Nielsen Holdings N.V.
Form 10-Q
April 25, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2013

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 001-35042

Nielsen Holdings N.V.

(Exact name of registrant as specified in its charter)

The Netherlands	**98-0662038**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
85 Broad Street	**Diemerhof 2**
New York, New York 10004	**1112 XL Diemen**
(646) 654-5000	**The Netherlands**
	+31 (0) 20 398 87 77

(Address of principal executive offices) (Zip Code) (Registrant s telephone numbers including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

There were 374,947,526 shares of the registrant s Common Stock outstanding as of March 31, 2013.

Table of Contents

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements
Nielsen Holdings N.V.

Condensed Consolidated Statements of Operations (Unaudited)

(IN MILLIONS EXCEPT SHARE AND PER SHARE DATA)	Three Months Ended March 31, 2013	2012
Revenues	$ 1,376	$ 1,334
Cost of revenues, exclusive of depreciation and amortization shown separately below	593	564
Selling, general and administrative expenses, exclusive of depreciation and amortization shown separately below	451	447
Depreciation and amortization	126	129
Restructuring charges	35	37
Operating income	171	157
Interest income	1	1
Interest expense	(83)	(106)
Foreign currency exchange transaction losses, net	(12)	(9)
Other expense, net	(12)	(6)
Income from continuing operations before income taxes and equity in net loss of affiliates	65	37
Provision for income taxes	27	8
Equity in net loss of affiliates	1	2
Income from continuing operations	37	27
Loss from discontinued operations, net of tax	3	2
Net income	34	25
Net loss attributable to noncontrolling interests	1	
Net income attributable to Nielsen stockholders	$ 35	$ 25
Net income per share of common stock, basic and diluted		
Income from continuing operations	$ 0.10	$ 0.07
Loss from discontinued operations, net of tax	$ (0.01)	$ (0.00)
Net income attributable to Nielsen stockholders	$ 0.09	$ 0.07
Weighted-average shares of common stock outstanding, basic	370,583,217	360,881,693
Dilutive shares of common stock	4,973,804	4,839,365
Weighted-average shares of common stock outstanding, diluted	375,557,021	365,721,058
Dividends declared per common share	$ 0.16	$

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

Table of Contents

Nielsen Holdings N.V.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(IN MILLIONS)	Three Months Ended March 31, 2013	2012
Net income	$ 34	$ 25
Other comprehensive (loss)/income, net of tax		
Foreign currency translation adjustments, net of tax of $ 11 and $ 1	(27)	87
Available for sale securities, net of tax	3	
Changes in the fair value of cash flow hedges, net of tax of $ (2) and $ 1	2	(1)
Defined benefit pension plan adjustments, net of tax of $ (10) and $ (1)	4	2
Total other comprehensive (loss)/income	(18)	88
Total comprehensive income	16	113
Less: comprehensive income attributable to noncontrolling interests	1	
Total comprehensive income attributable to Nielsen stockholders	$ 15	$ 113

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

4

Table of Contents

Nielsen Holdings N.V.

Condensed Consolidated Balance Sheets

(IN MILLIONS, EXCEPT SHARE AND PER SHARE DATA)	March 31, 2013 (Unaudited)	December 31, 2012
Assets:		
Current assets		
Cash and cash equivalents	$ 233	$ 288
Trade and other receivables, net of allowances for doubtful accounts and sales returns of $43 and $38 as of March 31, 2013 and December 31, 2012, respectively	1,076	1,110
Prepaid expenses and other current assets	300	278
Total current assets	1,609	1,676
Non-current assets		
Property, plant and equipment, net	537	560
Goodwill	7,322	7,352
Other intangible assets, net	4,519	4,555
Deferred tax assets	170	170
Other non-current assets	259	272
Total assets	$ 14,416	$ 14,585
Liabilities and equity:		
Current liabilities		
Accounts payable and other current liabilities	$ 848	$ 967
Deferred revenues	345	373
Income tax liabilities	74	56
Current portion of long-term debt, capital lease obligations and short-term borrowings	372	355
Total current liabilities	1,639	1,751
Non-current liabilities		
Long-term debt and capital lease obligations	5,948	6,229
Deferred tax liabilities	996	1,006
Other non-current liabilities	585	621
Total liabilities	9,168	9,607
Commitments and contingencies (Note 12)		
Equity:		
Nielsen stockholders equity		
Common stock, 0.07 par value, 1,185,800,000 and 1,185,800,000 shares authorized; 375,160,653 and 362,733,010 shares issued and 374,947,526 and 362,519,883 shares outstanding at March 31, 2013 and December 31, 2012, respectively	31	30
Additional paid-in capital	6,738	6,485
Accumulated deficit	(1,217)	(1,252)
Accumulated other comprehensive loss, net of income taxes	(353)	(333)
Total Nielsen stockholders equity	5,199	4,930
Noncontrolling interests	49	48
Total equity	5,248	4,978

Total liabilities and equity	$ 14,416	$ 14,585

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

Table of Contents

Nielsen Holdings N.V.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(IN MILLIONS)	Three Months Ended March 31, 2013	2012
Operating Activities		
Net income	$ 34	$ 25
Adjustments to reconcile net income to net cash used in operating activities:		
Stock-based compensation expense	10	8
Gain on discontinued operations	(1)	
Currency exchange rate differences on financial transactions and other losses	30	15
Equity in net loss of affiliates, net of dividends received	2	5
Depreciation and amortization	128	131
Changes in operating assets and liabilities, net of effect of businesses acquired and divested:		
Trade and other receivables, net	27	51
Prepaid expenses and other current assets	(31)	(25)
Accounts payable and other current liabilities and deferred revenues	(165)	(227)
Other non-current liabilities	(3)	(1)
Interest payable	27	31
Income taxes payable	(4)	(16)
Net cash provided by/(used in) operating activities	54	(3)
Investing Activities		
Acquisition of subsidiaries and affiliates, net of cash acquired	(11)	(16)
Additions to property, plant and equipment and other assets	(9)	(42)
Additions to intangible assets	(61)	(40)
Other investing activities	(1)	
Net cash used in investing activities	(82)	(98)
Financing Activities		
Net borrowings under revolving credit facility	55	120
Proceeds from issuances of debt, net of issuance costs	1,866	1,209
Repayment of debt	(1,889)	(1,271)
Increase in other short-term borrowings	1	6
Dividends paid	(56)	
Activity under stock plans	16	10
Settlement of derivatives and other financing activities	(5)	(4)
Net cash (used in)/provided by financing activities	(12)	70
Effect of exchange-rate changes on cash and cash equivalents	(15)	7
Net decrease in cash and cash equivalents	(55)	(24)
Cash and cash equivalents at beginning of period	288	319
Cash and cash equivalents at end of period	$ 233	$ 295
Supplemental Cash Flow Information		
Cash paid for income taxes	$ (29)	$ (23)
Cash paid for interest, net of amounts capitalized	$ (56)	$ (75)

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

Table of Contents

Nielsen Holdings N.V.

Notes to Condensed Consolidated Financial Statements

1. Background and Basis of Presentation

Background

Nielsen Holdings N.V. (Nielsen or the Company), together with its subsidiaries, is a leading global information and measurement company that provides clients with a comprehensive understanding of consumers and consumer behavior. Nielsen is aligned into three reportable segments: what consumers buy (Buy), what consumers watch (Watch) and Expositions. Nielsen has a presence in approximately 100 countries, with its headquarters located in Diemen, the Netherlands and New York, USA.

The Company was formed by several private equity groups through Valcon Acquisition Holding (Luxembourg) S.à r.l. (Luxco). As of December 31, 2012, Luxco owned 236,266,399 shares (or approximately 65%) of the Company s common stock. In February 2013, Luxco and certain Nielsen employees completed a public offering of 40,814,883 shares of the Company s common stock at a price of $32.55 per share. Subsequent to this offering and as of March 31, 2013, Luxco owned 195,463,201 shares (or approximately 52%) of the Company s common stock.

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited but, in the opinion of management, contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the Company s financial position and the results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) applicable to interim periods. For a more complete discussion of significant accounting policies, commitments and contingencies and certain other information, refer to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. All amounts are presented in U.S. Dollars ($), except for share data or where expressly stated as being in other currencies, e.g., Euros ( ). The condensed consolidated financial statements include the accounts of Nielsen and all subsidiaries and other controlled entities. The Company has evaluated events occurring subsequent to March 31, 2013 for potential recognition or disclosure in the condensed consolidated financial statements and concluded there were no subsequent events that required recognition or disclosure.

Earnings per Share

Basic net income or loss per share is computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share is computed using the weighted-average number of shares of common stock and dilutive potential shares of common stock outstanding during the period. Dilutive potential shares of common stock consist of employee stock options and restricted stock.

The effect of 49,662 and 5,978,758 shares of common stock equivalents under stock compensation plans were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2013 and 2012, respectively, as such shares would have been anti-dilutive.

Devaluation of Venezuelan Currency

Nielsen has operations in both the Buy and Watch segments in Venezuela and the functional currency for these operations was the Venezuelan bolivares fuertes. Venezuela s currency was considered hyperinflationary as of January 1, 2010 and further, in January 2010, Venezuela s currency was devalued and a new currency exchange rate system was announced. In 2010, Nielsen evaluated the new exchange rate system and concluded that the local currency transactions will be denominated in U.S. dollars effective as of January 1, 2010 and until Venezuela s currency is deemed to be non-hyperinflationary.

In February 2013, the Venezuelan government devalued its currency by 32%. The official exchange rate moved from 4.30 to 6.30 and the regulated System of Transactions with Securities in Foreign Currency market was suspended. As a result of this change Nielsen recorded a charge of $12 million during the first quarter of 2013 in the foreign currency exchange transaction losses, net line in the condensed consolidated statement of operations primarily reflecting the write-down of monetary assets and liabilities.

2. Summary of Recent Accounting Pronouncements

Reclassification from accumulated other comprehensive income

In February 2013, the FASB issued an accounting update Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income , to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The Company has presented the significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification in Note 6 to these condensed consolidated financial statements. This amended guidance does not have any other impact on the Company s condensed consolidated financial statements.

Table of Contents

Foreign Currency Matters

In March 2013, the FASB issued an accounting update, Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity , to resolve the diversity in practice regarding the release into net income of the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. The amendment requires an entity that ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This guidance is effective for Nielsen interim and annual reporting periods in 2014. The adoption of this update is not expected to have a significant impact on the Company s condensed consolidated financial statements.

3. Business Acquisitions

For the three months ended March 31, 2013, Nielsen paid cash consideration of $11 million associated with both current period and previously executed acquisitions, net of cash acquired. Had the current period acquisitions occurred as of January 1, 2013, the impact on Nielsen s consolidated results of operations would not have been material.

For the three months ended March 31, 2012, Nielsen paid cash consideration of $16 million associated with both current period and previously executed acquisitions, net of cash acquired. Had the current period acquisitions occurred as of January 1, 2012, the impact on Nielsen s consolidated results of operations would not have been material.

4. Discontinued Operations

In March 2013, Nielsen completed the exit and shut down of one of its legacy online businesses and recorded a net loss of $3 million associated with this divestiture. The condensed consolidated statements of operations reflect the operating results of this business as a discontinued operation.

5. Goodwill and Other Intangible Assets

Goodwill

The table below summarizes the changes in the carrying amount of goodwill by reportable segment for the three months ended March 31, 2013.

(IN MILLIONS)	Buy	Watch	Expositions	Total
Balance, December 31, 2012	$ 3,126	$ 3,661	$ 565	$ 7,352
Acquisitions, divestitures and other adjustments	4	1		5
Effect of foreign currency translation	(34)	(1)		(35)
Balance, March 31, 2013	$ 3,096	$ 3,661	$ 565	$ 7,322

At March 31, 2013, $113 million of the goodwill is expected to be deductible for income tax purposes.

Other Intangible Assets

	Gross Amounts		Accumulated Amortization	
(IN MILLIONS)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Indefinite-lived intangibles:				
Trade names and trademarks	$ 1,921	$ 1,921	$	$

Amortized intangibles:				
Trade names and trademarks	$ 126	$ 128	$ (48)	$ (46)
Customer-related intangibles	2,882	2,882	(922)	(886)
Covenants-not-to-compete	36	36	(26)	(25)
Computer software	1,360	1,316	(843)	(804)
Patents and other	93	90	(60)	(57)
Total	$ 4,497	$ 4,452	$ (1,899)	$ (1,818)

Table of Contents

Amortization expense associated with the above intangible assets was $81 million for the three months ended March 31, 2013 and $79 million for the three months ended March 31, 2012. These amounts included amortization expense associated with computer software of $39 million for the three months ended March 31, 2013 and 2012.

6. Changes in and Reclassification out of Accumulated Other Comprehensive Income by Component

The table below summarizes the changes in accumulated other comprehensive income, net of tax by component for the three months ended March 31, 2013.

(IN MILLIONS)	Currency Translation Adjustments	Unrealized gains on Available-for-Sale Securities	Gains/(losses) on Cash Flow Hedges	Post Employment Benefits	Total
Balance December 31, 2012	$ (23)	$	$ (13)	$ (297)	$ (333)
Other comprehensive (loss)/income before reclassifications	(27)	3		1	(23)
Amounts reclassified from accumulated other comprehensive (loss)/income			2	3	5
Net current period other comprehensive (loss)/income	(27)	3	2	4	(18)
Net current period other comprehensive income attributable to noncontrolling interest	2				2
Net current period other comprehensive (loss)/income attributable to Nielsen stockholders	(29)	3	2	4	(20)
Balance March 31, 2013	$ (52)	$ 3	$ (11)	$ (293)	$ (353)

The table below summarizes the reclassification of accumulated other comprehensive income by component for the three months ended March 31, 2013.

(IN MILLIONS) Details about Accumulated Other Comprehensive Income components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Condensed Consolidated Statement of Operations
Gains/(losses) on cash flow hedges		
Interest rate contracts	$ 4	Interest expense
	2	Tax expense
	$ 2	Total, net of tax
Amortization of Post Employment Benefits		
Actuarial loss	4	(a)
	1	Tax expense
	$ 3	Total, net of tax

Total reclassification for the period	$	5	Net of tax

(a) This accumulated other comprehensive income component is included in the computation of net periodic pension cost.

Table of Contents

7. Restructuring Activities

A summary of the changes in the liabilities for restructuring activities is provided below:

(IN MILLIONS)	Total Initiatives
Balance at December 31, 2012	$ 64
Charges	35
Payments	(21)
Non-cash charges and other adjustments	(3)
Effect of foreign currency translation	(1)
Balance at March 31, 2013	$ 74

Nielsen recorded $35 million and $37 million in restructuring charges, primarily relating to severance and contract termination costs, for the three months ended March 31, 2013 and 2012, respectively.

