

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended February 1, 2020

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

VERA BRADLEY, INC.

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of
incorporation or organization)

27-2935063

(I.R.S. Employer
Identification No.)

12420 Stonebridge Road,
Roanoke, Indiana

(Address of principal executive offices)

46783

(Zip Code)

(877) 708-8372

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, without par value	VRA	NASDAQ Global Select Market

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant as of August 3, 2019 was \$257,136,524.

The registrant had 33,121,414 shares of its common stock outstanding as of March 24, 2020.

DOCUMENT INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement for the 2020 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Vera Bradley, Inc. intends to file such proxy statement with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after its fiscal year ended February 1, 2020.

Forward-Looking Statements

This annual report contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this report are forward-looking statements. Forward-looking statements include references to our current expectations and projections relating to our financial condition, results of operations, plans, objectives, strategies, future performance, and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “might,” “will,” “should,” “can have,” and “likely” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected earnings, revenues, costs, expenditures, cash flows, growth rates, and financial results, our plans and objectives for future operations, growth, initiatives, or strategies, or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- public health pandemics, including the continued outbreak of the novel coronavirus (COVID-19);
- possible inability to successfully implement our long-term strategic plan, including our Vision 20/20 initiatives;
- possible declines in our comparable sales;
- possible inability to maintain and enhance our brands;
- possible failure of our multi-channel distribution model;
- possible adverse changes in general economic conditions and their impact on consumer confidence and consumer spending, including as may be related to the continued outbreak of COVID-19;
- 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 data security or privacy breaches or disruptions in our computer systems or website;
- possible new or increased tariffs on our products that could lead to increased product costs and lower profit margins;
- possible failure of Pura Vida acquisition benefits to materialize as expected, including the possibility that the business may not perform as anticipated; and
- possible inability to successfully implement integration strategies related to the Pura Vida business.

We derive many of our forward-looking statements from our operating plans and forecasts, which are based upon detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results.

For a discussion of the above described risks and other risks and uncertainties that could cause actual results to differ materially from those contained in our forward-looking statements, please refer to “Risk Factors” in Item 1A of this report.

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

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PART I

In this Form 10-K, references to “Vera Bradley, Inc” or the “Company” refer to Vera Bradley, Inc. and its subsidiaries, including Vera Bradley Designs, Inc. and Creative Genius, LLC. References to “Vera Bradley” relate to the Vera Bradley stand-alone brand and references to “Pura Vida” relate to the Pura Vida stand-alone brand, except where the context requires otherwise or where otherwise indicated. The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to January 31. The fiscal years ended February 1, 2020 (“fiscal 2020”) and February 2, 2019 (“fiscal 2019”) were each 52-week periods. February 3, 2018 (“fiscal 2018”) was a 53-week period. The fiscal year ending January 30, 2021 (“fiscal 2021”) will be a 52-week period.

Item 1. Business

Our Company

In July 2019, Vera Bradley, Inc. acquired a 75% interest in Creative Genius, Inc., which also operates under the name Pura Vida Bracelets (“Pura Vida”). Pura Vida results are consolidated within the Company’s financial statements beginning on July 17, 2019, the first full day following the acquisition. Prior period results have not been recast and are therefore not comparable with the fiscal 2020 period.

Beginning in the second quarter of fiscal 2020, the Company has included an additional segment for Pura Vida due to its acquisition. As a result, the Company now has three reportable segments: Vera Bradley Direct (“VB Direct”), Vera Bradley Indirect (“VB Indirect”), and Pura Vida. For financial information about our reportable segments, refer to Note 19 of the Notes to Consolidated Financial Statements set forth in Part II, “Item 8. Financial Statements and Supplementary Data,” of this report.

Vera Bradley

Vera Bradley is a leading designer of women’s handbags, luggage and travel items, fashion and home accessories, and unique gifts. Founded in 1982 by friends Barbara Bradley Baekgaard and Patricia R. Miller, the brand’s innovative designs, iconic patterns, and brilliant colors inspire and connect women. Vera Bradley offers a unique, multi-channel sales model, as well as a focus on service and a high level of customer engagement. The reportable segments within the Vera Bradley brand are VB Direct and VB Indirect.

VB Direct. The VB Direct business consists of sales of Vera Bradley products through Vera Bradley full-line and factory outlet stores in the United States; verabradley.com; the Vera Bradley online outlet site; and the Vera Bradley annual outlet sale in Fort Wayne, Indiana. As of February 1, 2020, the Company operated 88 full-line stores and 63 factory outlet stores.

VB Indirect. The VB Indirect business consists of sales of Vera Bradley products to approximately 2,200 specialty retail locations, substantially all of which are located in the United States; sales to department stores, national accounts, third-party e-commerce sites, and third-party inventory liquidators; and royalties recognized through licensing agreements related to the Vera Bradley brand.

Pura Vida

Pura Vida, based in La Jolla, California, is a digitally native lifestyle brand that we believe deeply resonates with its loyal consumer following. The Pura Vida brand has a differentiated and expanding offering of bracelets, jewelry, and other lifestyle accessories. The Pura Vida segment represents revenues generated through the Pura Vida websites, www.puravidabraccets.com and www.puravidabraccets.eu, and through the distribution of Pura Vida-branded products to wholesale retailers, substantially all of which are located in the United States. Refer to Note 16 of the Notes to Consolidated Financial Statements set forth in Part II, “Item 8. Financial Statements and Supplementary Data,” of this report for additional information regarding the Pura Vida acquisition.

Our History

When they were traveling together, Fort Wayne, Indiana friends Barbara Bradley Baekgaard and Patricia Miller realized there was a lack of stylish travel accessories in the market. Within weeks, the friends created Vera Bradley, named after Ms. Bradley Baekgaard’s mother, and began manufacturing and marketing their distinctive products. The founders, together with past and present members of the executive management team, have been instrumental in our growth and success. The following timeline sets forth a summary of some milestones in Vera Bradley, Inc.’s history by calendar year:

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- 1982 – Barbara Bradley Baekgaard and Patricia Miller launched Vera Bradley by introducing three products: the handbag, the sports bag, and the duffel bag.
- 1991 – To accommodate the increasing number of attendees, we relocated our annual outlet sale from a tent in our parking lot to its present location at the Allen County War Memorial Coliseum Exposition Center in Fort Wayne, Indiana.
- 1998 – We founded our primary philanthropy, the Vera Bradley Foundation for Breast Cancer.
- 1999 – Our products were sold in all 50 states through Indirect retailers.
- 2006 – We launched our e-commerce business through our website, verabradley.com.
- 2007 – We opened a state-of-the-art distribution facility in Roanoke, Indiana and also opened our first full-line store at the Natick Collection, in greater Boston.
- 2009 – We opened our first outlet store at Chicago Premium Outlets in Aurora, Illinois.
- 2010 – We completed our initial public offering.
- 2017 – The Company launched its three-year strategic plan, Vision 20/20, to return the business to health and lay a foundation for growth.
- 2019 – Vera Bradley, Inc. acquired a majority interest in Pura Vida.

The passion for design and customer service established by our founders has driven our Company for nearly 40 years and remains the cornerstone of Vera Bradley, Inc. today. Ms. Baekgaard retired from Vera Bradley operations in 2017 but continues to serve on the Board of Directors. Ms. Miller retired in October 2012 as our National Spokesperson and in August 2019 from the Board of Directors.

Similar to the Vera Bradley brand, Pura Vida was founded by two Southern California friends, Griffin Thall and Paul Goodman. Thall and Goodman, while traveling through Costa Rica in 2010, crossed paths with two bracelet artisans who were living in poverty. Thall and Goodman asked the artisans to make 400 bracelets to take home with them.

Upon returning to San Diego, Thall and Goodman placed the bracelets in a bowl at a local boutique. Within days, the bracelets sold out and customers were asking for more. Thall and Goodman quickly recognized the significance of these simple string bracelets. They were more than just ordinary locally-crafted bracelets; they symbolized a movement valuing the simple things in life. So, Pura Vida, which means “pure life” in Spanish and is a philosophy that encourages the appreciation of life’s simple treasures, was born.

We believe Pura Vida is a great strategic fit for Vera Bradley and that the two companies have combined to make Vera Bradley, Inc. a unique lifestyle company. We further believe that they are highly complementary businesses, as both businesses have:

- devoted, emotionally-connected, and multi-generational female customer bases;
- alignment as casual, comfortable, affordable, and fun lifestyle brands;
- positioning as “gifting” and socially connected brands;
- strong, entrepreneurial cultures and shared values of ingenuity, tenacity, and optimism;
- a keen focus on community, charity, and social consciousness;
- complementary, multi-channel distribution strategies; and
- talented core leadership teams aligned and committed to the long-term success of their brands.

Vision 20/20 Initiatives

In fiscal 2018, we embarked on Vision 20/20 - our aggressive three-year plan to restore the Vera Bradley brand and business to a healthy foundation and to return our Company to solid growth. Two years into our plan, we have made meaningful headway, strengthening the Vera Bradley business and acquiring Pura Vida.

In fiscal 2019, the first stage of Vision 20/20 was to restore brand and Company health. We reduced clearance revenues and restored full-price selling, delivered SG&A and cost of sales reductions, maximized retention of the Vera Bradley customer base, and generated cash from operations. We continued to build on that progress in fiscal 2020 by once again improving the quality of sales in our full-line stores and on verabradley.com by increasing comparable full price selling in these two channels by approximately 3%, which is on top of a 20% increase in the prior year.

As we completed year two of our three-year journey in fiscal 2020, our commitment to growing our customer base, sales, and profitability paid off. Our key areas of focus for fiscal 2020 were:

- **Growth:** Our main objective was to return to positive comparable sales growth this year, and we generated comparable sales growth of 3.4% at Vera Bradley despite the challenging handbag and accessories environment. We believe this improvement was driven by innovative product and supported by data-driven marketing and a continual focus on customer engagement and the consumer experience. The addition of Pura Vida to the Vera Bradley, Inc. portfolio was an important element of our fiscal 2020 growth. We consider Pura Vida a great strategic fit and believe it has bolstered our position as a unique lifestyle company.
- **Operational Excellence:** We mitigated the impact of increased tariffs through rapid re-platforming and diversification of our sourcing countries. We decreased our production in China to approximately 25% in fiscal 2020 from approximately 54% in fiscal 2019 and 70% in fiscal 2018. Mid-year, we also began a two-year process of re-platforming our ERP (enterprise resource planning) and other key information systems to become more streamlined, nimble, and efficient in our technology platform and business processes.
- **Ownership:** We continually reinforced our unique culture as an ownership-based model. Every associate has the ability to drive significant value creation through both individual and team efforts. Our 2019 Associate Engagement Survey once again generated best-in-class engagement scores, and our 2019 Customer Satisfaction Score and Net Promoter Scores were also best in class.

Growth Strategies

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

Vera Bradley

Product. We have identified three key franchise businesses – Youth/Campus, Travel, and Everyday where we can offer our customers thoughtful solutions that we believe will propel our future growth. We will continue to look for opportunities to expand into relevant new categories that reflect our brands and signature attributes of comfortable, casual, affordable, and fun. We will also continue to use licenses and strategic partnerships as appropriate to expand our product categories.

In fiscal 2020:

- We continued to establish our key franchise areas of Youth/Campus, Travel, and Everyday, which includes our top 10 items;
- We developed a pipeline for innovative fabrications to drive customer engagement and modernization of the brand;
 - We launched our first in a series of performance fabrics called Performance Twill, which is lightweight, durable, and water-repellent.
 - We introduced our environmentally-friendly Re-Active collection, made of fabric from recycled plastic bottles. We anticipate that nearly four million bottles will be recycled in fiscal 2021 for the Re-Active fabric.
 - We also drove silhouette innovation. We introduced the sling along with our Lay Flat collection, versatile travel pieces that unzip on three sides for easy accessibility. The Accessories Council selected Vera Bradley's Lay Flat Duffel as a winner for its Design Excellence Awards in the Travel/Luggage Category.
- We successfully introduced collaborations with several iconic brands, including Starbucks, Crocs, Disney, and Gillette Venus to create and sell limited-edition product collections. We announced another exciting collaboration with Warner

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Bros. Consumer Products to create a Vera Bradley + Harry Potter back-to-campus and dorm line, which will launch in summer 2020. These collaborations increase our brand exposure and we believe will provide momentum for growth.

- We expanded our customization program, where our customers can design their own bag by mixing patterns and solids along with creating embroidered personalization both inside and out.

In fiscal 2021, we plan to focus on:

- Continuing to establish our key franchise businesses;
- Expanding upon the success of our newest offerings of Performance Twill and Re-Active;
- Launching more fabric innovations, new styles, and differentiated silhouettes; and
- Establishing additional collaborations and strategic alliances that excite customers, expand our brand reach, and test new product categories. We believe these partnerships are truly a testament to the strength and wide appeal of our brand. This year, we will enter into another year of high-profile product collaborations with brands like Gillette Venus, Disney, and Crocs and plan to launch several new partnerships in addition to Harry Potter.

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

We opened six new factory outlet stores in fiscal 2020 and expanded and relocated three of our top performing factory outlet stores. We plan to open up to six new Vera Bradley factory outlet stores in fiscal 2021.

We are working to improve the profitability of our full-line store portfolio by re-balancing our existing fleet through select closures along with identifying future market opportunities. We will continue to focus on our highest-potential stores, enhancing the customer experience and further localizing our assortments. We will continue to develop and test new formats; however, we have temporarily suspended full-line store growth. In fact, we have closed 26 underperforming full-line stores since the beginning of fiscal 2018 and forecast that we will close additional full-line stores.

Building our digital flagship, verabradley.com, remains a key part of our distribution strategy. Our Vera Bradley online outlet flash sales allowed us to sell clearance merchandise in a more discreet manner and reduce clearance activity on verabradley.com and in our full-line stores. In fiscal 2020, we had approximately 52 million visits to our website and our online outlet site.

Our department store relationships allow us to expose our brand to new customers and showcase new product assortments. We are currently in approximately 440 department store locations, including Dillard's, Macy's, Belk, and Von Maur. In the department stores, we are continuing to work on enhancing our brand presentation and profitability.

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

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

In fiscal 2020:

- We completed the in-sourcing of our customer data science team, added to our business analytics group, and completed the roll-out of our new customer data platform. The insights gained from our data now allow us to adjust our marketing mix and approach on a real-time basis.
- We believe our digital first strategy, focused on targeted digital efforts, increased brand awareness, with total impressions up more than 170% to over 5.7 billion for the year.
- We further believe that increased brand collaborations and influencer engagement show the strength and relevance of our brand.
- Under the umbrella of VB Cares, we reinforced our position as a total stakeholder-focused and socially-conscious organization and continued to strengthen our community support and charitable initiatives that are meaningful to our customers and that make a significant impact on those in need, particularly women and children. Efforts included

supporting New Hope Girls, our national “Blessings in a Backpack” program, and the Vera Bradley Foundation for Breast Cancer. We are proud to have supported nearly 30 different charitable organizations in fiscal 2020.

In fiscal 2021, we plan to capitalize on and build upon the investments we made last year in data science, business analytics, and customer data. Additional engagement will be driven by more advanced use of customer data to further refine media spend and mix on a real-time basis. In addition, we will utilize more user-generated content, drive more engagement on social media, extend our brand ambassador program, strengthen our customer journey-centered activations, improve storytelling, and amplify our VB Cares messaging. We will also allocate funding to expand customer acquisition efforts.

Under the umbrella of VB Cares, we are strengthening our sustainable, purpose-driven company that delivers meaningful social impact and value for all stakeholders - our associates, our customers, our shareholders, and our communities. Although our Company has been purpose-driven throughout our history, we are enhancing that focus and increasing the visibility of our activities in this area. This spring, we plan to publish a comprehensive ESG Report and post it to our website, which will outline our accomplishments and initiatives in detail.

We will continue to strengthen our community support and charitable initiatives, identifying areas where we can make a real impact, particularly for women and children. We want to create positive change and often invite our customers to participate with calls-to-action.

Pura Vida

Product. Pura Vida offers products in the accessories category, primarily bracelets, with the balance of products in other jewelry categories such as rings and necklaces. These products are created with the “pura vida” lifestyle and aesthetic in mind, slowing down and living life to the fullest. During fiscal 2020 Pura Vida continued to experiment with and introduce new designs in their signature cord bracelets and jewelry and introduced new products including their mood ring and bracelet, enameled daisy collection, semi-precious stone charms, and stone hoops. Charity bracelets remained popular, with Pura Vida reaching over \$2.0 million in lifetime charitable contributions.

In fiscal 2021, we will continue to experiment with and introduce new designs in our signature cord bracelets and jewelry and build upon last year’s new product launches. This year, we will launch charm bracelets that tie back to specific charities, which we believe will be very popular with Pura Vida’s cause-minded customers. New product categories will include engravables - leaning into the personalization trend, hair accessories - jewelry for the hair, and fashion bags - which will be distinct from Vera Bradley bags.

Distribution Channels. Our Pura Vida products are available on our websites, www.puravidabracelets.com and www.puravidabracelets.eu. Pura Vida is a digitally native brand and continuing to develop our websites and transmit the “pura vida” lifestyle through our digital storefront is a key distribution strategy. Pura Vida’s website immerses visitors in the brand, its products, and its social mission.

We also distribute Pura Vida products through select wholesale accounts throughout the U.S. We will continue to target some larger accounts for growth which should help build the Pura Vida brand.

Marketing. We have established what we believe to be a robust digital marketing platform with highly effective consumer engagement across social media and other online platforms. The Pura Vida digital marketing strategy is anchored in innovative and effective ways to connect with our consumers, including partnerships with select individuals who we believe encapsulate the brand’s identity and serve as natural extensions of the Pura Vida marketing strategy. These partnerships translate into authentic, user-generated content that we can repurpose as ads, email campaigns, and our own social media content.

Pura Vida remains one of the most highly-engaged brands in the accessories space, surpassing the 1.9 million mark of followers on Instagram and is consistently listed as one of the most engaged jewelry brands on Instagram. Instagram followers, Facebook likes, and monthly club subscribers all rose during fiscal 2020. Pura Vida continued to rank among the top of the industry for our Net Promoter and Customer Satisfaction Scores.

Over 100,000 micro-influencers have been on-boarded, and reliance on micro-influencers is a key part of Pura Vida’s strategy. Micro-influencers are brand ambassadors who showcase Pura Vida products on their social media channels in exchange for commission. In fiscal 2021, Pura Vida plans to continue to build upon its influencer program, particularly focusing on individuals with the greatest number of followers. Co-founders Thall and Goodman also plan to reinvigorate their “grassroots” customer outreach efforts.

2019 Novel Coronavirus (COVID-19) Impact on Fiscal 2021 Plans

The Company's strategy was created prior to the COVID-19 pandemic. The COVID-19 pandemic has resulted in global travel restrictions and community and self quarantines. The Company has temporarily closed its Vera Bradley full-line and factory outlet stores. The stores are currently closed through April 4, 2020; however, some or all of the closures will likely continue beyond this date. The Company has also temporarily suspended its share repurchase program. We cannot reasonably estimate the length or severity of the pandemic or its results on the Company's fiscal 2021 strategic plans.

Our Product Release Strategy

Vera Bradley. We typically introduce new collections monthly. Each launch typically consists of one to three signature cotton-quilted prints, as well as other fabrications including microfiber, leather, Performance Twill, and Re-Active, some of which are also available in solid colors. These collections of prints and solids are incorporated into the designs of a wide range of products, including bags, accessories, and travel items. These collections typically include classic styles, updates to existing designs, and new product introductions. We do not know the full impact the COVID-19 pandemic will have on our launches at this time but believe it is likely that the pandemic will delay future launches.

To keep our assortment current and fresh, and to focus our inventory investments on our best performers, we discontinue prints and fabrications as necessary. We sell our remaining inventory of retired products primarily through our website (including our online outlet site), factory outlet stores, annual outlet sale, and third-party liquidators.

Pura Vida. We introduce new Pura Vida products seasonally, approximately four times a year. Each product launch collection typically consists of 50 to 100 SKUs. We offer a mix of seasonally inspired designs and certain core designs.

Our Products

The following chart presents net revenues generated by each of the Company's four product categories and other revenues as a percentage of our total net revenues for fiscals 2020, 2019, and 2018.

	Fiscal Year Ended		
	February 1, 2020	February 2, 2019	February 3, 2018
Bags	35.9%	41.1%	40.6%
Accessories ⁽¹⁾	31.3%	22.3%	22.0%
Travel	21.9%	25.8%	26.1%
Home	7.2%	7.1%	6.8%
Other ⁽²⁾	3.7%	3.7%	4.5%
Total	100.0%	100.0%	100.0%

(1) Fiscal 2020 increase in accessories due to the inclusion of Pura Vida beginning July 17, 2019.

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

Bags. Bags are a core part of our product offerings and are the primary component of every seasonal assortment. The category consists of classic and new styles developed by our product development team. Our bag product category includes items such as totes, crossbodies, satchels, clutches, backpacks, baby bags, and lunch bags. Bags play a prominent role in our visual merchandising, and we showcase the different fabrications, patterns, colors, and features of each bag.

Accessories. Accessories include Vera Bradley-branded fashion accessories such as wallets, wristlets, eyeglass cases, scarves, various technology accessories, as well as Pura Vida-branded accessories such as bracelets, rings, and necklaces. We believe our accessories are attractively priced and allow the consumer to include some color in her wardrobe, even if tucked into another bag. Our product development team consistently updates the accessories assortment based on consumer demand and fashion trends.

Travel. Our travel product category includes rolling luggage, cosmetics, travel and packing accessories, and travel bags which includes our iconic duffel and weekend bags. The first Vera Bradley product offering included duffel bags, which have consistently been strong performers. We believe their popularity, as well as the appeal of our other travel items, results from our vibrant designs, functional styles, and lightweight fabrications.

Home. Our home category includes textiles, including throw blankets, beach towels, and comforters, as well as items such as mugs and tumblers.

Product Development

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

We typically begin the development stage of our products in the Vera Bradley portfolio twelve to eighteen months in advance of their release. The development of each new pattern includes the design of a primary print and sometimes a secondary coordinating print. All print development is managed by our internal print design team. Once developed, we generally copyright our patterns as appropriate. We believe that great design is not only central to our product, but also is a fundamental part of our brand development and growth strategies.

Our design team works to ensure that new collections contain an assortment of products and styles that are in line with both trends and customer needs and regularly updates classic styles to enhance functionality. Our team monitors fashion trends and customer needs by attending major trend and industry shows in Europe, Asia, and the United States, subscribing to trend monitoring services, and engaging in comparison-shopping.

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

In addition to products developed in-house, we also pursue brand extensions through strategic partnerships, licensing agreements, and brand collaborations. We currently have licenses in place for eyewear, collegiate, bedding, hosiery, swimwear, technology accessories, stationery, health care uniforms and accessories, sleepwear and loungewear, bath collections, Disney Theme Park Merchandise, and certain U.S. Military forces. We will continue to look for the right strategic partners and licensees that can augment the brand and provide established distribution networks for certain categories of business.

Pura Vida. Pura Vida continues to develop new styles and re-invent existing styles. We have a cross-functional team that aligns product development with merchandising to strategically manage the design process. Our cross-functional team attends trade shows and performs market research to develop what we believe will be on-trend products that communicate and emulate the “pura vida” lifestyle.

Marketing

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

Vera Bradley

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

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

Public Relations and Product Placement. Vera Bradley has received considerable editorial exposure in the press, with mentions in *O the Oprah Magazine*, *Magnolia Journal*, *Garden & Gun*, *InStyle*, and *Southern Living*. In addition, we have expanded our public relations efforts to reach popular online influencers and bloggers.

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Product placement of Vera Bradley products in feature-length films and on prime-time television shows remains strong with television placements in *Modern Family*, *The Big Bang Theory*, *Blackish*, *Speechless*, *American Housewife*, *The Conners*, *Bless This Mess*, *Carol's Third Act*, *Single Parents*, and *Blacklist*. Movie placements include: *Pitch Perfect 3*, *La La Land*, *Girl's Trip*, *Baywatch*, *A Bad Moms Christmas*, *Den of Thieves*, and *Bad Boys III*.

Partnerships. During fiscal 2020, under the umbrella of VB Cares, we reinforced our position as a total stakeholder-focused and socially-conscious organization and continued to strengthen our community support and charitable initiatives that are meaningful to our customers and that make a significant impact on those in need, particularly women and children. Efforts included supporting New Hope Girls, our national "Blessings in a Backpack" program, and the Vera Bradley Foundation for Breast Cancer.

Social Media and Online Marketing. We use online marketing and social networking sites as tools to increase brand awareness and drive traffic to verabradley.com and to our Vera Bradley stores.

For Vera Bradley, we have captured approximately 5.4 million active customer e-mail addresses in our online customer file, with many of these customers providing age, occupation, and location data. This information provides us with deeper insight into the products and categories that are of the highest interest to our customers, and allows us to better target our customers with appropriate messages. As of February 1, 2020, we had approximately 1.9 million Facebook fans and approximately 80,000 Twitter followers. Our Instagram, which we launched in October 2012, has grown to approximately 500,000 followers and is our most highly engaged social medium. In addition, we often partner with brand-right bloggers to promote product.

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

Pura Vida

Retention Advertising. We connect with our established customers with regular emails, affiliate marketing, SMS marketing, and social media marketing. Our retention advertising focuses on informing Pura Vida customers of new product launches, exclusive offers, inventory restocks of best sellers, upselling subscription products, and the latest Pura Vida news.

New Customer Acquisition Advertising. Pura Vida focuses on digital advertising through Facebook, Instagram, Google, Snapchat, and Pinterest to acquire new customers. We are consistently testing new audiences, channels, creative, and promotions to maximize our return on paid media spend.

Ambassador Program. We have a grassroots program of over 100,000 brand ambassadors who drive customers to our website and generate buzz in local communities, digitally through their social media channels, in person through events, and through word of mouth. This program helps us reach our customers in a personal fashion. We acquire these brand ambassadors through advertising on Instagram and Snapchat, as well as regular promotion through our organic channels.

Influencer Marketing. We have tiers of small to large sized influencers across various key markets and demographic profiles. We work with influencers on product collaborations and campaigns, and foster organic relationships with them through photoshoots, trips, and events which we believe drives organic growth for the brand.

Charity Collaborations. We actively partner with charities to donate to causes that are important to our customers. To date, we have donated over \$2.0 million to various charities around the world.

Events Marketing. We utilize our vintage 1972 airstream that we have converted into a traveling retail store to bring the Pura Vida brand to life for our customers. We travel nationwide to different music festivals, surf competitions, yoga festivals, as well as local events in San Diego.

Seasonality

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

Channels of Distribution

We distribute our Vera Bradley products through our VB Direct and VB Indirect segments and Pura Vida products through e-commerce and wholesale retailers. This multi-channel distribution model is designed to enable operational flexibility and maximizes the methods by which we can access potential customers.

Vera Bradley Direct Segment

Full-Line Stores. We have developed a retail presence through our full-line stores, all located in the United States, which provides us with a format to showcase our brand and the full array of Vera Bradley products. As of February 1, 2020, we operated 88 full-line stores averaging approximately 1,900 square feet per store. Our sales associates are passionate about our products and customer service, which, we believe, translates into a superior shopping experience.

Factory Outlet Stores. Our factory outlet stores are a vehicle for selling factory exclusive styles, as well as retired merchandise at discounted prices, while maintaining brand integrity. At the end of fiscal 2020, over 95% of the merchandise found in our factory outlet stores consisted of factory exclusive styles. Factory outlet stores are an integral part of our distribution strategy, as this format provides an additional channel of distribution for our products and enables us to better target value-oriented customers. Our factory outlet stores average approximately 3,200 square feet per store. As of February 1, 2020, we operated 63 factory outlet stores, all located in the United States.

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

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

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

We expect our factory outlet stores to average approximately 3,200 square feet per store, and we expect to invest approximately \$0.5 million per new store, consisting of inventory, pre-opening costs, and build-out costs, less tenant-improvement allowances.

