 million for an executive severance charge; and a $1.6 million benefit related to the release of certain income tax reserves ($0.4 million collectively after the associated tax benefit).
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 borrowings under our $125.0 million second amended and restated credit agreement. There were no borrowings under this agreement during the thirty-nine weeks ended October 28, 2017, and there was no debt outstanding as of October 28, 2017. 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; share repurchases; and debt repayments. The most significant components of our working capital are cash and cash equivalents, short-term investments, merchandise inventories, accounts receivable, accounts payable, and other current liabilities.

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We believe that cash on hand and cash equivalents, investments, cash flows from operating activities, and the availability of borrowings under our second amended and restated credit agreement or other financing arrangements will be sufficient to meet working capital requirements, anticipated capital expenditures, share repurchases, and debt payments 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 October 28, 2017, these investments in our portfolio consisted of a money market fund, commercial paper and municipal securities.

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

Long-Term Investments. As of October 28, 2017, long-term investments consisted of U.S. and non-U.S. corporate debt securities and U.S. treasury and municipal securities with a maturity greater than one year from the balance sheet date.

Refer to Note 11 “Investments” within Item 1 “Financial Statements” of this Quarterly Report on Form 10-Q for additional detail regarding investments.

Cash Flow Analysis

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

	Thirty-Nine Weeks Ended	
	October 28, 2017	October 29, 2016
Net cash provided by operating activities	$7,491	$ 26,494
Net cash used in investing activities	(15,735)	(47,422)
Net cash used in financing activities	(6,849)	(23,884)

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 for the thirty-nine weeks ended October 28, 2017, was $7.5 million compared to $26.5 million for the thirty-nine weeks ended October 29, 2016. The decrease in cash provided by operating activities was primarily a result of a decrease in net income of $17.8 million and a change in inventory which resulted in a source of cash of $2.2 million as compared to $17.8 million in the comparable prior-year period. The change in inventory was primarily the result of an increase in certain inventory categories during the current-year period. This was partially offset by a change in income taxes which resulted in a source of cash of $0.1 million as compared to a use of cash of $11.7 million in the comparable prior-year period. The income tax change was primarily a result of the timing of an $11.5 million federal income tax payment in the prior-year period.

Net Cash Used in Investing Activities

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

Net cash used in investing activities was $15.7 million and $47.4 million for the thirty-nine weeks ended October 28, 2017 and October 29, 2016, respectively. There was a decrease of $8.5 million in spending for property, plant, and equipment in the current-year period primarily due to the construction of seven retail stores and 20 store remodels in the current-year period as compared to the construction of ten retail stores and 13 store remodels in the comparable prior-year period and a reduction in information technology investment spending. In addition, there was a use of cash of $6.8 million as a result of net investment activity in the current-year period compared to a use of cash of $30.0 million in the comparable prior-year period.

Capital expenditures for fiscal 2018 are expected to be approximately $10.0 million to $12.0 million.

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Net Cash Used in Financing Activities

Net cash used in financing activities was $6.8 million and $23.9 million for the thirty-nine weeks ended October 28, 2017 and October 29, 2016, respectively. The decrease in cash used in financing activities was primarily due to $6.1 million of cash purchases of our common stock under the 2015 Share Repurchase Plan in the current-year period compared to $23.2 million of cash purchases of our common stock under the 2015 Share Repurchase Plans in the prior-year period.

Second Amended and Restated Credit Agreement

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

Amounts outstanding under the Credit Agreement bear interest, at VBD's option, at a per annum rate equal to either (A) the Alternate Base Rate (“ABR”) plus the Applicable Margin, where the ABR is the highest of (i) the prime rate, (ii) the federal funds rate plus 0.5%, and (iii) Adjusted LIBOR for a one-month interest period plus 1%, and the Applicable Margin is a percentage ranging from 0.00% to 0.70% depending upon the Company's leverage ratio or (B) Adjusted LIBOR plus the Applicable Margin, where Adjusted LIBOR means LIBOR, as adjusted for statutory reserve requirements for eurocurrency liabilities, and Applicable Margin is a percentage ranging from 1.00% to 1.70% depending upon the Company's leverage ratio. Any loans made, or letters of credit issued, pursuant to the Credit Agreement mature on July 15, 2020. As of October 28, 2017, the Company had no borrowings outstanding and availability of $125.0 million under the agreement.

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

The Credit Agreement contains various restrictive covenants, including restrictions on the Company's ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to stockholders or repurchase outstanding stock, enter into related party transactions and make capital expenditures, other than upon satisfaction of the conditions set forth in the Credit Agreement. The Company is also required to comply with certain financial and non-financial covenants, including maintaining a maximum leverage ratio, a minimum ratio of EBITDAR to the sum of interest expense plus rentals (as defined in the Credit Agreement), and a limit on capital expenditures. Upon an event of default, which includes certain customary events such as, among other things, a failure to make required payments when due, a failure to comply with covenants, certain bankruptcy and insolvency events, a material adverse change (as defined in the Credit Agreement), defaults under other material indebtedness, and a change in control, the lenders may accelerate amounts outstanding, terminate the agreement and foreclose on all collateral. On October 20, 2017, VBD entered into Amendment No. 2 (the “Amendment”) to the Credit Agreement. The Amendment modifies the ratio requirements of certain financial covenants in the Credit Agreement including the maximum leverage ratio and the minimum ratio of EBITDAR to the sum of interest expense plus rentals (as defined in the Credit Agreement). The Amendment also modifies certain restrictive covenants including the acquisition of investments and the limit of investments in foreign subsidiaries. The Company was in compliance with these covenants as of October 28, 2017.