Of the $74 million in remaining liabilities for restructuring actions, $59 million is expected to be paid within one year and is classified as a current liability within the condensed consolidated balance sheet as of March 31, 2013.

8. Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which the Company would transact, and also considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non-performance.

There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Pricing inputs that are generally unobservable and may not be corroborated by market data.

Table of Contents

Financial Assets and Liabilities Measured on a Recurring Basis

The Company s financial assets and liabilities are measured and recorded at fair value, except for equity method investments, cost method investments, and long-term debt. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Company s assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy. The following table summarizes the valuation of the Company s material financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012:

(IN MILLIONS)	March 31, 2013	Level 1	Level 2	Level 3
Assets:				
Investments in equity securities[(1)]	$ 16	$ 16	$	$
Plan assets for deferred compensation[(2)]	22	22		
Investment in mutual funds[(3)]	2	2		
Total	$ 40	$ 40	$	$
Liabilities:				
Interest rate swap arrangements[(4)]	$ 18	$	$ 18	$
Deferred compensation liabilities[(5)]	22	22		
Total	$ 40	$ 22	$ 18	$

(IN MILLIONS)	December 31, 2012	Level 1	Level 2	Level 3
Assets:				
Investments in equity securities[(1)]	$ 13	$ 13	$	$
Plan assets for deferred compensation[(2)]	22	22		
Investment in mutual funds[(3)]	2	2		
Total	$ 37	$ 37	$	$
Liabilities:				
Interest rate swap arrangements[(4)]	$ 22	$	$ 22	$
Deferred compensation liabilities[(5)]	22	22		
Total	$ 44	$ 22	$ 22	$

(1) Investments in equity securities are carried at fair value, which is based on the quoted market price at period end in an active market. These investments are classified as available-for-sale with any unrealized gains or losses resulting from changes in fair value recorded, net of tax, as a component of accumulated other comprehensive income/(loss) until realized. Nielsen assesses declines in the value of individual investments to determine whether such decline is other than temporary and thus the investment is impaired by considering available evidence. For the three months ended March 31, 2013, Nielsen noted no such impairments.

(2) Plan assets are comprised of investments in mutual funds, which are intended to fund liabilities arising from deferred compensation plans. These investments are carried at fair value, which is based on quoted market prices at period end in active markets. These investments are classified as trading securities with any gains or losses resulting from changes in fair value recorded in other expense, net in the condensed consolidated statements of operations.

(3) Investments in mutual funds are money-market accounts held with the intention of funding certain specific retirement plans.

(4) Derivative financial instruments include interest rate swap arrangements recorded at fair value based on externally-developed valuation models that use readily observable market parameters and the consideration of counterparty risk.

(5) The Company offers certain employees the opportunity to participate in a deferred compensation plan. A participant s deferrals are invested in a variety of participant directed stock and bond mutual funds and are classified as trading securities. Changes in the fair value of these securities are measured using quoted prices in active markets based on the market price per unit multiplied by the number of units held exclusive of any transaction costs. A corresponding adjustment for changes in fair value of the trading securities is also reflected in the changes in fair value of the deferred compensation obligation.

Table of Contents

Derivative Financial Instruments

Nielsen uses interest rate swap derivative instruments principally to manage the risk that changes in interest rates will affect the cash flows of its underlying debt obligations.

To qualify for hedge accounting, the hedging relationship must meet several conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement. Nielsen documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions as well as the hedge effectiveness assessment, both at the hedge inception and on an ongoing basis. Nielsen recognizes all derivatives at fair value either as assets or liabilities in the consolidated balance sheets and changes in the fair values of such instruments are recognized currently in earnings unless specific hedge accounting criteria are met. If specific cash flow hedge accounting criteria are met, Nielsen recognizes the changes in fair value of these instruments in accumulated other comprehensive income/(loss).

Nielsen manages exposure to possible defaults on derivative financial instruments by monitoring the concentration of risk that Nielsen has with any individual bank and through the use of minimum credit quality standards for all counterparties. Nielsen does not require collateral or other security in relation to derivative financial instruments. A derivative contract entered into between Nielsen or certain of its subsidiaries and a counterparty that was also a lender under Nielsen s senior secured credit facilities at the time the derivative contract was entered into is guaranteed under the senior secured credit facilities by Nielsen and certain of its subsidiaries (see Note 9 Long-term Debt and Other Financing Arrangements for more information). Since it is Nielsen s policy to only enter into derivative contracts with banks of internationally acknowledged standing, Nielsen considers the counterparty risk to be remote.

It is Nielsen s policy to have an International Swaps and Derivatives Association (ISDA) Master Agreement established with every bank with which it has entered into any derivative contract. Under each of these ISDA Master Agreements, Nielsen agrees to settle only the net amount of the combined market values of all derivative contracts outstanding with any one counterparty should that counterparty default. Certain of the ISDA Master Agreements contain cross-default provisions where if the Company either defaults in payment obligations under its credit facility or if such obligations are accelerated by the lenders, then the Company could also be declared in default on its derivative obligations. At March 31, 2013, Nielsen had no material exposure to potential economic losses due to counterparty credit default risk or cross-default risk on its derivative financial instruments.

Interest Rate Risk

Nielsen is exposed to cash flow interest rate risk on the floating-rate U.S. Dollar and Euro Term Loans, and uses floating-to-fixed interest rate swaps to hedge this exposure. For these derivatives, Nielsen reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income/(loss) and reclassifies it into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same income statement line item as the impact of the hedged transaction.

As of March 31, 2013, the Company had the following outstanding interest rate swaps utilized in the management of its interest rate risk:

	Notional Amount	Maturity Date	Currency
Interest rate swaps designated as hedging instruments			
US Dollar term loan floating-to-fixed rate swaps	$ 1,000,000,000	November 2013	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$ 250,000,000	November 2014	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$ 250,000,000	September 2015	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$ 125,000,000	November 2015	US Dollar
Euro term loan floating-to-fixed rate swaps	125,000,000	November 2015	Euro
US Dollar term loan floating-to-fixed rate swaps	$ 500,000,000	November 2016	US Dollar

Nielsen expects to recognize approximately $12 million of net pre-tax losses from accumulated other comprehensive loss to interest expense in the next 12 months associated with its interest-related derivative financial instruments.

Table of Contents

Fair Values of Derivative Instruments in the Condensed Consolidated Balance Sheets

The fair values of the Company s derivative instruments as of March 31, 2013 and December 31, 2012 were as follows:

Derivatives Designated as Hedging Instruments (IN MILLIONS)	March 31, 2013 Accounts Payable and Other Current Liabilities	March 31, 2013 Other Non-Current Liabilities	December 31, 2012 Accounts Payable and Other Current Liabilities	December 31, 2012 Other Non-Current Liabilities
Interest rate swaps	$ 3	$ 15	$ 6	$ 16

Derivatives in Cash Flow Hedging Relationships

The pre-tax effect of derivative instruments in cash flow hedging relationships for the three months ended March 31, 2013 and 2012 was as follows:

Derivatives in Cash Flow Hedging Relationships (IN MILLIONS)	Amount of Loss Recognized in OCI (Effective Portion) Three Months Ended March 31, 2013	2012	Location of Loss Reclassified from OCI into Income (Effective Portion)	Amount of Loss Reclassified from OCI into Income (Effective Portion) Three Months Ended March 31, 2013	2012
Interest rate swaps	$	$ 8	Interest expense	$ 4	$ 6

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company is required, on a nonrecurring basis, to adjust the carrying value or provide valuation allowances for certain assets using fair value measurements. The Company s equity method investments, cost method investments, and non-financial assets, such as goodwill, intangible assets, and property, plant and equipment, are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment charge is recognized.

The Company did not measure any material non-financial assets or liabilities at fair value during the three months ended March 31, 2013.

Table of Contents

9. Long-term Debt and Other Financing Arrangements

Unless otherwise stated, interest rates are as of March 31, 2013.

	March 31, 2013			December 31, 2012		
(IN MILLIONS)	**Weighted Interest Rate**	**Carrying Amount**	**Fair Value**	**Weighted Interest Rate**	**Carrying Amount**	**Fair Value**
$1,610 million Senior secured term loan due 2013		$	$		$ 218	$ 218
$2,386 million Senior secured term loan due 2016					2,315	2,324
$2,532 million Senior secured term loan (LIBOR based variable rate of 2.95%) due 2016		2,526	2,549			
$1,222 million Senior secured term loan (LIBOR based variable rate of 2.20%) due 2017		1,161	1,167		1,176	1,173
227 million Senior secured term loan due 2013					34	34
273 million Senior secured term loan due 2016					347	347
289 million Senior secured term loan (Euro LIBOR based variable rate of 3.06%) due 2016		371	373			
$635 million senior secured revolving credit facility (Euro LIBOR or LIBOR based variable rate) due 2016		55	55			
Total senior secured credit facilities (with weighted-average contractual interest rate)	**2.90%**	**4,113**	**4,144**	**3.46%**	**4,090**	**4,096**
$215 million 11.625% senior debenture loan due 2014		210	227		209	232
$1,080 million 7.75% senior debenture loan due 2018		1,084	1,203		1,084	1,211
$800 million 4.50% senior debenture loan due 2020		800	799		800	794
$288 million 6.25% mandatory convertible subordinated bonds due 2013					288	325
Total debenture loans (with weighted-average contractual interest rate)	**7.60%**	**2,094**	**2,229**	**7.70%**	**2,381**	**2,562**
Other loans		1	1		1	1
Total long-term debt	**4.49%**	**6,208**	**6,374**	**5.02%**	**6,472**	**6,659**
Capital lease and other financing obligations		106			107	
Bank overdrafts		6			5	
Total debt and other financing arrangements		**6,320**			**6,584**	
Less: Current portion of long-term debt, capital lease and other financing obligations and other short-term borrowings		372			355	
Non-current portion of long-term debt and capital lease and other financing obligations		**$ 5,948**			**$ 6,229**	

The fair value of the Company s long-term debt instruments was based on the yield on public debt where available or current borrowing rates available for financings with similar terms and maturities and such fair value measurements are considered Level 1 or Level 2 in nature, respectively.

Table of Contents

Annual maturities of Nielsen s long-term debt are as follows:

(IN MILLIONS)	
For April 1, 2013 to December 31, 2013	$ 124
2014	348
2015	151
2016	2,969
2017	733
2018	1,083
Thereafter	800
	$ 6,208

In December 2012, the Company signed a definitive agreement to acquire Arbitron Inc. (NYSE: ARB), an international media and marketing research firm, for $48 per share in cash (the Transaction). In addition, the Company entered into a commitment for an unsecured note or unsecured loan of up to $1,300 million (the Commitment Letter) to fund the closing of the Transaction. As of March 31, 2013, there were no borrowings outstanding under the Commitment Letter.

In April 2013, Arbitron s shareholders voted to approve the Transaction, which remains subject to customary closing conditions, including regulatory review.

In February 2013, the $288 million mandatory convertible subordinated bonds were converted into 10,416,700 shares of our common stock at a conversion rate of 1.8116 shares per $50.00 principal amount of the bonds.

Amendment to Senior Secured Credit Facility

In February 2013, the Second Amended and Restated Senior Secured Credit Agreement was amended and restated to provide for a new class of term loans (the Class E Term Loans) in an aggregate principal amount of $2,532 million and 289 million, the proceeds of which were used to repay or replace in full a like amount of our existing Class A Term Loans maturing August 9, 2013, Class B Term Loans maturing May 1, 2016 and Class C Term Loans maturing May 1, 2016. As a result of this transaction, the Company recorded a charge of $12 million primarily related to the write-off of previously capitalized deferred financing fees associated with the Class A, B and C term loans to other expense, net in the condensed consolidated statement of operations.

The Class E Term Loans will mature in full on May 1, 2016 and are required to be repaid in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of Class E Term Loans, with the balance payable on May 1, 2016. Class E Term Loans denominated in dollars bear interest equal to, at our election, a base rate or eurocurrency rate, in each case plus an applicable margin, which is equal to 1.75% (in the case of base rate loans) or 2.75% (in the case of eurocurrency rate loans). Class E Term Loan denominated in Euros bear interest equal to the eurocurrency rate plus an applicable margin of 3.00%. The newly Amended and Restated Senior Secured Credit Agreement contains substantially the same affirmative and negative covenants as those of the Existing Credit Agreement, other than certain amendments to the limitation on the ability of Nielsen and certain of its subsidiaries and affiliates to incur indebtedness and make investments.

10. Stockholders Equity

Common stock activity is as follows:

	Three Months Ended March 31, 2013
Actual number of shares of common stock outstanding	
Beginning of period	362,519,883
	10,416,700

Shares of common stock converted from Mandatory Convertible Subordinated Bonds due February 2013	
Shares of common stock issued through compensation plans	2,010,943
End of period	374,947,526

Cumulative shares of treasury stock were 213,127 with a corresponding cost of $4 million as of March 31, 2013 and December 31, 2012.

Table of Contents

On January 31, 2013, the Company s board of directors adopted a cash dividend policy to pay quarterly cash dividends on its outstanding common stock. The board also declared the first quarterly cash dividend of $0.16 per share, that was paid on March 20, 2013 to holders of record of the Company s common stock on March 6, 2013. The dividend policy and the payment of future cash dividends are subject to the discretion of the Company s board of directors.

11. Income Taxes

The effective tax rates for the three months ended March 31, 2013 and 2012 were 42% and 22% respectively. The tax rate for the three months ended March 31, 2013 was higher than statutory rate as a result of the tax impact of the Venezuela currency revaluation and accrual for future audit settlements offset by the favorable impact of certain financing activities and release of tax contingencies. The tax rate for the three months ended March 31, 2012 was lower than the statutory rate primarily due to the favorable impact of certain financing activities.

Liabilities for unrecognized tax benefits totaled $99 million and $100 million as of March 31, 2013 and December 31, 2012. If the Company s tax positions are favorably sustained by the taxing authorities, the reversal of the underlying liabilities would reduce the Company s effective tax rate in future periods.

The Company files numerous consolidated and separate income tax returns in the U.S. and in many state and foreign jurisdictions. With few exceptions the Company is no longer subject to U.S. Federal income tax examination for 2006 and prior periods. In addition, the Company has subsidiaries in various states, provinces and countries that are currently under audit for years ranging from 2001 through 2011.