E-Commerce. In 2006, we began selling our products through the verabradley.com website. The objective of verabradley.com is to provide both a mechanism for marketing directly to consumers and a storefront where consumers can find the entire full-line Vera Bradley collection. During the third quarter of fiscal 2018, we created an online outlet site to reduce clearance sales from verabradley.com. During fiscal 2020, we began the process of re-platforming our website to become more streamlined, nimble, and efficient in our technology platform and business processes. We had approximately 52 million visits to verabradley.com and our online outlet site during fiscal 2020.

Annual Outlet Sale. Our annual outlet sale is held in the Allen County War Memorial Coliseum Exposition Center in Fort Wayne, Indiana each spring. The annual outlet sale is an important tradition for Vera Bradley, has many loyal followers, and is an opportunity for us to sell our retired merchandise at discounted prices in a brand-right fashion. We attracted nearly 43,000 attendees to our 2019 annual outlet sale. In light of the COVID-19 pandemic, we have cancelled our 2020 annual outlet sale. Our 2021 sale is planned for April 2021.

Vera Bradley Indirect Segment

As of February 1, 2020, we sold our products in approximately 2,200 specialty retail locations, as well as department stores, national accounts, third-party e-commerce sites, and third-party inventory liquidators, as well as through licensing agreements. In fiscal 2012, we launched our products in the department store channel. We are currently in approximately 440 department store locations, including Dillard's, Macy's, Belk, and Von Maur.

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The top 30% of our specialty retailers account for approximately 70% of total specialty retailer revenue. No single Indirect retailer represented more than 10% of consolidated net revenues in fiscal 2020, with the top ten Indirect retailers representing in the aggregate approximately 40% of total Indirect net revenues. The majority of our Indirect retailers have been customers for over five years.

Indirect Sales Force

We believe that having a combination of an in-house field sales force and a third-party agency, covering certain geographies, results in a more consistent brand presentation and messaging, enhanced support for our Indirect customers, and a more predictable, scalable, and cost-efficient business model. As of February 1, 2020, our in-house sales team consisted of approximately 25 full-time sales consultants. Beginning in fiscal 2019, the compensation structure for these consultants was based upon a full commission model.

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

Pura Vida Segment

E-Commerce. Pura Vida is a digitally native brand and the e-commerce storefront continues to be the primary source of revenues for the Pura Vida business. The e-commerce site also includes a monthly bracelet and jewelry subscription club. The subscription club is a mechanism to continue to build brand loyalty and stimulate higher retention.

Wholesale. The Pura Vida wholesale channel is comprised primarily of specialty stores including Tilly's, The Buckle, The Paper Store, Ron Jon Surf Shops, and Hallmark stores, among others. Pura Vida also has a presence on Amazon through a third-party wholesaler. We have a combination of in-house and external sales personnel who work with our wholesale retailers regarding order fulfillment and compilation.

Manufacturing and Supply Chain Model

Vera Bradley

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

Our manufacturing and sourcing strategy is part of the larger cross-functional product development process. The overall objective for our sourcing team is to build and sustain collaborative partnerships throughout our supply chain, with a focus on identifying appropriate countries and partners to manufacture our products. The sourcing team leverages its expertise in negotiation, relationship management, and change management to maintain a strong global supply chain. Our sourcing team also focuses on achieving the right balance of production sites and countries of origin to mitigate the risk of concentrated production, including potential incremental tariffs. During fiscal 2020, to continue to assist in this risk mitigation, our sourcing team reduced our Vera Bradley production in China from approximately 54% in fiscal 2019 to approximately 25% in fiscal 2020. With exception to China-centric production categories, we have an ongoing strategy that continues to reduce our China exposure in both finished goods and raw materials.

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

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

The majority of our Vera Bradley finished goods, not sourced through licenses or strategic partners, are manufactured by a variety of global manufacturers located primarily in Vietnam, Myanmar, Cambodia, Indonesia, and China. With the oversight of our office in Hong Kong and our independent contractors, we believe these financial benefits have been realized without sacrificing the level of quality inherent in our products or service to our customers.

Pura Vida

Pura Vida products are sourced primarily from El Salvador, as well as Costa Rica (where the first orders for Pura Vida were placed), India, and China.

When determining the size of orders placed with our manufacturers, we take into account forward-looking demand, lead times for specific products, current inventory levels, and minimum order quantity requirements. Overseas production has resulted in substantial cost savings and a reduction of capital investment.

Distribution Centers

Vera Bradley owns a 428,500 square-foot distribution center in Roanoke, Indiana. This automated, computerized facility allows Vera Bradley employees to receive information directly from the order-collection center and quickly identify the products and quantities necessary to fulfill a particular order. The facility's technology enables us to accurately process and pack orders, as well as track shipments and inventory. We believe that our systems for the processing and shipment of orders from our distribution center have enabled us to improve our overall customer service through enhanced order accuracy and reduced turnaround time; however, we continue to make technology and automation enhancements to our distribution center processes to ensure optimal output.

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

Pura Vida products for the U.S. e-commerce site and wholesale accounts are distributed primarily through a third-party provider in Tijuana, Mexico. Pura Vida also distributes product through a third-party provider in the Netherlands, which supports European e-commerce operations. To support international e-commerce sales, we plan on adding an additional third-party provider in Canada in fiscal 2021 and are exploring a potential provider in Asia in the future.

Management Information Systems

We believe that high levels of automation and technology are essential to maintain our competitive position. We maintain computer hardware, applications, and networks to enhance and accelerate the design process, to support the sale and distribution of our products to our customers, and to improve the integration and efficiency of our operations. Our information systems are designed to provide, among other things, comprehensive order processing, production, accounting, and management information and analytics for the product development, retail, sales, marketing, distribution, finance, and human resources functions of our business. During the second quarter of fiscal 2020, we began a two-year process of re-platforming our enterprise resource planning and other key information systems to become more streamlined, nimble, and efficient in our technology platform and business processes. We continue to assess our on premise and cloud-based technology solutions to ensure we have the optimal solutions for our business.

Competition

For both Vera Bradley and Pura Vida, we face strong competition in each of the product lines and markets in which we compete. We believe that all of our products are in similar competitive positions with respect to the number of competitors they face and the level of competition within each product line. Due to the number of different products we offer, it is not practicable for us to quantify the number of competitors we face. Our products compete with other branded products within their product categories and with private label products sold by retailers. Moreover, the general availability of contract manufacturing allows new entrants access to the markets in which we compete, which may increase the number of competitors and adversely affect our competitive position and our business. We compete against other independent retailers, department stores, catalog retailers, gift retailers, and Internet businesses that engage in the retail sale of similar products.

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

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

Copyrights and Trademarks

For Vera Bradley, the development of new patterns includes the design of primary and secondary prints. Once developed, we generally copyright our patterns as appropriate. We currently have approximately 1,000 copyrights related to the Vera Bradley business.

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

Employees

As of February 1, 2020, we had approximately 2,700 employees. Of the total, approximately 2,050 were engaged in Vera Bradley retail selling positions; approximately 300 were engaged in Vera Bradley distribution, sourcing and quality functions; approximately 35 were engaged in Vera Bradley product design; approximately 35 were involved in the Pura Vida business; and approximately 280 were engaged in corporate support and administrative functions. None of our employees are represented by a union. We believe that our relations with our employees are good, and we have never encountered a significant work stoppage. We are monitoring the fluid events of the COVID-19 pandemic. In light of the pandemic, we have temporarily closed our Vera Bradley full-line and factory outlet stores. The stores are currently closed through April 4, 2020; however, some or all of the closures will likely continue beyond this date.

Government Regulation

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

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

Information About Our Executive Officers

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

Name	Age	Position(s)
Robert Wallstrom	54	Chief Executive Officer, President and Director, Vera Bradley, Inc.
John Enwright	47	Chief Financial Officer, Vera Bradley, Inc.
Mark C. Dely	44	Chief Administrative & Legal Officer and Corporate Secretary, Vera Bradley, Inc.
Daren Hull	46	Chief Customer Officer, Vera Bradley
Kevin Korney	50	Chief Merchandising Officer, Vera Bradley
Beatrice Mac Cabe	41	Chief Creative Officer, Vera Bradley
Stephanie Scheele	43	Chief Marketing Officer, Vera Bradley
Mary Beth Trypus	54	Chief Sales Officer, Vera Bradley
Paul Goodman	31	Co-founder, Pura Vida
Griffin Thall	33	Co-founder, Pura Vida

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

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

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

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

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

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

Stephanie Scheele was named Chief Marketing Officer in April 2018 and before that served as our Vice President – Marketing Strategy and Operations since 2015, leading the insights and customer database programs and overseeing the marketing strategy team. Ms. Scheele has spent over 15 years with Vera Bradley in various roles of increasing responsibility.

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

Paul Goodman and Griffin Thall co-founded Pura Vida and continue to lead the Pura Vida operations from its corporate headquarters in La Jolla, California. They have each been with Pura Vida since its founding in 2010.

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on our website, www.verabradley.com, as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission (“SEC”). No information contained on our website is intended to be included as part of, or incorporated by reference into, this Annual Report on Form 10-K.

Item 1A. Risk Factors

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

Risks Related to Our Business

The continued outbreak of the 2019 novel coronavirus (COVID-19) may cause significant disruptions in our global supply chain, operations, and revenue streams, which could adversely impact our results of operations.

Travel restrictions, mall closures or reduced mall operating hours, and community and self-quarantines related to the COVID-19 pandemic could have a material adverse impact on the Company's revenues and profits. In light of the pandemic, we have temporarily closed our full-line and factory outlet stores. The stores are currently closed through April 4, 2020; however, some or all of the closures will likely continue beyond this date. COVID-19, first identified in Wuhan, China, has led to work and travel restrictions within, to, and out of mainland China, as well as temporary factory closures or production and logistics constraints due to workforce availability in China. Although we continue to reduce our reliance on production from China, we expect our China production to be approximately 20% during fiscal 2021. As a result of the aforementioned restrictions, we may experience delayed shipments and increased shipping costs for some of our fiscal 2021 merchandise. As a result of the above-mentioned factors, the Company's liquidity, results of operations, and financial condition could be materially adversely impacted.

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

In fiscal 2018, we began to implement our Vision 20/20 plan, which is integrated into our long-term strategic plan, aimed to turnaround our business and restore brand and Company health by the end of fiscal 2021. The success of our long-term strategic plan and growth strategies, alone or collectively, will depend on various factors, including the appeal of our product designs, retail presentation to consumers, effectiveness of our marketing initiatives, expense saving initiatives, competitive conditions, and economic conditions. There is no assurance that we will be able to successfully implement our strategic plan and Vision 20/20 initiatives. If we are unsuccessful in implementing some or all of our strategies or initiatives, our future operating results could be adversely impacted.

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

Our performance is subject to general economic conditions and their impact on levels of consumer confidence and consumer spending. Consumer confidence and consumer spending may be influenced by the recent COVID-19 pandemic, fluctuating interest rates and credit availability, changing fuel and other energy costs, fluctuating commodity prices, levels of unemployment and consumer debt levels, changes in net worth based on market conditions, general uncertainty regarding the overall future economic environment, political turmoil, and weather and weather-related phenomena. Consumer purchases of discretionary items, including our merchandise, generally decline during periods when disposable income is adversely affected or there is economic uncertainty, and this could adversely impact our results of operations. In the event that the U.S. economy worsens, or if there is a decline in consumer-spending levels or other unfavorable conditions, including inflation, we could experience lower than expected net revenues, which could force us to delay or slow the implementation of our growth strategies and adversely impact our results of operations.

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

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

The Pura Vida acquisition may not be successful in achieving intended benefits and may disrupt current operations.

We acquired a majority interest in Creative Genius, Inc. or “Pura Vida,” on July 16, 2019. This acquisition, and as with most any business acquisition, poses a number of potential integration risks that may result in negative consequences to our business, financial condition, and results of operations. These risks include, but are not limited to:

- failure of the business to perform as planned following the acquisition to achieve anticipated revenue or profitability targets;
- the assimilation and retention of employees, including key employees;
- higher than expected costs and/or a need to allocate resources to manage unexpected operating difficulties;
- diversion of the attention and resources of management or other disruptions to current operations;
- retaining key customers and suppliers;
- retaining required regulatory approvals, licenses, and permits;
- the assumption of liabilities of the acquired business not identified during due diligence; and
- other unanticipated issues, expenses, and liabilities.

Prior to its acquisition, Pura Vida was a privately-held company and its new obligations from being part of a public company may require significant additional resources and management consideration.

Upon the completion of the Pura Vida acquisition, Pura Vida became a subsidiary of our consolidated Company and must comply with U.S. Generally Accepted Accounting Principles (“GAAP”), the Sarbanes-Oxley Act of 2002 (“SOX”), the Dodd-Frank Act and the rules and regulations subsequently implemented by the SEC and the Public Company Accounting Oversight Board. We must ensure that Pura Vida establishes and maintains effective disclosure controls as well as internal controls and procedures for financial reporting under U.S. GAAP, and such compliance efforts may be costly and may divert the attention of management. There are a number of processes, policies, procedures, and functions that must be integrated, or enhanced at Pura Vida, particularly those related to the implementation of a SOX compliant control environment. The execution of these plans may lead to additional unanticipated costs and time delays that could negatively impact our business, financial condition, and results of operations.

Because a significant portion of Pura Vida’s total assets are represented by goodwill, indefinite-lived intangible assets, and definite-lived intangible assets, we could be required to write off some or all of this goodwill and other intangibles, which may adversely affect the company’s financial condition and results of operations.

We are using the purchase method of accounting to account for the acquisition of a majority interest in Pura Vida consummated on July 16, 2019. A portion of the purchase price for this business is allocated to identifiable tangible and intangible assets and assumed liabilities based on estimated fair values at the date of acquisition. Goodwill is measured indirectly as the excess of the sum of (1) the consideration transferred (including contingent consideration, if any) and (2) the fair value of any noncontrolling interest in the acquiree over the net assets acquired and liabilities assumed. The provisional purchase price allocation resulted in a preliminary goodwill value of \$44.3 million and a preliminary value of \$61.7 million related to other intangible assets. Refer to Note 16 of the Notes to Consolidated Financial Statements set forth in Part II, “Item 8. Financial Statements and Supplementary Data,” of this report. for additional information regarding the provisional purchase price allocation. When the Company performs impairment tests, it is possible that the carrying value of goodwill or other intangible assets could exceed their implied fair value and therefore would require adjustment. Such adjustment would result in a charge to operating income in that period. Once adjusted, there can be no assurance that there will not be further adjustments for impairment in future periods.

The Put/Call Agreement between the Company, certain of its subsidiaries, and Creative Genius, Inc. may require us to purchase the remaining 25% interest in the Pura Vida business.

On July 16, 2019, as contemplated by the Interest Purchase Agreement, the Company and certain of its subsidiaries and the owners of the remaining twenty-five percent (25%) ownership interest in Pura Vida (the “Sellers”) which was not acquired by the Company (the “Remaining Pura Vida Interest”) entered into a Put/Call Agreement (the “Put/Call Agreement”). Pursuant to the Put/Call Agreement, and subject to the terms and conditions thereof, the Sellers have the right to sell all of the Remaining Pura Vida Interest to the Company, and the Company has the right to purchase all of the Remaining Pura Vida Interests from Sellers, in each case generally at any time following the fifth anniversary of the closing date of the transaction until the tenth anniversary thereof. In the event of a change in control of the Company, the parties may exercise a portion of their put and call rights prior to the fifth anniversary of the closing date (as defined in the Put/Call Agreement).

The execution of the Sellers right to require us to purchase the Remaining Pura Vida Interest may represent a significant financial obligation that could have a material adverse impact on our liquidity, results of operations, and financial condition.

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

We may not be able to regain the levels of comparable sales that we have experienced in the past, and comparable sales may also further deteriorate. If our future comparable sales fail to meet market expectations, then the price of our common stock could decline. Also, the aggregate results of operations of our stores have fluctuated in the past and will fluctuate in the future. Numerous factors influence comparable sales, including fashion trends, competition, national and regional economic conditions, the COVID-19 pandemic, pricing, inflation, the timing of the release of new merchandise and promotional events, changes in our merchandise mix, marketing programs, changes in consumer shopping trends, site selection strategy, and weather conditions. These factors may cause our comparable sales results to be lower in the future than in recent periods or lower than expectations, either of which could result in a decline in the price of our common stock.

If our multi-channel distribution model is not successful, our business and results of operations may suffer.

We currently sell our Vera Bradley-branded products into two segments: Direct to consumers through Vera Bradley full-line and factory outlet stores in the United States, verabradley.com, the Vera Bradley online outlet site, and the Vera Bradley annual outlet sale in Fort Wayne, Indiana; and through our Vera Bradley Indirect wholesale business which consists of sales to specialty retail locations, department stores, national accounts, third-party e-commerce sites, third-party inventory liquidators, as well as royalties recognized through licensing agreements related to the Vera Bradley brand. We currently sell our Pura Vida-branded products direct to consumers through our e-commerce websites, puravidabracelets.com and puravidabracelets.eu, and through wholesale retailers. These channels are sometimes in direct competition and sales through these channels may not be incremental to total sales.

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

Our long-term future growth prospects include our ability to successfully open and operate new and current Vera Bradley stores. In recent years, however, Vera Bradley comparable store sales have declined. Consequently, the rate in which we have opened new stores has slowed and we do not currently plan to open any new full-line stores during fiscal 2021. As part of our Vision 20/20 initiatives, we have closed a total of 26 underperforming full-line stores and one underperforming factory outlet store since the beginning of fiscal 2018 and forecast that we will close additional full-line stores. We have closed 30 underperforming stores since December 2014. We plan to open up to six new Vera Bradley factory outlet stores during fiscal 2021. We will continue to evaluate our plans for store openings in future years in light of demand and store performance.

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

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

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

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

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

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

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

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

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

- timing of new store openings and store closings;
- net revenues and profits contributed by new stores;
- increases or decreases in store traffic and comparable sales;
- shifts in the timing of holidays, particularly in the United States and China;
- changes in our merchandise mix;
- timing of marketing campaigns or promotions;
- timing of sales to Vera Bradley and Pura Vida wholesale retailers; and
- timing of new pattern and collection releases and new product introductions.

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

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

We remain dependent on information technology systems and networks, including the Internet, for a significant portion of our sales, primarily through our e-commerce operations and credit card transaction authorization and processing. We are also responsible for storing data relating to our customers and employees and rely on third parties for the operation of our e-commerce websites and for the various social media tools and websites we use as part of our marketing strategy. As part of our normal course of business, we often collect, retain, and transmit certain sensitive and confidential customer information, including the transmission of credit card information, over public networks. There is a significant concern by consumers and employees over the security of personal information transmitted over the Internet, consumer identity theft and user privacy. Despite the security measures we currently have in place, our facilities and systems and those of our third-party service providers may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any electronic or physical security breach involving the misappropriation, loss or other unauthorized disclosure of confidential or personally identifiable information, including penetration of our network security, whether by us or by a third-party, could disrupt our business, severely damage our reputation and our relationships with our customers, expose us to risks of litigation and liability and adversely affect our business and results of operations. We do not control third-party service providers and cannot guarantee that electronic or physical computer break-ins and security breaches will not occur in the future. Any perceived or actual unauthorized disclosure of personally identifiable information regarding our customers or website visitors could harm our reputation and credibility, reduce our e-commerce net sales, impair our ability to attract website visitors, and reduce our ability to attract and retain customers. We may also incur significant costs in complying with the various applicable state, federal, and foreign laws regarding unauthorized disclosure of personal information.

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

We are dependent on our computer systems to record and process transactions and manage and operate our business, including in designing, marketing, manufacturing, importing, tracking and distributing our products, processing payments, and accounting for and reporting results. We also utilize an automated replenishment system to facilitate the processing of basic replenishment orders, the movement of goods through distribution channels, and the collection of information for planning and

forecasting. In addition, we have e-commerce websites in the U.S. and Europe. Given the complexity of our business and the significant number of transactions that we engage in on an annual basis, it is imperative that we maintain constant operation of our computer hardware and software systems. Despite our preventive efforts, including back-up systems, our systems are vulnerable from time to time to damage or interruption from, among other things, security breaches, computer viruses or power outages. Any material disruptions in our information technology systems could have a material adverse effect on our business, financial condition and results of operations.

During the second quarter of fiscal 2020, we began a two-year process of re-platforming our enterprise resource planning and other key information systems to become more streamlined, nimble, and efficient in our technology platform and business processes. We continue to assess our on premise and cloud-based technology solutions to ensure we have the optimal solutions for our business. However, there are risks and uncertainties related to this re-platforming that could have a material adverse effect on our business, financial condition and results of operations.

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

We operate e-commerce stores at www.verabradley.com, which includes an online outlet site we created in fiscal 2018, www.puravidabracelets.com, and www.puravidabracelets.eu. Expanding our e-commerce business is one of the key objectives of our business strategy. Our e-commerce operations are subject to numerous risks, including unanticipated operating problems, reliance on third-party computer hardware and software providers, system failures and the need to invest in additional computer systems. Specific risks include: (i) diversion of sales from our stores; (ii) rapid technological change; (iii) liability for e-commerce content; and (iv) risks related to the failure of the computer systems that operate the websites and their related support systems, including from computer viruses, telecommunication failures and electronic break-ins and similar disruptions. Internet operations involve risks which may be beyond our control that could have a direct material adverse effect on our operating results, including: (i) price competition involving the items we intend to sell; (ii) the entry of our vendors into the Internet business in direct competition with us; (iii) the level of merchandise returns experienced by us; (iv) governmental regulation; (v) e-commerce security breaches involving unauthorized access to our and/or customer information; (vi) credit card fraud; and (vii) competition and general economic conditions specific to the Internet, e-commerce, and the accessories industry. Our inability to effectively address these risks and any other risks that we face in connection with our Internet operations could materially adversely affect our business, financial condition, results of operations, and/or cash flows.

Closing stores could result in significant costs to us.

Since December 2014, we have closed 30 underperforming Vera Bradley stores. We have closed a total of 26 underperforming full-line stores and one underperforming factory outlet store since the beginning of fiscal 2018 and forecast that we will close additional full-line stores. We could, in the future, decide to close additional stores that are producing losses or that are not as profitable as we expect. If we decide to close any stores before the expiration of their lease terms, we may incur payments to landlords to terminate or “buy out” the remaining term of the lease. We also may incur costs related to the employees at such stores, whether or not we terminate the leases early. Upon any such closure, the closing costs, including fixed assets and inventory write-downs, could adversely affect our results and could adversely affect our cash on hand.

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

Substantially all of our Vera Bradley Direct stores are located in regional mall shopping centers, and many of our Vera Bradley Indirect customers are also located in these shopping centers. Factors beyond our control impact mall traffic, including public health pandemics such as COVID-19, general economic conditions, and consumer spending levels. Consumer spending and mall traffic have been depressed in recent years. As a result, mall operators have been facing increasing operational and financial difficulties. The increasing inability of mall “anchor” tenants and other area attractions to generate consumer traffic around our stores, the increasing inability of mall operators to attract “anchor” tenants and maintain viable operations, and the increasing departures of existing “anchor” and other mall tenants due to declines in the sales volume and in the popularity of certain malls as shopping destinations, have reduced and may continue to reduce our sales volume and, consequently, adversely affect our financial condition, results of operations, and cash flows.

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

We lease all of our store locations. We typically occupy our stores under operating leases with terms of ten years. We have been able to negotiate favorable rental rates in recent years due in part to the state of the economy and high vacancy rates within some shopping centers, but there is no assurance that we will be able to continue to negotiate such favorable terms. Some of our leases have early cancellation clauses, which permit the lease to be terminated by us or the landlord if certain sales levels are not met in specific periods or if the shopping center does not meet specified occupancy standards. In addition to requiring future minimum lease payments, some of our store leases provide for the payment of common area maintenance charges, real

property insurance, and real estate taxes. Many of our lease agreements have escalating rent provisions over the initial term and any extensions. If we expand our store base, our lease expense and our cash outlays for rent under lease agreements will increase. Our substantial operating lease obligations could have significant negative consequences, including:

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

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

Additional sites that we lease may be subject to long-term non-cancelable leases if we are unable to negotiate our current standard lease terms. If an existing or future store is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease, including paying the base rent for the balance of the lease term. Moreover, even if a lease has an early cancellation clause, we may not satisfy the contractual requirements for early cancellation under the lease. Our inability to enter new leases or renew existing leases on acceptable terms or be released from our obligations under leases for stores that we close would, in any such case, affect us adversely.

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

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

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

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

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

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

Our various contract manufacturers produce all of our products. We generally do not enter into long-term formal written agreements with our manufacturers and instead transact business with each of them on an order-by-order basis. In the event of a disruption in our contract manufacturers' systems, we may be unable to locate alternative manufacturers of comparable quality at an acceptable price, or at all. Identifying a suitable manufacturer is an involved process that requires us to become satisfied with the prospective manufacturer's quality control, responsiveness and service, financial stability, labor practices, and environmental compliance. Any delay, interruption, or increased cost in the manufactured products that might occur for any reason, such as the lack of long-term contracts or regulatory requirements and the loss of certifications, power interruptions,

fires, hurricanes, war, health pandemics such as COVID-19, or threats of terrorism, could affect our ability to meet customer demand for our products, adversely affect our net revenues, increase our cost of sales, and hurt our results of operations. In addition, manufacturing disruption could injure our reputation and customer relationships, thereby harming our business.

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

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

We rely on a limited number of distribution facilities for the products we sell.

Distribution operations for Vera Bradley-branded products are currently concentrated in a single, company-owned distribution center in Roanoke, Indiana. Pura Vida-branded products are primarily distributed from one third-party distribution center in Tijuana, Mexico.

Any significant disruption in the operation of these facilities due to natural disaster or severe weather, or events such as fire, accidents, power outages, system failures, or other unforeseen causes, could devalue or damage a significant portion of our inventory and could adversely affect our product distribution and sales until such time as we could secure alternative facilities. In addition to the aforementioned events, the recent public health pandemic related to COVID-19 could cause disruptions in our distribution operations if we were to temporarily suspend operations. If we encounter difficulties with our distribution facilities or other problems or disasters arise, we cannot ensure that critical systems and operations will be restored in a timely manner or at all, and this would have a material adverse effect on our business. In addition, growth could require us to further expand our current facilities, which could affect us adversely in ways that we cannot predict.

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

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

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

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

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

Significant disruption of manufacturing for any of the above reasons could interrupt product supply and, if not remedied in a timely manner, could have an adverse impact on our results of operations. Additionally, we do not have complete oversight over our contract manufacturers. Violation of labor or other laws by those manufacturers, or the divergence of a contract

manufacturer's labor or other practices from those generally accepted as ethical in the United States or in other markets in which we may in the future do business, could also draw negative publicity for us and our brands, diminishing the value of our brands and reducing demand for our products.

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

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

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

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

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

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

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

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

We believe that our registered copyrights, registered and common law trademarks, and other proprietary rights have significant value and are critical to our ability to create and sustain demand for our products. We cannot assure you that the actions taken by us to establish and protect our proprietary rights will be adequate to prevent imitation of our products or infringement of our rights by others. The legal regimes of some foreign countries, particularly China, may not protect proprietary rights to the same extent as the laws of the United States, and it may be more difficult for us to successfully challenge the use of our proprietary rights by others in these countries. The loss of copyrights, trademarks, and other proprietary rights could adversely impact our results of operations. Any litigation regarding our proprietary rights could be time consuming and costly.

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

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

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

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

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

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

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

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

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

Bankruptcies or other operational or financial difficulties of our wholesale retailers could adversely impact our business.

We sell our wholesale merchandise primarily to specialty retail and department stores across the United States and extend trade credit based on an evaluation of each wholesale retailer's financial condition, usually without requiring collateral. Perceived or actual financial difficulties of a customer could cause us to curtail or eliminate business with that customer or could decrease demand for our products by that customer. Pending the resolution of a relationship with a financially troubled wholesale retailer, we might assume credit risk that we would otherwise avoid relating to our receivables from that customer. Inability to collect on accounts receivable from our wholesale retailers would adversely impact our results of operations.

There are claims made against us from time to time that can result in litigation or regulatory proceedings, which could distract management from our business activities and result in significant liability or damage to the images associated with our brands.