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 requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the related disclosures of contingent assets and liabilities at the date of the financial statements. A summary of the Company’s significant accounting policies is included in Note 2 to the Company’s consolidated financial statements in the Company’s Annual Report on Form 10-K for the fiscal year ended January 28, 2017. In addition to these policies, refer to Note 11 “Investments” within Item 1 “Financial Statements” of this Quarterly Report on Form 10-Q for a discussion of the Company's investment accounting policy.

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Certain accounting policies and estimates of the Company are considered critical, as these policies and estimates are the most important to the depiction of the Company's consolidated financial statements and require significant, difficult, or complex judgments, often about the effect of matters that are inherently uncertain. Such policies are summarized in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017. There were no significant changes to any of the critical accounting policies and estimates described in the Annual Report as of October 28, 2017.

Recently Issued Accounting Pronouncements

Refer to Note 1 "Description of the Company and Basis of Presentation" within Item 1 "Financial Statements" of this Quarterly Report on Form 10-Q for a discussion of recently issued accounting pronouncements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of October 28, 2017, there was no material change in the market risks described in “Quantitative and Qualitative Disclosures About Market Risks” in the Company’s Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

ITEM 4. CONTROLS AND PROCEDURES

At the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company’s Disclosure Committee and management, including the Chief Executive Officer and the Chief Financial Officer of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of October 28, 2017.

There has been no change in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There has been no material change to our risk factors as previously set forth in the Company’s Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

ITEM 2. 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. The 2015 Share Repurchase Program expires on December 31, 2017. On November 30, 2017, the Company’s board of directors authorized the Company to extend the 2015 Share Repurchase Program during an open window period until December 31, 2018. The Company will amend its 10b5-1 repurchase plan to accomplish the extension of the 2015 Share Repurchase Program effective December 8, 2017.

During the thirteen weeks ended October 28, 2017, the Company repurchased 347,132 shares of the Company's common stock at an average price of $8.47 per share, excluding commissions.

Details on the shares repurchased under the program during the thirteen weeks ended October 28, 2017 are as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Program
July 30, 2017 - August 26, 2017	40,051	$ 9.58	40,051	$ 17,623,053
August 27, 2017 - September 30, 2017	154,650	8.67	154,650	16,282,115
October 1, 2017 - October 28, 2017	152,431	7.98	152,431	15,065,925
	347,132	$ 8.47	347,132	

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ITEM 6. EXHIBITS

a. Exhibits

Exhibit No.	Description
31.1	CEO Section 302 Certification
31.2	CFO Section 302 Certification
32.1	Section 906 Certifications*
101	The following materials from Vera Bradley, Inc.’s Quarterly Report on Form 10-Q for the quarter ended October 28, 2017 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Income for the Thirteen and Thirty-Nine Weeks ended October 28, 2017 and October 29, 2016; (ii) Condensed Consolidated Statements of Comprehensive Income for the Thirteen and Thirty-Nine Weeks ended October 28, 2017 and October 29, 2016; (iii) Condensed Consolidated Balance Sheets as of October 28, 2017 and January 28, 2017; (iv) Condensed Consolidated Statements of Cash Flows for the Thirty-Nine Weeks ended October 28, 2017 and October 29, 2016, and (v) Notes to Condensed Consolidated Financial Statements. **

* Furnished, not filed.

** Pursuant to Rule 406T of SEC Regulation S-T, the Interactive Data Files included as Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these Sections.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Vera Bradley, Inc. (Registrant)
Date: December 6, 2017	/s/ John Enwright John Enwright Executive Vice President – Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Description
31.1	CEO Section 302 Certification
31.2	CFO Section 302 Certification
32.1	Section 906 Certifications*
101	The following materials from Vera Bradley, Inc.'s Quarterly Report on Form 10-Q for the quarter ended October 28, 2017 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Income for the Thirteen and Thirty-Nine Weeks ended October 28, 2017 and October 29, 2016; (ii) Condensed Consolidated Statements of Comprehensive Income for the Thirteen and Thirty-Nine Weeks ended October 28, 2017 and October 29, 2016; (iii) Condensed Consolidated Balance Sheets as of October 28, 2017 and January 28, 2017; (iv) Condensed Consolidated Statements of Cash Flows for the Thirty-Nine Weeks ended October 28, 2017 and October 29, 2016, and (v) Notes to Condensed Consolidated Financial Statements. **

* Furnished, not filed.

** Pursuant to Rule 406T of SEC Regulation S-T, the Interactive Data Files included as Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these Sections.