The Company is under Canadian audit for the years 2007 and 2008. It is anticipated that these examinations will be completed within the next twelve months. To date, the Company is not aware of any material adjustments not already accrued related to any of the current Federal, state or foreign audits under examination.

12. Commitments and Contingencies

Legal Proceedings and Contingencies

Sunbeam Television Corp. (Sunbeam) filed a lawsuit in Federal District Court in Miami, Florida in April 2009. The lawsuit alleged that we violated Federal and Florida state antitrust laws and Florida s unfair trade practices laws by attempting to maintain a monopoly and abuse our position in the market, and breached our contract with Sunbeam by producing defective ratings data through our sampling methodology. The complaint did not specify the amount of damages sought and also sought declaratory and equitable relief. In January 2011, the U.S. District Court in the Southern District of Florida dismissed all federal and state antitrust claims brought against us by Sunbeam stating that Sunbeam failed to show that any competitor was willing and able to enter the local television ratings market in Miami and was excluded from that market by us. The Court also determined that Sunbeam could not prove that the current ratings for Sunbeam s local station WSVN are less accurate than they would be under a prospective competitor s methodology. The Court deferred ruling on the remaining ancillary claims, including breach of contract and violation of Florida s Deceptive and Unfair Trade Practices Act. Subsequent to the court s decision, Sunbeam voluntarily dismissed with prejudice the remaining claims in the case so that all claims have been dismissed. Sunbeam appealed the court s dismissal of the antitrust claims. On March 4, 2013, the U.S. Court of Appeals for the Eleventh Judicial Circuit affirmed the lower court s decision to dismiss the claims. On March 22, 2013, Sunbeam filed a petition for rehearing the case. The petition remains pending.

Nielsen is subject to litigation and other claims in the ordinary course of business, some of which include claims for substantial sums. Accruals have been recorded when the outcome is probable and can be reasonably estimated. While the ultimate results of claims and litigation cannot be determined, the Company does expect that the ultimate disposition of these matters will not have a material adverse effect on its operations or financial condition. However, depending on the amount and the timing, an unfavorable resolution of some or all of these matters could materially affect the Company s future results of operations or cash flows in a particular period.

Other Contractual Arrangements

In February 2013, the Company amended its Amended and Restated Master Services Agreement (the MSA), dated as of October 1, 2007 with Tata America International Corporation and Tata Consultancy Services Limited (jointly, TCS). The term of the MSA has been extended for an additional three years, so as to expire on December 31, 2020, with a one-year renewal option granted to Nielsen. In addition, the Company has increased its commitment to purchase services from TCS (the Minimum Commitment) from $1.0 billion to $2.5 billion over the life of the contract (from October 1, 2007), including a commitment to purchase at least $100 million in services per year (the Annual Commitment). TCS charges under the separate Global Infrastructure Services Agreement between the parties will be credited against the Minimum Commitment and the Annual Commitment. TCS will continue to globally provide the Company with professional services relating to information technology (including application development and maintenance), business process outsourcing, client service knowledge process outsourcing, management sciences, analytics, and financial planning and analytics. As Nielsen orders specific services under the Agreement, the parties will execute

Table of Contents

Statements of Work (SOWs) describing the specific scope of the services to be performed by TCS. The amount of the Minimum Commitment and the Annual Commitment may be reduced on the occurrence of certain events, some of which also provide the Company with the right to terminate the Agreement or SOWs, as applicable.

Cyprus Agreement

On March 25, 2013, Cyprus and certain members of the European Union reached an agreement on measures intended to restore the viability of the financial sector of Cyprus. As part of these measures Cyprus has agreed to downsize its local financial sector including:

(1) The immediate dissolution of Cyprus Popular Bank under which equity shareholders, bondholders and uninsured depositors (defined as those with deposits in excess of 100 thousand) will contribute to make up the losses of the bank; and

(2) The recapitalization of the Bank of Cyprus (BoC) through a deposit/equity conversion of uninsured deposits, with full contribution of equity shareholders and bondholders. Currently 37.5% of uninsured deposits of BoC have been converted into Class A shares with voting and dividend rights. An additional 22.5% have been frozen and may also be partially or fully used to issue new Class A shares, as necessary.

As a result of this agreement, the Company recorded a charge of $4 million during the first quarter of 2013 in Selling, General and Administrative expenses in the statement of operations representing the uninsured deposits either contributed to make up losses of Cyprus Popular Bank or converted into Class A shares of BoC, as described above. The Company does not expect this agreement to significantly impact future operating results.

13. Segments

The Company aligns its operating segments in order to conform to management s internal reporting structure, which is reflective of service offerings by industry. Management aggregates such operating segments into three reporting segments: what consumers buy (Buy), consisting principally of market research information and analytical services; what consumers watch (Watch), consisting principally of television, online and mobile audience and advertising measurement and corresponding analytics and Expositions, consisting principally of trade shows, events and conferences.

Corporate consists principally of unallocated items such as certain facilities and infrastructure costs as well as intersegment eliminations. Certain corporate costs, other than those described above, including those related to selling, finance, legal, human resources, and information technology systems, are considered operating costs and are allocated to the Company s segments based on either the actual amount of costs incurred or on a basis consistent with the operations of the underlying segment. Information with respect to the operations of each of Nielsen s business segments is set forth below based on the nature of the services offered and geographic areas of operations.

Business Segment Information

(IN MILLIONS)	Buy	Watch	Expositions	Corporate	Total
Three Months Ended March 31, 2013					
Revenues	$ 825	$ 494	$ 57	$	$ 1,376
Depreciation and amortization	$ 51	$ 68	$ 6	$ 1	$ 126
Restructuring charges	$ 12	$ 7	$	$ 16	$ 35
Stock-based compensation expense	$ 3	$ 2	$	$ 5	$ 10
Other items[(1)]	$ 5	$	$	$ 2	$ 7
Operating income/(loss)	$ 53	$ 122	$ 26	$ (30)	$ 171
Business segment income/(loss)[(2)]	$ 124	$ 199	$ 32	$ (6)	$ 349
Total assets as of March 31, 2013	$ 6,705	$ 6,696	$ 752	$ 263	$ 14,416

(IN MILLIONS)	Buy	Watch	Expositions	Corporate	Total

Three Months Ended March 31, 2012					
Revenues	$ 799	$ 474	$ 61	$	$ 1,334
Depreciation and amortization	$ 53	$ 68	$ 6	$ 2	$ 129
Restructuring charges	$ 31	$ 5	$	$ 1	$ 37
Stock-based compensation expense	$ 2	$ 2	$	$ 4	$ 8
Other items[(1)]	$	$	$	$ 2	$ 2
Operating income/(loss)	$ 35	$ 111	$ 30	$ (19)	$ 157
Business segment income/(loss)[(2)]	$ 121	$ 186	$ 36	$ (10)	$ 333
Total assets as of December 31, 2012	$ 6,885	$ 6,706	$ 758	$ 236	$ 14,585

(1) Other items for the three months ended March 31, 2013 primarily consist of a $4 million write down of uninsured deposits in Cyprus banks as described in Note 12 in the condensed consolidated financial statements and deal related costs. Other items for the three months ended March 31, 2012 primarily consist of costs associated with Nielsen s secondary public offering of common stock and other transaction related costs.

(2) The Company s chief operating decision making group uses business segment income/(loss) to measure performance from period to period both at the consolidated level as well as within its operating segments.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Introduction

The following discussion and analysis supplements management s discussion and analysis of Nielsen Holdings N.V. (the Company or Nielsen) for the year ended December 31, 2012 as contained in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission on February 22, 2013, and presumes that readers have read or have access to such discussion and analysis. The following discussion and analysis should also be read together with the accompanying Condensed Consolidated Financial Statements and related notes thereto. Further, this report may contain material that includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect, when made, Nielsen s current views with respect to current events and financial performance. Statements, other than those based on historical facts, which address activities, events or developments that we expect or anticipate may occur in the future are forward-looking statements. Such forward-looking statements are subject to many risks, uncertainties and factors relating to Nielsen s operations and business environment that may cause actual results to be materially different from any future results, express or implied, by such forward-looking statements, including but not limited to, those set forth in this Item 2 and Part II, Item 1A, if any, and those noted in our 2012 Annual Report on Form 10-K under Risk Factors. Forward-looking statements speak only as of the date of this report or as of the date they were made. We disclaim any intention to update the current expectations or forward-looking statements contained in this report. Unless required by context, references to we , us , and our refer to Nielsen and each of its consolidated subsidiaries.

From time to time, Nielsen may use its website and social media outlets as channels of distribution of material company information. Financial and other material information regarding the company is routinely posted and accessible on our website at http://www.nielsen.com/investors, our Twitter account at http://twitter.com/NielsenIR and our iPad App, NielsenIR, available on the App Store.

Background and Executive Summary

We are a global information and measurement company that provides clients with a comprehensive understanding of consumers and consumer behavior. We deliver critical media and marketing information, analytics and industry expertise about what consumers buy (referred to herein as Buy) and what consumers watch on a global and local basis (consumer interaction across the television, online and mobile viewing platforms referred to herein as Watch). Our information, insights and solutions help our clients maintain and strengthen their market positions and identify opportunities for profitable growth. We have a presence in approximately 100 countries, including many developing and emerging markets, and hold leading market positions in many of our services and geographies.

We believe that important measures of our results of operations include revenue, operating income and Adjusted EBITDA (defined below). Our long-term financial objectives include consistent revenue growth and expanding operating margins. Accordingly, we are focused on geographic market and service offering expansion to drive revenue growth and improving operating efficiencies including effective resource utilization, information technology leverage and overhead cost management.

Our business strategy is built upon a model that has traditionally yielded consistent revenue performance. Typically, before the start of each year, nearly 70% of our annual revenue has been committed under contracts in our combined Buy and Watch segments, which provides us with a high degree of stability to our revenue and allows us to effectively manage our profitability and cash flows. We continue to look for growth opportunities through global expansion, specifically within developing markets, as well as through the cross-platform expansion of our insights services and measurement services.

Our restructuring and other productivity initiatives have been focused on a combination of improving operating leverage through targeted cost-reduction programs, business process improvements and portfolio restructuring actions, while at the same time investing in key programs to enhance future growth opportunities.

Achieving our business objectives requires us to manage a number of key risk areas. Our growth objective of geographic market and service expansion requires us to maintain the consistency and integrity of our information and underlying processes on a global scale, and to invest effectively our capital in technology and infrastructure to keep pace with our clients demands and our competitors. Our operating footprint across approximately 100 countries requires disciplined global and local resource management of internal and third party providers to ensure success. In addition, our high level of indebtedness requires active management of our debt profile, with a focus on underlying maturities, interest rate risk, liquidity and operating cash flows.

Business Segment Overview

We align our business into three reporting segments: what consumers buy (consumer purchasing measurement and analytics), what consumers watch (media audience measurement and analytics) and Expositions. Our Buy and Watch segments, which together generated substantially all of our revenues, are built on a foundation of proprietary data assets that are designed to yield essential insights for our clients to successfully measure, analyze and grow their businesses.

Our Buy segment provides Information services, which include our core tracking and scan data (primarily transactional measurement data and consumer behavior information), and Insights services (primarily comprised of our analytical solutions) to businesses in the consumer packaged goods industry. Our services also enable our clients to better manage their brands, uncover new sources of demand, launch and grow new products, analyze their sales, improve their marketing mix and establish more effective consumer relationships. Our data is used by our clients to measure their market share, tracking billions of sales transactions per month in retail outlets around the world. Our extensive database of retail and consumer information, combined with our advanced analytical capabilities, helps generate strategic insights that influence our clients key business decisions. Within our Buy segment, we have two primary geographic groups, developed and developing markets. Developed markets primarily include the United States, Canada, Western Europe, Japan and Australia while developing markets include Africa, Latin America, Eastern Europe, Russia, China, India and Southeast Asia.

Our Watch segment provides viewership data and analytics primarily to the media and advertising industries for television, online and mobile screens. Our Watch data is used by our media clients to understand their audiences, establish the value of their advertising inventory and maximize the value of their content, and by our advertising clients to plan and optimize their spending.

Our Expositions segment operates one of the largest portfolios of business-to-business trade shows and conference events in the United States. Each year, we produce more than 60 trade shows and conference events, which in 2012 connected over 335,000 buyers and sellers across nine diversified and vibrant end markets.

Certain corporate costs, other than those described above, including those related to selling, finance, legal, human resources, and information technology systems, are considered operating costs and are allocated to our segments based on either the actual amount of costs incurred or on a basis consistent with the operations of the underlying segment.

Factors Affecting Nielsen s Financial Results

Acquisitions and Investments in Affiliates

For the three months ended March 31, 2013, we paid cash consideration of $11 million associated with both current period and previously executed acquisitions, net of cash acquired. Had the current period acquisitions occurred as of January 1, 2013, the impact on our consolidated results of operations would not have been material.

For the three months ended March 31, 2012, we paid cash consideration of $16 million associated with both current period and previously executed acquisitions, net of cash acquired. Had the current period acquisitions occurred as of January 1, 2012, the impact on our consolidated results of operations would not have been material.

Discontinued Operations

In March 2013, we completed the exit and shut down of one of our legacy online businesses and recorded a net loss of $3 million associated with this divestiture. The condensed consolidated statements of operations reflect the operating results of this business as a discontinued operation.

Foreign Currency

Our financial results are reported in U.S. dollars and are therefore subject to the impact of movements in exchange rates on the translation of the financial information of individual businesses whose functional currencies are other than U.S. dollars. Our principal foreign exchange revenue exposure is spread across several currencies, primarily the Euro. The table below sets forth the profile of our revenue by principal currency.

	Three Months Ended March 31,	
	2013	**2012**
U.S. Dollar	53%	52%
Euro	11%	12%
Other Currencies	36%	36%

Total	100%	100%

As a result, fluctuations in the value of foreign currencies relative to the U.S. dollar impact our operating results. Impacts associated with fluctuations in foreign currency are discussed in more detail under Item 3. Quantitative and Qualitative Disclosures about Market Risk. In countries with currencies other than the U.S. dollar, assets and liabilities are translated into U.S. dollars using end-of-period exchange rates; revenues, expenses and cash flows are translated using average rates of exchange. The average U.S. dollar to Euro exchange rate was $1.32 to 1.00 and $1.31 to 1.00 for the three months ended March 31, 2013 and 2012, respectively. Constant currency growth rates used in the following discussion of results of operations eliminate the impact of year-over-year foreign currency fluctuations.