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

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

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

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

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

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

- the continued outbreak of COVID-19 and its adverse impact on the capital markets;
- actions by other shopping mall or lifestyle center tenants;
- weather conditions, particularly during the holiday shopping period;
- unexpected departures of key executives;
- financial projections that we may choose to provide to the public, any changes in these projections or our failure for any reason to meet these projections;
- the public's response to press releases or other public announcements by us or others, including our filings with the SEC and announcements relating to litigation and other matters;
- speculation about our business in the press or the investment community;
- future sales of our common stock by our significant shareholders, officers, and directors;
- our entry into new markets;
- changes in laws or regulations that impact the retail industry;
- strategic actions by us or our competitors, such as acquisitions or restructurings; and
- changes in accounting principles.

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

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

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

Over the last few years, proxy contests and other forms of stockholder activism have been directed against numerous public companies in retail businesses. We could become engaged in a consent solicitation, or proxy contest, or experience other stockholder activism, in the future. Activist shareholders may advocate for certain governance and strategic changes at our company. In the event of stockholder activism, particularly with respect to matters which our Board of Directors ("Board"), in exercising their fiduciary duties, disagree with or have determined not to pursue, our business could be adversely affected because responding to actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management, and perceived uncertainties as to our future direction may result in the loss of potential business opportunities and may make it more difficult to attract and retain qualified personnel, business partners, and customers.

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

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

Robert Hall, Barbara Bradley Baekgaard, Joan Hall (Mr. Hall's wife and Ms. Bradley Baekgaard's daughter), Patricia R. Miller, and P. Michael Miller, directly or indirectly, beneficially own and have the ability to exercise voting control over, in the aggregate, 25.2% of our outstanding shares of common stock as of February 1, 2020. As a result, these shareholders are able to exercise significant influence over all matters requiring shareholder approval, including the election of directors, any amendments to our second amended and restated articles of incorporation, and significant corporate transactions. This concentrated ownership of outstanding common stock may limit your ability to influence corporate matters, and the interests of these shareholders may not coincide with our interests or your interests. As a result, we may take actions that you do not believe to be in our interests or your interests and that could depress our stock price. In addition, this significant concentration of stock ownership may adversely affect the trading price of our common stock should investors perceive disadvantages in owning shares of common stock in a company that has such concentrated ownership.

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

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

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

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the further into the future that the data are forecast. Further, the recent COVID-19 pandemic could cause a material adverse impact to the Company's liquidity, results of operations, and financial condition that cannot be predicted.

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table sets forth the location, use, and size of our distribution, corporate facilities, and showrooms as of February 1, 2020. The leases on the leased properties expire at various times through 2030, subject to renewal options.

Location	Primary Use	Approximate Square Footage	Leased/Owned
Roanoke, Indiana	Vera Bradley corporate headquarters, design center, and showroom	188,000	Owned
Roanoke, Indiana	Vera Bradley warehouse and distribution	428,500	Owned
New York, New York	Vera Bradley office and showroom	3,700	Leased
Hong Kong	Vera Bradley Asia sourcing office	5,100	Leased
Atlanta, Georgia	Vera Bradley showroom	5,200	Leased
Dallas, Texas	Vera Bradley showroom	1,800	Leased
La Jolla, California	Pura Vida corporate headquarters	7,400	Leased

As of February 1, 2020, we also leased 155 store locations in the United States, including four store locations to be opened in fiscal 2021. See below for more information regarding the locations of our open stores as of February 1, 2020.

We consider these properties to be in good condition generally and believe that our facilities are adequate for our operations and provide sufficient capacity to meet our anticipated requirements. The Vera Bradley properties in the above table are used by both the Vera Bradley Direct segment and Vera Bradley Indirect segment, excluding the two showrooms which are used exclusively by the Vera Bradley Indirect segment.

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Store Locations

Our full-line stores are located primarily in high-traffic regional malls, lifestyle centers, and mixed-use shopping centers across the United States. The following table shows the number of full-line and factory outlet stores we operated in each state as of February 1, 2020:

State	Total Number of Full-Line Stores	Total Number of Factory Outlet Stores	State	Total Number of Full-Line Stores	Total Number of Factory Outlet Stores
Alabama	1	1	Minnesota	1	1
Arizona	1	1	Mississippi	—	2
California	1	—	Missouri	1	2
Colorado	2	1	Nebraska	—	1
Connecticut	2	1	Nevada	—	1
Delaware	1	1	New Jersey	8	2
Florida	5	8	New York	7	4
Georgia	1	3	North Carolina	1	4
Hawaii	1	1	Ohio	4	1
Illinois	4	1	Oklahoma	2	1
Indiana	2	2	Pennsylvania	5	3
Iowa	1	1	Rhode Island	1	—
Kansas	1	—	South Carolina	—	3
Kentucky	2	1	Tennessee	3	2
Louisiana	2	—	Texas	13	7
Maryland	4	—	Utah	—	1
Massachusetts	3	1	Virginia	2	2
Michigan	5	2	Wisconsin	1	1
			Totals	88	63

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

Item 3. Legal Proceedings

We may be involved from time to time, as a plaintiff or a defendant, in various routine legal proceedings incidental to the ordinary course of our business. In the ordinary course, we are involved in the policing of our intellectual property rights. As part of our policing program, from time to time we file lawsuits in the United States and abroad, alleging acts of trademark counterfeiting, trademark infringement, trademark dilution, and ancillary and pendent state and foreign law claims. These actions often result in seizure of counterfeit merchandise and negotiated settlements with defendants. Defendants sometimes raise as affirmative defenses, or as counterclaims, the purported invalidity or unenforceability of our proprietary rights.

In August of 2019, Vesi Incorporated (“Vesi”) filed suit against the Company in the U.S. District Court for the Southern District of Ohio related to the Company’s licensing business and alleging breach of fiduciary duty, unfair competition, defamation, and tortious interference with prospective business relationships. The complaint seeks damages in an amount not less than \$10.0 million for punitive damages, attorney fees, prejudgment interest, and any other additional relief. The Company has denied any liability and intends to vigorously defend itself in the case. In November 2019, the Company filed a counterclaim against the principals of Vesi as personal guarantors for monies owed to the Company by Vesi. The cases are currently in discovery. At this time, we are not able to estimate a possible loss or range of loss that may result from this matter or to determine whether such loss, if any, would have a material adverse effect on our financial condition or results of operations due to the fact that the Company is vigorously defending itself and management believes that the Company has a number of meritorious legal defenses.

Item 4. Mine Safety Disclosure

Not Applicable

PART II**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the NASDAQ Global Select Market under the symbol “VRA”.

As of March 27, 2020, we had approximately 25 registered shareholders of record. The number of shareholders of record is based upon the actual number of shareholders registered at such date and does not include holders of shares in “street name” or persons, partnerships, associations, corporations, or other entities identified in security position listings maintained by depositories.

Unregistered Sales of Equity Securities and Use of Proceeds

On December 8, 2015, the Company's board of directors approved a share repurchase program (the “2015 Share Repurchase Program”) authorizing up to \$50.0 million of repurchases of shares of the Company's common stock. On November 30, 2017, the board of directors authorized the Company to extend the 2015 Share Repurchase Plan to December 31, 2018. The 2015 Share Repurchase program was completed on November 27, 2018. On November 29, 2018, the Company's board of directors approved a new share repurchase plan (the “2018 Share Repurchase Program”) authorizing up to \$50.0 million of repurchases of shares of the Company's common stock. The 2018 Share Repurchase Program is scheduled to expire on December 14, 2020. Subsequent to the fiscal 2020 year end, in light of the 2019 novel coronavirus (COVID-19) pandemic, the Company suspended the 2018 Share Repurchase Program.

During the fiscal year ended February 1, 2020, the Company purchased and held 1,075,749 shares at an average price of \$10.52 per share, excluding commissions, for an aggregate amount of \$11.3 million, under the 2018 Share Repurchase Program.

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

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

As of February 1, 2020, the Company held as treasury shares 8,011,372 shares of its common stock at an average price of \$13.00 per share, excluding commissions, for an aggregate carrying amount of \$104.2 million. The Company’s treasury shares may be issued under the 2010 Equity and Incentive Plan or for other corporate purposes.

Details on the shares repurchased under the 2018 Share Repurchase Programs during the thirteen weeks ended February 1, 2020 are as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
November 3, 2019 - November 30, 2019	53,719	\$ 11.30	53,719	\$ 37,508,389
December 1, 2019 - January 4, 2020	60,444	11.40	60,444	36,819,249
January 5, 2020 - February 1, 2020	92,158	10.61	92,158	35,841,173
	<u>206,321</u>	<u>\$ 11.02</u>	<u>206,321</u>	

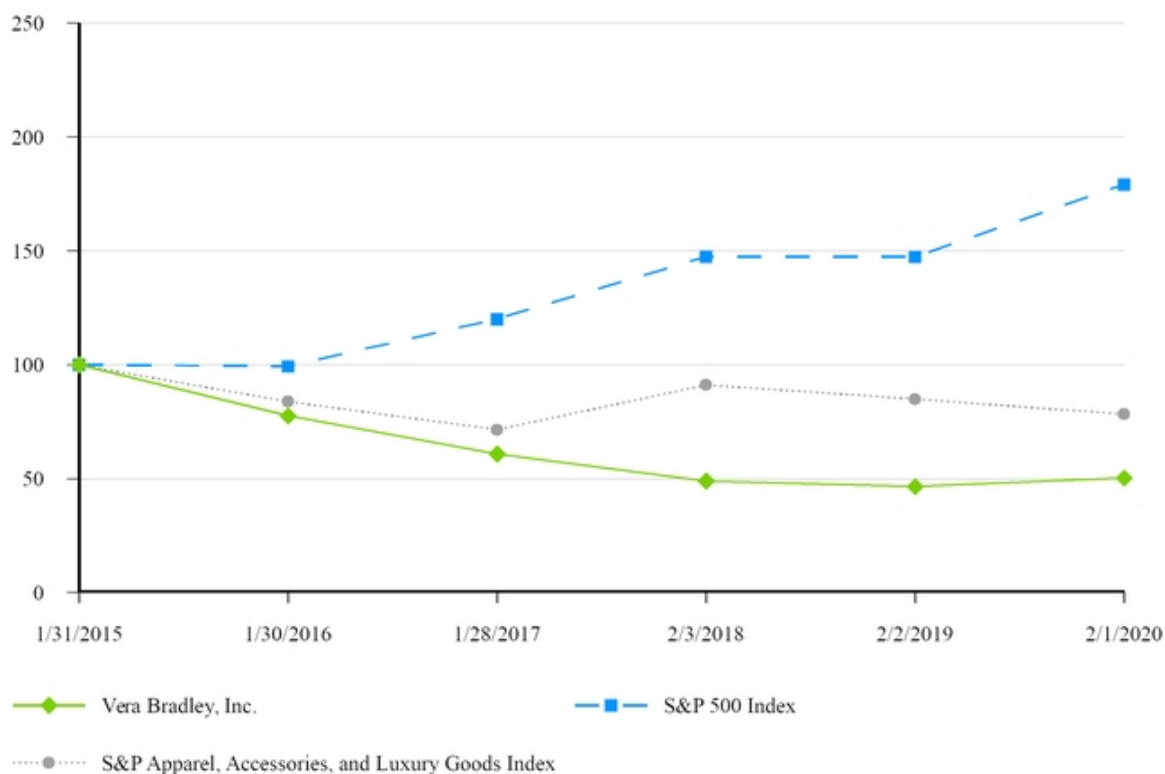
Dividends

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

Stock Performance Graph

The graph set forth below compares the cumulative shareholder return on our common stock between January 31, 2015, and February 1, 2020, to the cumulative return of (i) the S&P 500 Index and (ii) the S&P 500 Apparel, Accessories, and Luxury Goods Index over the same period. This graph assumes an initial investment of \$100 on January 31, 2015, in our common stock, the S&P 500 Index, and the S&P 500 Apparel, Accessories, and Luxury Goods Index and assumes the reinvestment of dividends, if any.

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



Company/Market/Peer Group	1/31/2015	1/30/2016	1/28/2017	2/3/2018	2/2/2019	2/1/2020
Vera Bradley, Inc.	\$ 100.00	\$ 77.50	\$ 60.83	\$ 48.93	\$ 46.46	\$ 50.23
S&P 500 Index	\$ 100.00	\$ 99.33	\$ 120.06	\$ 147.48	\$ 147.40	\$ 179.17
S&P 500 Apparel, Accessories, and Luxury Goods Index	\$ 100.00	\$ 83.78	\$ 71.38	\$ 91.12	\$ 84.92	\$ 78.24

Item 6. Selected Financial Data

The following tables present selected consolidated financial and other data as of and for the years indicated. The selected income statement data for the most recent three fiscal years presented and the selected balance sheet data as of February 1, 2020 and February 2, 2019 are derived from our audited consolidated financial statements included in Item 8 of this report. The selected income statement data for the fiscal years ended January 28, 2017, and January 30, 2016, and selected balance sheet data as of February 3, 2018, January 28, 2017, and January 30, 2016, are derived from our audited consolidated financial statements that are not included elsewhere in this report. The historical results presented below are not necessarily indicative of the results to be expected for any future period. You should read this selected consolidated financial and other data in conjunction with the consolidated financial statements and related notes and the information under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this report.

(\$ in thousands, except per share data and as otherwise indicated)	Fiscal Year Ended (1)(2)(3)				
	February 1, 2020	February 2, 2019	February 3, 2018	January 28, 2017	January 30, 2016
Consolidated Statement of Operations Data:					
Net revenues	\$ 495,212	\$ 416,097	\$ 454,648	\$ 485,937	\$ 502,598
Cost of sales	223,411	177,510	200,639	209,891	221,409
Gross profit	271,801	238,587	254,009	276,046	281,189
Selling, general, and administrative expenses ⁽⁴⁾	253,425	211,984	239,810	249,155	236,836
Other income	1,098	498	782	1,329	2,369
Operating income	19,474	27,101	14,981	28,220	46,722
Interest (income) expense, net	(1,085)	(1,125)	(413)	178	263
Income before income taxes	20,559	28,226	15,394	28,042	46,459
Income tax expense ⁽⁵⁾	5,315	7,469	8,378	8,284	18,901
Net income	15,244	20,757	7,016	19,758	27,558
Less: Net loss attributable to redeemable noncontrolling interest	(803)	—	—	—	—
Net income attributable to Vera Bradley, Inc.	\$ 16,047	\$ 20,757	\$ 7,016	\$ 19,758	\$ 27,558
Basic weighted-average shares outstanding	33,983	35,222	35,925	36,838	38,795
Diluted weighted-average shares outstanding	34,288	35,467	36,026	36,970	38,861
Basic net income per share attributable to Vera Bradley, Inc.	\$ 0.47	\$ 0.59	\$ 0.20	\$ 0.54	\$ 0.71
Diluted net income per share attributable to Vera Bradley, Inc.	\$ 0.47	\$ 0.59	\$ 0.19	\$ 0.53	\$ 0.71
Net Revenues by Segment ^{(2):}					
VB Direct	\$ 347,484	\$ 328,034	\$ 351,786	\$ 355,175	\$ 351,286
VB Indirect	81,811	88,063	102,862	130,762	151,312
Pura Vida	65,917	—	—	—	—
Total	\$ 495,212	\$ 416,097	\$ 454,648	\$ 485,937	\$ 502,598
Store Data ^{(6):}					
Total stores open at end of year	151	156	160	159	150
Comparable sales (including e-commerce) increase (decrease) ⁽⁷⁾	3.4%	(10.3)%	(6.7)%	(7.0)%	(10.6)%
Total gross square footage at end of year	386,028	379,792	377,861	368,640	342,362
Average net revenues per gross square foot ⁽⁸⁾	\$ 652	\$ 635	\$ 640	\$ 642	\$ 703

(\$ in thousands)	As of				
	February 1, 2020	February 2, 2019	February 3, 2018	January 28, 2017	January 30, 2016
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 49,917	\$ 113,493	\$ 68,751	\$ 86,375	\$ 97,681
Short-term investments	8,977	19,381	54,150	30,152	—
Working capital	131,384	208,912	201,749	193,070	187,090
Long-term investments	14,912	23,735	15,515	—	—
Total assets	535,061	362,148	350,669	373,509	380,679
Shareholders' equity of Vera Bradley, Inc.	303,770	294,703	285,283	283,786	285,255

- (1) The Company utilizes a 52-53 week fiscal year. Fiscal years 2020, 2019, 2017, and 2016 consisted of 52 weeks. Fiscal year 2018 consisted of 53 weeks. The extra week contributed approximately \$4.1 million in net revenues and added an estimated \$0.01 to diluted net income per share in fiscal 2018. By segment, the extra week contributed net revenues of approximately \$3.0 million to VB Direct and \$1.1 million to VB Indirect in fiscal 2018.
- (2) Refer to Note 3 to the Notes to the Consolidated Financial Statements herein regarding the adoption of ASC 606, *Revenue from Contracts with Customers*, which was effective beginning in fiscal 2019. Also refer to Note 14 regarding Vision 20/20-related charges affecting the comparability of financial information.
- (3) Includes Pura Vida operations as of July 17, 2019, the first full business day following the acquisition. Prior periods have not been recast. Refer to Note 16 to the Notes to the Consolidated Financial Statements herein for additional information.
- (4) Impairment charges, related to underperforming stores, totaled \$6.3 million, \$12.7 million, and \$2.8 million, during the fiscal years ended February 3, 2018, January 28, 2017, and January 30, 2016, respectively. There were no impairment charges during the fiscal years ended February 1, 2020 and February 2, 2019. Refer to Note 5 to the Notes to the Consolidated Financial Statements herein for additional information.
- (5) Fiscal 2018 includes a \$2.1 million net charge as a result of the Tax Cuts and Jobs Act. Refer to Note 7 to the Notes to the Consolidated Financial Statements herein for additional information.
- (6) Includes full-line and factory outlet stores.
- (7) Comparable sales are calculated based upon stores that have been open for at least 12 full fiscal months and net revenues from e-commerce operations. Increase (decrease) is reported as a percentage of the comparable sales for the same period in the prior fiscal year. Remodeled stores are included in comparable sales unless the store was closed for a portion of the current or comparable prior period, in which case the non-comparable temporary closure periods are not included, or the remodel resulted in a significant change in square footage. Calculation excludes sales for the 53rd week in fiscal 2018. For additional information regarding comparable sales, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (8) Dollars not in thousands. Average net revenues per gross square foot are calculated by dividing total net revenues for our stores that have been open at least 12 full fiscal months as of the end of the period by total gross square footage for those stores. Remodeled stores are included in average net revenues per gross square foot unless the store was closed for a portion of the period. Calculation excludes sales for the 53rd week in fiscal 2018.

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

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

Executive Summary

As more fully described herein, fiscal 2020 was the second full year of our Vision 20/20 strategic plan, which we began implementing in the third quarter of fiscal 2018. During fiscal 2020, our key focus areas were on growth, operational excellence, and ownership. We also achieved various strategic product, distribution, and marketing initiatives.

Strategic Progress

- We acquired a majority interest in Pura Vida.
- We made progress on our **Vision 20/20** initiatives, including:
 - Generating Vera Bradley comparable sales growth of 3.4% despite the challenging handbag and accessories environment;
 - Successfully mitigating the impact of increased tariffs; and
 - Beginning the process of re-platforming our technology systems to be more streamlined, nimble, and efficient.
- In the **Vera Bradley product** area:
 - We continued to establish our key franchise areas of Youth/Campus, Travel, and Everyday, which includes our top 10 items.
 - We developed a pipeline for innovative fabrications and silhouettes to drive customer engagement and modernization of the brand.
 - We launched our first in a series of performance fabrics called Performance Twill, which is lightweight, durable, and water-repellent.
 - We introduced our environmentally-friendly Re-Active collection, made of fabric from recycled plastic bottles.
 - We introduced the sling along with our Lay Flat collection, versatile travel pieces that unzip on three sides for easy accessibility. The Accessories Council selected Vera Bradley's Lay Flat Duffel as a winner for its Design Excellence Awards in the Travel/Luggage Category.
 - We successfully introduced collaborations with several iconic brands, including Starbucks, Crocs, Disney, and Gillette Venus to create and sell limited-edition product collections. The Vera Bradley + Venus razor collaboration was recognized in People Magazine's "Best New Beauty Products of 2019 Awards." We announced a collaboration with Warner Bros. Consumer Products to create a Vera Bradley + Harry Potter back-to-campus and dorm line, which will launch in summer 2020.
 - We expanded our customization program, where customers can design their own bag by mixing patterns and solids along with creating embroidered personalization both inside and out.
- In the **Vera Bradley distribution** area:
 - We opened six new factory stores, relocated and expanded three of our top factory stores, and closed 11 underperforming full-line stores, ending the fiscal year with 88 full-line stores and 63 factory locations.
 - Our annual outlet sale gathered nearly 43,000 brand loyalists and generated sales of over \$6 million during the five-day event, highlighting our strong customer community.
 - Our online outlet flash sales allowed us to sell clearance merchandise in a more discreet manner.

- In the **Vera Bradley marketing** area:
 - We completed the in-sourcing of our customer data science team, added to our business analytics group, and completed the roll-out of our new customer data platform. The insights gained from our robust data now allow us to adjust our marketing mix and approach on a real-time basis.
 - Our “digital first” strategy, focused on targeted digital efforts, increased brand awareness, with total impressions up more than 170% to over 5.7 billion for the year.
 - Under the umbrella of VB Cares, we reinforced our position as a total stakeholder-focused and socially-conscious organization and continued to strengthen our community support and charitable initiatives that are meaningful to our customers and that make a significant impact on those in need, particularly women and children. Efforts included supporting New Hope Girls, our national “Blessings in a Backpack” program, and the Vera Bradley Foundation for Breast Cancer. We supported nearly 30 different charitable organizations in fiscal 2020.
- For **Pura Vida**:
 - We continued to experiment with and introduce new designs in signature cord bracelets and jewelry, as well as introducing new products including the mood ring and bracelet, enameled daisy collection, semi-precious stone charms, and stone hoops.
 - We reached over \$2.0 million in lifetime charitable contributions from charity bracelets.
 - We surpassed 1.9 million Instagram followers. Instagram followers, Facebook likes, and monthly club subscribers all rose during the fiscal year.

Financial Summary

Fiscal 2020 results included Pura Vida operations as of July 17, 2019, the first full-day following the acquisition.

- Net revenues were \$495.2 million in fiscal 2020 compared to \$416.1 million in fiscal 2019.
 - Vera Bradley Direct (“VB Direct”) segment sales were \$347.5 million in fiscal 2020 compared to \$328.0 million in fiscal 2019. Comparable sales for fiscal 2020 increased 3.4%.
 - Vera Bradley Indirect (“VB Indirect”) segment sales were \$81.8 million in fiscal 2020 compared to \$88.1 million in fiscal 2019.
 - Pura Vida segment sales were \$65.9 million in fiscal 2020.
- Gross profit was \$271.8 million (54.9% of net revenue) in fiscal 2020 compared to \$238.6 million (57.3% of net revenue) in fiscal 2019. Inventory step-up amortization related to the Pura Vida acquisition totaled \$8.3 million (1.7% of net revenue) during fiscal 2020.
- SG&A expenses were \$253.4 million (51.2% of net revenue) in fiscal 2020 compared to \$212.0 million (50.9% of net revenue) in fiscal 2019. SG&A expenses include \$8.0 million of Pura Vida purchase-related net charges and \$3.0 million of charges related to the Company’s technology-related re-platforming during fiscal 2020.
- Operating income was \$19.5 million (3.9% of net revenue) in fiscal 2020 compared to \$27.1 million (6.5% of net revenue) in fiscal 2019. Operating income was negatively impacted by Pura Vida purchase-related net charges of \$16.3 million and charges of \$3.0 million related to the Company’s technology-related re-platforming.
- Net income attributable to Vera Bradley, Inc. was \$16.0 million in fiscal 2020 compared to \$20.8 million in fiscal 2019. Net income attributable to Vera Bradley, Inc. was negatively impacted by Pura Vida purchase-related net charges of \$9.7 million and charges of \$2.4 million related to the Company’s technology-related re-platforming.
- Diluted net income per share was \$0.47 in fiscal 2020 compared to \$0.59 in fiscal 2019. The Pura Vida purchase-related net charges and the Company’s technology re-platforming negatively impacted diluted net income per share by \$0.35 in fiscal 2020.
- Cash, cash equivalents, and investments were \$73.8 million at February 1, 2020 compared to \$156.6 million at February 2, 2019. The Company provided cash consideration of \$76.0 million during fiscal 2020 for the Pura Vida acquisition.
- Capital expenditures for fiscal 2020 totaled \$13.3 million compared to \$8.1 million for fiscal 2019.
- Repurchases of common stock for fiscal 2020 totaled \$11.3 million, or 1.1 million shares, compared to \$16.3 million, or 1.3 million shares, in fiscal 2019.

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 VB Direct segment reflect sales through Vera Bradley full-line and factory outlet stores; verabradley.com; our Vera Bradley online outlet site; and our Vera Bradley annual outlet sale in Fort Wayne, Indiana. Revenues for the VB Indirect segment reflect sales of Vera Bradley-branded products to specialty retail partners; department stores; national accounts; third-party e-commerce sites; third-party inventory liquidators; and royalties recognized through licensing agreements related to the Vera Bradley brand. Revenues for the Pura Vida segment reflect revenues generated through the Pura Vida websites, www.puravidabraccets.com and www.puravidabraccets.eu, and through the distribution of Pura Vida-branded products to wholesale retailers.

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 Vera Bradley e-commerce operations. Pura Vida e-commerce operations are not currently included within comparable sales, but will be considered comparable sales once reflected in the Company's operations for 12 full fiscal months. Comparable store sales are calculated based solely upon 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 more than one week 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. Fiscal 2019 comparable sales do not adjust for the shift in weeks during the period associated with the 53rd week in fiscal 2018. 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 and our investors to evaluate how our store base and e-commerce operations are performing. Various factors affect our comparable sales, including:

- Overall economic trends;
- Consumer preferences and fashion trends;
- Competition;
- Timing of our releases of new patterns and collections;
- Changes in our product mix;
- Pricing and level of promotions;
- Amount of store, mall, and e-commerce traffic;
- Level of customer service that we provide in stores and to our on-line customers;
- Our ability to source and distribute products efficiently;
- Number of stores we open and close in any period; and
- Timing and success of promotional and 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; tariffs; and labor costs.

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

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

Other Income

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

Operating Income

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

Income Before Income Taxes

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

Net Income

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

Net Loss Attributable to Redeemable Noncontrolling Interest

Net loss attributable to redeemable noncontrolling interest represents the operating results of Pura Vida that are not attributable to Vera Bradley, Inc. based on Vera Bradley Inc.’s seventy-five percent (75%) ownership interest in Pura Vida.

Net Income Attributable to Vera Bradley, Inc.

Net income attributable to Vera Bradley, Inc. is equal to net income less net loss attributable to redeemable noncontrolling interest.

2019 Novel Coronavirus (COVID-19)

COVID-19, first identified in Wuhan, China, has led to work and travel restrictions within, to, and out of mainland China, as well as temporary factory closures or production and logistics constraints due to workforce availability in China. Although we continue to reduce our reliance on production from China, we expect our China production to be approximately 20% during fiscal 2021. As a result of the aforementioned restrictions, we may experience delayed shipments and increased shipping costs for some of our fiscal 2021 merchandise. Travel restrictions, mall closures or reduced mall operating hours, and community and self-quarantines related to the pandemic could have a material adverse impact on the Company’s revenues and profits. As a result, the Company’s liquidity, results of operations, and financial condition could be materially adversely impacted.

In light of the pandemic, we have temporarily closed our retail stores. The stores are currently closed through April 4, 2020; however, some or all of the closures will likely continue beyond this date. Sales have declined as a result of the impact on consumer demand and the reduced store operations. Our e-commerce sites for Vera Bradley and Pura Vida are still in operation. We cannot predict the impact of COVID-19 at this time due to the uncertainty of the duration and impact on overall demand. We had \$73.8 million in cash and investments as of February 1, 2020, with no borrowings under our Credit Agreement, further described in Liquidity and Capital Resourced herein. Subsequent to the end of the fiscal year, we have drawn \$60.0 million of our \$75.0 million Credit Agreement to provide additional flexibility.