We have operations in both our Buy and Watch segments in Venezuela and the functional currency for these operations was the Venezuelan bolivares fuertes. Venezuela s currency was considered hyperinflationary as of January 1, 2010 and further, in January 2010, Venezuela s currency was devalued and a new currency exchange rate system was announced. In 2010, we evaluated the new exchange rate system and concluded that the local currency transactions will be denominated in U.S. dollars effective as of January 1, 2010 and until Venezuela s currency is deemed to be non-hyperinflationary.

Table of Contents

In February 2013, the Venezuelan government devalued its currency by 32%. The official exchange rate moved from 4.30 to 6.30 and the regulated System of Transactions with Securities in Foreign Currency market was suspended. As a result of this change, we recorded a charge of $12 million during the first quarter of 2013 in the foreign currency exchange transaction losses, net line in the condensed consolidated statement of operations primarily reflecting the write-down of monetary assets and liabilities.

We evaluate our results of operations on both an as reported and a constant currency basis. The constant currency presentation is a non-GAAP financial measure, which excludes the impact of fluctuations in foreign currency exchange rates. We believe providing constant currency information provides valuable supplemental information regarding our results of operations, consistent with how we evaluate our performance. We calculate constant currency percentages by converting our prior-period local currency financial results using the current period foreign currency exchange rates and comparing these adjusted amounts to our current period reported results. This calculation may differ from similarly-titled measures used by others and, accordingly, the constant currency presentation is not meant to be a substitution for recorded amounts presented in conformity with GAAP nor should such amounts be considered in isolation.

Results of Operations Three Months Ended March 31, 2013 Compared to the Three Months Ended March 31, 2012

The following table sets forth, for the periods indicated, the amounts included in our Condensed Consolidated Statements of Operations:

	Three Months Ended March 31,	
(IN MILLIONS)	**2013**	**2012**
Revenues	$ 1,376	$ 1,334
Cost of revenues, exclusive of depreciation and amortization shown separately below	593	564
Selling, general and administrative expenses, exclusive of depreciation and amortization shown separately below	451	447
Depreciation and amortization	126	129
Restructuring charges	35	37
Operating income	171	157
Interest income	1	1
Interest expense	(83)	(106)
Foreign currency exchange transaction losses, net	(12)	(9)
Other expense, net	(12)	(6)
Income from continuing operations before income taxes and equity in net loss of affiliates	65	37
Provision for income taxes	27	8
Equity in net loss of affiliates	1	2
Income from continuing operations	37	27
Loss from discontinued operations, net of tax	3	2
Net income	34	25

Net Income to Adjusted EBITDA Reconciliation

We define Adjusted EBITDA as net income or loss from our condensed consolidated statements of operations before interest income and expense, income taxes, depreciation and amortization, restructuring charges, goodwill and intangible asset impairment charges, stock-based compensation expense and other non-operating items from our condensed consolidated statements of operations as well as certain other items specifically described below.

Adjusted EBITDA is not a presentation made in accordance with GAAP, and our use of the term Adjusted EBITDA may vary from the use of similarly-titled measures by others in our industry due to the potential inconsistencies in the method of calculation and differences due to items subject to interpretation.

We use Adjusted EBITDA to measure our performance from period to period both at the consolidated level as well as within our operating segments, to evaluate and fund incentive compensation programs and to compare our results to those of our competitors. In addition to Adjusted EBITDA being a significant measure of performance for management purposes, we also believe that this

Table of Contents

presentation provides useful information to investors regarding financial and business trends related to our results of operations and that when non-GAAP financial information is viewed with GAAP financial information, investors are provided with a more meaningful understanding of our ongoing operating performance.

Adjusted EBITDA should not be considered as an alternative to net income, operating income, cash flows from operating activities or any other performance measures derived in accordance with GAAP as measures of operating performance or cash flows as measures of liquidity. Adjusted EBITDA has important limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.

The below table presents a reconciliation from net income to Adjusted EBITDA for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
(IN MILLIONS)	**2013**	**2012**
Net income	$ 34	$ 25
Loss from discontinued operations, net of tax	3	2
Interest expense, net	82	105
Provision for income taxes	27	8
Depreciation and amortization	126	129
EBITDA	272	269
Equity in net loss of affiliates	1	2
Other non-operating expense, net	24	15
Restructuring charges	35	37
Stock-based compensation expense	10	8
Other items[(a)]	7	2
Adjusted EBITDA	$ 349	$ 333

(a) Other items for the three months ended March 31, 2013 primarily consist of a $4 million write down of uninsured deposits in Cyprus banks as described in Note 12 in the condensed consolidated financial statements and deal related costs. Other items for the three months ended March 31, 2012 primarily consist of costs associated with our secondary public offering of common stock and other transaction related costs.

Consolidated Results for the Three Months Ended March 31, 2013 Compared to the Three Months Ended March 31, 2012

Revenues

Revenues increased 3.1% to $1,376 million for the three months ended March 31, 2013 from $1,334 million for the three months ended March 31, 2012, or 4.0% on a constant currency basis, which excludes a 0.9% unfavorable impact of changes in foreign currency exchange rates. These increases were driven by a 3.3% increase within our Buy segment (4.6% on a constant currency basis), a 4.2% increase within our Watch segment (4.4% on a constant currency basis), and a 6.6% decrease in our Expositions segment (6.6% on a constant currency basis).

Cost of Revenues, Exclusive of Depreciation and Amortization

Cost of revenues increased 5.1% to $593 million for the three months ended March 31, 2013 from $564 million for the three months ended March 31, 2012, or 6.3% on a constant currency basis, excluding a 1.2% favorable impact of changes in foreign currency exchange rates. These increases resulted primarily from a 6.1% increase within our Buy segment (7.6% on a constant currency basis) due primarily to continued investments in global expansion of our services and an increase in retail measurement costs. Costs within our Watch segment increased 3.2% (3.2% on a constant currency basis) due primarily to spending on product portfolio management initiatives.

Selling, General and Administrative Expenses, Exclusive of Depreciation and Amortization

Selling, general and administrative expenses increased 0.9% to $451 million for the three months ended March 31, 2013 from $447 million for the three months ended March 31, 2012, or 1.3% on a constant currency basis, excluding a 0.4% favorable impact of changes in foreign currency exchange rates. These increases were primarily driven by a 2.2% increase within our Buy segment (2.8% on a constant currency basis) due to increases in client service costs and other investments associated with the global expansion of our services. Costs within our Watch segment were relatively flat for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012.

Table of Contents

Depreciation and Amortization

Depreciation and amortization expense decreased to $126 million for the three months ended March 31, 2013 as compared to $129 million for the three months ended March 31, 2012 due to certain assets becoming fully amortized during the period, partially offset by capital expenditures.

Restructuring Charges

We recorded $35 million and $37 million in restructuring charges, primarily relating to severance and contract termination costs, for the three months ended March 31, 2013 and 2012, respectively.

Operating Income

Operating income for the three months ended March 31, 2013 was $171 million as compared to $157 million for the three months ended March 31, 2012. Operating income within our Buy segment was $53 million for the three months ended March 31, 2013 as compared to $35 million for the three months ended March 31, 2012. Operating income within our Watch segment was $122 million for the three months ended March 31, 2013 as compared to $111 million for the three months ended March 31, 2012. Operating income within our Expositions segment was $26 million for the three months ended March 31, 2013 as compared to $30 million for the three months ended March 31, 2012. Corporate operating expenses increased to $30 million for the three months ended March 31, 2013 from $19 million for the three months ended March 31, 2012.

Interest Expense

Interest expense was $83 million for the three months ended March 31, 2013 as compared to $106 million for the three months ended March 31, 2012. This decline is due to our refinancing of the 11.5% senior notes and our 8.5% senior secured term loan in the fourth quarter of 2012, the impact of our refinancing of the class A, B, and C senior secured term loans in February 2013 and the maturity of the mandatory convertible debt in February 2013.

Foreign Currency Exchange Transaction Losses, Net

Foreign currency exchange transaction losses, net, represent the net loss or gain on revaluation of external debt, intercompany loans and other receivables and payables denominated in currencies other than the underlying functional currency. Fluctuations in the value of foreign currencies relative to the U.S. Dollar have a significant effect on our operating results, particularly the Euro. The average U.S. Dollar to Euro exchange rate was $1.32 to 1.00 for the three months ended March 31, 2013 as compared to $1.31 to 1.00 for the three months ended March 31, 2012.

Foreign currency exchange resulted in a $12 million loss for the three months ended March 31, 2013 as compared to a $9 million loss for the three months ended March 31, 2012. For the three months ended March 31, 2013, the loss was primarily due to the devaluation of the Venezuela bolivars Fuertes as discussed in the Foreign Currency section of Factors Affecting Nielsen s Financial Results . For the three months ended March 31, 2012, the loss was primarily due to fluctuations in certain currencies associated with a portion of our intercompany loan portfolio.

Other Expense, net

Other expenses, net of $12 million and $6 million for the three months ended March 31, 2013 and 2012, respectively, primarily relates to the write-off of deferred financing costs and other costs associated with the amendment to our Senior Secured Credit Agreement.

Income Taxes

The effective tax rates for the three months ended March 31, 2013 and 2012 were 42% and 22% respectively. The tax rate for the three months ended March 31, 2013 was higher than statutory rate as a result of the tax impact of the Venezuela currency revaluation and accrual for future audit settlements offset by the favorable impact of certain financing activities and release of tax contingencies. The tax rate for the three months ended March 31, 2012 was lower than the statutory rate primarily due to the favorable impact of certain financing activities.

Liabilities for unrecognized tax benefits totaled $99 million and $100 million as of March 31, 2013 and December 31, 2012. If our tax positions are favorably sustained by the taxing authorities, the reversal of the underlying liabilities would reduce our effective tax rate in future periods.

Table of Contents

Adjusted EBITDA

Adjusted EBITDA increased 4.8% to $349 million for the three months ended March 31, 2013 from $333 million for the three months ended March 31, 2012, or 5.8% on a constant currency basis, excluding a 1.0% unfavorable impact of changes in foreign currency exchange rates. See Results of Operations Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012 for the reconciliation of net income to Adjusted EBITDA.

Business Segment Results for the Three Months Ended March 31, 2013 Compared to the Three Months Ended March 31, 2012

Revenues

The table below sets forth our segment revenue performance data for the three months ended March 31, 2013 compared to the three months ended March 31, 2012, both on an as-reported and constant currency basis.

(IN MILLIONS)	Three Months Ended March 31, 2013 Reported	Three Months Ended March 31, 2012 Reported	% Variance 2013 vs. 2012 Reported	Three Months Ended March 31, 2012 Constant Currency	% Variance 2013 vs. 2012 Constant Currency
Revenues by segment					
Buy	$ 825	$ 799	3.3%	$ 789	4.6%
Watch	494	474	4.2%	473	4.4%
Expositions	57	61	(6.6)%	61	(6.6)%
Total	$ 1,376	$ 1,334	3.1%	$ 1,323	4.0%

Buy Segment Revenues

Revenues increased 3.3% to $825 million for the three months ended March 31, 2013 from $799 million for the three months ended March 31, 2012, or 4.6% on a constant currency basis. This increase was driven by a 2.2% increase in Developing markets (5.8% on a constant currency basis) and a 3.8% increase in Developed markets (4.0% on a constant currency basis), as increases in spending on Information services in North America were partially offset by unfavorable impact of foreign currency exchange rates.

Revenues from Information services increased 5.9% to $648 million for the three months ended March 31, 2013 from $612 million for the three months ended March 31, 2012, or 7.1% on a constant currency basis. These increases were driven by 6.8% growth in Developed markets (6.8% on a constant currency basis) driven primarily by increased client investment in retail measurement, including additional coverage in the U.S. market. Revenues from Developing markets increased 4.0% (7.8% on a constant currency basis), for the three months ended March 31, 2013 as compared to the three months March 31, 2012 due to the continued expansion of our retail measurement and services to both new and existing customers.

Revenues from Insights services decreased 5.3% to $177 million for the three months ended March 31, 2013 from $187 million for the three months ended March 31, 2012, or 3.8% on a constant currency basis. These decreases were driven primarily by declines in Developed markets.

Watch Segment Revenues

Revenues increased 4.2% to $494 million for the three months ended March 31, 2013 from $474 million for the three months ended March 31, 2012, or 4.4% on a constant currency basis, primarily driven by 6.2% growth in Television measurement due to increases in spending from existing customers and international expansion of our services to both new and existing customers.

Expositions Segment Revenues

Revenues decreased 6.6% to $57 million for the three months ended March 31, 2013 from $61 million for the three months ended March 31, 2012 due to the timing of tradeshows.

Business Segment Profitability

We do not allocate items below operating income/(loss) to our business segments and therefore the tables below set forth a reconciliation of operating income/(loss) at the business segment level for the three months ended March 31, 2013 and 2012, adjusting for certain items affecting operating income/(loss), such as restructuring charges, depreciation and amortization, stock-based compensation expense and certain other items described below resulting in a presentation of our non-GAAP business segment profitability. Non-GAAP business segment profitability provides useful supplemental information to management and investors regarding financial and business trends related to our results of operations. When this non-GAAP financial information is viewed with our GAAP financial information, investors are provided with a meaningful understanding of our ongoing operating performance. It is important to note that the non-GAAP business segment profitability corresponds in total to our consolidated Adjusted EBITDA described within our consolidated results of operations above, which our chief operating decision making group and other members of management use to measure our performance from period to period both at the consolidated level as well as within our operating segments, to evaluate and fund incentive compensation programs and to compare our results to those of our competitors. These non-GAAP measures should not be considered as an alternative to net income/(loss), operating income, cash flows from operating activities or any other performance measures derived in accordance with GAAP as measures of operating performance or cash flows as measures of liquidity. These non-GAAP measures have important limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.

THREE MONTHS ENDED MARCH 31, 2013 (IN MILLIONS)	Operating Income/(Loss)	Restructuring Charges	Depreciation and Amortization	Stock-Based Compensation Expense	Other Items[1]	Non-GAAP Business Segment Income/(Loss)
Buy	$ 53	$ 12	$ 51	$ 3	$ 5	$ 124
Watch	122	7	68	2		199
Expositions	26		6			32
Corporate and Eliminations	(30)	16	1	5	2	(6)
Total Nielsen	$ 171	$ 35	$ 126	$ 10	$ 7	$ 349

THREE MONTHS ENDED MARCH 31, 2012 (IN MILLIONS)	Operating Income/(Loss)	Restructuring Charges	Depreciation and Amortization	Stock-Based Compensation Expense	Other Items[1]	Non-GAAP Business Segment Income/(Loss)
Buy	$ 35	$ 31	$ 53	$ 2	$	$ 121
Watch	111	5	68	2		186
Expositions	30		6			36
Corporate and Eliminations	(19)	1	2	4	2	(10)
Total Nielsen	$ 157	$ 37	$ 129	$ 8	$ 2	$ 333

(1) Other items for the three months ended March 31, 2013 primarily consist of a $4 million write down of uninsured deposits in Cyprus banks as described in Note 12 in the condensed consolidated financial statements and deal related costs. Other items for the three months ended March 31, 2012 primarily consist of costs associated with our secondary public offering of common stock and other transaction related costs.

(IN MILLIONS)	Three Months Ended March 31, 2013 Reported	Three Months Ended March 31, 2012 Reported	% Variance 2013 vs. 2012 Reported	Three Months Ended March 31, 2012 Constant Currency	% Variance 2013 vs. 2012 Constant Currency
Non-GAAP Business Segment Income/(Loss)					
Buy	$ 124	$ 121	2.5%	$ 118	5.1%
Watch	199	186	7.0%	186	7.0%
Expositions	32	36	(11.1)%	36	(11.1)%
Corporate and Eliminations	(6)	(10)	NM	(10)	NM
Total Nielsen	$ 349	$ 333	4.8%	$ 330	5.8%

Buy Segment Profitability

Operating income was $53 million for the three months ended March 31, 2013 as compared to $35 million for the three months ended March 31, 2012 due primarily to the revenue performance mentioned above and lower restructuring charges partially offset by unfavorable changes in foreign currency exchange rates and an increase in retail measurement cost. Non-GAAP business segment income increased 5.1% on a constant currency basis.

Watch Segment Profitability

Operating income was $122 million for the three months ended March 31, 2013 as compared to $111 million for the three months ended March 31, 2012. The increase was driven by the revenue performance discussed above partially offset by spending on product portfolio management initiatives. Non-GAAP business segment income increased 7.0% on a constant currency basis.

Expositions Segment Profitability

Operating income was $26 million for the three months ended March 31, 2013 as compared to $30 million for the three months ended March 31, 2012 driven primarily by the revenue performance discussed above. Non-GAAP business segment income decreased 11.1% on a constant currency basis.

Corporate Expenses and Eliminations

Operating expenses were $30 million for the three months ended March 31, 2013 as compared to $19 million for the three months ended March 31, 2012 due primarily to higher restructuring charges in 2013.

Liquidity and Capital Resources

Overview

Our contractual obligations, commitments and debt service requirements over the next several years are significant. We expect that our primary source of liquidity will continue to be cash generated from operations as well as existing cash. At March 31, 2013, cash and cash equivalents were $233 million and our total indebtedness was $6,320 million. In addition, as of March 31, 2013, we had $567 million available for borrowing under our senior secured revolving credit facility. Our cash interest paid for the three months ended March 31, 2013 and 2012 was $56 million and $75 million, respectively.

Of the $233 million in cash and cash equivalents, approximately $212 million was held in jurisdictions outside the U.S. and as a result there may be tax consequences if such amounts were moved out of these jurisdictions or repatriated to the U.S. We regularly review the amount of cash and cash equivalents held outside of the U.S. to determine the amounts necessary to fund the current operations of our foreign operations and their growth initiatives and amounts needed to service our U.S. indebtedness and related obligations.

We believe we will have available resources to meet both our short-term and long-term liquidity requirements, including our senior secured debt service. We expect the cash flow from our operations, combined with existing cash and amounts available under the revolving credit facility, will continue to provide sufficient liquidity to fund our current obligations, projected working capital requirements, restructuring obligations, and capital spending over the next year. In addition we may, from time to time, purchase, repay, redeem or retire any of our outstanding debt securities (including any publicly issued debt securities) in privately negotiated or open market transactions, by tender offer or otherwise.

Financing Transactions

In February 2013, the $288 million mandatory convertible subordinated bonds were converted into 10,416,700 shares of our common stock at a conversion rate of 1.8116 shares per $50.00 principal amount of the bonds.

In February 2013, the Second Amended and Restated Senior Secured Credit Agreement (as amended, the Credit Agreement) was amended and restated to provide for a new class of term loans (the Class E Term Loans) in an aggregate principal amount of $2,532 million and 290 million, the proceeds of which were used to repay or replace in full a like amount of our existing Class A Term Loans maturing August 9, 2013, Class B Term Loans maturing May 1, 2016 and Class C Term Loans maturing May 1, 2016. As a result of this transaction, we recorded a charge of $12 million primarily related to the write-off of previously capitalized deferred financing fees associated with the Class A, B and C term loans to other expense, net in the condensed consolidated statement of operations.

The Class E Term Loans will mature in full on May 1, 2016 and are required to be repaid in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of Class E Term Loans, with the balance payable on May 1, 2016. Class E Term Loans denominated in dollars bear interest equal to, at our election, a base rate or eurocurrency rate, in each case plus an applicable margin, which is equal to 1.75% (in the case of base rate loans) or 2.75% (in the case of eurocurrency rate loans). Class E Term Loan denominated in Euros bear interest equal to the eurocurrency rate plus an applicable margin of 3.00%. The newly Amended and Restated Senior Secured Credit Agreement contains substantially the same affirmative and negative covenants as those of the Existing Credit Agreement, other than certain amendments to the limitation on the ability of us and certain of our subsidiaries and affiliates to incur indebtedness and make investments.

In December 2012, we signed a definitive agreement to acquire Arbitron Inc. (NYSE: ARB), an international media and marketing research firm, for $48 per share in cash (the Transaction). In addition, we entered into a commitment for an unsecured note or unsecured loan of up to $1,300 million (the Commitment Letter) to fund the closing of the Transaction. As of March 31, 2013, there were no borrowings outstanding under the Commitment Letter.

In April 2013, Arbitron s shareholders voted to approve the Transaction, which remains subject to customary closing conditions, including regulatory review.

In February 2013, a secondary public offering of 40.8 million shares of our common stock was completed on behalf of certain selling stockholders, primarily comprised of the Sponsor group. All proceeds were received by the selling stockholders and the offering did not have a significant impact on our operating results or financial position.

Cash Flows

Operating activities. Net cash provided by operating activities was $54 million for the three months ended March 31, 2013, as compared to net cash used in operating activities of $3 million for the three months ended March 31, 2012. The increase in cash flows from operating activities was driven by decreases in certain employee benefit payments as well as the timing of customer billings and vendor payments. Our key collections performance measure, days billing outstanding (DBO), increased 1 day for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012.

Investing activities. Net cash used in investing activities was $82 million for the three months ended March 31, 2013, as compared to $98 million for the three months ended March 31, 2012. The primary driver for the decreased usage of cash from investing activities was a decrease in capital expenditures.

Financing activities. Net cash used in financing activities was $12 million for the three months ended March 31, 2013 as compared to net cash provided by financing activities of $70 million for the three months ended March 31, 2012. The increase in cash used was driven by the results of the 2013 transactions described under the *Financing Transactions* section above as well as dividends paid as described under the *Dividends* section below.

Capital Expenditures

Investments in property, plant, equipment, software and other assets totaled $70 million and $82 million for the three months ended March 31, 2013 and 2012, respectively. The decrease in capital expenditures related to higher investments in technology infrastructure development in 2012.

Dividends

On January 31, 2013, our board of directors adopted a cash dividend policy to pay quarterly cash dividends on our outstanding common stock. The board also declared the first quarterly cash dividend of $0.16 per share, that was paid on March 20, 2013 to holders of record of our common stock on March 6, 2013. The dividend policy and the payment of future cash dividends are subject to the discretion of our board of directors.

Financial Debt Covenants Attributable to TNC B.V.

Financial covenants contained in our Credit Agreement consist of a maximum leverage ratio and a minimum interest coverage ratio as related to our indirect wholly-owned subsidiary, Nielsen Holding and Finance B.V. and its restricted subsidiaries. The leverage ratio requires that we not permit the ratio of total net debt (as defined in the Credit Agreement) at the end of any calendar quarter to Covenant EBITDA (as defined in the Credit Agreement) for the four quarters then ended to exceed a specified threshold. The maximum permitted ratio is 6.25 to 1.0.

The interest coverage ratio requires that we not permit the ratio of Covenant EBITDA at the end of any calendar quarter to Consolidated Interest Expense (as defined in the Credit Agreement) for the four quarters then ended to be less than a specified threshold. The minimum permitted ratio is 1.50 to 1.0.

Failure to comply with either of these covenants would result in an event of default under our Credit Agreement unless waived by our senior credit lenders. An event of default under our Credit Agreement can result in the acceleration of our indebtedness under the facility, which in turn would result in an event of default and possible acceleration of indebtedness under the agreements governing our debt securities as well. As our failure to comply with the covenants described above can cause us to go into default under the agreements governing our indebtedness, management believes that our Credit Agreement and these covenants are material to us. As of March 31, 2013, we were in full compliance with the covenants described above.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that currently have or are reasonably likely to have a material effect on our consolidated financial condition, changes in financial condition, results of operations, liquidity, capital expenditure or capital resources.

Summary of Recent Accounting Pronouncements

Reclassification from accumulated other comprehensive income

In February 2013, the FASB issued an accounting update, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income , to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. We have presented the significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification in Note 6 to the condensed consolidated financial statements. This amended guidance does not have any other impact on our condensed consolidated financial statements.

Foreign Currency Matters

In March 2013, the FASB issued an accounting update, Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity , to resolve the diversity in practice regarding the release into net income of the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. The amendment requires an entity that ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This guidance is effective for our interim and annual reporting periods in 2014. The adoption of this update is not expected to have a significant impact on our condensed consolidated financial statements.

Commitments and Contingencies

Outsourced Services Agreements

In February 2013, we amended our Amended and Restated Master Services Agreement (the MSA), dated as of October 1, 2007 with Tata America International Corporation and Tata Consultancy Services Limited (jointly, TCS). The term of the MSA has been extended for an additional three years, so as to expire on December 31, 2020, with a one-year renewal option granted to Nielsen. In addition, we have increased our commitment to purchase services from TCS (the Minimum Commitment) from $1.0 billion to $2.5 billion over the life of the contract (from October 1, 2007), including a commitment to purchase at least $100 million in services per year (the Annual Commitment). TCS charges under the separate Global Infrastructure Services Agreement between the parties will be credited against the Minimum Commitment and the Annual Commitment. TCS will globally provide us with professional services relating to information technology (including application development and maintenance), business process outsourcing, client service knowledge process outsourcing, management sciences, analytics, and financial planning and analytics. As we order specific services under the Agreement, the parties will execute Statements Of Work (SOWs) describing the specific scope of the services to be performed by TCS. The amount of the Minimum Commitment and the Annual Commitment may be reduced on the occurrence of certain events, some of which also provide us with the right to terminate the Agreement or SOWs, as applicable.

Other Contractual Obligations

Our other contractual obligations include capital lease obligations (including interest portion), facility leases, leases of certain computer and other equipment, agreements to purchase data and telecommunication services, the payment of principal and interest on debt and pension fund obligations.

Cyprus Agreement

On March 25, 2013, Cyprus and certain members of the European Union reached an agreement on measures intended to restore the viability of the financial sector of Cyprus. As part of these measures Cyprus has agreed to downsize its local financial sector including:

(1) The immediate dissolution of Cyprus Popular Bank under which equity shareholders, bondholders and uninsured depositors (defined as those with deposits in excess of 100 thousand) will contribute to make up the losses of the bank; and

(2) The recapitalization of the Bank of Cyprus (BoC) through a deposit/equity conversion of uninsured deposits, with full contribution of equity shareholders and bondholders. Currently 37.5% of uninsured deposits of BoC have been converted into Class A shares with voting and dividend rights. An additional 22.5% have been frozen and may also be partially or fully used to issue new Class A shares, as necessary.

As a result of this agreement, we recorded a charge of $4 million during the first quarter of 2013 in Selling, General and Administrative expenses in the statement of operations representing the uninsured deposits either contributed to make up losses of Cyprus Popular Bank or converted into Class A shares of BoC, as described above. We do not expect this agreement to significantly impact future operating results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in market rates and market prices, such as interest rates, foreign currency exchange rates, and changes in the market value of equity instruments. We are exposed to market risk, primarily related to foreign exchange and interest rates. We actively monitor these exposures. Historically, in order to manage the volatility relating to these exposures, we entered into a variety of derivative financial instruments, mainly interest rate swaps, cross-currency swaps and forward rate agreements. Currently we only employ basic contracts, that is, without options, embedded or otherwise. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings, cash flows and the value of our net investments in subsidiaries resulting from changes in interest rates and foreign currency rates. It is our policy not to trade in financial instruments.

Table of Contents

Foreign Currency Exchange Risk

We operate globally and we predominantly generate revenue and expenses in local currencies. Approximately 47% of our revenues and 49% of our operating costs were generated in currencies other than the U.S. Dollar for the three months ended March 31, 2013. Because of fluctuations (including possible devaluations) in currency exchange rates or the imposition of limitations on conversion of foreign currencies into our reporting currency, we are subject to currency translation exposure on the profits of our operations, in addition to transaction exposure. Typically, a one cent change in the U.S. Dollar/Euro exchange rate will impact revenues by approximately $6 million annually, with an immaterial impact on our profitability.

Foreign currency translation risk is the risk that exchange rate gains or losses arise from translating foreign entities statements of earnings and balance sheets from functional currency to our reporting currency (the U.S. Dollar) for consolidation purposes. Translation risk exposure is managed by creating natural hedges in our financing or by using derivative financial instruments aimed at offsetting certain exposures in the statement of earnings or the balance sheet. We do not use derivative financial instruments for trading or speculative purposes.

The table below details the percentage of revenues and expenses by currency for the three months ended March 31, 2013:

	U.S. Dollar	Euro	Other Currencies
Revenues	53%	11%	36%
Operating costs	51%	13%	36%

Interest Rate Risk

We continually review our fixed and variable rate debt along with related hedging opportunities in order to ensure our portfolio is appropriately balanced as part of our overall interest rate risk management strategy. At March 31, 2013, we had $4,113 million in carrying value of floating-rate debt under our senior secured credit facilities and our existing floating rate notes of which $2,285 million was subject to effective floating-fixed interest rate swaps. A one percent increase in interest rates applied to our floating rate indebtedness would therefore increase annual interest expense by approximately $18 million ($41 million without giving effect to any of our interest rate swaps).

Derivative instruments involve, to varying degrees, elements of non-performance, or credit risk. We do not believe that we currently face a significant risk of loss in the event of non-performance by the counterparties associated with these instruments, as these transactions were executed with a diversified group of major financial institutions with a minimum investment-grade or better credit rating. Our credit risk exposure is managed through the continuous monitoring of our exposures to such counterparties.