Pura Vida Acquisition

On July 16, 2019, the Company completed its acquisition of a seventy-five percent (75%) ownership interest in Creative Genius, Inc. which also operates under the name Pura Vida Bracelets (“Pura Vida”) (the “Transaction”) in exchange for cash consideration of approximately \$75.0 million. During the third quarter of fiscal 2020, the Company provided additional cash consideration of approximately \$3.0 million for a working capital adjustment. In accordance with the Interest Purchase Agreement, the Company also agreed to a contingent payment of up to \$22.5 million based on calendar year 2019 adjusted EBITDA of Pura Vida, as defined in the Interest Purchase Agreement. This contingent payment is recorded as an earn-out liability on the Company’s Consolidated Balance Sheets at its estimated amount payable of \$18.4 million. Subsequent to the end of the fiscal year, the Company paid the earn-out liability. The Company’s existing available cash, cash equivalents, and investments funded the purchase price due at the closing of the Transaction and subsequent to the closing.

On July 16, 2019, as contemplated by the Interest Purchase Agreement, the Company and certain of its subsidiaries and the owners of the remaining twenty-five percent (25%) ownership interest in Pura Vida (the “Sellers”) which was not indirectly acquired by the Company (the “Remaining Pura Vida Interest”) entered into a Put/Call Agreement (the “Put/Call Agreement”). Pursuant to the Put/Call Agreement, and subject to the terms and conditions thereof, the Sellers have the right to sell all of the Remaining Pura Vida Interest to the Company, and the Company has the right to purchase all of the Remaining Pura Vida Interests from the Sellers, in each case generally at any time following the fifth anniversary of the closing date of the Transaction until the tenth anniversary thereof. The purchase price for any Remaining Pura Vida Interest put to, or called by, the Company will be determined based on the arithmetic average of a multiple of adjusted EBITDA of Pura Vida and a multiple of adjusted EBITDA of the Company, as defined in the Put/Call Agreement, over the twelve-month period ending on the last day of the month immediately preceding the month in which an exercise notice is delivered by a relevant party. In the event of a change in control of the Company, the parties may exercise a portion of their put and call rights prior to the fifth anniversary of the closing date (as defined in the Put/Call Agreement).

Pura Vida has been fully consolidated within our financial statements beginning on July 17, 2019, the first full day following the acquisition. Pura Vida was also added as a reportable segment as a result of the acquisition. Refer to Note 16 to the Notes to the Consolidated Financial Statements herein for additional information regarding the Pura Vida acquisition.

Leases

We adopted Accounting Standards Codification (“ASC”) Topic 842, *Leases*, beginning in the first quarter of fiscal 2020 using the modified retrospective adoption method. The adoption of this standard impacted fiscal 2020 beginning retained earnings by \$0.2 million. As a result of the adoption of ASC Topic 842 using the modified retrospective method, the financial statements from the prior-year period are not reported under ASC Topic 842 which affects the comparability of the Consolidated Financial Statements. The primary impact from the adoption of the standard is the addition of right-of-use assets and lease liabilities on the Company’s Consolidated Balance Sheet. The Consolidated Statements of Cash Flows also had material presentation changes within operating activities upon adoption. The adoption of this standard had no impact on the Consolidated Statements of Operations.

Refer to Notes 2 and 4 to the Notes to the Consolidated Financial Statements herein for additional information.

Vision 20/20 Initiatives

Fifty-Three Weeks Ended February 3, 2018

During fiscal 2018, we launched our Vision 20/20 strategic plan, which involves a more aggressive approach to turn around our business by the end of fiscal 2021. This plan is primarily focused on product and pricing initiatives, as well as SG&A expense reduction initiatives.

The product and pricing initiatives include restoring our full-price business by significantly reducing the amount of clearance merchandise offered on verabradley.com and in our full-line stores, streamlining current product offerings by eliminating unproductive or incongruent categories and SKUs from our assortment, and introducing tighter guardrails around new categories, patterns, and pricing. These initiatives negatively impacted fiscal 2019 revenues.

The SG&A expense reduction initiatives include right-sizing our corporate infrastructure to better align with the size of the business, optimizing our marketing spending by focusing on efficiencies while keeping our most loyal customer engaged, and taking a more aggressive stance on reducing store operating costs and closing underperforming full-line stores. We reduced SG&A expenses by \$23.5 million in fiscal 2019 (based off of our fiscal 2017 base level and excluding severance, store impairment, and Vision 20/20 charges from all periods). We have closed a total of 26 underperforming full-line stores and one underperforming factory outlet store since the beginning of fiscal 2018 and forecast that we will close additional full-line stores.

The implementation of the plan began in the third quarter of fiscal 2018, with the majority of the product and pricing initiatives completed in fiscal 2019. As previously mentioned, fiscal 2020 was focused on growth, operational excellence, and ownership. The SG&A expense reductions began in the third quarter of fiscal 2018, largely aimed at right-sizing our corporate infrastructure. There have been \$16.7 million of pre-tax Vision 20/20-related charges (\$10.6 million after the associated tax benefit) since inception, all of which were recognized during fiscal 2018. There were no Vision 20/20-related charges during fiscal 2019 or fiscal 2020.

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

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

(1) Refer to Note 5 to the Notes to the Consolidated Financial Statements herein for additional details

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

(3) Inventory adjustments for the discontinuation of certain inventory categories

(4) Includes a net lease termination charge and accelerated depreciation charges

(5) After the associated tax benefit, the charges totaled \$10.6 million

Tax Act

On December 22, 2017, the Tax Act was signed into law. The Tax Act includes, among other things, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, bonus depreciation that allows for full expensing for qualified property, the transition of U.S. international taxation from a worldwide system to a territorial system with a new provision designed to tax global intangible low-taxed income (“GILTI”), and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings. As a result of the enactment of the Tax Act, we recorded \$2.1 million in provisional income tax expense during the fourth quarter of fiscal 2018 based upon our understanding of the Tax Act and guidance as of the date of the fiscal 2018 filing. There were no material changes to the provisional estimates upon completion of the accounting during fiscal 2019. Refer to Note 7 to the Notes to the Consolidated Financial Statements herein for additional information regarding the Tax Act.

Impairment Charges

Property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The reviews are conducted at the lowest identifiable level of cash flows. If the estimated undiscounted future cash flows related to the property, plant, and equipment are less than the carrying value, we recognize a loss equal to the difference between the carrying value and the fair value, as further defined in Note 2 to the Notes to the Consolidated Financial Statements herein. Impairment charges of \$6.3 million were recognized in the fiscal year ended February 3, 2018 for assets related to underperforming stores and are included in SG&A expenses in the Consolidated Statements of Operations and in impairment charges in the Consolidated Statements of Cash Flows. The impairment charges are included in the VB Direct segment. There were no impairment charges recorded during the fiscal years ended February 1, 2020 or February 2, 2019.

Revenue from Contracts with Customers

We adopted Accounting Standards Codification (“ASC”) Topic 606 beginning in the first quarter of fiscal 2019 using the modified retrospective adoption method. The adoption of this standard impacted fiscal 2019 beginning retained earnings by \$0.5 million. As a result of the adoption of ASC Topic 606 using the modified retrospective method, the financial statements from the prior-year periods are not reported under ASC Topic 606 which affects the comparability of the Consolidated Financial Statements. The primary impacts from the adoption of the standard are that we are no longer reversing sales associated with shipments not yet received by customers, gift card breakage revenue recognition is accelerated, a change in the method of

recognizing minimum guaranteed royalties in certain licensing agreements, and the re-classification of certain liabilities for estimated product returns to other accrued liabilities from a contra-asset within accounts receivable, net, in the fiscal 2019 period. Refer to Note 3 to the Notes to the Consolidated Financial Statements herein for additional information, as well as what the reported financial results would have been under prior accounting principles generally accepted in the United States (“GAAP”).

Results of Operations

The following tables summarize key components of our consolidated results of operations for the last three fiscal years, both in dollars and as a percentage of our net revenues. Fiscal 2020 includes Pura Vida operations beginning on July 17, 2019, the first full business day following the acquisition. Prior periods have not been recast. Refer to Note 16 to the Notes to Consolidated Financial Statements herein for additional information.

(\$ in thousands)	Fiscal Year Ended (1)		
	February 1, 2020	February 2, 2019	February 3, 2018
Statement of Income Data:			
Net revenues	\$ 495,212	\$ 416,097	\$ 454,648
Cost of sales	223,411	177,510	200,639
Gross profit	271,801	238,587	254,009
Selling, general, and administrative expenses ⁽²⁾	253,425	211,984	239,810
Other income	1,098	498	782
Operating income	19,474	27,101	14,981
Interest income, net	(1,085)	(1,125)	(413)
Income before income taxes	20,559	28,226	15,394
Income tax expense ⁽³⁾	5,315	7,469	8,378
Net income ⁽⁴⁾	15,244	20,757	7,016
Less: Net loss attributable to redeemable noncontrolling interest	(803)	—	—
Net income attributable to Vera Bradley, Inc.	\$ 16,047	\$ 20,757	\$ 7,016
Percentage of Net Revenues:			
Net revenues	100.0 %	100.0 %	100.0 %
Cost of sales	45.1 %	42.7 %	44.1 %
Gross profit	54.9 %	57.3 %	55.9 %
Selling, general, and administrative expenses	51.2 %	50.9 %	52.7 %
Other income	0.2 %	0.1 %	0.2 %
Operating income	3.9 %	6.5 %	3.3 %
Interest income, net	(0.2)%	(0.3)%	(0.1)%
Income before income taxes	4.2 %	6.8 %	3.4 %
Income tax expense	1.1 %	1.8 %	1.8 %
Net income	3.1 %	5.0 %	1.5 %
Less: Net loss attributable to redeemable noncontrolling interest	(0.2)%	— %	— %
Net income attributable to Vera Bradley, Inc.	3.2 %	5.0 %	1.5 %

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

	Fiscal Year Ended (1)		
	February 1, 2020	February 2, 2019	February 3, 2018
(\$ in thousands, except as otherwise indicated)			
Net Revenues by Segment:			
VB Direct	\$ 347,484	\$ 328,034	\$ 351,786
VB Indirect	81,811	88,063	102,862
Pura Vida	65,917	—	—
Total	\$ 495,212	\$ 416,097	\$ 454,648
Percentage of Net Revenues by Segment:			
VB Direct	70.2%	78.8%	77.4%
VB Indirect	16.5%	21.2%	22.6%
Pura Vida	13.3%	—%	—%
Total	100.0%	100.0%	100.0%
	Fiscal Year Ended		
	February 1, 2020	February 2, 2019	February 3, 2018
Store Data (5):			
Total stores opened during period	6	6	7
Total stores closed during period	(11)	(10)	(6)
Total stores open at end of period	151	156	160
Comparable sales (including e-commerce) increase (decrease) (6)	3.4%	(10.3)%	(6.7)%
Total gross square footage at end of period	386,028	379,792	377,861
Average net revenues per gross square foot (7)	\$ 652	\$ 635	\$ 640

- (1) The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to January 31. Fiscal years 2020 and 2019 consisted of 52 weeks. Fiscal year 2018 consisted of 53 weeks. The extra week contributed approximately \$4.1 million in net revenues and added an estimated \$0.01 to diluted net income per share in fiscal 2018. By segment, the extra week contributed net revenues of approximately \$3.0 million to VB Direct and \$1.1 million to VB Indirect in fiscal 2018.
- (2) Impairment charges, related to underperforming stores, totaled \$6.3 million during the fiscal year ended February 3, 2018. There were no impairment charges recorded during the fiscal years ended February 1, 2020 and February 2, 2019.
- (3) Fiscal 2018 includes a \$2.1 million net charge as a result of the Tax Act. Refer to Note 7 to the Notes to the Consolidated Financial Statements herein for additional information.
- (4) Refer to Note 3 to the Notes to the Consolidated Financial Statements herein regarding adoption of ASC 606, *Revenue from Contracts with Customers*, which was effective beginning in fiscal 2019. Also refer to Note 14 regarding Vision 20/20-related charges affecting the comparability of financial information.
- (5) Includes Vera Bradley full-line and factory outlet stores.
- (6) Comparable sales are calculated based upon stores that have been open for at least 12 full fiscal months and net revenues from e-commerce operations. Increase (decrease) is reported as a percentage of the comparable sales for the same period in the prior fiscal year. Remodeled stores are included in comparable sales unless the store was closed for a portion of the current or comparable prior period, in which case the non-comparable temporary closure periods are not included, or the remodel resulted in a significant change in square footage. Calculation excludes sales for the 53rd week in fiscal 2018.
- (7) Dollars not in thousands. Average net revenues per gross square foot are calculated by dividing total net revenues for our stores that have been open at least 12 full fiscal months as of the end of the period by total gross square footage for those stores. Remodeled stores are included in average net revenues per gross square foot unless the store was closed for a portion of the period. Calculation excludes sales for the 53rd week in fiscal 2018.

Fiscal 2020 Compared to Fiscal 2019

Net Revenues

For fiscal 2020, net revenues increased \$79.1 million, or 19.0%, to \$495.2 million, from \$416.1 million for fiscal 2019.

VB Direct. For fiscal 2020, net revenues increased \$19.5 million, or 5.9%, to \$347.5 million, from \$328.0 million for fiscal 2019. Our comparable sales increased \$10.4 million, or 3.4%. The increase in comparable sales includes a 7.4% increase in e-commerce sales and a 2.0% increase in comparable store sales which we believe indicates that our customers are responding to both our innovative product and our targeted consumer engagement efforts. Our non-comparable stores contributed \$9.7 million of revenue, which included six additional factory outlet stores opened in the current fiscal year.

VB Indirect. For fiscal 2020, consistent with recent periods, net revenues decreased \$6.3 million, or 7.1%, to \$81.8 million, from \$88.1 million for fiscal 2019. This decrease was primarily due to a reduction in orders and in the number of specialty and department store accounts.

Pura Vida. For the partial period of fiscal 2020 since the acquisition, net revenues attributable to Pura Vida were \$65.9 million. Refer to Note 16 to the Consolidated Financial Statements herein for additional information regarding the Pura Vida acquisition.

Gross Profit

For fiscal 2020, gross profit increased \$33.2 million, or 13.9%, to \$271.8 million, from \$238.6 million for fiscal 2019. As a percentage of net revenues, gross profit decreased to 54.9% for fiscal 2020, from 57.3% for fiscal 2019. The amortization of \$8.3 million of expense for an inventory step-up adjustment as a result of the Pura Vida acquisition negatively impacted gross profit as a percentage of net revenues by 1.7%. The remaining decrease as a percentage of net revenues was primarily due to increased shipping costs, increased consumer spending during promotional and clearance periods in the fourth quarter, and the impact of U.S. tariffs on goods from China, partially offset by improvement in full-price selling.

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

For fiscal 2020, SG&A expenses increased \$41.4 million, or 19.5%, to \$253.4 million, from \$212.0 million for fiscal 2019. As a percentage of net revenues, SG&A expenses were 51.2% and 50.9% for fiscal 2020 and fiscal 2019, respectively. The increase in SG&A expenses was primarily due to Pura Vida operating expenses of \$28.2 million; Pura Vida acquisition-related charges of approximately \$6.4 million including intangible asset amortization, acquisition-related transaction costs, and a reduction to expense associated with a reduction of the earn-out liability; \$3.0 million of certain professional fees and accelerated depreciation charges related to our information technology re-platforming; \$1.6 million associated with incremental stock-based compensation expense as a result of Pura Vida performance and Pura Vida transaction bonuses; and an increase in certain advertising and marketing expenses of approximately \$0.9 million. SG&A expenses as a percentage of net revenues increased primarily due to the aforementioned items, partially offset by SG&A expense leverage associated with increased sales.

Other Income

For fiscal 2020, other income increased \$0.6 million, or 120.5%, to \$1.1 million, from \$0.5 million for fiscal 2019, primarily due to a legal settlement.

Operating Income

For fiscal 2020, operating income decreased \$7.6 million, or 28.1%, to \$19.5 million from \$27.1 million for fiscal 2019. As a percentage of net revenues, operating income was 3.9% and 6.5% for fiscal 2020 and fiscal 2019, respectively. Operating income decreased due to the factors described above.

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

	Fiscal Year Ended		\$ Change	% Change
	February 1, 2020	February 2, 2019		
Operating Income (Loss):				
VB Direct	\$ 68,505	\$ 67,862	\$ 643	0.9 %
VB Indirect	31,077	34,500	(3,423)	(9.9)%
Pura Vida	(3,179)	—	(3,179)	— %
Less: Unallocated corporate expenses	(76,929)	(75,261)	(1,668)	2.2 %
Operating income	<u>\$ 19,474</u>	<u>\$ 27,101</u>	<u>\$ (7,627)</u>	(28.1)%

VB Direct. For fiscal 2020, operating income increased \$0.6 million, or 0.9%. As a percentage of VB Direct segment net revenues, operating income in the VB Direct segment was 19.7% and 20.7% for fiscals 2020 and 2019, respectively. The decrease in operating income as a percentage of VB Direct segment net revenues was primarily due to an increase in certain advertising expenses, certain professional fees and accelerated depreciation charges for the Company's technology re-platforming, and a decrease in gross margin as a percentage of net revenues as described above, partially offset by SG&A expense leverage associated with increased sales.

VB Indirect. For fiscal 2020, operating income decreased \$3.4 million, or 9.9%. As a percentage of VB Indirect segment net revenues, operating income in the VB Indirect segment was 38.0% and 39.2% for fiscals 2020 and 2019, respectively. The decrease in operating income as a percentage of VB Indirect segment net revenues was primarily due to SG&A expense deleverage associated with lower sales and a decrease in gross margin as a percentage of net revenues as described above.

Pura Vida. For fiscal 2020, operating loss in the Pura Vida segment was \$3.2 million, or (4.8)% of Pura Vida segment net revenues. These operating results included \$8.3 million related to an inventory step-up adjustment and \$5.4 million of intangible asset amortization expense. Refer to Note 16 to the Notes to Consolidated Financial Statements herein for additional information regarding the Pura Vida acquisition.

Corporate Unallocated. For fiscal 2020, unallocated expenses increased \$1.7 million, or 2.2%. The increase in unallocated expenses was primarily due to Pura Vida acquisition-related transaction costs of \$2.7 million; \$1.4 million of incremental stock-based compensation expense associated with Pura Vida performance and Pura Vida transaction bonuses; and \$1.0 million of certain professional fees and accelerated depreciation charges for the Company's technology re-platforming. These expenses were partially offset by a \$1.9 million decrease in unallocated advertising expenses and a \$1.6 million adjustment to reduce the earn-out liability related to the Pura Vida acquisition.

Interest Income, Net

For fiscal 2020 and fiscal 2019, net interest income was \$1.1 million.

Income Tax Expense

For fiscal 2020, we recorded income tax expense of \$5.3 million at an effective tax rate of 25.9%, compared to 26.5% for fiscal 2019. The effective tax rate was substantially similar with the prior-year period.

Net Income

For fiscal 2020, net income decreased \$5.6 million, or 26.6%, to \$15.2 million from \$20.8 million in fiscal 2019 due to the factors described above.

Net Loss Attributable to Redeemable Noncontrolling Interest

For fiscal 2020, net loss attributable to redeemable noncontrolling interest was \$0.8 million. This represents the allocation of the Pura Vida net loss to the noncontrolling interest. The net loss was due to the factors described above in the Pura Vida operating segment.

Net Income Attributable to Vera Bradley, Inc.

For fiscal 2020, net income attributable to Vera Bradley, Inc. decreased \$4.8 million to \$16.0 million from \$20.8 million in fiscal 2019 due to the factors described above.

Fiscal 2019 Compared to Fiscal 2018

Net Revenues

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

VB Direct. For fiscal 2019, net revenues decreased \$23.8 million, or 6.8%, to \$328.0 million, from \$351.8 million for fiscal 2018. This change resulted from a \$14.0 million contribution of revenue from our non-comparable stores, which included six additional factory outlet stores in fiscal 2019, more than offset by a comparable sales decrease of \$34.5 million, or 10.3%, and approximately \$3.0 million of net revenues generated from the 53rd week in fiscal 2018. The decrease in comparable sales includes a 24.7% decrease in e-commerce sales and a 4.2% decrease in comparable store sales. Comparable sales (particularly

for verabradley.com) were negatively impacted by the planned reduction in clearance activity. The aggregate number of full-line and factory outlet stores decreased from 160 at the end of fiscal 2018 to 156 at the end of fiscal 2019. The Company closed ten stores during fiscal 2019.

The adoption of ASC 606 negatively impacted VB Direct segment net revenues in the fiscal 2019 period by \$0.1 million.

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

The adoption of ASC 606 benefited VB Indirect segment net revenues in the fiscal 2019 period by \$1.6 million primarily due to the timing of shipments to customers as a result of changes in the frequency of product launches compared to the prior-year period.

Gross Profit

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

The adoption of ASC 606 benefited the fiscal 2019 period gross profit by \$0.8 million primarily due to the factors described above.

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

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

Other Income

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

Operating Income

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

The adoption of ASC 606 benefited the fiscal 2019 period operating income by \$0.8 million due to the factors described above.

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

	Fiscal Year Ended		\$ Change	% Change
	February 2, 2019	February 3, 2018		
Operating Income:				
VB Direct	\$ 67,862	\$ 60,979	\$ 6,883	11.3 %
VB Indirect	34,500	34,763	(263)	(0.8)%
Pura Vida	—	—	—	— %
Less: Unallocated corporate expenses	(75,261)	(80,761)	5,500	(6.8)%
Operating income	\$ 27,101	\$ 14,981	\$ 12,120	80.9 %

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

The adoption of ASC 606 negatively impacted the fiscal 2019 period VB Direct segment operating income by \$0.1 million.

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

The adoption of ASC 606 benefited the fiscal 2019 period VB Indirect segment operating income by \$0.9 million due to the factors described above.

Corporate Unallocated. For fiscal 2019, unallocated expenses decreased \$5.5 million, or 6.8%. The decrease in unallocated expenses was primarily due to expenses from the fiscal 2018 period that did not recur in the fiscal 2019 period, including \$4.6 million in severance charges and \$4.6 million in strategic consulting charges. These savings were partially offset by an increase in incentive compensation expense of approximately \$2.5 million primarily as a result of Company performance.

Interest Income, Net

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

Income Tax Expense

For fiscal 2019, we recorded income tax expense of \$7.5 million at an effective tax rate of 26.5%, compared to 54.4% for fiscal 2018. The year-over-year decrease in the effective tax rate was primarily due to a decreased annual effective tax rate as a result of the reduction in the U.S. corporate income tax rate to 21% from 35%, and the relative impact of \$2.1 million of net charges in the fiscal 2018 period associated with the Tax Act enacted during the fourth quarter. Refer to Note 7 to the Notes to Consolidated Financial Statements herein for additional information regarding the Tax Act.

Net Income

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

The adoption of ASC 606 benefited the fiscal 2019 period net income by \$0.6 million due to the factors described above.

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 \$75.0 million asset-based revolving credit agreement (the "Credit Agreement") which was entered into on September 7, 2018. There were no borrowings under the Credit Agreement during the fiscal year ended February 1, 2020, and there was no debt outstanding as of February 1, 2020. Historically, our primary cash needs have been for merchandise inventories; payroll; store rent; capital expenditures associated with operational equipment, buildings, information technology, and opening new stores; and share repurchases. The most significant components of our working capital are cash and cash equivalents, short-term investments, merchandise inventories, accounts receivable, accounts payable, and other current liabilities.

In light of the COVID-19 pandemic, we anticipate that we will have increased needs for cash due to store closures and a general decline in sales related to the pandemic. While we believe that cash on hand and cash equivalents, investments, cash flows from operating activities, and the availability of borrowings under our Credit Agreement or other financing arrangements will be sufficient to meet working capital requirements and anticipated capital expenditures, and other strategic uses of cash, if any, and debt payments, if any, for the foreseeable future, we cannot predict the full cash needs of the Company during the pandemic, which may be substantial, and cannot guarantee that current cash on hand and cash equivalents, investments, cash flows and borrowings will be sufficient to meet all cash needs. Subsequent to the end of the fiscal year, we have drawn \$60.0 million of our \$75.0 million Credit Agreement to provide additional flexibility as a result of the pandemic.

Investments

Cash Equivalents. Investments classified as cash equivalents relate to highly-liquid investments with a maturity of three months or less from the date of purchase. As of February 1, 2020 and February 2, 2019, these investments consisted of commercial paper and a money market fund.

Short-Term Investments. As of February 1, 2020, short-term investments consisted of U.S. and non-U.S. corporate debt securities, commercial paper, municipal securities, and U.S. asset-backed securities with a maturity within one year of the balance sheet date. As of February 2, 2019, short-term investments consisted of U.S. and non-U.S. corporate debt securities, municipal securities, U.S. Treasury securities, and commercial paper.

Long-Term Investments. As of February 1, 2020, long-term investments consisted of U.S. and non-U.S. corporate debt securities, U.S. and non-U.S. asset-backed securities, and other foreign securities with a maturity greater than one year from the balance sheet date. As of February 2, 2019, these investments consisted of U.S. and non-U.S. corporate debt and asset-backed securities and municipal securities.

Refer to Note 15 to the Notes to Consolidated Financial Statements herein for additional information regarding our investments.

Cash Flow Analysis

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

	Fiscal Year Ended		
	February 1, 2020	February 2, 2019	February 3, 2018
Net cash provided by operating activities	\$ 20,624	\$ 43,564	\$ 42,642
Net cash (used in) provided by investing activities	(69,966)	17,955	(51,604)
Net cash used in financing activities	(14,285)	(16,771)	(8,649)

Net Cash Provided by Operating Activities

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

Net cash provided by operating activities was \$20.6 million during fiscal 2020, as compared to \$43.6 million during fiscal 2019. The decrease in cash provided by operating activities was primarily a result of the change in inventories, accrued and other liabilities, and income taxes. The change in inventories resulted in a \$12.6 million use of cash, primarily as a result of accelerated inventory receipts, compared to a \$4.0 million use of cash in the comparable prior-year period. The change in income taxes resulted in a \$0.3 million use of cash compared to a \$4.9 million source of cash in the comparable prior-year period primarily as a result of timing of payments. The change in accrued and other liabilities resulted in a \$7.9 million use of cash compared to a \$0.1 million source of cash in the comparable prior-year period primarily due to timing of expenses, Vera Bradley incentive compensation earned in fiscal 2019 and paid in fiscal 2020, as well as payments for Pura Vida accrued expenditures.

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

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

Net Cash (Used in) Provided by Investing Activities

Investing activities consisted primarily of short-term investments, long-term investments, and capital expenditures related to new store openings, buildings, operational equipment, and information technology investments, as well as the Pura Vida acquisition.

Net cash used in investing activities was \$70.0 million in fiscal 2020, compared to net cash provided by investing activities of \$18.0 million in fiscal 2019. The increase in cash used in investing activities was a result of the acquisition of a 75% interest in Pura Vida. Refer to Note 16 to the Notes to Consolidated Financial Statements herein for additional information regarding the Pura Vida acquisition.

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

Capital expenditures for fiscal 2021 are expected to be approximately \$8.0 million.

Net Cash Used in Financing Activities

Net cash used in financing activities was \$14.3 million in fiscal 2020 compared to \$16.8 million in fiscal 2019. The decrease in cash used in financing activities was primarily due to a decrease in cash purchases of our common stock partially offset by \$1.8 million of distributions to the owners of the redeemable noncontrolling interest of Pura Vida.

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

Credit Agreement

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

Amounts outstanding under the Credit Agreement bear interest at a per annum rate equal to either (i) for CBFR borrowings (including swingline loans), the CB Floating Rate, where the CB Floating Rate is the prime rate which shall never be less than the adjusted one month LIBOR rate on such day, plus the Applicable Rate, where the Applicable Rate is a percentage spread ranging from -1.00% to -1.50% or (ii) for each eurodollar borrowing, the Adjusted LIBO Rate, where the Adjusted LIBO Rate is the LIBO rate for such interest period multiplied by the statutory reserve rate, for the interest period in effect for such borrowing, plus the Applicable Rate, where the Applicable Rate is a percentage ranging from 1.00% to 1.30%. The applicable CB Floating Rate, Adjusted LIBO Rate, or LIBO Rate shall be determined by the administrative agent. The Credit Agreement also requires VBD to pay a commitment fee for the unused portion of the revolving facility of up to 0.20% per annum.