Equity Price Risk

We are not exposed to material equity risk.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in the reports that the Company files or submits to the SEC under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

The Company s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company s disclosure controls and procedures as of March 31, 2013 (the Evaluation Date). Based on such evaluation and subject to foregoing, such officers have concluded that, as of the Evaluation Date, the Company s disclosure controls and procedures are effective at the reasonable assurance level.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in the Company s internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Sunbeam Television Corp. (Sunbeam) filed a lawsuit in Federal District Court in Miami, Florida in April 2009. The lawsuit alleged that we violated Federal and Florida state antitrust laws and Florida s unfair trade practices laws by attempting to maintain a monopoly and abuse our position in the market, and breached our contract with Sunbeam by producing defective ratings data through our sampling methodology. The complaint did not specify the amount of damages sought and also sought declaratory and equitable relief. In January 2011, the U.S. District Court in the Southern District of Florida dismissed all federal and state antitrust claims brought against us by Sunbeam stating that Sunbeam failed to show that any competitor was willing and able to enter the local television ratings market in Miami and was excluded from that market by us. The Court also determined that Sunbeam could not prove that the current ratings for Sunbeam s local station WSVN are less accurate than they would be under a prospective competitor s methodology. The Court deferred ruling on the remaining ancillary claims, including breach of contract and violation of Florida s Deceptive and Unfair Trade Practices Act. Subsequent to the court s decision, Sunbeam voluntarily dismissed with prejudice the remaining claims in the case so that all claims have been dismissed. Sunbeam appealed the court s dismissal of the antitrust claims. On March 4, 2013, the U.S. Court of Appeals for the Eleventh Judicial Circuit affirmed the lower court s decision to dismiss the claims. On March 22, 2013, Sunbeam filed a petition for rehearing the case. The petition remains pending.

We are subject to litigation and other claims in the ordinary course of business, some of which include claims for substantial sums. Accruals have been recorded when the outcome is probable and can be reasonably estimated. While the ultimate results of claims and litigation cannot be determined, we do expect that the ultimate disposition of these matters will not have a material adverse effect on our operations or financial condition. However, depending on the amount and the timing, an unfavorable resolution of some or all of these matters could materially affect our future results of operations or cash flows in a particular period.

Item 1A. Risk Factors

There have been no material changes to our Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no repurchases or unregistered sales of shares of our common stock for the three months ended March 31, 2013.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Iran Sanctions Related Disclosure

Under the Iran Threat Reduction and Syrian Human Rights Act of 2012, which added Section 13(r) of the Exchange Act, we are required to include certain disclosures in our periodic reports if we or any of our affiliates knowingly engaged in certain specified activities during the period covered by the report. Because the SEC defines the term affiliate broadly, it includes any entity controlled by us as well as any person or entity that controls us or is under common control with us (control is also construed broadly by the SEC). We are not presently aware that we and our consolidated subsidiaries have knowingly engaged in any transaction or dealing reportable under Section 13(r) of the Exchange Act during the three months ended March 31, 2013. In addition, we sought confirmation from companies that may be considered our affiliates as to whether they have knowingly engaged in any such reportable transactions or dealings during such period and, except as described below, are not presently aware of any such reportable transactions or dealings by such companies.

The Blackstone Group L.P., one of our sponsors, informed us that SunGard and Travelport Limited, companies that may be considered its affiliates, included the disclosure reproduced below in their annual reports on Form 10-K as filed with the SEC on March 20, 2013 and March 12, 2013, respectively, as required by Section 13(r) of the Exchange Act. We have no involvement in or control over the activities of SunGard or Travelport Limited, any of their predecessor companies or any of their subsidiaries, and we have not independently verified or participated in the preparation of either the SunGard or Travelport Limited disclosures.

Table of Contents

SunGard Disclosure

Disclosure of Iranian Activities under Section 13(r) of the Securities Exchange Act of 1934

Section 219 of the recently enacted Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRSHRA) added section 13(r) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requiring a public reporting issuer to disclose in its periodic reports whether it or any of its affiliates have knowingly engaged in specified activities, transactions or dealings relating to Iran or with certain designated parties. Issuers must also file a notice with the SEC that such activities have been disclosed, which notice will be posted on the SEC website and sent to the U.S. President and certain U.S. Congressional committees. In some circumstances, the U.S. President is then required to investigate the information reported and determine whether sanctions should be imposed.

Pursuant to Section 13(r)(1)(D)(i) of the Exchange Act, we note that during 2012 a U.K. subsidiary of ours provided certain limited disaster recovery services and hosted co-location of some hardware at our premises in London for Bank Saderat PLC, a bank incorporated and based in the UK. Bank Saderat PLC is identified on the U.S. Treasury Department s List of Specially Designated Nationals and Blocked Persons pursuant to Executive Order No. 13224. The intent of the services was to facilitate the ability of the UK-based employees of Bank Saderat PLC to continue local operations in the event of a disaster or other unplanned event in the UK, including use of shared work space and recovery of the Bank s local UK data. The gross revenue and net profits attributable to these activities in 2012 was £16,300 and approximately £5,700, respectively. During 2012, no disaster or unplanned event occurred causing Bank Saderat PLC to make use of our recovery facilities in London, but Bank Saderat PLC did perform annual testing on-site. Our subsidiary has terminated this contract in the first quarter of 2013, and we do not otherwise intend to enter into any Iran-related activity.

Additionally, because of the broad definition of affiliate in Exchange Act Rule 12b-2, certain of our Sponsors and the companies in which their affiliated funds are invested (portfolio companies) may be deemed to be affiliates of ours. Accordingly, we note that affiliates of two of our Sponsors, KKR & Co. L.P. and The Blackstone Group L.P., have included information in their respective Annual Reports on Form 10-K, as required by Section 219 of the ITRSHRA and Section 13(r) of the Exchange Act, regarding activities of their respective portfolio companies. These disclosures are reproduced on Exhibit 99.1 of this report, which disclosures are hereby incorporated by reference herein. We have no involvement in or control over such activities, and we have not independently verified or participated in the preparation of the disclosures described in those filings. To the extent any of our Sponsors make additional disclosures under Section 13(r), we will provide updates in our subsequent periodic filings.

Travelport Limited Disclosure

Iran Sanctions Disclosure

The following activities are disclosed as required by Section 13(r)(1)(D)(iii) of the Exchange Act. As part of our global business in the travel industry, we provide certain passenger travel-related GDS and airline IT services to Iran Air. We also provide certain airline IT services to Iran Air Tours. All of these services are either exempt from applicable sanctions prohibitions pursuant to a statutory exemption permitting transactions ordinarily incident to travel or, to the extent not otherwise exempt, specifically licensed by the U.S.

Office of Foreign Assets Control. Subject to any changes in the exempt/licensed status of such activities, we intend to continue these business activities, which are directly related to and promote the arrangement of travel for individuals.

The gross revenue and net profit attributable to these activities in 2012 were approximately $127,000 and $45,000, respectively.

KKR & Co. L.P. (KKR), one of our Sponsors, informed us that it included disclosures, as reproduced below, in its annual report on Form 10-K as filed with the SEC on February 28, 2013 as required by Section 13(r) of the Exchange Act. We have no involvement in or control over the activities of either of these companies, any of their predecessor companies or any of their subsidiaries, and we have not independently verified or participated in the preparation of KKR s disclosure.

KKR Disclosure

During the year ended December 31, 2012, a European company in which our private equity funds have invested sold television content to the Islamic Republic of Iran Broadcasting (IRIB) for less than 45,000. We have been advised by the company that it does not intend to sell any further content to the IRIB.

30

Table of Contents

A European subsidiary of a company in which our private equity funds have invested shipped a cancer drug to Medical Equipment and Pharmaceutical Holding Co. in June 2012. The company has informed us that anticipated gross revenue from such shipment was approximately 92,000.

Item 6. Exhibits

The exhibit index attached hereto is incorporated herein by reference.

Table of Contents

SIGNATURES

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

	Nielsen Holdings N.V.
	(Registrant)
Date: April 25, 2013	/s/ Jeffrey R. Charlton Jeffrey R. Charlton Senior Vice President and Corporate Controller
	Duly Authorized Officer and Principal Accounting Officer

32

Table of Contents

EXHIBIT INDEX

The agreements and other documents filed as exhibits to this quarterly report on Form 10-Q are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by the registrant in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit Number	Description of Exhibits
4.1	Amendment Agreement, dated February 28, 2013, by and among Nielsen Finance LLC, the other borrowers party thereto, the guarantors party thereto, Citibank, N.A., as administrative agent, and certain of the lenders (incorporated herein by reference to Exhibit 4.1 to the Form 8-K of Nielsen Holdings N.V. filed on March 4, 2013 (File No. 001-35042)).
4.2	Form of Third Amended and Restated Credit Agreement (incorporated herein by reference to Exhibit 4.2 to the Form 8-K of Nielsen Holdings N.V. filed on March 4, 2013 (File No. 001-35042)).
10.1	Amendment Number Four to the Amended and Restated Master Services Agreement, dated and made effective as of February 7, 2013, by and between Tata America International Corporation, Tata Consultancy Services Limited and The Nielsen Company (US), LLC.
10.2	Form of Nielsen Holdings N.V. Performance Restricted Share Award Agreement
31.1	CEO 302 Certification pursuant to Rule 13a-15(e)/15d-15(e)
31.2	CFO 302 Certification pursuant to Rule 13a-15(e)/15d-15(e)
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)
101	The following financial information from Nielsen Holdings N.V. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL includes: (i) Condensed Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2013 and 2012, (ii) Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the three months ended March 31, 2013 and 2012, (iii) Condensed Consolidated Balance Sheets at March 31, 2013 (Unaudited) and December 31, 2012, (iv) Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2013 and 2012, and (v) the Notes to Condensed Consolidated Financial Statements.

Certain portions have been omitted in accordance with a request for confidential treatment that the Company has submitted to the SEC. Omitted information has been filed separately with the SEC.

de progress in the product area, including:

- Implementing tighter assortment guardrails around categories, patterns, and pricing assuring the right fit for our brand and that our products reflect our core attributes of comfortable, casual, and affordable;
- Driving full-price selling by focusing on our top ten styles, solids, and category dominance in our signature categories like back-to-campus and travel;
- Implementing processes that allow us to extend full-price selling periods and accelerate retirement as needed;
- Continuing to expand our licensing program by entering into new agreements for a loungewear and soft bath collection, as well as expanding distribution of our licensed stationery and health-care apparel merchandise;
- Reducing the impact of China tariffs by decreasing our reliance on China and increasing production in duty-free countries. Our production in China decreased from approximately 70% in fiscal 2018 to approximately 54% in fiscal

2019; and
- Launching customization, where our customers can design their own duffel, hipster, tote, or shoulder bag.
- We made progress in the distribution area, including:
- Opening six factory outlet stores;
- Beginning to experiment with new store formats and customized product assortments;
- Completing the rollout of our online outlet site which began in fiscal 2018; and
- Continuing to segregate Vera Bradley from the online discount-driven marketplace by exiting our partnership with eBay.
- In the marketing area, we continued to increase brand awareness through our "digital first" strategy by focusing our marketing on high-quality placements and targeted digital efforts, with an emphasis on full-price offerings. Total impressions were up more than 50% to over 2.1 billion for the fiscal year. We also entered into several successful social media collaborations with our license partners and influencers, as well as partnered with "Blessings in a Backpack" to host nationwide events for at-risk children.

32

Financial Summary

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

- Net revenues were $416.1 million in fiscal 2019 compared to $454.6 million in fiscal 2018. The extra week in fiscal 2018 added approximately $4.1 million to net revenues.
- Direct segment sales were $328.0 million in fiscal 2019 compared to $351.8 million in fiscal 2018. The extra week in fiscal 2018 added approximately $3.0 million to net revenues. Comparable sales for fiscal 2019 decreased 10.3%.
- Indirect segment sales were $88.1 million in fiscal 2019 compared to $102.9 million in fiscal 2018. The extra week in fiscal 2018 added approximately $1.1 million to net revenues.
- Gross profit was $238.6 million (57.3% of net revenue) in fiscal 2019 compared to $254.0 million (55.9% of net revenue) in fiscal 2018.
- SG&A expenses were $212.0 million (50.9% of net revenue) in fiscal 2019 compared to $239.8 million (52.7% of net revenue) in fiscal 2018.
- Operating income was $27.1 million (6.5% of net revenue) in fiscal 2019 compared to $15.0 million (3.3% of net revenue) in fiscal 2018.
- Net income was $20.8 million in fiscal 2019 compared to $7.0 million in fiscal 2018.
- Diluted net income per share was $0.59 in fiscal 2019 compared to $0.19 in fiscal 2018. The extra week in fiscal 2018 added an estimated $0.01 to diluted net income per share.
- Vision 20/20-related charges and other charges (including store impairment charges) were $19.5 million ($12.3 million after the associated tax benefit) in fiscal 2018.
- Income tax expense was negatively impacted by a $2.1 million net charge related to the Tax Cuts and Jobs Act ("Tax Act") for fiscal 2018.
- Cash, cash equivalents, and investments were $156.6 million at February 2, 2019 compared to $138.4 million at February 3, 2018.
- Capital expenditures for fiscal 2019 totaled $8.1 million compared to $11.8 million for fiscal 2018.
- Repurchases of common stock for fiscal 2019 totaled $16.3 million, or 1.3 million shares, compared to $7.9 million, or 0.9 million shares, in fiscal 2018.

How We Assess the Performance of Our Business

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

Net Revenues

Net revenues reflect revenues from the sale of our merchandise and from distribution and shipping and handling fees, less returns and discounts. Revenues for the Direct segment reflect sales through our full-line and factory outlet stores, verabradley.com, our online outlet site, and our annual outlet sale in Fort Wayne, Indiana. Revenues for the Indirect segment reflect sales to approximately 2,300 specialty retail partners, department stores, national accounts, third party e-commerce sites, third-party inventory liquidators, and sales generated through licensing agreements.