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

The Credit Agreement contains various affirmative and negative covenants, including restrictions on the Company's ability to incur debt or liens; engage in mergers or consolidations; make certain investments, acquisitions, loans, and advances; sell assets; enter into certain swap agreements; pay dividends or make distributions or make other restricted payments; engage in certain transactions with affiliates; and amend, modify, or waive any of its rights related to subordinated indebtedness and certain charter and other organizational, governing, and material agreements. The Company may avoid certain of such restrictions by meeting payment conditions defined in the Credit Agreement. The Company was in compliance with these covenants as of February 1, 2020.

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

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

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

Contractual Obligations

We enter into long-term contractual obligations and commitments in the normal course of business, primarily non-cancellable operating leases. As of February 1, 2020, our contractual cash obligations over the next several periods are as follows:

(\$ in thousands)	Payments Due by Period (4)				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Operating leases (1)(2)	\$ 158,061	\$ 27,531	\$ 54,483	\$ 41,113	\$ 34,934
Purchase obligations (3)	43,020	43,020	—	—	—
Total	\$ 201,081	\$ 70,551	\$ 54,483	\$ 41,113	\$ 34,934

(1) Our store leases are generally ten years with varying renewal options. Our future operating lease obligations would change if we were to extend these leases, terminate these leases early, or if we were to enter into new operating leases. We forecast that we will close additional full-line stores. Additional potential closures are not reflected in the table until an agreement with the landlord has been reached.

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- (2) Includes lease and nonlease components (recognized as a single lease component) included in the measurement of the lease liability. Refer to Notes 2 and 4 to the Notes to Consolidated Financial Statements herein for additional information.
- (3) Purchase obligations consist primarily of inventory purchases.
- (4) Due to the uncertainty with respect to the timing of future cash flows associated with our uncertain tax positions at February 1, 2020, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities. Therefore, \$0.1 million of uncertain tax positions have been excluded from the contractual obligations table above.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

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

Inventories

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

The balance of inventory adjustments was \$0.7 million and \$0.6 million for these matters as of the fiscal years ended February 1, 2020, and February 2, 2019, respectively. The balance related primarily to certain collections being discontinued or currently discontinued by Vera Bradley and retired patterns. We have the ability to move retired finished goods through a number of channels, including the Vera Bradley annual outlet sale, our Vera Bradley website and online outlet site, factory outlet stores, and through third-party liquidators as needed.

Income Taxes

Our effective tax rate is based on our pre-tax income, statutory tax rates, tax laws and regulations, and tax planning opportunities available in the jurisdictions in which we operate. Significant judgment is required in determining our annual tax expense and in evaluating our tax positions. We establish reserves to remove some or all of the tax benefit of any of our tax positions at the time we determine that the positions become uncertain based upon one of the following: (1) the tax position is not “more likely than not” to be sustained; (2) the tax position is “more likely than not” to be sustained, but for a lesser amount; or (3) the tax position is “more likely than not” to be sustained, but not in the financial period in which the tax position was originally taken. Taxing authorities periodically audit our income tax returns. We believe that our tax filing positions are reasonable and legally supportable. Taxing authorities, however, may take a contrary position. Our results of operations and effective tax rate in a given period could be impacted if, upon final resolution with taxing authorities, we prevail in positions for which we have established reserves, or are required to pay amounts in excess of established reserves. The balance of the gross amount of unrecognized tax benefits (excluding interest and penalties) was \$0.1 million as of February 1, 2020, February 2, 2019, and February 3, 2018. Benefits of \$19 thousand, \$17 thousand, and \$0.5 million were recognized in income tax expense for these matters during the fiscal years ended February 1, 2020, February 2, 2019, and February 3, 2018, respectively.

On December 22, 2017, the Tax Act was signed into law. The Tax Act includes, among other things, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, bonus depreciation that allows for full expensing for qualified property, the transition of U.S. international taxation from a worldwide system to a territorial system with a new provision designed to tax global intangible low-taxed income (“GILTI”), and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings. As a result of the enactment of the Tax Act, we recorded \$2.1 million in provisional income tax expense during the fourth quarter of fiscal 2018 based upon our understanding of the Tax Act and guidance as of the date of the fiscal 2018 filing. There were no material changes to the provisional estimates upon completion of the accounting during fiscal 2019. Refer to Note 7 to the Notes to Consolidated Financial Statements herein for additional information regarding the Tax Act.

Valuation of Long-lived Assets

Property, plant, and equipment and operating right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. In evaluating an asset group for recoverability, we estimate the future cash flows expected to result from the use of the asset group at the store level, the lowest identifiable level of cash flow, if applicable. If the sum of the estimated undiscounted future cash flows related to the asset group is less than the carrying value, we recognize a loss equal to the difference between the carrying value and the fair value, usually determined by an estimated discounted cash flow analysis of the asset. Factors used in the valuation of long-lived assets include, but are not limited to, our plans for future operations, brand initiatives, recent operating results, and projected future cash flows. With respect to our stores, we analyze store economics, location within the shopping center, the size and shape of the space, and desirable co-tenancies in our selection process. Impairment charges are classified in SG&A expenses and were \$6.3 million for the period ended February 3, 2018. There were no impairment charges recorded for the periods ended February 1, 2020 and February 2, 2019.

The discounted cash flow models used to estimate the applicable fair values involve numerous estimates and assumptions that are highly subjective. Changes to these estimates and assumptions could materially impact the fair value estimates. The estimates and assumptions critical to the overall fair value estimates include: (1) estimated future cash flow generated at the store level; (2) discount rates used to derive the present value factors used in determining the fair values; and (3) market rentals at the retail store. These and other estimates and assumptions are impacted by economic conditions and our expectations and may change in the future based on period-specific facts and circumstances. If economic conditions were to deteriorate, future impairment charges may be required.

Business Combinations

The Company acquired a majority interest in Pura Vida on July 16, 2019. In connection with a business combination, the Company records the identifiable assets acquired, liabilities assumed, contingent consideration liabilities, if any, and any noncontrolling interest in the acquiree at their acquisition-date fair values. Goodwill is measured indirectly as the excess of the sum of (1) the consideration transferred (including contingent consideration, if any) and (2) the fair value of any noncontrolling interest in the acquiree over the net assets acquired and liabilities assumed.

These fair value assessments require management judgment and include the use of significant estimates and assumptions including future cash flows, discount and other market rates, and asset lives, among other items. The details of these assessments for the Pura Vida acquisition are as follows:

- Inventories were valued using the cost approach. The significant assumptions used for the valuation include inventory balances, projected gross and operating margins, and cost and time to dispose (sell) inventory on hand.
- The brand intangible asset was valued using the relief-from-royalty method. The significant assumptions used for the valuation include the royalty rate, estimated projected revenues, long-term growth rate, and the discount rate.
- Customer relationships were valued using the multi-period excess earnings method. Significant assumptions used for the valuation include projected cash flows, the discount rate, and customer attrition rate.
- Contingent consideration related to the earn-out provision was valued using a Monte Carlo simulation in order to forecast the value of the potential future payment. Significant assumptions used for the valuation include the discount rate, projected cash flows, and calculated volatility.

Goodwill and Other Intangible Assets

Upon an acquisition, the Company records the fair value of the identifiable intangible assets. As of February 1, 2020, these items consisted of the Pura Vida brand, customer relationships, and non-competition agreements. Assets that are determined to have an indefinite life, including goodwill and the Pura Vida brand, are not amortized but are assessed for impairment at least annually or whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. Definite-lived intangible assets, including customer relationships and non-competition agreements, are amortized over their estimated useful lives and are also subject to impairment testing, similar to the Company's long-lived assets.

Goodwill. The Company may first use a qualitative analysis to determine whether the quantitative process is required to be performed. The qualitative analysis may assess whether it is more-likely-than-not that the fair value of the reporting unit (including goodwill) is less than its carrying value. This qualitative analysis may include, but is not limited to: macroeconomic factors; industry and market considerations; cost factors that have a negative effect on earnings and cash flows; entity specific factors; a change in the composition or carrying amount of the reporting unit's net assets; and a sustained decrease in stock price. If it is determined that it is more-likely-than-not that the fair value is less than the carrying value after this analysis, a quantitative impairment test is performed.

The quantitative impairment test compares the fair value of a reporting unit with its carrying amount. We recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if any, not to exceed the total amount of goodwill allocated to the reporting unit. The fair value is determined as the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. This fair value includes factors such as estimated discount rates and estimated revenue growth rates. Actual results could differ from these estimates. Additional impairment charges may be required if conditions were to deteriorate.

Tradenname. The Pura Vida tradenname may first be evaluated using a qualitative analysis, similar to the approach for goodwill. If a quantitative analysis is required, the Company estimates the fair value of the tradenname by utilizing the relief-from-royalty method. The significant assumptions used for the valuation include the royalty rate, estimated projected revenues, long-term growth rate, and the discount rate. If the carrying value of the tradenname exceeds the fair value estimate, an impairment charge is recorded to write the tradenname down to its fair value.

Other intangible assets. Definite-lived intangible assets include customer relationships. Definite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset group may not be recoverable. If determined that the asset group may not be recoverable, the Company estimates the fair value of the customer relationships by utilizing the multi-period excess earnings method. Significant assumptions used for the valuation include projected cash flows, the discount rate, and customer attrition rate. If the carrying value of the customer relationships exceeds the applicable fair value estimate, an impairment charge is recorded to write the asset group down to its fair value.

Transactions with Related Parties

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

Impact of Inflation

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

Foreign Exchange Rate Risk

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

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Vera Bradley, Inc. and subsidiaries (the “Company”) as of February 1, 2020 and February 2, 2019, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended February 1, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of February 1, 2020 and February 2, 2019, and the results of its operations and its cash flows for each of the three years in the period ended February 1, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 1, 2020, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective February 3, 2019, the Company adopted FASB Accounting Standards Update 2016-02, *Leases*, using a modified retrospective approach.

Basis for Opinion

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

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

/s/ Deloitte & Touche LLP

Indianapolis, Indiana
March 31, 2020

We have served as the Company's auditor since 2016.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Vera Bradley, Inc and subsidiaries (the "Company") as of February 1, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 1, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended February 1, 2020, of the Company and our report dated March 31, 2020, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of a new accounting standard.

As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Pura Vida, which was acquired on July 16, 2019, and whose financial statements constitute approximately 25% of total assets and 6% of total liabilities (excluding contingent consideration) as of February 1, 2020 and approximately 13% of net revenues of the consolidated financial statement amounts as of and for the year ended February 1, 2020. Accordingly, our audit did not include the internal control over financial reporting at Pura Vida.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP

Indianapolis, Indiana
March 31, 2020

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

	February 1, 2020	February 2, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 49,917	\$ 113,493
Short-term investments	8,977	19,381
Accounts receivable, net	24,290	15,604
Inventories	123,606	91,581
Income taxes receivable	1,043	809
Prepaid expenses and other current assets	10,956	11,600
Total current assets	218,789	252,468
Operating right-of-use assets	114,790	—
Property, plant, and equipment, net	73,027	77,951
Intangible assets, net	56,305	—
Goodwill	44,254	—
Long-term investments	14,912	23,735
Deferred income taxes	7,656	6,724
Other assets	5,328	1,270
Total assets	\$ 535,061	\$ 362,148
Liabilities, Redeemable Noncontrolling Interest, and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 20,235	\$ 14,595
Accrued employment costs	11,412	13,316
Short-term operating lease liabilities	21,347	—
Earn-out liability	18,448	—
Other accrued liabilities	13,850	13,482
Income taxes payable	2,113	2,163
Total current liabilities	87,405	43,556
Long-term operating lease liabilities	113,775	—
Other long-term liabilities	62	23,889
Total liabilities	201,242	67,445
Commitments and contingencies		
Redeemable noncontrolling interest	30,049	—
Shareholders' equity:		
Preferred stock; 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, without par value; 200,000 shares authorized, 41,515 and 41,283 shares issued and 33,503 and 34,347 outstanding, respectively	—	—
Additional paid-in capital	100,357	95,572
Retained earnings	307,414	291,994
Accumulated other comprehensive income (loss)	158	(24)
Treasury stock	(104,159)	(92,839)
Total shareholders' equity of Vera Bradley, Inc.	303,770	294,703
Total liabilities, redeemable noncontrolling interest, and shareholders' equity	\$ 535,061	\$ 362,148

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

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

	Fiscal Year Ended		
	February 1, 2020	February 2, 2019	February 3, 2018
Net revenues	\$ 495,212	\$ 416,097	\$ 454,648
Cost of sales	223,411	177,510	200,639
Gross profit	271,801	238,587	254,009
Selling, general, and administrative expenses	253,425	211,984	239,810
Other income	1,098	498	782
Operating income	19,474	27,101	14,981
Interest income, net	(1,085)	(1,125)	(413)
Income before income taxes	20,559	28,226	15,394
Income tax expense	5,315	7,469	8,378
Net income	15,244	20,757	7,016
Less: Net loss attributable to redeemable noncontrolling interest	(803)	—	—
Net income attributable to Vera Bradley, Inc.	\$ 16,047	\$ 20,757	\$ 7,016
Basic weighted-average shares outstanding	33,983	35,222	35,925
Diluted weighted-average shares outstanding	34,288	35,467	36,026
Basic net income per share attributable to Vera Bradley, Inc.	\$ 0.47	\$ 0.59	\$ 0.20
Diluted net income per share attributable to Vera Bradley, Inc.	\$ 0.47	\$ 0.59	\$ 0.19

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

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

	Fiscal Year Ended		
	February 1, 2020	February 2, 2019	February 3, 2018
Net income	\$ 15,244	\$ 20,757	\$ 7,016
Unrealized gain (loss) on available for sale debt investments	131	96	(51)
Cumulative translation adjustment	51	(6)	(13)
Comprehensive income, net of tax	15,426	20,847	6,952
Less: Comprehensive loss attributable to redeemable noncontrolling interest	(803)	—	—
Comprehensive income attributable to Vera Bradley, Inc.	<u>\$ 16,229</u>	<u>\$ 20,847</u>	<u>\$ 6,952</u>

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

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

	Number of Shares		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Permanent Equity
	Common Stock	Treasury Stock					
Balance at January 28, 2017	36,218,071	4,708,454	\$ 88,739	\$ 263,767	\$ (50)	\$ (68,670)	\$ 283,786
Net income	—	—	—	7,016	—	—	7,016
Translation adjustments	—	—	—	—	(13)	—	(13)
Unrealized loss on available for sale investments	—	—	—	—	(51)	—	(51)
Restricted shares vested, net of repurchase for taxes	174,985	—	(618)	—	—	—	(618)
Stock-based compensation	—	—	3,071	—	—	—	3,071
Treasury stock purchased	(934,031)	934,031	—	—	—	(7,908)	(7,908)
Balance at February 3, 2018	35,459,025	5,642,485	\$ 91,192	\$ 270,783	\$ (114)	\$ (76,578)	\$ 285,283
Net income	—	—	—	20,757	—	—	20,757
Translation adjustments	—	—	—	—	(6)	—	(6)
Unrealized gain on available for sale investments	—	—	—	—	96	—	96
Restricted shares vested, net of repurchase for taxes	181,533	—	(547)	—	—	—	(547)
Stock-based compensation	—	—	4,927	—	—	—	4,927
Treasury stock purchased	(1,293,138)	1,293,138	—	—	—	(16,261)	(16,261)
Cumulative adjustment for ASC 606 adoption	—	—	—	454	—	—	454
Balance at February 2, 2019	34,347,420	6,935,623	\$ 95,572	\$ 291,994	\$ (24)	\$ (92,839)	\$ 294,703
Net income attributable to Vera Bradley, Inc.	—	—	—	16,047	—	—	16,047
Translation adjustments	—	—	—	—	51	—	51
Unrealized gain on available for sale investments	—	—	—	—	131	—	131
Restricted shares vested, net of repurchase for taxes	231,578	—	(1,155)	—	—	—	(1,155)
Stock-based compensation	—	—	5,940	—	—	—	5,940
Treasury stock purchased	(1,075,749)	1,075,749	—	—	—	(11,320)	(11,320)
Cumulative adjustment for ASC 842 adoption	—	—	—	(196)	—	—	(196)
Redeemable noncontrolling interest redemption value adjustment	—	—	—	(431)	—	—	(431)
Balance at February 1, 2020	33,503,249	8,011,372	\$ 100,357	\$ 307,414	\$ 158	\$ (104,159)	\$ 303,770

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

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

	Fiscal Year Ended		
	February 1, 2020	February 2, 2019	February 3, 2018
Cash flows from operating activities			
Net income	\$ 15,244	\$ 20,757	\$ 7,016
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant, and equipment	18,447	16,540	19,570
Impairment charges	—	—	6,298
Amortization of operating right-of-use assets	21,969	—	—
Amortization of intangible assets	5,359	—	—
Provision for doubtful accounts	160	184	425
Stock-based compensation	5,940	4,927	3,071
Deferred income taxes	(864)	(1,497)	8,154
Cash gain on investments	(188)	32	162
Adjustment of earn-out liability	(1,650)	—	—
Amortization of step-up in inventory basis	8,274	—	—
Other non-cash charges, net	202	512	103
Changes in assets and liabilities:			
Accounts receivable	(1,013)	438	7,322
Inventories	(12,645)	(3,994)	14,445
Prepaid expenses and other assets	(4,477)	(100)	566
Accounts payable	(615)	738	(18,214)
Income taxes	(284)	4,933	(870)
Operating lease liabilities, net	(25,302)	—	—
Accrued and other liabilities	(7,933)	94	(5,406)
Net cash provided by operating activities	20,624	43,564	42,642
Cash flows from investing activities			
Purchases of property, plant, and equipment	(13,317)	(8,148)	(11,822)
Purchases of investments	(18,950)	(59,461)	(85,530)
Proceeds from maturities and sales of investments	38,333	85,559	45,716
Cash paid for business acquisition, net of cash acquired	(76,032)	—	—
Proceeds from disposal of property, plant, and equipment	—	5	32
Net cash (used in) provided by investing activities	(69,966)	17,955	(51,604)
Cash flows from financing activities			
Tax withholdings for equity compensation	(1,155)	(547)	(618)
Repurchase of common stock	(11,341)	(16,064)	(7,908)
Distributions to redeemable noncontrolling interest	(1,789)	—	—
Payments of debt-issuance costs	—	(160)	(123)
Net cash used in financing activities	(14,285)	(16,771)	(8,649)
Effect of exchange rate changes on cash and cash equivalents	51	(6)	(13)
Net (decrease) increase in cash and cash equivalents	(63,576)	44,742	(17,624)
Cash and cash equivalents, beginning of period	113,493	68,751	86,375
Cash and cash equivalents, end of period	\$ 49,917	\$ 113,493	\$ 68,751

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

	Fiscal Year Ended		
	February 1, 2020	February 2, 2019	February 3, 2018
Supplemental disclosure of cash-flow information			
Cash paid for income taxes, net	\$ 6,490	\$ 4,035	\$ 1,942
Cash paid for interest	\$ 119	\$ 169	\$ 187
Supplemental disclosure of non-cash activity			
Non-cash operating, investing, and financing activities			
Repurchase of common stock incurred but not yet paid			
As of February 1, 2020, February 2, 2019 and February 3, 2018	\$ 176	\$ 197	\$ —
As of February 2, 2019, February 3, 2018 and January 28, 2017	\$ 197	\$ —	\$ —
Purchases of property, plant, and equipment incurred but not yet paid			
As of February 1, 2020, February 2, 2019 and February 3, 2018	\$ 559	\$ 1,065	\$ 1,183
As of February 2, 2019, February 3, 2018 and January 28, 2017	\$ 1,065	\$ 1,183	\$ 2,204
Contingent consideration related to business acquisition	\$ 20,098	\$ —	\$ —

Refer to Note 4 herein for supplemental cash flow information regarding the Company's leases.

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

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

1. Description of the Company

The term “Company” refers to Vera Bradley, Inc. and its wholly and majority owned 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.

In July 2019, Vera Bradley, Inc. acquired a 75% interest in Creative Genius, Inc., which also operates under the name Pura Vida Bracelets (“Pura Vida”). Pura Vida, based in La Jolla, California, is a digitally native lifestyle brand that we believe deeply resonates with its loyal consumer following. The Pura Vida brand has a differentiated and expanding offering of bracelets, jewelry, and other lifestyle accessories.

Beginning in the second quarter of fiscal 2020, the Company has included an additional segment for Pura Vida due to its acquisition. As a result, the Company now has three reportable segments: Vera Bradley Direct (“VB Direct”), Vera Bradley Indirect (“VB Indirect”), and Pura Vida.

- The VB Direct business consists of sales of Vera Bradley products through Vera Bradley full-line and factory outlet stores in the United States; verabradley.com; the Vera Bradley online outlet site; and the Vera Bradley annual outlet sale in Fort Wayne, Indiana. As of February 1, 2020, the Company operated 88 full-line stores and 63 factory outlet stores.
- The VB Indirect business consists of sales of Vera Bradley products to approximately 2,200 specialty retail locations, substantially all of which are located in the United States, as well as department stores, national accounts, third-party e-commerce sites, third-party inventory liquidators, and royalties recognized through licensing agreements related to the Vera Bradley brand.
- The Pura Vida segment represents revenues generated through the Pura Vida websites, www.puravidabraccels.com and www.puravidabraccels.eu, and through the distribution of Pura Vida-branded products to wholesale retailers, substantially all of which are located in the United States.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, and its majority owned subsidiary, Pura Vida beginning on July 17, 2019. The Company has eliminated intercompany balances and transactions in consolidation.

Fiscal Periods

The Company utilizes a 52-53 week fiscal year ended on the Saturday closest to January 31. As such, fiscal years 2020 and 2019, ending on February 1, 2020 and February 2, 2019, respectively, each reflected a 52-week period. Fiscal year 2018 ending on February 3, 2018 reflected a 53-week period.

2. Summary of Significant Accounting Policies

Use of Significant Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of the Company’s assets, liabilities, revenues, and expenses, as well as the disclosures relating to contingent assets and liabilities at the date of the consolidated financial statements. Significant areas requiring the use of management estimates include the valuation of inventories, valuation of long-lived assets, including operating right-of-use assets, valuation of goodwill and indefinite-lived intangible assets, accounts receivable valuation allowances, sales return allowances, and the useful lives of assets for depreciation or amortization. Actual results could differ from these estimates. The Company revises its estimates and assumptions as new information becomes available.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand, deposits with financial institutions, and investments with an original maturity of three months or less.

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

Investments

Short-term investments consist of investments with a maturity within one year of the balance sheet date. As of February 1, 2020, these investments consisted of U.S. and non-U.S. corporate debt securities, commercial paper, municipal securities, and U.S. asset-backed securities. As of February 2, 2019, these investments consisted of U.S. and non-U.S. corporate debt securities, municipal securities, U.S. Treasury securities, and commercial paper. Long-term investments consist of investments with a maturity of greater than one year from the balance sheet date. As of February 1, 2020, these investments consisted of U.S. and non-U.S. corporate debt securities, U.S. and non-U.S. asset-backed securities, and other foreign securities. As of February 2, 2019, these investments consisted of U.S. and non-U.S. corporate debt securities, U.S. and non-U.S. asset-backed securities, and municipal securities. The Company's objective with respect to these investments is to earn a higher rate of return, relative to deposit accounts, on funds that are otherwise not anticipated to be required to meet liquidity needs in the near-term while maintaining a low level of investment risk. These debt 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, net, in the Company's Consolidated Statements of Operations.

Refer to Note 15 herein for additional information regarding the Company's investments.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out ("FIFO") method. Appropriate consideration is given to obsolescence, excess quantities, and other factors, including the popularity of a pattern or product, in evaluating net realizable value.

The components of inventories were as follows:

	February 1, 2020	February 2, 2019
Raw materials ⁽¹⁾	\$ 1,056	\$ —
Finished goods	122,550	91,581
Total inventories	\$ 123,606	\$ 91,581

(1) Relates solely to Pura Vida operations.

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost and depreciated or amortized over the following estimated useful lives using the straight-line method:

Buildings and building improvements	39.5 years
Land improvements	5 – 15 years
Furniture and fixtures, and leasehold improvements	3 – 10 years
Equipment	7 years
Vehicles	5 years
Computer equipment and software	3 – 5 years

The Company recognizes depreciation and amortization expense within cost of sales for expenditures related to distribution center, sourcing, and other related functions and selling, general, and administrative expenses for all other expenditures. Leasehold improvements are amortized over the shorter of the life of the asset or the lease term. Lease terms typically range from three to ten years.

When a decision is made to abandon property, plant, and equipment prior to the end of the previously estimated useful life, depreciation or amortization estimates are revised to reflect the use of the asset over the shortened estimated useful life. At the time of disposal, the cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts and any resulting loss is included in the Consolidated Statements of Operations.

Property, plant, and equipment and operating right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset groups may not be recoverable. The reviews are conducted at the lowest identifiable level of cash flows, which is at the retail store level for store-related assets. If the estimated

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

undiscounted future cash flows related to the property, plant, and equipment and operating right-of-use assets are less than the carrying value, the Company recognizes a loss equal to the difference between the carrying value and the fair value, as further defined below in “Fair Value of Financial Instruments.”

Routine maintenance and repair costs are expensed as incurred.

The Company capitalizes certain costs incurred in connection with acquiring, modifying, and installing internal-use software. Capitalized costs are included in property, plant, and equipment and are amortized over three to five years. Software costs that do not meet capitalization criteria are expensed as incurred.

Revenue Recognition and Accounts Receivable

Accounting Standard Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*, was adopted on a modified retrospective basis on February 4, 2018. Accordingly, prior year financial information contained herein was not recast and is reported under the prior accounting standard. Refer to Note 3 herein for additional information.

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

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

The Company collects payment at the point of sale for Vera Bradley full-line and factory outlet store transactions, upon shipment for Vera Bradley e-commerce transactions, and upon purchase for Pura Vida e-commerce transactions. The Company generally collects payment in arrears in accordance with established payment terms for each customer within the VB Indirect segment and for Pura Vida wholesale retailers.

Historical experience provides the Company the ability to reasonably estimate the amount of product sales that customers will return. Product returns are often resalable through multiple channels. Additionally, the Company reserves for customer allowances for certain VB Indirect retailers based upon various contract terms and other potential product credits granted to VB Indirect retailers.

The returns and credits reserve and the related activity for each fiscal year presented were as follows (in thousands):

	Balance at Beginning of Year	Provision Charged to Net Revenues	Allowances Taken / Written Off	Balance at End of Year
Fiscal year ended February 1, 2020	\$ 1,911	\$ 15,467	\$ (16,016)	\$ 1,362
Fiscal year ended February 2, 2019	2,695	17,946	(18,730)	1,911
Fiscal year ended February 3, 2018	5,360	23,504	(26,169)	2,695

The Company establishes an allowance for doubtful accounts based on historical experience and customer-specific identification and believes that collections of receivables, net of the allowance for doubtful accounts, are reasonably assured. The allowance for doubtful accounts was approximately \$0.5 million and \$0.3 million as of February 1, 2020 and February 2, 2019, respectively.

Cost of Sales

Cost of sales includes material and labor costs, freight, inventory shrinkage, operating lease costs, duty, and other operating expenses, including depreciation of the Vera Bradley distribution center and equipment. Costs and related expenses to purchase and distribute the products are recorded as cost of sales when the related revenues are recognized.

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

Operating Leases

ASC Topic 842, *Leases*, was adopted on a modified retrospective basis on February 3, 2019. Accordingly, prior year financial information contained herein was not recast and is reported under the prior accounting standard. This comparability primarily impacts the Company's Consolidated Balance Sheets. Refer to Note 4 herein for additional information regarding the Company's leases.

The Company recognizes lease liabilities at the lease commencement date based upon the present value of the remaining lease payments. Operating right-of-use assets are based on the lease liability adjusted for prepaid rent, deferred rent, and tenant allowances received from certain of the Company's landlords, primarily for its retail store locations.

Operating lease liabilities are amortized based upon the effective interest method. Operating right-of-use assets are amortized based upon the straight-line lease expense less interest on the lease liability. Operating lease expense is recognized on a straight-line basis over the lease term. Variable rent expense is recognized in the period incurred.

Operating right-of-use assets 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, which is at the retail store level for store-related assets. If the estimated undiscounted future cash flows related to the operating right-of-use assets are less than the carrying value, the Company recognizes a loss equal to the difference between the carrying value and the fair value, as further defined below in "Fair Value of Financial Instruments."

Store Pre-Opening, Occupancy, and Operating Costs

The Company charges costs associated with the opening of new stores to selling, general, and administrative expenses as incurred. Selling, general, and administrative expenses also include store operating costs, store employee compensation, and store occupancy and supply costs.

Business Combination

The Company acquired a majority interest in Pura Vida on July 16, 2019. In connection with a business combination, the Company records the identifiable assets acquired, liabilities assumed, contingent consideration liabilities, if any, and any noncontrolling interest in the acquiree at their acquisition-date fair values. Goodwill is measured indirectly as the excess of the sum of (1) the consideration transferred (including contingent consideration, if any) and (2) the fair value of any noncontrolling interest in the acquiree over the net assets acquired and liabilities assumed. Refer to Note 16 herein for additional information.

These fair value assessments require management judgment and include the use of significant estimates and assumptions including future cash flows, discount and other market rates, and asset lives, among other items.

Goodwill and Other Intangible Assets

Upon an acquisition, the Company records the fair value of the identifiable intangible assets. As of February 1, 2020, these items consisted of the Pura Vida brand, customer relationships, and non-competition agreements. Assets that are determined to have an indefinite life, including goodwill and the Pura Vida Brand, are not amortized but are assessed for impairment at least annually or whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. Definite-lived intangible assets, including customer relationships and non-competition agreements, are amortized over their estimated useful lives and are also subject to impairment testing, similar to the Company's long-lived assets.

Redeemable Noncontrolling Interest

On July 16, 2019, as contemplated by the Interest Purchase Agreement, the Company and certain of its subsidiaries and the owners of the remaining twenty-five percent (25%) ownership interest in Pura Vida (the "Sellers") which was not acquired by the Company (the "Remaining Pura Vida Interest") entered into a Put/Call Agreement (the "Put/Call Agreement"). Pursuant to the Put/Call Agreement, and subject to the terms and conditions thereof, the Sellers have the right to sell all of the Remaining Pura Vida Interest to the Company, and the Company has the right to purchase all of the Remaining Pura Vida Interests from Sellers, in each case generally at any time following the fifth anniversary of the closing date of the transaction until the tenth anniversary thereof. The purchase price for any Remaining Pura Vida Interest put to, or called by, the Company will be determined based on the arithmetic average of a multiple of adjusted EBITDA of Pura Vida and a multiple of adjusted EBITDA of the Company, as defined in the Put/Call Agreement, over the twelve-month period ending on the last day of the month immediately preceding the month in which an exercise notice is delivered by a relevant party.

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

In the event of a change in control of the Company, the parties may exercise a portion of their put and call rights prior to the fifth anniversary of the closing date (as defined in the Put/Call Agreement).

As a result of this redemption feature, the Company recorded the noncontrolling interest as redeemable and classified it in temporary equity within its Consolidated Balance Sheets initially at its acquisition-date fair value. The noncontrolling interest is adjusted each reporting period for income (or loss) attributable to the noncontrolling interest. A measurement period adjustment, if any, is then made to adjust the noncontrolling interest to the higher of the redemption value or carrying value each reporting period. These adjustments are recognized through retained earnings and are not reflected in net income or net income attributable to Vera Bradley, Inc. When calculating earnings per share attributable to Vera Bradley, Inc., the Company adjusts net income attributable to Vera Bradley, Inc. for the measurement period adjustment to the extent the redemption value exceeds the fair value of the noncontrolling interest on a cumulative basis. The fair value of the noncontrolling interest is estimated using a combination of the income approach, a discounted cash flow analysis, and the market approach, utilizing the guideline company method. The reporting unit's discounted cash flow analysis requires significant management judgment with respect to revenue, total direct costs, selling, general, and administrative expenses, capital expenditures, and the selection and use of an appropriate discount rate. The projected revenue and expense assumptions and capital expenditures are based on our annual and long-term business plans. Discount rates reflect market-based estimates of the risks associated with the projected cash flows directly resulting from the use of those assets in operations. Refer to Note 17 herein for additional information regarding the redeemable noncontrolling interest.

Stock-Based Compensation

The Company accounts for stock-based compensation using the fair-value recognition provisions of ASC 718, *Stock Compensation*. Under these provisions, for its awards of restricted stock and restricted-stock units, the Company recognizes stock-based compensation expense in an amount equal to the fair market value of the underlying stock on the grant date of the respective award. The Company recognizes this expense, net of estimated forfeitures, on a straight-line basis over the requisite service period.

Other Income and Advertising Costs

The Company expenses advertising costs at the time the promotion first appears in media, in stores, or on the website, and includes those costs in selling, general, and administrative expenses in the Consolidated Statements of Operations. The Company classifies the related recovery of a portion of such costs from VB Indirect retailers as other income in the Consolidated Statements of Operations.

Total advertising expense was as follows (in thousands):

Fiscal year ended February 1, 2020 ⁽¹⁾	\$	46,460
Fiscal year ended February 2, 2019		27,488
Fiscal year ended February 3, 2018		26,953

(1) Increase primarily as a result of the inclusion of Pura Vida beginning July 17, 2019.

Total recovery from VB Indirect retailers was as follows (in thousands):

Fiscal year ended February 1, 2020	\$	118
Fiscal year ended February 2, 2019		80
Fiscal year ended February 3, 2018		367

Debt-Issuance Costs

Unamortized debt-issuance costs totaled \$0.3 million as of February 1, 2020, and \$0.4 million as of February 2, 2019, and are included in other assets on the Consolidated Balance Sheets. The Company entered into an asset-based credit agreement on September 7, 2018 and recorded an immaterial amount of expense and debt-issuance costs related to the agreement. Refer to Note 6 herein for additional information. Amortization expense of \$0.1 million, \$0.3 million, and \$0.2 million is included in interest income, net in the Consolidated Statements of Operations for the fiscal years ended February 1, 2020, February 2, 2019, and February 3, 2018, respectively. Fiscal 2019 included a \$0.2 million write-off of certain fees from the Company's prior credit agreement.

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

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 Consolidated Balance Sheets for cash and cash equivalents, accounts receivable, other current assets, and accounts payable as of February 1, 2020 and February 2, 2019, approximated their fair values.

The following table details the fair value measurements of the Company’s investments as of February 1, 2020 and February 2, 2019 (in thousands):

	Level 1		Level 2		Level 3	
	February 1, 2020	February 2, 2019	February 1, 2020	February 2, 2019	February 1, 2020	February 2, 2019
Cash equivalents ⁽¹⁾	\$ 27	\$ 2,169	\$ 2,198	\$ 6,493	\$ —	\$ —
<i>Short-term investments:</i>						
U.S. corporate debt securities	—	—	3,435	5,769	—	—
Commercial paper	—	—	2,489	498	—	—
Municipal securities	—	—	1,594	4,190	—	—
Non-U.S. corporate debt securities	—	—	1,136	5,808	—	—
U.S. asset-backed securities	—	—	323	—	—	—
U.S. treasury securities	—	3,116	—	—	—	—
<i>Long-term investments:</i>						
U.S. corporate debt securities	—	—	5,613	9,499	—	—
U.S. asset-backed securities	—	—	5,498	7,169	—	—
Non-U.S. corporate debt securities	—	—	2,409	4,675	—	—
Other foreign securities	—	—	810	—	—	—
Non-U.S. asset-backed securities	—	—	582	1,127	—	—
Municipal securities	—	—	—	1,265	—	—

(1) Cash equivalents include commercial paper and a money market fund 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 assesses potential impairments to its long-lived assets, which includes property, plant, and equipment and lease right-of-use assets, on a quarterly basis or whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Store-level assets and right-of-use assets are grouped at the individual store-level for the purpose of the impairment assessment. Recoverability of an asset group is measured by a comparison of the carrying amount of an asset group to its estimated undiscounted future cash flows expected to be generated by the asset group. If the carrying amount of the asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset group exceeds the fair value of the asset group. The fair value of the store assets is determined using the discounted future cash flow method of anticipated cash flows through the store’s lease-end date using fair value measurement inputs classified as Level 3. The fair value of right-of-use assets is estimated using market comparative information for similar properties. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. The Company recorded \$6.3 million in impairment charges during the fiscal year ended February 3, 2018. There were no impairment charges for the fiscal years ended February 1, 2020 and February 2, 2019.

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

Assets recognized or disclosed at fair value on the consolidated financial statements on a nonrecurring basis include items such as property, plant, and equipment, including leasehold improvements, and operating lease assets, as well as assets related to the Pura Vida acquisition including goodwill and intangible assets. These assets are measured at fair value if determined to be impaired. Refer to Note 16 herein for additional information on the methods used in the preliminary valuation of acquired intangible assets.

Income Taxes

The Company accrues income taxes payable or refundable and recognizes deferred tax assets and liabilities based on differences between the book and tax bases of assets and liabilities. The Company measures deferred tax assets and liabilities using enacted rates in effect for the years in which the differences are expected to reverse, and recognizes the effect of a change in enacted rates in the period of enactment. As such, the Company recognized additional income tax expense of \$2.1 million during fiscal 2018 upon the enactment of the Tax Cuts and Jobs Act. Refer to Note 7 herein for additional information.

The Company establishes liabilities for uncertain positions taken or expected to be taken in income tax returns, using a more-likely-than-not recognition threshold. The Company includes in income tax expense any interest and penalties related to uncertain tax positions.

Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. In July 2018, the FASB issued ASU 2018-11 for targeted improvements, including the option of allowing entities to initially apply the new leases standard at the adoption date (February 3, 2019 for the Company) and recognize a cumulative-effect adjustment to the opening balance of retained earnings. The Company adopted the standard using this adoption method on February 3, 2019 (the beginning of fiscal 2020) and recorded a \$0.2 million beginning retained earnings adjustment. In addition, the Company evaluated the usage of applicable transition relief practical expedients at the adoption date as follows:

Practical Expedient Package	The Company elected the practical expedient package and did not re-assess whether a contract was or contained a lease; did not re-assess lease classification as an operating or financing lease for expired or existing leases; and did not re-assess whether a lease contained initial direct costs for expired or existing leases.
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Hindsight	The Company did not elect the hindsight practical expedient, which allows for hindsight when assessing the lease term and impairment of right-of-use assets.
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The Company has operating leases at all of its retail stores; therefore, the adoption of this standard resulted in a material increase of assets and liabilities on the Company’s Consolidated Balance Sheets. The opening balance of its operating lease liabilities was approximately \$149 million and its operating right-of-use assets were approximately \$126 million at transition on February 3, 2019. The Consolidated Statements of Cash Flows also had material presentation changes within operating activities upon adoption. The adoption of this standard had no impact on the Company’s Consolidated Statements of Operations.

Refer to Note 4 herein for additional information regarding ASC Topic 842, including details of practical expedients related to policy elections.

In August 2018, the FASB issued ASU 2018-15, *Customers Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing or expensing implementation costs in hosting arrangements (regardless of whether they convey a license to the hosted software) with capitalizing or expensing implementation costs incurred to develop or obtain internal-use software. This guidance is effective for interim and annual periods beginning on or after December 15, 2019 (fiscal 2021). Early adoption is permitted, and the amendments can be adopted either retrospectively or prospectively. The Company adopted this standard at the beginning of its fiscal 2020 (February 3, 2019) on a prospective basis. The adoption of this standard had an immaterial impact on the Company’s Consolidated Financial Statements.

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In January 2017 the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This standard eliminates Step 2 from the goodwill impairment test. Instead, an entity should compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years (fiscal 2021). Early adoption is permitted. The Company early adopted this standard during the third quarter of fiscal 2020, with no impact on its consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurements*. The amendments in this update remove, modify, and add certain disclosure requirements to ASC 820, *Fair Value Measurement*. This guidance is effective for interim and annual periods beginning on or after December 15, 2019 (fiscal 2021). Early adoption is permitted, and certain amendments are to be adopted prospectively for only the most recent annual or interim period presented in the initial year of adoption or retrospectively. The Company is currently evaluating the impact of the guidance on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments in this update remove certain exceptions to the general principals in Topic 740, as well as simplify GAAP for certain areas and improve consistency within the topic. This guidance is effective for interim and annual periods beginning on or after December 15, 2020 (fiscal 2022). Early adoption is permitted, with all amendments required to be adopted in the same period. The Company is currently evaluating the impact of the guidance on its consolidated financial statements.

3. Revenue from Contracts with Customers

The Company adopted ASC Topic 606 beginning in the first quarter of fiscal 2019 using the modified retrospective adoption method. Accordingly, disclosures herein required by the standard were excluded for the prior-year period.

The following tables illustrate the financial statement line items that were impacted as a result of the adoption of ASC Topic 606 as of and for the fifty-two weeks ended February 2, 2019. These adjustments are a result of adjusting for shipments not yet received by customers, gift card breakage revenue, and the re-classification of certain liabilities for estimated product returns, which are further described in Note 2 herein (in thousands).

	February 2, 2019		
	As Reported	Adjustments	Balances Under Prior U.S. GAAP
Consolidated Balance Sheet			
Accounts receivable, net	\$ 15,604	\$ (2,497)	\$ 13,107
Inventories	91,581	906	92,487
Income taxes receivable	809	265	1,074
Total current assets	252,468	(1,326)	251,142
Deferred income taxes	6,724	106	6,830
Total assets	362,148	(1,220)	360,928
Other accrued liabilities	13,482	(156)	13,326
Total current liabilities	43,556	(156)	43,400
Total liabilities	67,445	(156)	67,289
Retained earnings	291,994	(1,064)	290,930
Total shareholders' equity	294,703	(1,064)	293,639
Total liabilities and shareholders' equity	362,148	(1,220)	360,928

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

	Fifty-Two Weeks Ended		
	February 2, 2019		
	As Reported	Adjustments	Amounts Under Prior U.S. GAAP
Consolidated Statement of Operations			
Net revenues	\$ 416,097	\$ (1,478)	\$ 414,619
Cost of sales	177,510	(655)	176,855
Gross profit (loss)	238,587	(823)	237,764
Operating income (loss)	27,101	(823)	26,278
Income (loss) before income taxes	28,226	(823)	27,403
Income tax expense (benefit)	7,469	(213)	7,256
Net income (loss)	20,757	(610)	20,147

	Fifty-Two Weeks Ended		
	February 2, 2019		
	As Reported	Adjustments	Amounts Under Prior U.S. GAAP
Consolidated Statement of Cash Flows			
Cash flows from operating activities			
Net income (loss)	\$ 20,757	\$ (610)	\$ 20,147
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred income taxes	(1,497)	52	(1,445)
Changes in assets and liabilities:			
Accounts receivable	438	1,837	2,275
Inventories	(3,994)	(655)	(4,649)
Income taxes	4,933	(265)	4,668
Accrued and other liabilities	94	(359)	(265)

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

Disaggregation of Revenue

The following presents the Company's net revenues disaggregated by product category for the fifty-two weeks ended February 1, 2020 and February 2, 2019 (in thousands):

<i>Product categories</i>	Fifty-Two Weeks Ended			
	February 1, 2020			
	VB Direct Segment	VB Indirect Segment	Pura Vida Segment	Total
Bags	\$ 136,509	\$ 41,206	\$ —	\$ 177,715
Travel	91,732	16,712	—	108,444
Accessories	75,162	15,470	64,568	155,200
Home	32,987	2,703	—	35,690
Other	11,094 ⁽¹⁾	5,720 ⁽²⁾	1,349 ⁽³⁾	18,163
Total net revenues	\$ 347,484 ⁽⁴⁾	\$ 81,811 ⁽⁵⁾	\$ 65,917 ⁽⁴⁾	\$ 495,212

(1) Primarily includes net revenues from apparel/footwear, stationery, freight, and gift card breakage.

(2) Primarily includes net revenues from licensing agreements, freight, apparel/footwear, and merchandising.

(3) Related to freight.

(4) Net revenues were related to product sales recognized at a point in time.

(5) \$78.0 million of net revenues related to product sales recognized at a point in time and \$3.8 million of net revenues related to sales-based royalties recognized over time.

<i>Product categories</i>	Fifty Two Weeks Ended			
	February 2, 2019			
	VB Direct Segment	VB Indirect Segment	Pura Vida Segment	Total
Bags	\$ 128,255	\$ 42,626	\$ —	\$ 170,881
Travel	87,746	19,767	—	107,513
Accessories	75,751	17,043	—	92,794
Home	26,846	2,757	—	29,603
Other	9,436 ⁽¹⁾	5,870 ⁽²⁾	—	15,306
Total net revenues	\$ 328,034 ⁽³⁾	\$ 88,063 ⁽⁴⁾	\$ —	\$ 416,097

(1) Primarily includes net revenues from stationery, apparel/footwear, freight, and gift card breakage.

(2) Primarily includes net revenues from licensing agreements, freight, apparel/footwear, and merchandising.

(3) Net revenues were related to product sales recognized at a point in time.

(4) \$84.5 million of net revenues related to product sales recognized at a point in time and \$3.6 million of net revenues related to sales-based royalties recognized over time.

Contract Balances

Contract liabilities as of February 1, 2020 and February 2, 2019, consisted of \$3.9 million and \$1.6 million, respectively. The balance as of February 1, 2020 consisted of unearned revenue related to the monthly bracelet and jewelry clubs of the Pura Vida segment, unredeemed gift cards, Pura Vida payments collected before shipment, and an immaterial amount of unearned revenue for pre-payments of royalties in certain of the Company's licensing arrangements and other customer pre-payments. The balance as of February 2, 2019 consisted of unearned revenue related to unredeemed gift cards and an immaterial amount of unearned revenue for pre-payments of royalties in certain of the Company's licensing arrangements. These contract liabilities are recognized within other accrued liabilities on the Company's Consolidated Balance Sheets. The Company did not have contract assets as of February 1, 2020 and February 2, 2019.

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Notes to Consolidated Financial Statements

The balance for accounts receivable from contracts with customers, net of allowances, as of February 1, 2020 and February 2, 2019 was \$16.3 million and \$14.1 million, respectively, which is recognized within accounts receivable, net, on the Company's Consolidated Balance Sheets. The provision for doubtful accounts was \$0.5 million and \$0.3 million as of February 1, 2020 and February 2, 2019, respectively.

Performance Obligations

The performance obligations for the VB Direct, VB Indirect, and Pura Vida segments include the promise to transfer distinct goods (or a bundle of distinct goods). The VB Indirect segment also includes the right to access intellectual property ("IP") related to the Vera Bradley brand.

Remaining Performance Obligations

The Company does not have remaining performance obligations in excess of one year or contracts that it does not have the right to invoice as of February 1, 2020.

Significant Judgments*Product Sales*

In the Vera Bradley retail stores (recognized within the VB Direct segment), control is transferred and net revenue is recognized at the point of sale. Product shipments for the Company's e-commerce channels (recognized within the VB Direct and Pura Vida segments) and shipments to its wholesale retailers (recognized within the VB Indirect segment and Pura Vida segment) are generally shipped Free on Board ("FOB") shipping point typically from its distribution center in Roanoke, Indiana, for Vera Bradley products and primarily from its third-party fulfillment center in Tijuana, Mexico for Pura Vida products. Net revenue is recognized upon shipment consistent with when control is transferred to the customer. Upon shipment, the customer has the right to direct the use of, and obtain substantially all of the benefits from, the product.

Licensing Royalties

The Company grants rights to access its Vera Bradley IP and accounts for any resulting sales-based royalty revenue over time, as the subsequent sales occur. The Company has contractually guaranteed minimum royalties in certain of its sales-based royalty arrangements which are recognized straight-line over the remaining license period once determined that the minimum sales level will not be achieved. Licensing royalties are recognized within VB Indirect segment net revenues.

Transaction Price and Amounts Allocated to Performance Obligations

The transaction price is the amount of consideration the Company expects to be entitled to in a sales transaction. The transaction price is net of discounts, estimated variable consideration (if any), and any customer allowances offered or estimated, including those offered to certain Indirect retailers based on various contract terms. The transaction price also is net of allowances for product returns, which the Company is able to reasonably estimate based upon historical experience. The transaction price is allocated to each performance obligation in the contract based upon the standalone selling price.

Contract Costs

Sales commissions are paid to certain employees based upon specific sales achieved during a time period. As the Company's contracts related to these sales commissions do not exceed one year, these incentive payments are expensed as incurred.

Other Practical Expedients*Remaining Performance Obligations*

The Company does not disclose the remaining performance obligations for contracts with an original expected duration of one year or less or for contracts which it has the right to invoice.

Significant Financing Components

The Company does not adjust for the time value of money as the majority of its contracts have an original expected duration of one year or less; contracts that are greater than one year are related to net revenues that are constrained until the subsequent sales occur. The net revenues associated with these contracts are immaterial, and the Company does not adjust for the time value of money.

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Notes to Consolidated Financial Statements

4. Leases

Nature of Leases

The Company has operating leases at all of its retail stores, as well as for its New York office, the California Pura Vida office, Asia sourcing office, and showrooms. The Company also has operating leases for certain equipment and storage spaces. The Company does not have residual value guarantees, restrictions, or covenants imposed by leases.

Determination of Lease Terms

Retail store leases have remaining terms of up to 10 years as of February 1, 2020. These leases generally have early termination rights when certain sales thresholds are not met for a specified measurement period. The Company's other leases have remaining terms of up to approximately seven years as of February 1, 2020. If the lease contains a renewal period at the Company's option, the renewal period is included in the lease term if determined the option is reasonably certain to be exercised at lease commencement. The Company's lease options generally do not include termination rights other than those mentioned. The Company did not have financing leases as of February 1, 2020.

Variable Rental Payments

All of the Company's retail store leases contain variable rental payments when the retail store's sales exceed a specified breakpoint. In addition, certain of the Company's leases contain real estate taxes, common area maintenance, and similar items that are billed as pass-through charges from its landlords. These rental payments are not included in the measurement of the lease liability, but are recognized as variable lease cost in the period incurred.

Certain of the Company's leases also contain lease components with increases based upon an index or rate. These lease components are included on the Company's balance sheet at the rate as of lease commencement. Future changes in the index or rate will generally be included as variable lease cost.

Significant Judgments and Assumptions

Determination of Whether a Contract Contains a Lease

The Company determines whether a contract is or contains a lease at the inception of the contract. The contract is, or contains, a lease if the contract conveys the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. The Company generally must also have the right to obtain substantially all of the economic benefits from use of the property, plant, and equipment and have the right to direct its use.

Discount Rate

The weighted-average discount rate as of February 1, 2020, was 5.0%. The rate implicit in the lease is not readily determinable in the lease agreements; therefore, the Company estimated the incremental borrowing rate, at the commencement date of each lease, which is the rate of interest it would have to borrow on a collateralized basis over a similar term with similar payments.

Leases Not Yet Commenced

As of February 1, 2020, the Company had retail store leases which were executed, but did not have control of the underlying assets; therefore, the lease liabilities and right-of-use assets are not recorded on its Consolidated Balance Sheet. These leases contain undiscounted lease payments, which will be included in the determination of the lease liability, totaling approximately \$3.1 million and have approximate terms of 10 years commencing in fiscal 2021.

Practical Expedients (Policy Elections)

The Company has elected the following practical expedients as policy elections upon the adoption of ASC Topic 842.

Short-Term Leases	The Company elected to exclude leases with a term of 12 months or less from recognition on the balance sheet for all leases.
Not Separating Lease and Nonlease Components	The Company elected to combine lease and nonlease components and recognize as a single lease component for all leases.

Refer to Note 2 herein for information regarding transition practical expedients elected.

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

Amounts Recognized in the Consolidated Financial Statements

Lease expense is recorded within cost of sales for the Asia sourcing office and certain equipment leases and within selling, general, and administrative expenses for all other leases, including retail store leases, in the Company's Consolidated Statement of Operations for the fiscal year ended February 1, 2020 (in thousands):

	Fifty-Two Weeks Ended
	February 1, 2020
Operating lease cost	\$ 28,808
Variable lease cost	9,266
Short-term lease cost	576
Total lease cost	<u>\$ 38,650</u>

The weighted-average remaining lease term as of February 1, 2020 was 6.0 years.

Supplemental operating cash flow information was as follows (in thousands):

	Fifty-Two Weeks Ended
	February 1, 2020
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 32,702
Right-of-use assets increase as a result of new and modified operating lease liabilities, net	\$ 10,850

Maturity Analysis of Operating Lease Liabilities

Maturities of the Company's operating lease liabilities (undiscounted) reconciled to its lease liability as of February 1, 2020 were as follows (in thousands):

	Operating Leases
Fiscal 2021	\$ 27,531
Fiscal 2022	29,215
Fiscal 2023	25,268
Fiscal 2024	22,054
Fiscal 2025	19,059
Thereafter	34,934
Total remaining obligations	<u>158,061</u>
Less: Interest	(22,939)
Present value of lease liabilities	<u>\$ 135,122</u>

Under the prior accounting standard (ASC Topic 840), the maturities of minimum lease payments as disclosed in the Company's Annual Report on Form 10-K as of the fiscal year ended February 2, 2019 were as follows:

	Operating Leases
Fiscal 2020	\$ 32,658
Fiscal 2021	32,017
Fiscal 2022	29,707
Fiscal 2023	25,933
Fiscal 2024	22,250
Thereafter	45,099
Total remaining minimum lease payments	<u>\$ 187,664</u>

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

5. Property, Plant, and Equipment

Property, plant, and equipment consisted of the following (in thousands):

	February 1, 2020	February 2, 2019
Land and land improvements	\$ 5,981	\$ 5,981
Building and building improvements	46,233	46,233
Furniture, fixtures, leasehold improvements, computer equipment and software	116,238	112,316
Equipment and vehicles	21,205	21,002
Construction in progress	6,002	1,699
	195,659	187,231
Less: Accumulated depreciation and amortization	(122,632)	(109,280)
Property, plant, and equipment, net	\$ 73,027	\$ 77,951

Property, plant, and equipment and operating right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset groups may not be recoverable. The reviews are conducted at the lowest identifiable level of cash flows, which is generally the retail store level. The assets are grouped at the individual store level for store-related assets. If the estimated undiscounted future cash flows related to the property, plant, and equipment and operating right-of-use assets are less than the carrying value, the Company recognizes a loss equal to the difference between the carrying value and the fair value, as further defined in Note 2. Impairment charges of \$6.3 million were recognized, using level 3 inputs, in the fiscal year ended February 3, 2018 for asset groups related to underperforming stores and are included in selling, general, and administrative expenses in the Consolidated Statements of Operations and in impairment charges in the Consolidated Statements of Cash Flows. The impairment charges are included in the VB Direct segment. There were no impairment charges recorded during the fiscal years ended February 1, 2020 and February 2, 2019.

Depreciation and amortization expense associated with property, plant, and equipment, excluding impairment charges (in thousands):

Fiscal year ended February 1, 2020	\$ 18,447
Fiscal year ended February 2, 2019	16,540
Fiscal year ended February 3, 2018	19,570

6. Debt

As of February 1, 2020 and February 2, 2019, the Company had no borrowings outstanding and availability of \$75.0 million under its Credit Agreement. Subsequent to the end of the fiscal year, the Company has drawn \$60.0 million of its \$75.0 million Credit Agreement to provide additional flexibility as a result of the COVID-19 pandemic.

Credit Agreement

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

Amounts outstanding under the Credit Agreement bear interest at a per annum rate equal to either (i) for CBFR borrowings (including swingline loans), the CB Floating Rate, where the CB Floating Rate is the prime rate which shall never be less than the adjusted one month LIBOR rate on such day, plus the Applicable Rate, where the Applicable Rate is a percentage spread ranging from -1.00% to -1.50% or (ii) for each eurodollar borrowing, the Adjusted LIBO Rate, where the Adjusted LIBO Rate is the LIBO rate for such interest period multiplied by the statutory reserve rate, for the interest period in effect for such borrowing, plus the Applicable Rate, where the Applicable Rate is a percentage ranging from 1.00% to 1.30%. The

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applicable CB Floating Rate, Adjusted LIBO Rate, or LIBO Rate shall be determined by the administrative agent. The Credit Agreement also requires VBD to pay a commitment fee for the unused portion of the revolving facility of up to 0.20% per annum.