Comparable Sales

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

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

33

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

Gross Profit

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

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

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

Other Income

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

Operating Income

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

Income Before Income Taxes

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

Net Income

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

Table of Contents

Results of Operations

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

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

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

($ in thousands, except as otherwise indicated)	Fiscal Year Ended (1) February 2, 2019	February 3, 2018	January 28, 2017
Net Revenues by Segment:			
Direct	$328,034	$351,786	$355,175
Indirect	88,063	102,862	130,762
Total	$416,097	$454,648	$485,937
Percentage of Net Revenues by Segment:			
Direct	78.8 %	77.4 %	73.1 %
Indirect	21.2 %	22.6 %	26.9 %
Total	100.0 %	100.0 %	100.0 %

Table of Contents

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

(1) The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to January 31. Fiscal year 2018 consisted of 53 weeks. Fiscal years 2019 and 2017 consisted of 52 weeks. The extra week contributed approximately $4.1 million in net revenues and added an estimated $0.01 to diluted net income per share in fiscal 2018. By segment, the extra week contributed net revenues of approximately $3.0 million to Direct and $1.1 million to Indirect in fiscal 2018.

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

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

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

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

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

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

Payment Card Incident

Description of Event

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

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

Expenses Incurred and Amounts Accrued

During the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017, we recorded an immaterial amount of expense relating to the Payment Card Incident. Expenses included remediation activities during fiscals 2019 and 2018 and costs to investigate the Payment Card Incident and obtain legal and other professional services during fiscal 2017. There were no incremental expenses associated with the claims received in fiscals 2019 or 2018 as they were reimbursed under our insurance coverage. The insurance deductible was accrued during fiscal 2017.

Table of Contents

Future Costs
We believe there are no outstanding amounts due with respect to this matter.
Insurance Coverage
We maintain $15.0 million of cyber security insurance coverage above a $0.1 million deductible.
Vision 20/20 Initiatives
Fifty-Three Weeks Ended February 3, 2018
During fiscal 2018, we launched our Vision 20/20 strategic plan, which involves a more aggressive approach to turn around our business by the end of fiscal 2021. This plan is primarily focused on product and pricing initiatives, as well as SG&A expense reduction initiatives.
The product and pricing initiatives include restoring our full-price business by significantly reducing the amount of clearance merchandise offered on verabradley.com and in our full-line stores, streamlining current product offerings by eliminating unproductive or incongruent categories and SKUs from our assortment, and introducing tighter guardrails around new categories, patterns, and pricing. These initiatives negatively impacted fiscal 2019 revenues.
The SG&A expense reduction initiatives include right-sizing our corporate infrastructure to better align with the size of the business, optimizing our marketing spending by focusing on efficiencies while keeping our most loyal customer engaged, and taking a more aggressive stance on reducing store operating costs and closing underperforming full-line stores. We reduced SG&A expenses by $23.5 million in fiscal 2019 (based off of our fiscal 2017 base level and excluding severance, store impairment, and Vision 20/20 charges from all periods). We have closed a total of 15 underperforming full-line stores and one underperforming factory outlet store since the beginning of fiscal 2018 and forecast that we will close up to an additional 30 full-line stores by the end of fiscal 2022, primarily as leases expire.
The implementation of the plan began in the third quarter of fiscal 2018, with the majority of the product and pricing initiatives completed in the current fiscal year. The SG&A expense reductions began in the third quarter of fiscal 2018, largely aimed at right-sizing our corporate infrastructure. There have been $16.7 million of pre-tax Vision 20/20-related charges ($10.6 million after the associated tax benefit) since inception, all of which were recognized during fiscal 2018. There were no Vision 20/20-related charges during fiscal 2019.
We have incurred the following Vision 20/20-related charges during the fiscal year ended February 3, 2018 (in thousands):

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

(1) Refer to Note 4 to the Notes to the Consolidated Financial Statements herein for additional details
(2) Consulting charges for the identification and implementation of Vision 20/20 initiatives
(3) Inventory adjustments for the discontinuation of certain inventory categories
(4) Includes a net lease termination charge and accelerated depreciation charges
(5) After the associated tax benefit, the charges totaled $10.6 million

37

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

Fifty-Three Weeks Ended February 3, 2018

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

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

Fifty-Two Weeks Ended January 28, 2017

Other charges recognized in SG&A expenses during fiscal 2017 totaled \$13.6 million (\$8.6 million after the associated tax benefit) and consisted of store impairment charges of \$12.7 million (recognized within the Direct segment) and a severance charge of \$0.9 million (recognized within corporate unallocated expenses). Refer to Note 4 to the Notes to the Consolidated Financial Statements herein for additional details regarding the store impairment charges. Fiscal 2017 also included a \$1.6 million tax benefit (reflected in income tax expense) related to the release of certain income tax reserves.

Tax Act

On December 22, 2017, the Tax Act was signed into law. The Tax Act includes, among other things, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, bonus depreciation that allows for full expensing for qualified property, the transition of U.S. international taxation from a worldwide system to a territorial system with a new provision designed to tax global intangible low-taxed income (“GILTI”), and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings. As a result of the enactment of the Tax Act, we recorded \$2.1 million in provisional income tax expense during the fourth quarter of fiscal 2018 based upon our understanding of the Tax Act and guidance as of the date of the fiscal 2018 filing. There were no material changes to the provisional estimates upon completion of the accounting during fiscal 2019. Refer to Note 6 to the Notes to the Consolidated Financial Statements herein for additional information regarding the Tax Act.

Impairment Charges

Property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The reviews are conducted at the lowest identifiable level of cash flows. If the estimated undiscounted future cash flows related to the property, plant, and equipment are less than the carrying value, we recognize a loss equal to the difference between the carrying value and the fair value, as further defined in Note 2 to the Notes to the Consolidated Financial Statements herein. Impairment charges of \$6.3 million and \$12.7 million were recognized in the fiscal years ended February 3, 2018 and January 28, 2017, respectively, for assets related to underperforming stores and are included in SG&A expenses in the Consolidated Statements of Income and in impairment charges in the Consolidated Statements of Cash Flows. The impairment charges are included in the Direct segment. There were no impairment charges recorded during the fiscal year ended February 2, 2019.

Revenue from Contracts with Customers

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

38

Table of Contents

Fiscal 2019 Compared to Fiscal 2018

Net Revenues

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

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

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

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

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

Gross Profit

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

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

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

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

Other Income

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

Operating Income

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

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

Table of Contents

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

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

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

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

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

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

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

Interest Income, Net

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

Income Tax Expense

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

Table of Contents

Net Income

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

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

Fiscal 2018 Compared to Fiscal 2017

Net Revenues

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

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

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

Gross Profit

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

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

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

Other Income

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

Operating Income

For fiscal 2018, operating income decreased $13.2 million, or 46.9%, to $15.0 million from $28.2 million for fiscal 2017. As a percentage of net revenues, operating income was 3.3% and 5.8% for fiscal 2018 and fiscal 2017, respectively. Operating income decreased due to the factors described above.

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

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

Direct. For fiscal 2018, operating income decreased $1.6 million, or 2.6%. As a percentage of Direct segment net revenues, operating income in the Direct segment was 17.3% and 17.6% for fiscals 2018 and 2017, respectively. The decrease in operating income as a percentage of Direct segment net revenues was primarily due to new store expenses, a decline in the gross profit as a percentage of net revenues as described above, and deleverage of SG&A expenses due to lower sales, partially offset by lower store impairment charges and employee-related expenses as compared to the prior-year period.

Indirect. For fiscal 2018, operating income decreased $16.2 million, or 31.8%. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 33.8% and 39.0% for fiscals 2018 and 2017, respectively. The decrease in operating income as a percentage of Indirect segment net revenues was primarily due to deleverage of SG&A expenses as a result of lower sales and a decrease in gross profit as a percentage of net revenues, as described above.

Corporate Unallocated. For fiscal 2018, unallocated expenses decreased $4.6 million, or 5.3%. The decrease in unallocated expenses was primarily due to a decrease in advertising spending and employee-related expenses principally as a result of expense management, which was associated in part with the implementation of Vision 20/20 initiatives during the third quarter. These savings were partially offset by Vision 20/20 and other charges of $9.3 million in fiscal 2018 which consisted of $4.6 million of strategic consulting charges, $4.6 million of employee severance charges, and $0.1 million of other Vision 20/20 charges. The prior-year period included $0.9 million for an executive severance charge.

Interest (Income) Expense, Net

For fiscal 2018, net interest (income) expense increased $0.6 million, or 332.0%, to $(0.4) million, from $0.2 million in fiscal 2017. The year-over-year increase was primarily a result of interest earned on our investment portfolio which was implemented during fiscal 2018. Refer to Note 15 to the Notes to the Consolidated Financial Statements herein for additional information regarding our investments.

Income Tax Expense

For fiscal 2018, we recorded income tax expense of $8.4 million at an effective tax rate of 54.4%, compared to 29.5% for fiscal 2017. The year-over-year increase in the effective tax rate was primarily due to the relative impact of $2.1 million of net charges associated with the Tax Act enacted during the fourth quarter of fiscal 2018 along with the relative impact of permanent and discrete items, including a tax shortfall from stock-based compensation. Refer to Note 6 to the Notes to the Consolidated Financial Statements herein for additional information regarding the Tax Act. The prior-year period included a $1.6 million income tax benefit for the release of certain income tax reserves.

Net Income

For fiscal 2018, net income decreased $12.8 million, or 64.5%, to $7.0 million from $19.8 million in fiscal 2017. Fiscal 2018 included $19.5 million ($12.3 million after the associated tax benefit) of Vision 20/20-related charges (including store impairment charges) and other charges and $2.1 million of tax expense associated with the enactment of the Tax Act, as described further in Note 6 to the Notes to the Consolidated Financial Statements herein. The comparable prior-year period included other charges (including store impairment charges) of $13.6 million ($8.6

million after the associated tax benefit), partially offset by a $1.6 million income tax benefit related to the release of certain income tax reserves.

Table of Contents

Liquidity and Capital Resources

General

Our primary sources of liquidity are cash on hand and cash equivalents, investments, and cash flow from operations. We also have access to additional liquidity, if needed, through availability under our $75.0 million asset-based revolving credit agreement (the "New Credit Agreement") which we entered into on September 7, 2018. Through September 6, 2018, we had access to additional liquidity under our $125.0 million second amended and restated credit agreement (the "Prior Credit Agreement"). There were no borrowings under the New Credit Agreement or Prior Credit Agreement during the fiscal year ended February 2, 2019, and there was no debt outstanding as of February 2, 2019.

Historically, our primary cash needs have been for merchandise inventories; payroll; store rent; capital expenditures associated with operational equipment, buildings, information technology, and opening new stores; and share repurchases. The most significant components of our working capital are cash and cash equivalents, short-term investments, merchandise inventories, accounts receivable, accounts payable, and other current liabilities.

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

Investments

Cash Equivalents. Investments classified as cash equivalents relate to highly-liquid investments with a maturity of three months or less from the date of purchase. As of February 2, 2019, these investments consisted of commercial paper and a money market fund. As of February 3, 2018, these investments also included municipal securities.

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

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

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

Cash Flow Analysis

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

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

Net Cash Provided by Operating Activities

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

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

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

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

Net Cash Provided by (Used in) Investing Activities

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

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

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

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

Net Cash Used in Financing Activities

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

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

New Credit Agreement

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

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

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

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

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

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

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

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

On July 15, 2015, VBD entered into the Second Amended and Restated Credit Agreement among VBD, the lenders from time to time party thereto, JPMorgan Chase Bank, National Association, as administrative agent; Wells Fargo Bank, National Association, as syndication agent; and KeyBank National Association, as documentation agent (the "Prior Credit Agreement"). The Prior Credit Agreement provided for certain credit facilities to VBD in an aggregate principal amount not to initially exceed $125.0 million, the proceeds of which could be used for general corporate purposes of VBD and its subsidiaries, including but not limited to Vera Bradley International, LLC and Vera Bradley Sales, LLC. The Prior Credit Agreement was terminated concurrently with entering into the New Credit Agreement.

Contractual Obligations

We enter into long-term contractual obligations and commitments in the normal course of business, primarily non-cancellable operating leases. As of February 2, 2019, our contractual cash obligations over the next several periods are as follows:

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

(1)

Our store leases are generally ten years with varying renewal options. Our future operating lease obligations would change if we were to extend these leases, terminate these leases early, or if we were to enter into new operating leases. As part of our Vision 20/20 initiatives, we are forecasting to close up to 30 additional full-line stores by fiscal 2022. Additional potential closures are not reflected in the table until an agreement with the landlord has been reached.

(2) Purchase obligations consist primarily of inventory purchases.

(3) Due to the uncertainty with respect to the timing of future cash flows associated with our uncertain tax positions at February 2, 2019, we are unable to make reasonably reliable estimates of the period of cash settlement with the

respective taxing authorities. Therefore, $0.1 million of uncertain tax positions have been excluded from the contractual obligations table above.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

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

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

We reserve for projected merchandise returns based on historical experience and other assumptions that we believe to be reasonable. In the Direct business, returns are refunded by issuing the same payment tender of the original purchase and in the Indirect business the customer is issued a credit to its account to apply to outstanding invoices. Merchandise exchanges of the same product at the same price are not considered merchandise returns. Product returns are often resalable through our annual outlet sale or other channels. Additionally, we reserve for customer allowances for certain Indirect retailers based upon various contract terms and other potential product credits granted to Indirect retailers. The balance of the reserve for returns and retailer credits was $1.9 million and $3.3 million as of February 2, 2019, and February 3, 2018, respectively. The balance as of February 3, 2018 included reserves for shipments to customers not yet received.

Inventories

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

The balance of inventory adjustments was $0.6 million and $2.7 million for these matters as of the fiscal years ended February 2, 2019, and February 3, 2018, respectively. The balance related primarily to certain collections being discontinued or currently discontinued by the Company and retired patterns. In the current-year period, the Company has significantly reduced the amount of clearance activity and increased full-price purchasing which helped to decrease the amount of necessary inventory reserves. The change in inventory adjustments during fiscal 2019 primarily related to the sell-through of certain reserved inventory categories. We have the ability to move retired finished goods through a number of channels, including the annual outlet sale, our website and online outlet site, factory outlet stores, and through third-party liquidators as needed.

Income Taxes

Our effective tax rate is based on our pre-tax income, statutory tax rates, tax laws and regulations, and tax planning opportunities available in the jurisdictions in which we operate. Significant judgment is required in determining our annual tax expense and in evaluating our tax positions. We establish reserves to remove some or all of the tax benefit of any of our tax positions at the time we determine that the positions become uncertain based upon one of the following: (1) the tax position is not “more likely than not” to be sustained; (2) the tax position is “more likely than not” to be sustained, but for a lesser amount; or (3) the tax position is “more likely than not” to be sustained, but not in the financial period in which the tax position was originally taken. Taxing authorities periodically audit our income tax returns. We believe that our tax filing positions are reasonable and legally supportable. Taxing authorities, however, may take a contrary position. Our results of operations and effective tax rate in a given period could be impacted if, upon final resolution with taxing authorities, we prevail in positions for which we have established reserves, or are required to pay amounts in excess of established reserves. The balance of the gross amount of unrecognized tax benefits (excluding interest and penalties) was $0.1 million, $0.1 million, and $0.9 million as of February 2, 2019, February 3, 2018, and January 28, 2017, respectively. Benefits of $17 thousand, $0.5 million, and $1.9 million were recognized in income tax expense for these matters during the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017, respectively.