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

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

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

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

Any commitments made under the Credit Agreement mature on September 7, 2023. There were no material fees or expenses associated with the Credit Agreement.

7. Income Taxes

The components of income tax expense were as follows (in thousands):

	February 1, 2020	February 2, 2019	February 3, 2018
Current:			
Federal	\$ 4,509	\$ 7,020	\$ 488
Foreign	681	610	364
State	989	1,336	(628)
	<u>6,179</u>	<u>8,966</u>	<u>224</u>
Deferred:			
Federal	(805)	(1,663)	7,476
State	(59)	166	678
	<u>(864)</u>	<u>(1,497)</u>	<u>8,154</u>
Total income tax expense	<u>\$ 5,315</u>	<u>\$ 7,469</u>	<u>\$ 8,378</u>

A breakdown of the Company's income before income taxes is as follows (in thousands):

	February 1, 2020	February 2, 2019	February 3, 2018
Domestic	\$ 16,267	\$ 24,426	\$ 13,666
Foreign	4,292	3,800	1,728
Total income before income taxes	<u>\$ 20,559</u>	<u>\$ 28,226</u>	<u>\$ 15,394</u>

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A reconciliation of income tax expense to the amount computed at the federal statutory rate is as follows (in thousands):

	February 1, 2020		February 2, 2019		February 3, 2018	
Federal taxes at statutory rate	\$ 4,317	21.0 %	\$ 5,927	21.0 %	\$ 5,067	32.9 %
State and local income taxes, net of federal benefit	752	3.7	1,203	4.3	665	4.3
Impact related to redeemable noncontrolling interest	168	0.8	—	—	—	—
Shortfall from stock-based compensation	63	0.3	101	0.4	1,111	7.2
Impact of foreign rate differential	(210)	(1.0)	(188)	(0.7)	(247)	(1.6)
Change in uncertain tax positions	(17)	(0.1)	(17)	(0.1)	(632)	(4.1)
Change in U.S. tax rate	—	—	—	—	2,026	13.2
Deemed mandatory repatriation	—	—	—	—	345	2.2
Other	242	1.2	443	1.6	43	0.3
Total income tax expense	<u>\$ 5,315</u>	<u>25.9 %</u>	<u>\$ 7,469</u>	<u>26.5 %</u>	<u>\$ 8,378</u>	<u>54.4 %</u>

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act includes, among other things, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, bonus depreciation that allows for full expensing for qualified property, the transition of U.S. international taxation from a worldwide system to a territorial system with a new provision designed to tax global intangible low-taxed income ("GILTI"), and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings. Section 15 of the Internal Revenue Code stipulates that the Company's fiscal year ended February 3, 2018, had a blended federal statutory tax rate of approximately 32.9%, which is based on the applicable tax rates before and after the effectiveness of the Tax Act and the number of days in the year.

The Company recorded \$2.1 million in provisional income tax expense during the fourth quarter of fiscal 2018 based upon its understanding of the Tax Act and guidance as of the date of the fiscal 2018 filing. Of the \$2.1 million, \$2.0 million was related to the remeasurement of net deferred tax assets at rates which they are expected to reverse in the future and \$0.3 million was related to the one-time transition tax on mandatory deemed repatriation of foreign earnings, which were partially offset by a \$0.2 million income tax benefit related to the blended federal statutory rate. The Tax Act created a new requirement that certain income earned by foreign subsidiaries, known as GILTI, must be included in the gross income of their U.S. shareholder. The Company elected to treat the tax effect of GILTI as a current-period expense when incurred. During the fourth quarter of fiscal 2019, the Company completed its accounting for the Tax Act and recorded no material adjustments to its fiscal 2018 provisional estimate.

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Deferred income taxes reflect the net tax effects of temporary differences between the book and tax bases of assets and liabilities. Significant components of deferred tax assets and liabilities were as follows (in thousands):

	February 1, 2020	February 2, 2019
Deferred tax assets:		
Operating lease liabilities	\$ 36,209	\$ —
Compensation and benefits	3,021	2,912
Inventories	1,317	1,753
Deferred credits from landlords	—	6,922
Other	1,890	1,241
Total deferred tax assets	42,437	12,828
Deferred tax liabilities:		
Operating lease assets	(30,620)	—
Property, plant, and equipment	(2,656)	(3,859)
Other	(1,505)	(2,245)
Total deferred tax liabilities	(34,781)	(6,104)
Net deferred tax assets	\$ 7,656	\$ 6,724

Uncertain Tax Positions

A reconciliation of the beginning and ending gross amount of unrecognized tax benefits (excluding interest and penalties) is as follows (in thousands):

	February 1, 2020	February 2, 2019	February 3, 2018
Beginning balance	\$ 83	\$ 104	\$ 877
Net increases in unrecognized tax benefits as a result of current year activity	11	44	—
Lapse of statute of limitations	(35)	(65)	(106)
Net increases in unrecognized tax benefits as a result of prior year activity	—	—	210
Reductions for tax positions of prior years	—	—	(877)
Ending balance	\$ 59	\$ 83	\$ 104

As of February 1, 2020, \$0.1 million of total unrecognized tax benefits, net of federal benefit, would, if recognized, favorably affect the effective tax rate in future periods. Total unrecognized tax benefits are currently not expected to decrease by a significant amount in the next twelve months. The Company recognized an immaterial amount of interest only, no penalties, related to unrecognized tax benefits in the fiscal years ended February 1, 2020, February 2, 2019, and February 3, 2018. Unrecognized tax benefits are included within long-term liabilities in the Company's Consolidated Balance Sheets.

The Company files income tax returns in the U.S. federal jurisdiction and various U.S. state and foreign jurisdictions. The Company is subject to U.S. federal income tax examinations for fiscal years 2017 and forward. With a few exceptions, the Company is subject to audit by various state and foreign taxing authorities for fiscal 2016 through the current fiscal year.

8. Stock-Based Compensation

The Company's stock-based compensation consists of awards of restricted stock and restricted stock units. The Company recognized stock-based compensation expense of \$5.9 million, \$4.9 million, and \$3.1 million in the fiscal years ended February 1, 2020, February 2, 2019, and February 3, 2018, respectively.

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Awards of Restricted-Stock Units

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. As of February 1, 2020, there were 3,964,026 shares remaining in that program.

During the fiscal year ended February 1, 2020, the Company granted a total of 416,944 time-based and performance-based restricted stock units to certain employees and non-employee directors under the 2010 Equity and Incentive Plan with an aggregate fair value of \$5.4 million. The Company determined the fair value of the units based on the closing price of the Company's common stock on the grant date.

The majority of 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 unit awards issued to non-employee directors vest after a one-year period from the grant date. The Company is recognizing the expense relating to these awards, net of estimated forfeitures, on a straight-line basis over the vesting period.

The majority of 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 the three-year performance period and the Company's achievement of annual earnings per share targets, or other Company performance targets, during the three-year performance period. The Company is recognizing the expense relating to these units, net of estimated forfeitures and based on the probable outcome of achievement of the financial targets, on a straight-line basis over the vesting period.

The following table summarizes information about restricted-stock units as of and for the year ended February 1, 2020 (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 February 2, 2019	473	\$ 11.75	442	\$ 11.38
Granted	246	12.94	171	13.10
Change due to performance condition achievement	—	—	111	10.59
Vested	(277)	12.32	(50)	19.62
Forfeited	(9)	13.17	(3)	9.97
Nonvested units outstanding at February 1, 2020	433	\$ 12.03	671	\$ 11.08

As of February 1, 2020, there was \$6.4 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 1.3 years, subject to meeting performance conditions. The total fair value of restricted stock units for which restrictions lapsed (vested) during fiscal 2020 was \$4.1 million.

9. Commitments and Contingencies

The Company is subject to various claims and contingencies arising in the normal course of business, including those relating to product liability, legal claims, employee benefits, environmental issues, 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 the aggregate, to have a material adverse effect on the Company's financial condition, results of operations, or cash flows of a particular reporting period.

In August of 2019, Vesi Incorporated ("Vesi") filed suit against the Company in the U.S. District Court for the Southern District of Ohio related to the Company's licensing business and alleging breach of fiduciary duty, unfair competition, defamation, and tortious interference with prospective business relationships. The complaint seeks damages in an amount not less than \$10.0 million for punitive damages, attorney fees, prejudgment interest, and any other additional relief. The

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Company has denied any liability and intends to vigorously defend itself in the case. In November 2019, the Company filed a counterclaim against the principals of Vesi as personal guarantors for monies owed to the Company by Vesi. The cases are currently in discovery. At this time, we are not able to estimate a possible loss or range of loss that may result from this matter or to determine whether such loss, if any, would have a material adverse effect on our financial condition or results of operations due to the fact that the Company is vigorously defending itself and management believes that the Company has a number of meritorious legal defenses.

10. 401(k) Profit Sharing Plan and Trust

The Company has a 401(k) profit sharing plan and trust for all qualified employees and provides a 100% match for the first 3% of employee contributions and a 50% match for the next 2% of employee contributions, for a maximum Company match of 4% of employee contributions, limited to the annual legal allowable limit. Additionally, the Company has the option of making discretionary profit sharing payments to the plan as approved by the board of directors. As of February 1, 2020, February 2, 2019, and February 3, 2018, no discretionary profit sharing payments had been approved. The Company recognizes 401(k) Company contributions within cost of sales for employees related to distribution center, sourcing, and other related functions and selling, general, and administrative expenses for all other employees. Total Company contributions to the plan were as follows (in thousands):

Fiscal year ended February 1, 2020	\$	1,732
Fiscal year ended February 2, 2019		1,661
Fiscal year ended February 3, 2018		1,533

11. Related-Party Transactions

Charitable Contributions. During each of the fiscal years ended February 1, 2020, February 2, 2019, and February 3, 2018 the Company made charitable contributions of approximately \$0.1 million to the Vera Bradley Foundation for Breast Cancer (the "Foundation"). The Foundation was founded by one of the Company's directors, who is also on the board of directors of the Foundation. The liability associated with commitments to the Foundation was approximately \$0.3 million as of February 1, 2020 and February 2, 2019. The liability consisted of pass-through donations from customers and is included in other accrued liabilities in the Consolidated Balance Sheets.

The associated expense for contributions to the Foundation, which is included in selling, general, and administrative expenses, was as follows (in thousands):

Fiscal year ended February 1, 2020	\$	101
Fiscal year ended February 2, 2019		144
Fiscal year ended February 3, 2018		140

Share Repurchases. During the fiscal year ended February 2, 2019, the Company repurchased a total of 400,000 shares of common stock from related-parties as described below. Each transaction was approved by the Company's Audit Committee and effected as part of the 2015 Share Repurchase Program. Refer to Note 13 herein for details regarding the Company's current and prior share repurchase programs.

On June 26, 2018, the Company agreed to repurchase 200,000 shares of common stock from the Barbara B Baekgaard 2009 Grantor Retained Annuity Trust (the "Baekgaard Trust") at a price of \$14.43 per share, representing an approximate four percent (4%) discount from the closing price of \$15.03 on June 25, 2018. The Baekgaard Trust was established by the Company's co-founder, Barbara Bradley Baekgaard, and is managed by two of Ms. Baekgaard's children, Joan Byrne Hall (who is also the spouse of the Company's chairman) and James Bradley Byrne.

On September 27, 2018, the Company agreed to repurchase 200,000 shares of common stock from the Patricia R. Miller 2007 Family Trust (the "Miller Trust") at a price of \$15.04 per share, representing an approximate three and one half percent (3.5%) discount from the closing price of \$15.58 on September 26, 2018. P. Michael Miller is the trustee of the Miller Trust and is a director of the Company. P. Michael Miller and Patricia Miller, the Company's co-founder, are husband and wife.

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12. Earnings Per Share

Basic net income per share is computed based on the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share is computed based on the weighted-average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding restricted stock and restricted-stock units. The components of basic and diluted net income per share are as follows (in thousands, except per share data):

	Fiscal Year Ended		
	February 1, 2020	February 2, 2019	February 3, 2018
<i>Numerator:</i>			
Net income	\$ 15,244	\$ 20,757	\$ 7,016
Less: Net loss attributable to redeemable noncontrolling interest	(803)	—	—
Net income attributable to Vera Bradley, Inc.	<u>\$ 16,047</u>	<u>\$ 20,757</u>	<u>\$ 7,016</u>
<i>Denominator:</i>			
Weighted-average number of common shares (basic)	33,983	35,222	35,925
Dilutive effect of stock-based awards	305	245	101
Weighted-average number of common shares (diluted)	<u>34,288</u>	<u>35,467</u>	<u>36,026</u>
<i>Net income per share attributable to Vera Bradley, Inc.:</i>			
Basic	\$ 0.47	\$ 0.59	\$ 0.20
Diluted	\$ 0.47	\$ 0.59	\$ 0.19

As of February 1, 2020, February 2, 2019, and February 3, 2018, 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. The diluted share calculations include performance-based restricted stock units for completed performance periods.

13. 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. On November 30, 2017, the board of directors authorized the Company to extend the 2015 Share Repurchase Plan to December 31, 2018. The 2015 Share Repurchase program was completed on November 27, 2018. On November 29, 2018, the Company's board of directors approved a new share repurchase plan (the "2018 Share Repurchase Program") authorizing up to \$50.0 million of repurchases of shares of the Company's common stock. The 2018 Share Repurchase Program expires December 14, 2020. Subsequent to year end, in light of the 2019 novel coronavirus (COVID-19) pandemic, the Company suspended the 2018 Share Repurchase Program.

During the fiscal year ended February 1, 2020, the Company purchased and held 1,075,749 shares at an average price of \$10.52 per share, excluding commissions, for an aggregate amount of \$11.3 million, under the 2018 Share Repurchase Program.

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

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

As of February 1, 2020, there was \$35.8 million remaining available to repurchase shares of the Company's common stock under the 2018 Share Repurchase Program.

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As of February 1, 2020, the Company held as treasury shares 8,011,372 shares of its common stock at an average price of \$13.00 per share, excluding commissions, for an aggregate carrying amount of \$104.2 million. The Company's treasury shares may be issued under the 2010 Equity and Incentive Plan or for other corporate purposes.

14. Vision 20/20 Restructuring and Other Charges

Fifty-Three Weeks Ended February 3, 2018

Vision 20/20 Initiatives and Charges. During fiscal 2018, the Company launched its Vision 20/20 strategic plan, which involves an aggressive approach to turn around its business over the period ending in fiscal 2021. The plan is primarily focused on product and pricing initiatives, as well as selling, general, and administrative ("SG&A") expense reduction initiatives. 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, streamlining current product offerings by eliminating unproductive or incongruent categories and SKUs from its assortment, and introducing tighter guardrails around new product categories, patterns, and pricing.

The SG&A expense reductions include right-sizing the Company's corporate infrastructure to better align with the size of the business, optimizing marketing spending by focusing on efficiencies, and taking a more aggressive stance on closing underperforming full-line stores. These SG&A expense reductions began in the third quarter of fiscal 2018, largely aimed at right-sizing the corporate infrastructure. The majority of the product and pricing initiatives were completed during fiscal 2019. There have been \$16.7 million of pre-tax Vision 20/20-related charges (\$10.6 million after the associated tax benefit) since inception, all of which were recognized during fiscal 2018. There were no Vision 20/20-related charges during the fiscal years ended February 1, 2020 and February 2, 2019.

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

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

(1) Refer to Note 5 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 (\$399 recognized within the Direct segment) and accelerated depreciation charges and other charges (\$67 recognized within the Direct segment, \$230 recognized within the Indirect segment, and \$55 recognized within corporate unallocated expenses)

(5) After the associated tax benefit, the charges totaled \$10.6 million

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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 Charges	Total
Fiscal 2018 charges	\$ 6,298	\$ 4,649	\$ 4,066	\$ 935	\$ 751	\$ 16,699
Cash payments	—	(4,649)	(2,508)	—	(411)	(7,568)
Non-cash charges	(6,298)	—	—	(935)	(340)	(7,573)
Liability as of February 3, 2018 ⁽¹⁾	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,558</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,558</u>

(1) The remaining liability as of fiscal 2018 was associated with severance charges and is included within accrued employment costs in the Consolidated Balance Sheets. The remaining liability as of fiscal 2018 was paid during fiscal 2019 and there were no additional charges during fiscal 2019.

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

Other charges recognized in tax expense during fiscal 2018 totaled \$2.1 million related to the Tax Cuts and Jobs Act further described in Note 7 herein.

15. Investments

The Company held \$9.0 million and \$19.4 million in short-term investments as of February 1, 2020 and February 2, 2019, respectively. The following table summarizes the Company's short-term investments (in thousands):

	February 1, 2020	February 2, 2019
U.S. corporate debt securities	\$ 3,435	\$ 5,769
Commercial paper	2,489	498
Municipal securities	1,594	4,190
Non-U.S. corporate debt securities	1,136	5,808
U.S. asset-backed securities	323	—
U.S. treasury securities	—	3,116
Total short-term investments	<u>\$ 8,977</u>	<u>\$ 19,381</u>

The Company held \$14.9 million and \$23.7 million in long-term investments as of February 1, 2020 and February 2, 2019, respectively. The following table summarizes the Company's long-term investments (in thousands):

	February 1, 2020	February 2, 2019
U.S. corporate debt securities	\$ 5,613	\$ 9,499
U.S. asset-back securities	5,498	7,169
Non-U.S. corporate debt securities	2,409	4,675
Other foreign securities	810	—
Non-U.S. asset-backed securities	582	1,127
Municipal securities	—	1,265
Total long-term investments	<u>\$ 14,912</u>	<u>\$ 23,735</u>

There were no material gross unrealized gains or losses on available-for-sale debt securities as of February 1, 2020 and February 2, 2019.

16. Acquisition of Pura Vida

On July 16, 2019, the Company completed its acquisition of a seventy-five percent (75%) ownership interest in Creative Genius, Inc. or "Pura Vida" (the "Transaction") in exchange for cash consideration of approximately \$75.0 million. During the third quarter of fiscal 2020, the Company provided additional cash consideration of approximately \$3.0 million for a

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working capital adjustment. Additional measurement period adjustments were recorded for conditions that existed as of the acquisition date. Pura Vida, based in La Jolla, California, is a digitally native lifestyle brand that we believe deeply resonates with its loyal consumer following. The Pura Vida brand has a differentiated and expanding offering of bracelets, jewelry, and other lifestyle accessories. The Company believes that the acquisition will strengthen the Company by providing increased product diversification and future growth opportunities partially as a result of resource and knowledge-sharing.

In accordance with the Interest Purchase Agreement, the Company also agreed to a contingent payment of up to \$22.5 million based on calendar year 2019 adjusted EBITDA of Pura Vida, as defined in the Interest Purchase Agreement. This contingent payment is recorded as an earn-out liability on the Company's Consolidated Balance Sheets at its estimated amount payable of \$18.4 million. Subsequent to the end of the fiscal year, the Company paid the earn-out liability. The Company's existing available cash, cash equivalents, and investments funded the purchase price due at the closing of the Transaction and subsequent to the closing. Pre-tax Transaction costs totaled \$2.7 million for the fiscal year ended February 1, 2020. These costs are recorded within selling, general, and administrative expenses in the Consolidated Statements of Operations and within corporate unallocated expenses.

On July 16, 2019, as contemplated by the Interest Purchase Agreement, the Company and certain of its subsidiaries and the owners of the remaining twenty-five percent (25%) ownership interest in Pura Vida which was not acquired by the Company entered into a Put/Call Agreement. Refer to Note 2 herein for additional information regarding the Put/Call Agreement.

The following preliminary schedule summarizes the consideration paid for Pura Vida, the fair value of the assets acquired and liabilities assumed, the fair value of the noncontrolling interest, and the fair value of the contingent consideration related to the earn-out provision. The accounting for the acquisition is preliminary as the Company has not yet finalized the valuation of the aforementioned items.

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<i>in thousands</i>	Fair Value at Acquisition Date	Measurement Period Adjustments	Adjusted Fair Value at Acquisition Date
Cash and cash equivalents	\$ 1,495		\$ 1,495
Accounts receivable, net ⁽⁵⁾	8,673	(993)	7,680
Inventories ⁽¹⁾	27,643	11	27,654
Prepaid expenses and other current assets	1,537		1,537
Operating right of use asset	1,250		1,250
Property, plant, and equipment, net	751		751
Goodwill ⁽²⁾	41,310	2,944	44,254
Intangible asset, brand ⁽³⁾	36,668		36,668
Other intangible assets ⁽⁴⁾	25,283	(287)	24,996
Total assets acquired	144,610	1,675	146,285
Accounts payable	6,818		6,818
Accrued employment costs	2,351		2,351
Other accrued liabilities ⁽⁵⁾	6,637		6,637
Operating lease liability	1,659	(22)	1,637
Total liabilities assumed	17,465	(22)	17,443
<i>Less:</i>			
Contingent consideration related to earn-out provision ⁽⁶⁾	(20,854)	756	(20,098)
Redeemable noncontrolling interest	(31,786)	(424)	(32,210)
Cash acquired	(1,495)		(1,495)
Total closing consideration amount, net of cash acquired ⁽⁷⁾	\$ 73,010	\$ 2,029	\$ 75,039

(1) Includes an \$8.3 million step-up adjustment which was recognized in cost of sales during the four months following the acquisition. Inventories were valued using the cost approach. The significant assumptions used for the valuation include inventory balances, projected gross and operating margins, and cost and time to dispose (sell) inventory on hand.

(2) Refer to Notes 2 and 18 herein for additional information regarding goodwill.

(3) The brand intangible asset was valued using the relief-from-royalty method. The significant assumptions used for the valuation include the royalty rate, estimated projected revenues, the long-term growth rate, and the discount rate. Refer to Note 18 herein for additional information regarding intangible assets.

(4) Other intangible assets include customer relationships and non-competition agreements. Customer relationships were valued using the multi-period excess earnings method. Significant assumptions used for the valuation include projected cash flows, the discount rate, and the customer attrition rate. The non-competition agreements were valued using the with-or-without method. Significant assumptions used for the valuation include projected cash flows, probability of competition, impact of competition on business, and the discount rate. Refer to Note 18 herein for additional information regarding intangible assets.

(5) Includes \$4.1 million related to an indemnified liability.

(6) Contingent consideration related to the earn-out provision was valued using a Monte Carlo simulation in order to forecast the value of the potential future payment. Significant assumptions used for the valuation include the discount rate, projected cash flows, and calculated volatility.

(7) Of the total \$75.0 million closing consideration, \$1.0 million is due to be paid to the Company through a working capital adjustment. This \$1.0 million is recorded within Accounts Receivable, net on the Consolidated Balance Sheet. Cash consideration paid during fiscal 2020 totaled \$76.0 million.

The operations of Pura Vida are recorded in the Company's Consolidated Statements of Operations for the fiscal year ended February 1, 2020, beginning on July 17, 2019, which represents the first full day following the acquisition. As such, the Company's financial statements are not comparable with the prior-year period presented. Refer to Note 19 herein for

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

segment-level financial information associated with Pura Vida. The following unaudited pro forma financial information is intended to provide a sense for what the Company's operating results may have been if the Pura Vida acquisition had occurred at the beginning of fiscal 2019. The pro forma financial information is not indicative of the results that would have been reflected had the transaction actually occurred as of that date, nor is it necessarily indicative of the Company's future results. The financial information includes expense related to supplemental officer wages and fully indemnified state sales tax matters for time periods before the acquisition date. The Company does not expect these items to have a continuing impact on its consolidated financial statements. The following adjustments have been made:

- Short-term purchase accounting items, such as the inventory step-up adjustment and earn-out liability adjustment, have been excluded due to their non-recurring nature;
- Definite-lived intangible amortization that exceeds one year has been reflected as if it occurred at the beginning of fiscal 2019;
- Transaction costs have been excluded; and
- Tax expense has been estimated at a statutory rate of 25.0%.

<i>in thousands, except per share data</i>	Fifty-Two Weeks Ended	
	February 1, 2020	February 2, 2019
Pro forma net revenues	\$ 538,576	\$ 484,376
Pro forma net income	23,786	16,708
Pro forma net income attributable to Vera Bradley, Inc.	22,193	18,081
Pro forma basic net income per share attributable to Vera Bradley, Inc.	\$ 0.65	\$ 0.51
Pro forma diluted net income per share attributable to Vera Bradley, Inc.	\$ 0.65	\$ 0.51

17. Redeemable Noncontrolling Interest

Redeemable noncontrolling interest represents the remaining twenty-five percent (25%) interest in Pura Vida not acquired by the Company. Refer to Note 2 herein for additional information.

Changes in redeemable noncontrolling interest for the fifty-two weeks ended February 1, 2020, were as follows (in thousands):

Balance at February 2, 2019	\$ —
Fair value of noncontrolling interest at acquisition	31,786
Fair value measurement period adjustment	424
Net loss attributable to redeemable noncontrolling interest	(803)
Distributions to redeemable noncontrolling interest	(1,789)
Adjustment to redemption value	431
Balance at February 1, 2020	\$ 30,049

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

18. Intangible Assets and Goodwill

The following table details the carrying value of the Company's intangible assets other than goodwill related to the acquisition of a majority interest in Pura Vida. The prior-year period did not include intangible assets or goodwill. The valuation of the intangible assets and goodwill is preliminary and additional adjustments may be reflected during the measurement period.

<i>in thousands</i>	February 1, 2020		
	Gross Basis	Accumulated Amortization ⁽¹⁾	Carrying Amount
<i>Definite-lived intangible assets</i>			
Customer Relationships	\$ 24,208	\$ (5,274)	\$ 18,934
Non-competition Agreements	788	(85)	703
Total definite-lived intangible assets	24,996	(5,359)	19,637
<i>Indefinite-lived intangible asset</i>			
Pura Vida Brand	36,668	—	36,668
Total intangible assets, excluding goodwill	\$ 61,664	\$ (5,359)	\$ 56,305

(1) Amortization expense is recorded within the Pura Vida segment.

The provisional weighted-average amortization period for the definite-lived intangible assets in total is 3.6 years. The provisional weighted-average amortization period is 3.6 years and 5.0 years for customer relationships and non-competition agreements, respectively. The provisional amortization expense for intangible assets is as follows (in thousands):

	Amortization Expense
Fiscal 2021	\$ 9,009
Fiscal 2022	3,073
Fiscal 2023	3,073
Fiscal 2024	3,073
Fiscal 2025	1,409
Total	<u>\$ 19,637</u>

The total amount of the provisional goodwill as of February 1, 2020, was \$44.3 million recorded within the Pura Vida segment upon acquisition. Goodwill is expected to be deductible for tax purposes, limited to the Company's 75% majority ownership interest. Refer to Note 2 and 16 herein for additional information regarding goodwill. Changes in goodwill for the fiscal year ended February 1, 2020, were as follows (in thousands):

Balance at February 2, 2019	\$ —
Goodwill at acquisition	41,310
Measurement period adjustment	2,944
Balance at February 1, 2020	<u>\$ 44,254</u>

19. Segment Reporting

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

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

The VB Direct segment includes Vera Bradley full-line and factory outlet stores, the Vera Bradley website, verabradley.com, the Vera Bradley online outlet site, and the Vera Bradley annual outlet sale. Revenues generated through this segment are driven through the sale of Vera Bradley-branded products from Vera Bradley to end consumers.

The VB Indirect segment represents revenues generated through the distribution of Company-branded products to specialty retailers representing approximately 2,200 locations, substantially all of which are located in the United States, as well as select department stores, national accounts, third-party e-commerce sites, third-party inventory liquidators, and licensing agreements related to the Vera Bradley brand. No customer accounted for 10% or more of the Company's net revenues during fiscal years 2020, 2019, and 2018.

The Pura Vida segment represents revenues generated through the Pura Vida websites, www.puravidabraccets.com and www.puravidabraccets.eu, and through the distribution of Pura Vida-branded products to wholesale retailers, substantially all of which are located in the United States.

Corporate costs represent the Company's administrative expenses, which include, but are not limited to: human resources, legal, finance, information technology, design, product development, merchandising, corporate-level marketing and advertising, and various other corporate-level-activity-related expenses not directly attributable to a reportable segment. 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. The table below represents key financial information for each of the Company's operating and reportable segments: VB Direct, VB Indirect, and Pura Vida.

The accounting policies of the segments are the same as those described in Note 2. The Company does not report depreciation or amortization expense, total assets, or capital expenditures by segment as such information is neither used by management nor accounted for at the segment level.

Net revenues and operating income information for the Company's reportable segments consisted of the following (in thousands):

	Fiscal Year Ended		
	February 1, 2020	February 2, 2019	February 3, 2018
Segment net revenues:			
VB Direct	\$ 347,484	\$ 328,034	\$ 351,786
VB Indirect	81,811	88,063	102,862
Pura Vida	65,917	—	—
Total	<u>\$ 495,212</u>	<u>\$ 416,097</u>	<u>\$ 454,648</u>
Segment operating income (loss):			
VB Direct	\$ 68,505	\$ 67,862	\$ 60,979
VB Indirect	31,077	34,500	34,763
Pura Vida	(3,179)	—	—
Total	<u>\$ 96,403</u>	<u>\$ 102,362</u>	<u>\$ 95,742</u>
Reconciliation:			
Segment operating income	\$ 96,403	\$ 102,362	\$ 95,742
Less:			
Unallocated corporate expenses	(76,929)	(75,261)	(80,761)
Operating income	<u>\$ 19,474</u>	<u>\$ 27,101</u>	<u>\$ 14,981</u>

Sales outside of the United States were immaterial for all periods presented.

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

Revenues from external customers for Vera Bradley brand products are attributable to sales of bags, travel, accessories, and home items. Other revenues from Vera Bradley external customers primarily include revenues associated with our apparel/footwear, stationery, freight, licensing, merchandising, and gift card breakage.

Revenues from external customers for Pura Vida brand products are attributable to sales of accessories. Other revenues from Pura Vida external customers include revenues associated with freight.

Refer to Note 3 herein for disaggregation of net revenues by reportable segment for fiscal 2020 and fiscal 2019.

Net revenues by product categories are as follows (in thousands):

	Fiscal Year Ended		
	February 1, 2020	February 2, 2019	February 3, 2018
Net revenues:			
Bags	\$ 177,715	\$ 170,881	\$ 184,773
Accessories	155,200	92,794	100,246
Travel	108,444	107,513	118,655
Home	35,690	29,603	30,819
Other	18,163	15,306	20,155
Total	<u>\$ 495,212</u>	<u>\$ 416,097</u>	<u>\$ 454,648</u>

As of February 1, 2020 and February 2, 2019, substantially all of the Company's long-lived assets were located in the United States.

20. Quarterly Financial Information (Unaudited)

The tables below set forth selected quarterly financial data for each of the last two fiscal years (in thousands, except per share data). Each of the quarters presented was thirteen weeks in duration.

	Fiscal Year Ended February 1, 2020			
	First Quarter ⁽¹⁾	Second Quarter ⁽²⁾	Third Quarter ⁽³⁾	Fourth Quarter ⁽⁴⁾
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net revenues	\$ 91,003	\$ 119,785	\$ 127,501	\$ 156,923
Gross profit	50,468	67,333	67,870	86,130
Operating (loss) income	(3,645)	7,348	(1,476)	17,247
Net (loss) income	(2,405)	5,718	(982)	12,913
Net (loss) income attributable to Vera Bradley, Inc.	(2,405)	5,854	139	12,459
Basic net (loss) income per share attributable to Vera Bradley, Inc.	(0.07)	0.17	0.00	0.37
Diluted net (loss) income per share attributed to Vera Bradley, Inc.	(0.07)	0.17	0.00	0.37

(1) Includes \$0.8 million (\$0.6 million after the associated tax benefit) for Pura Vida transaction costs. Refer to Note 16 herein for additional information.

(2) Pura Vida operating results included beginning July 17, 2019, the first full business day following the acquisition of a majority interest. Includes \$1.9 million of Pura Vida transaction costs, Pura Vida purchase accounting adjustments of \$1.4 million (consisting of inventory step-up amortization and intangible asset amortization), and \$0.7 million of technology re-platforming charges (\$2.9 million collectively attributable to Vera Bradley, Inc. after the associated tax benefit). Refer to Note 16 herein for additional information regarding the Pura Vida acquisition.

(3) Includes Pura Vida purchase accounting adjustments of \$10.5 million (consisting of inventory step-up amortization, intangible asset amortization, and accretion expense associated with the earn-out liability), and \$1.1 million of technology re-platforming charges (\$6.8 million collectively attributable to Vera Bradley, Inc. after the associated tax benefit). Refer to Note 16 herein for additional information regarding the Pura Vida acquisition.

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

(4) Includes \$1.6 million related to incremental stock-based compensation associated with Pura Vida performance and Pura Vida transaction bonuses, \$1.2 million of technology re-platforming charges, and Pura Vida purchase accounting net adjustments of \$0.1 million (consisting of intangible asset amortization and inventory step-up amortization, partially offset by an adjustment to reduce the earn-out liability). The adjustments totaled \$1.9 million collectively attributable to Vera Bradley, Inc. after the associated tax benefit. Refer to Note 16 herein for additional information regarding the Pura Vida acquisition.

	Fiscal Year Ended February 2, 2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net revenues	\$ 86,591	\$ 113,625	\$ 97,688	\$ 118,193
Gross profit	48,616	65,740	57,152	67,079
Operating (loss) income	(1,912)	12,016	5,343	11,654
Net (loss) income	(1,370)	9,282	4,226	8,619
Net (loss) income attributable to Vera Bradley, Inc.	(1,370)	9,282	4,226	8,619
Basic net (loss) income per share attributable to Vera Bradley, Inc.	(0.04)	0.26	0.12	0.25
Diluted net (loss) income per share attributed to Vera Bradley, Inc.	(0.04)	0.26	0.12	0.25

Information in any one quarterly period should not be considered indicative of annual results due to the effect of seasonality of the business.

21. Subsequent Event

The recent COVID-19 pandemic has resulted in global travel restrictions and community and self quarantines. The Company has temporarily closed its Vera Bradley full-line and factory outlet stores. The stores are currently closed through April 4, 2020; however, some or all of the closures will likely continue beyond this date. The Company has also temporarily suspended its share repurchase program and has drawn \$60.0 million of its \$75.0 million Credit Agreement to provide additional flexibility as a result of the pandemic. We cannot reasonably estimate the length or severity of the pandemic or its results on the Company's liquidity, results of operations, and financial condition, which could have a material adverse effect.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Based on the evaluation of the Company's disclosure controls and procedures, as that term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), each of Robert Wallstrom, the Chief Executive Officer of the Company, and John Enwright, the Chief Financial Officer of the Company, has concluded that the Company's disclosure controls and procedures are effective as of February 1, 2020.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission (2013 framework) in Internal Control-Integrated Framework. Based on the results of that evaluation, management has concluded that such internal control over financial reporting was effective as of February 1, 2020.

On July 16, 2019, the Company completed its acquisition of a majority interest in Pura Vida. Pura Vida constitutes approximately 25% of total assets and 6% of total liabilities (excluding contingent consideration) as of February 1, 2020, and approximately 13% of net revenues for the fiscal year ended February 1, 2020. The Company is in the process of evaluating the existing controls and procedures of the acquired business and integrating the acquired business into its system of internal control over financial reporting. In accordance with SEC Staff guidance permitting a company to exclude an acquired business from management's assessment of the effectiveness of internal control over financial reporting for the year in which the acquisition is completed, we have excluded from the assessment of the Company's disclosure controls and procedures as of February 1, 2020 the disclosure controls and procedures of the acquired business that are subsumed by internal control over financial reporting and we have excluded the acquired business from the assessment of the effectiveness of internal control over financial reporting as of February 1, 2020.

The effectiveness of the Company's internal control over financial reporting as of February 1, 2020, has been audited by Deloitte and Touche LLP, an independent registered public accounting firm, as stated in their report which appears in Item 8. of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

Other than the implementation of controls related to the accounting of the Pura Vida business combination and redeemable noncontrolling interest, and the related financial statement reporting, there were no changes in internal control over financial reporting that occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

The information set forth in the Proxy Statement for the 2020 Annual Meeting of Shareholders under the headings “Board of Directors Information,” “Family Relationships,” “Delinquent Section 16(a) Reports,” “Corporate Governance Guidelines, Committee Charters and Code of Ethics,” and “Committees – Audit Committee” is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. In addition, the information set forth under the heading “Item 1: Business – Executive Officers of the Company” in this Form 10-K is incorporated herein by reference.

Item 11. Executive Compensation

The information set forth in the Proxy Statement for the 2020 Annual Meeting of Shareholders under the headings “Executive Compensation Discussion and Analysis,” “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth in the Proxy Statement for the 2020 Annual Meeting of Shareholders under the heading “Share Ownership by Certain Beneficial Owners and Management” is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information regarding equity securities authorized for issuance under our equity compensation plans as of February 1, 2020:

Plan Category	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights (a) ⁽²⁾	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) (\$)	Number of Securities Remaining Available for Future Issuance Under the Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders ⁽¹⁾	2,111,975	—	3,964,026
Equity compensation plans not approved by security holders	—	—	—
Total	2,111,975	—	3,964,026

(1) Approved before our initial public offering.

(2) Assumes that target performance requirements will be achieved for performance shares with incomplete performance periods.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information set forth in the Proxy Statement for the 2020 Annual Meeting of Shareholders under the headings “Certain Relationships and Related Party Transactions” and “Board Independence” is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to our 2020 Proxy Statement under the caption “Principal Accounting Fees and Services.” The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

PART IV**Item 15. Exhibits, Financial Statement Schedules****(1) Consolidated Financial Statements**

The following consolidated financial statements of Vera Bradley, Inc. are filed as part of this report under Item 8. Financial Statements and Supplementary Data:

Reports of Independent Registered Public Accounting Firm	56
Consolidated Balance Sheets as of February 1, 2020, and February 2, 2019	58
Consolidated Statements of Operations for the fiscal years ended February 1, 2020, February 2, 2019, and February 3, 2018	59
Consolidated Statements of Comprehensive Income for the fiscal years ended February 1, 2020, February 2, 2019, and February 3, 2018	60
Consolidated Statements of Shareholders' Equity for the fiscal years ended February 1, 2020, February 2, 2019, and February 3, 2018	61
Consolidated Statements of Cash Flows for the fiscal years ended February 1, 2020, February 2, 2019, and February 3, 2018	62
Notes to Consolidated Financial Statements	64

(2) Financial Statement Schedules

Financial statement schedules have been omitted because they are not required or are not applicable or because the information required in those schedules either is not material or is included in the consolidated financial statements or the accompanying notes.

(3) List of Exhibits

The documents set forth below are filed herewith or incorporated by reference to the location indicated.

Item 16. Form 10-K Summary

None.

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
3.1	Second Amended and Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1, Registration No. 333-167934)
3.2	Amended and Restated Bylaws (Incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed March 6, 2019)
4.1	Specimen Common Stock Certificate (Incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-1, Registration No. 333-167934)
4.2*	Description of Registrant's Securities
10.1	Vera Bradley, Inc. 2010 Equity and Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1, Registration No. 333-167934)
10.2	Form of Indemnification Agreement (Incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1, Registration No. 333-167934)
10.3	Form of Outside Director Restricted Stock Unit Terms and Conditions (Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended May 3, 2014)
10.4	Vera Bradley, Inc. 2014 Executive Severance Plan (Amended May 30, 2018) (Incorporated by reference to Exhibit 10.4 to the Annual Report on Form 10-K for the year ended February 2, 2019)
10.5	Credit Agreement dated as of September 7, 2018 among Vera Bradley Designs, Inc., JPMorgan Chase Bank, N.A., and the lenders party thereto (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended August 4, 2018)
10.6	Pledge and Security Agreement dated as of September 7, 2018 among Vera Bradley Designs, Inc., Vera Bradley, Inc., Vera Bradley International, LLC, Vera Bradley Sales, LLC, and JP Morgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended August 4, 2018)
10.7	Fiscal 2020 Annual Incentive Compensation Plan (Executives) (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended May 4, 2019)
10.8	Employment Agreement for Robert Wallstrom dated November 11, 2013 (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed November 5, 2013)
10.9	Second Amendment of Employment Agreement for Robert Wallstrom dated June 17, 2016 (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed June 22, 2016)
10.10	Form of Performance-Based Award Agreement under the 2010 Equity and Incentive Plan (Incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended April 29, 2017)
10.11	Form of Restricted Stock Unit/Performance Unit Terms and Conditions (Revised Fiscal 2019) (Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended May 5, 2018)
10.12	Interest Purchase Agreement dated July 16, 2019, among Vera Bradley Holdings, LLC; Creative Genius Holdings, Inc.; Creative Genius, Inc.; Griffin Thall; and Paul Goodman (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended August 3, 2019, as amended)
10.13	Put/Call Agreement dated July 16, 2019, among Vera Bradley Holdings, LLC; Creative Genius Holdings, Inc.; Creative Genius Investments, Inc.; Griffin Thall; Paul Goodman; Vera Bradley Designs, Inc.; and Vera Bradley, Inc. (Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended August 3, 2019, as amended)

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<u>Exhibit No.</u>	<u>Description</u>
10.14	First Amendment to Credit Agreement dated June 19, 2019, among Vera Bradley Designs, Inc., JP Morgan Chase Bank, N.A., and the lenders party thereto (Incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended August 3, 2019, as amended)
10.15	Second Amendment to Credit Agreement dated July 16, 2019, among Vera Bradley Designs, Inc., JP Morgan Chase Bank, N.A., and the lenders party thereto (Incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the quarter ended August 3, 2019, as amended)
21.1*	Subsidiaries of Vera Bradley, Inc.
23.1*	Consent of Deloitte & Touche LLP
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1*	Section 1350 Certifications
101	The following materials from Vera Bradley, Inc.'s Annual Report on Form 10-K for the year ended February 1, 2020 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations and Comprehensive Income for the fiscal years ended February 1, 2020, February 2, 2019, and February 3, 2018; (ii) Consolidated Balance Sheets as of February 1, 2020, and February 2, 2019; (iii) Consolidated Statements of Shareholders' Equity for the fiscal years ended February 1, 2020, February 2, 2019 and February 3, 2018; (iv) Consolidated Statements of Cash Flows for the fiscal years ended February 1, 2020, February 2, 2019, and February 3, 2018; and (v) related notes. **
*	Filed herewith
**	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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 31, 2020.

Vera Bradley, Inc.

/s/ John Enwright

John Enwright

Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John Enwright and Robert Wallstrom, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place, and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrant and in the capacities indicated on March 31, 2020.

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<u>Signature</u>	<u>Title</u>
<u>/s/ Robert Wallstrom</u> Robert Wallstrom	Director and Chief Executive Officer (principal executive officer)
<u>/s/ John Enwright</u> John Enwright	Chief Financial Officer (principal accounting officer)
<u>/s/ Barbara Bradley Baekgaard</u> Barbara Bradley Baekgaard	Director
<u>/s/ Richard Baum</u> Richard Baum	Director
<u>/s/ Robert J. Hall</u> Robert J. Hall	Director
<u>/s/ Mary Lou Kelley</u> Mary Lou Kelley	Director
<u>/s/ John E. Kyees</u> John E. Kyees	Director
<u>/s/ Matthew McEvoy</u> Matthew McEvoy	Director
<u>/s/ P. Michael Miller</u> P. Michael Miller	Director
<u>/s/ Frances P. Philip</u> Frances P. Philip	Director
<u>/s/ Edward M. Schmults</u> Edward M. Schmults	Director

DESCRIPTION OF CAPITAL STOCK

General

The total amount of our authorized capital stock consists of 200 million shares of common stock, without par value, and five million shares of preferred stock, without par value. The discussion herein describes our capital stock, the material provisions of our second amended and restated articles of incorporation and amended and restated bylaws and certain provisions of the Indiana Business Corporation Law (the (“IBCL”). For a more thorough understanding of the terms of our capital stock, we refer you to our second amended and restated articles of incorporation and amended and restated bylaws.

Common Stock

Holders of common stock are entitled to one vote for each share held on all matters subject to a vote of shareholders, subject to the rights of holders of any outstanding preferred stock. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election, subject to the rights of holders of any outstanding preferred stock. Holders of common stock will be entitled to receive ratably any dividends that the board of directors may declare, subject to any preferential dividend rights of outstanding preferred stock. Upon our liquidation, dissolution or winding up, the holders of common stock will be entitled to receive ratably our net assets available after the payment of all debts and other liabilities and subject to the prior rights of holders of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. There are no redemption or sinking fund provisions applicable to the common stock.

Preferred Stock

We are authorized to issue shares of preferred stock, which may be issued from time to time in one or more series upon authorization by the board of directors. The board of directors, without further approval of the shareholders, is authorized to fix the number of shares constituting any series, as well as the dividend rights and terms, conversion rights and terms, voting rights and terms, redemption rights and terms, liquidation preferences and any other rights, preferences, privileges and restrictions applicable to each series of preferred stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could also adversely affect the voting power and dividend and liquidation rights of the holders of common stock. The issuance of preferred stock could also, under certain circumstances, have the effect of making it more difficult for a third party to acquire, or discouraging a third party from acquiring, a majority of our outstanding voting stock or otherwise adversely affect the market price of our common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock on the rights of holders of common stock until the board of directors determines the specific rights of that series of preferred stock.

Number of Directors; Removal; Vacancies

Our amended and restated bylaws provide that we shall have 11 directors, provided that this number may be changed by the board of directors. Our second amended and restated articles of incorporation provide that, subject to the rights of holders of any future series of preferred stock, directors may be removed, with or without cause, only at meetings of shareholders called for that purpose by the affirmative vote of the holders of at least a majority of the outstanding shares entitled to be cast generally in the election of directors.

In 2019, the board of directors agreed to amend our amended and restated bylaws to provide for one-year terms for directors instead of three-year terms beginning with those directors elected at the 2019 annual meeting, so that, beginning with the 2021 annual meeting, all of our directors will stand for election each year. Prior to 2019, our amended and restated bylaws called for a board of directors comprised of three classes of directors, with each class serving a three-year term. Vacancies on the board of directors may be filled by the affirmative vote of a majority of the remaining directors then in office.

Special Meetings of Shareholders; Limitations on Shareholder Action by Written Consent

Our amended and restated bylaws provide that special meetings of our shareholders may be called only by our chairman of the board of directors, our chief executive officer or our board of directors. The only matters that may be considered at any special meeting of the shareholders are the matters specified in the notice of the meeting. Any action required or permitted to be taken by our shareholders must be effected at an annual or special meeting of shareholders and may not be effected by written consent.

Amendments; Vote Requirements

Under Indiana law, a proposal to amend our second amended and restated articles of incorporation will be approved if the votes cast favoring the proposal exceed the votes cast opposing the proposal at a meeting of shareholders at which a quorum is present. Our amended and restated bylaws provide that they may be amended or waived by the affirmative vote of a majority of the directors. Our shareholders do not have the right to amend our amended and restated bylaws.

Authorized but Unissued Shares

The authorized but unissued shares of common stock will be available for future issuance without shareholder approval, other than as may be required by the rules of any exchange on which our common stock is traded. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock could render it more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Advance Notice Requirements for Shareholder Proposals and Nomination of Directors

Our amended and restated bylaws provide that shareholders seeking to bring business before an annual meeting of shareholders, or to nominate candidates for election as directors at an annual meeting of shareholders, must provide timely notice in writing. To be timely, a shareholder's notice must be delivered to or mailed and received at our principal executive offices not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting of shareholders. However, in the event that the annual meeting is called for a date that is not within 30 days before or after such anniversary date, such notice will be timely only if received not later than the close of business on the tenth day following the date on which notice of the date of the annual meeting was mailed to shareholders or made public, whichever first occurs. Our amended and restated bylaws also specify requirements as to the form and content of a shareholder's notice. Our second amended and restated articles of incorporation and amended and restated bylaws do not provide proxy access rights.

Certain Provisions of the Indiana Business Corporation Law

As an Indiana corporation, we are governed by the IBCL. Under specified circumstances, the following provisions of the IBCL may delay, prevent or make more difficult unsolicited acquisitions or our change of control. These provisions also may have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions which shareholders may otherwise deem to be in their best interest.

Control Share Acquisitions. Under Chapter 42 of the IBCL, an acquiring person or group who makes a "control share acquisition" in an "issuing public corporation" may not exercise voting rights on any "control shares" unless these voting rights are conferred by a majority vote of the disinterested shareholders of the issuing public corporation at a special meeting of those shareholders held upon the request and at the expense of the acquiring person. If control shares acquired in a control share acquisition are accorded full voting rights and the acquiring person has acquired control shares with a majority or more of all voting power, all shareholders of the issuing public corporation have dissenters' rights to receive the fair value of their shares pursuant to Chapter 44 of the IBCL.

Under the IBCL, "control shares" are shares acquired by a person that, when added to all other shares of the issuing public corporation owned by that person or in respect to which that person may exercise or direct the exercise of voting power, would otherwise entitle that person to exercise voting power of the issuing public corporation in the election of directors within any of the following ranges:

- one-fifth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more.

A "control share acquisition" means, subject to specified exceptions, the acquisition, directly or indirectly, by any person of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding control shares. For the purposes of determining whether an acquisition constitutes a control share acquisition, shares acquired within 90 days or under a plan to make a control share acquisition are considered to have been acquired in the same acquisition.

An "issuing public corporation" means a corporation which has (i) 100 or more shareholders, (ii) its principal place of business or its principal office in Indiana, or that owns or controls assets within Indiana having a fair market value of greater than

\$1,000,000, and (iii) (A) more than 10% of its shareholders resident in Indiana, (B) more than 10% of its shares owned of record or owned beneficially by Indiana residents, or (C) 1,000 shareholders resident in Indiana.

The provisions described above do not apply if, before a control share acquisition is made, the corporation's articles of incorporation or bylaws, including a bylaw adopted by the corporation's board of directors, provide that they do not apply. Our second amended and restated articles of incorporation and our amended and restated bylaws do not exclude us from Chapter 42.

Certain Business Combinations. Chapter 43 of the IBCL restricts the ability of a "resident domestic corporation" to engage in any combinations with an "interested shareholder" for five years after the date the interested shareholder became such, unless the combination or the purchase of shares by the interested shareholder on the interested shareholder's date of acquiring shares is approved by the board of directors of the resident domestic corporation before that date. If the combination was not previously approved, then the interested shareholder may effect a combination after the five-year period only if that shareholder receives approval from a majority of the disinterested shareholders or the offer meets specified "fair price" criteria.

For purposes of the above provisions, "resident domestic corporation" means an Indiana corporation that has 100 or more shareholders. "Interested shareholder" means any person, other than the resident domestic corporation or its subsidiaries, who is (1) the beneficial owner, directly or indirectly, of 10% or more of the voting power of the outstanding voting shares of the resident domestic corporation or (2) an affiliate or associate of the resident domestic corporation, which at any time within the five-year period immediately before the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding shares of the resident domestic corporation.

The definition of "beneficial owner" for purposes of Chapter 43 means a person who, directly or indirectly, owns the shares, has the right to acquire or vote the subject shares (excluding voting rights under revocable proxies made in accordance with federal law), has any agreement, arrangement or understanding for the purpose of acquiring, holding or voting or disposing of the subject shares, or holds any "derivative instrument" that includes the opportunity, directly or indirectly, to profit or share in any profit derived from any increase in the value of the subject shares.

The above provisions do not apply to corporations that elect not to be subject to Chapter 43 in an amendment to their articles of incorporation approved by a majority of the disinterested shareholders. That amendment, however, cannot become effective until 18 months after its passage and would apply only to share acquisitions occurring after its effective date. Our second amended and restated articles of incorporation do not exclude us from Chapter 43.

Directors' Duties and Liability. Under Chapter 35 of the IBCL, directors are required to discharge their duties:

- in good faith;
- with the care an ordinarily prudent person in a like position would exercise under similar circumstances;
- and in a manner the directors reasonably believe to be in the best interests of the corporation.

Under the IBCL, a director is not liable for any action taken as a director, or any failure to act, regardless of the nature of the alleged breach of duty (including breaches of the duty of care, the duty of loyalty, and the duty of good faith) unless the director has breached or failed to perform the duties of the director's office and the action or failure to act constitutes willful misconduct or recklessness. This exculpation from liability under the IBCL does not affect the liability of directors for violations of the federal securities laws.

Consideration of Effects on Other Constituents. Chapter 35 of the IBCL also provides that a board of directors, in discharging its duties, may consider, in its discretion, both the long-term and short-term best interests of the corporation, taking into account, and weighing as the directors deem appropriate, the effects of an action on the corporation's shareholders, employees, suppliers and customers and the communities in which offices or other facilities of the corporation are located and any other factors the directors consider pertinent. Directors are not required to consider the effects of a proposed corporate action on any particular corporate constituent group or interest as a dominant or controlling factor. If a determination is made with the approval of a majority of the disinterested directors of the board of directors, that determination is conclusively presumed to be valid unless it can be demonstrated that the determination was not made in good faith after reasonable investigation.

Chapter 35 specifically provides that specified judicial decisions in Delaware and other jurisdictions, which might be looked upon for guidance in interpreting Indiana law, including decisions that propose a higher or different degree of scrutiny in response to a proposed acquisition of the corporation, are inconsistent with the proper application of the business judgment rule under that section.

Mandatory Classified Board of Directors. Under Section 23-1-33-6(c) of the IBCL, a corporation with a class of voting shares registered with the SEC under Section 12 of the Exchange Act, must have a classified board of directors unless the corporation adopts a bylaw expressly electing not to be governed by this provision by the later of July 31, 2009 or 30 days after the corporation's voting shares are registered under Section 12 of the Exchange Act. Our amended and restated bylaws include a provision electing not to be subject to this mandatory requirement; however, the IBCL permits this election to be rescinded by subsequent action of our board of directors. In 2019, the board of directors agreed to amend our amended and restated bylaws to provide for one-year terms for directors instead of three-year terms beginning with those directors elected at the 2019 annual meeting, so that, beginning with the 2021 annual meeting, all of our directors will stand for election each year. Prior to 2019, our amended and restated bylaws called for a board of directors comprised of three classes of directors, with each class serving a three-year term.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is EQ Shareowner Services.

Listing

Our common stock is listed on The Nasdaq Global Select Market under the symbol "VRA".

Vera Bradley, Inc.
Subsidiaries

Subsidiary	State of Incorporation
Vera Bradley Designs, Inc	Indiana
Vera Bradley International, LLC	Indiana
Vera Bradley Sales, LLC	Indiana
Vera Bradley Handbag Design (Dongguan) Co., Ltd.	The People's Republic of China
Vera Bradley Hong Kong Co., Limited	Hong Kong
Vera Bradley Holdings, LLC	Delaware
Creative Genius, LLC	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-170062 on Form S-8 of our reports dated March 31, 2020, relating to the consolidated financial statements of Vera Bradley, Inc. and subsidiaries, and the effectiveness of Vera Bradley, Inc. and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Vera Bradley, Inc. for the year ended February 1, 2020.

/s/ Deloitte & Touche LLP

Indianapolis, Indiana
March 31, 2020

CERTIFICATIONS

I, Robert Wallstrom, certify that:

1. I have reviewed this Annual Report on Form 10-K of Vera Bradley, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2020

/s/ Robert Wallstrom

Robert Wallstrom
Chief Executive Officer

CERTIFICATIONS

I, John Enwright, certify that:

1. I have reviewed this Annual Report on Form 10-K of Vera Bradley, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2020

/s/ John Enwright

John Enwright
Chief Financial Officer

Certifications Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002

I, Robert Wallstrom, the Chief Executive Officer of Vera Bradley, Inc., certify that (i) the annual report on Form 10-K for the fiscal year ended February 1, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Vera Bradley, Inc. as of the dates and for the periods set forth therein.

/s/ Robert Wallstrom

Robert Wallstrom
Chief Executive Officer

March 31, 2020

Date

I, John Enwright, the Chief Financial Officer of Vera Bradley, Inc., certify that (i) the annual report on Form 10-K for the fiscal year ended February 1, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Vera Bradley, Inc. as of the dates and for the periods set forth therein.

/s/ John Enwright

John Enwright
Chief Financial Officer

March 31, 2020

Date