On December 22, 2017, the Tax Act was signed into law. The Tax Act includes, among other things, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, bonus depreciation that allows for full expensing for qualified property, the transition of U.S. international taxation from a worldwide system to a territorial system with a new provision designed to tax global intangible low-taxed income (“GILTI”), and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings. As a result of the enactment of the Tax Act, we recorded $2.1 million in provisional income tax expense during the fourth quarter of fiscal 2018 based upon our understanding of the Tax Act and guidance as of the date of the fiscal 2018 filing. There were no material changes to the provisional estimates upon completion of the accounting during fiscal 2019. Refer to Note 6 to the Notes to the Consolidated Financial Statements herein for additional information regarding the Tax Act.

Valuation of Long-lived Assets

Property, plant, and equipment assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating an asset for recoverability, we estimate the future cash flows expected to result from the use of the asset at the store level, the lowest identifiable level of cash flow, if applicable. If the sum of the estimated undiscounted future cash flows related to the asset is less than the carrying value, we recognize a loss equal to the difference between the carrying value and the fair value, usually determined by an estimated discounted cash flow analysis of the asset. Factors used in the valuation of long-lived assets include, but are not limited to, our plans for future operations, brand initiatives, recent operating results, and projected future cash flows. With respect to our stores, we analyze store economics, location within the shopping center, the size and shape of the space, and desirable co-tenancies in our selection process. Impairment charges are classified in SG&A expenses and were $6.3 million and $12.7 million for the periods ended February 3, 2018 and January 28, 2017, respectively. There were no impairment charges recorded for the period ended February 2, 2019.

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

Transactions with Related Parties

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

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

Impact of Inflation

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

Foreign Exchange Rate Risk

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

Table of Contents

Item 8. Financial Statements and Supplementary Data
Vera Bradley, Inc.
Index to Consolidated Financial Statements

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Vera Bradley, Inc. and subsidiaries (the “Company”) as of February 2, 2019 and February 3, 2018, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended February 2, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of February 2, 2019 and February 3, 2018, and the results of its operations and its cash flows for each of the three years in the period ended February 2, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 2, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

/s/ Deloitte & Touche LLP
Indianapolis, Indiana
April 2, 2019

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

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Vera Bradley, Inc. and subsidiaries (the “Company”) as of February 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended February 2, 2019, of the Company and our report dated April 2, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP
Indianapolis, Indiana
April 2, 2019

Table of Contents

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

	February 2, 2019	February 3, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 113,493	$ 68,751
Short-term investments	19,381	54,150
Accounts receivable, net	15,604	15,566
Inventories	91,581	87,838
Income taxes receivable	809	4,391
Prepaid expenses and other current assets	11,600	11,327
Total current assets	252,468	242,023
Property, plant, and equipment, net	77,951	86,463
Long-term investments	23,735	15,515
Deferred income taxes	6,724	5,385
Other assets	1,270	1,283
Total assets	$ 362,148	$ 350,669
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 14,595	$ 13,503
Accrued employment costs	13,316	13,616
Other accrued liabilities	13,482	12,343
Income taxes payable	2,163	812
Total current liabilities	43,556	40,274
Long-term liabilities	23,889	25,112
Total liabilities	67,445	65,386
Commitments and contingencies		
Shareholders' equity:		
Preferred stock; 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, without par value; 200,000 shares authorized, 41,283 and 41,102 shares issued and 34,347 and 35,459 outstanding, respectively	—	—
Additional paid-in capital	95,572	91,192
Retained earnings	291,994	270,783
Accumulated other comprehensive loss	(24)	(114)
Treasury stock	(92,839)	(76,578)
Total shareholders' equity	294,703	285,283
Total liabilities and shareholders' equity	$ 362,148	$ 350,669

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

53

Table of Contents

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

	Fiscal Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Net revenues	$416,097	$454,648	$485,937
Cost of sales	177,510	200,639	209,891
Gross profit	238,587	254,009	276,046
Selling, general, and administrative expenses	211,984	239,810	249,155
Other income	498	782	1,329
Operating income	27,101	14,981	28,220
Interest (income) expense, net	(1,125)	(413)	178
Income before income taxes	28,226	15,394	28,042
Income tax expense	7,469	8,378	8,284
Net income	$20,757	$7,016	$19,758
Basic weighted-average shares outstanding	35,222	35,925	36,838
Diluted weighted-average shares outstanding	35,467	36,026	36,970
Basic net income per share	$0.59	$0.20	$0.54
Diluted net income per share	$0.59	$0.19	$0.53

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

54

Table of Contents

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

	Fiscal Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Net income	$20,757	$ 7,016	$ 19,758
Unrealized gain (loss) on available for sale debt investments	96	(51)	—
Cumulative translation adjustment	(6)	(13)	(7)
Comprehensive income, net of tax	$20,847	$ 6,952	$ 19,751

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

55

Table of Contents

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

	Number of Shares						
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Equity
Balance at January 30, 2016	37,701,171	3,102,352	$ 85,436	$ 244,009	$ (43)	$ (44,147)	$ 285,255
Net income		—	—	19,758	—	—	19,758
Translation adjustments	—	—	—	—	(7)	—	(7)
Restricted shares vested, net of repurchase for taxes	123,002	—	(729)	—	—	—	(729)
Stock-based compensation	—	—	4,032	—	—	—	4,032
Treasury stock purchased	(1,606,102)	1,606,102	—	—	—	(24,523)	(24,523)
Balance at January 28, 2017	36,218,071	4,708,454	$ 88,739	$ 263,767	$ (50)	$ (68,670)	$ 283,786
Net income	—	—	—	7,016	—	—	7,016
Translation adjustments	—	—	—	—	(13)	—	(13)
Unrealized loss on available for sale investments	—	—	—	—	(51)	—	(51)
Restricted shares vested, net of repurchase for taxes	174,985	—	(618)	—	—	—	(618)
Stock-based compensation	—	—	3,071	—	—	—	3,071
Treasury stock purchased	(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 accounting standard adoption	—	—	—	454	—	—	454
Balance at February 2, 2019	34,347,420	6,935,623	$ 95,572	$ 291,994	$ (24)	$ (92,839)	$ 294,703

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

56

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

	Fiscal Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Cash flows from operating activities			
Net income	$20,757	$7,016	$19,758
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant, and equipment	16,540	19,570	19,516
Impairment charges	—	6,298	12,706
Provision for doubtful accounts	184	425	439
Stock-based compensation	4,927	3,071	4,032
Deferred income taxes	(1,497)	8,154	(2,176)
Gain on short-term investment	—	—	(152)
Cash gain on investments	32	162	—
Other non-cash charges, net	512	103	14
Changes in assets and liabilities:			
Accounts receivable	438	7,322	7,542
Inventories	(3,994)	14,445	11,307
Prepaid expenses and other assets	(100)	566	(798)
Accounts payable	738	(18,214)	9,001
Income taxes	4,933	(870)	(12,009)
Accrued and other liabilities	94	(5,406)	(3,994)
Net cash provided by operating activities	43,564	42,642	65,186
Cash flows from investing activities			
Purchases of property, plant, and equipment	(8,148)	(11,822)	(20,778)
Purchases of investments	(59,461)	(85,530)	(30,000)
Proceeds from maturities and sales of investments	85,559	45,716	—
Proceeds from disposal of property, plant, and equipment	5	32	8
Net cash provided by (used in) investing activities	17,955	(51,604)	(50,770)
Cash flows from financing activities			
Tax withholdings for equity compensation	(547)	(618)	(729)
Repurchase of common stock	(16,064)	(7,908)	(24,959)
Payments of debt-issuance costs	(160)	(123)	—
Other financing activities, net	—	—	(27)
Net cash used in financing activities	(16,771)	(8,649)	(25,715)
Effect of exchange rate changes on cash and cash equivalents	(6)	(13)	(7)
Net increase (decrease) in cash and cash equivalents	44,742	(17,624)	(11,306)
Cash and cash equivalents, beginning of period	68,751	86,375	97,681
Cash and cash equivalents, end of period	$113,493	$68,751	$86,375
Supplemental disclosure of cash-flow information			
Cash paid for income taxes, net	$4,035	$1,942	$24,824
Cash paid for interest	$169	$187	$248
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 2, 2019, February 3, 2018 and January 28, 2017	$197	$—	$—
As of February 3, 2018, January 28, 2017 and January 30, 2016	$—	$—	$436

Purchases of property, plant, and equipment incurred but not yet paid			
As of February 2, 2019, February 3, 2018 and January 28, 2017	$ 1,065	$ 1,183	$ 2,204
As of February 3, 2018, January 28, 2017 and January 30, 2016	$ 1,183	$ 2,204	$ 2,872

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

57

Table of Contents

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

1. Description of the Company

Vera Bradley, Inc. (“Vera Bradley” or the “Company”) is a leading designer of women’s handbags, luggage and travel items, fashion and home accessories, and unique gifts. Founded in 1982 by friends Barbara Bradley Baekgaard and Patricia R. Miller, the brand’s innovative designs, iconic patterns, and brilliant colors continue to inspire and connect women.

Vera Bradley offers a unique multi-channel sales model, as well as a focus on service and a high level of customer engagement. The Company sells its products through two reportable segments: Direct and Indirect. The Direct business consists of sales of Vera Bradley products through the Company’s full-line and factory outlet stores in the United States; verabradley.com; the Company’s online outlet site; and the Company’s annual outlet sale in Fort Wayne, Indiana. As of February 2, 2019, the Company operated 99 full-line stores and 57 factory outlet stores. The Indirect business consists of sales of Vera Bradley products to approximately 2,300 specialty retail locations, 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.

Principles of Consolidation

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

Fiscal Periods

The Company utilizes a 52-53 week fiscal year ended on the Saturday closest to January 31. As such, fiscal years 2019 and 2017, ending on February 2, 2019 and January 28, 2017, 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, 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.

Investments

Short-term investments consist of investments with a maturity within one year of the balance sheet date. 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. As of February 3, 2018, these investments consisted of U.S. and non-U.S. corporate debt securities, municipal securities, commercial paper, and a certificate of deposit. Long-term investments consist of investments with a maturity of 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 securities, U.S. and non-U.S. asset-backed securities, and municipal securities. As of February 3, 2018, these investments consisted of U.S. and non-U.S. corporate debt securities, municipal securities, and U.S. treasury securities. 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) expense, net, in the Company's Consolidated Statements of Income.
Refer to Note 15 herein for additional information regarding the Company's investments.

Vera Bradley, Inc.
Notes to 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. The Company's inventory consists solely of finished goods.

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 Income.

Property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The reviews are conducted at the lowest identifiable level of cash flows. If the estimated undiscounted future cash flows related to the property, plant, and equipment are less than the carrying value, the Company recognizes a loss equal to the difference between the carrying value and the fair value, 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

Vera Bradley product sales to Direct and Indirect customers, including amounts billed to customers for shipping fees, as well as royalties from the Company’s licensing arrangements, are included in net revenues. Costs related to shipping of product are classified in cost of sales in the Consolidated Statements of Income. 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 Accounting Standards Codification (“ASC”) Topic 606. These steps are: (i) identify the contract with the customer; (ii) identify the performance obligations; (iii) determine the transaction price; (iv) allocate the transaction price to each performance obligation; and (v) recognize revenue as the performance obligations are satisfied.

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

Table of Contents

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

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 Indirect retailers based upon various contract terms and other potential product credits granted to 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 2, 2019	$ 2,695	$ 17,946	$ (18,730)	$ 1,911
Fiscal year ended February 3, 2018	5,360	23,504	(26,169)	2,695
Fiscal year ended January 28, 2017	2,317	32,905	(29,862)	5,360

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 $0.3 million and $0.9 million as of February 2, 2019, and February 3, 2018, 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 Company’s 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.
Operating Leases and Tenant-Improvement Allowances
The Company has leases that contain rent holidays and predetermined, fixed escalations of minimum rentals. For each of these leases, the Company recognizes the related rent expense on a straight-line basis commencing on the date of initial possession of the leased property. The Company records the difference between the recognized rent expense and the amount payable under the lease as a deferred rent liability. As of February 2, 2019 and February 3, 2018, deferred rent liability was $12.9 million and is included within long-term liabilities on the Consolidated Balance Sheets.
The Company receives tenant-improvement allowances from some of the landlords of its leased properties. These allowances generally are in the form of cash received by the Company from its landlords as part of the negotiated lease terms. The Company records each tenant-improvement allowance as a deferred credit and amortizes the allowance on a straight-line basis as a reduction to rent expense over the term of the lease, commencing on the possession date. As of February 2, 2019 and February 3, 2018, the deferred lease credit liability was $13.5 million and $14.6 million, respectively. Of this, $2.6 million and $2.4 million is included within other accrued liabilities as of February 2, 2019 and February 3, 2018, respectively and $10.9 million and $12.2 million is included within long-term liabilities on the Consolidated Balance Sheets as of February 2, 2019 and February 3, 2018, respectively.
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.
Stock-Based Compensation
The Company accounts for stock-based compensation using the fair-value recognition provisions of Accounting Standards Codification 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.

60

Table of Contents

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

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 Income. The Company classifies the related recovery of a portion of such costs from Indirect retailers as other income in the Consolidated Statements of Income.
Total advertising expense was as follows (in thousands):

Fiscal year ended February 2, 2019	$27,488
Fiscal year ended February 3, 2018	26,953
Fiscal year ended January 28, 2017	32,222

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

Fiscal year ended February 2, 2019	$ 80
Fiscal year ended February 3, 2018	367
Fiscal year ended January 28, 2017	1,000

Debt-Issuance Costs
Unamortized debt-issuance costs totaled $0.4 million as of February 2, 2019, and $0.5 million as of February 3, 2018, 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 5 herein for additional information. Amortization expense of $0.3 million, including the $0.2 million write-off of certain fees from the Company’s prior credit agreement, $0.2 million, and $0.2 million is included in interest (income) expense, net in the Consolidated Statements of Income for the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017, respectively.
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 2, 2019 and February 3, 2018, approximated their fair values.

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

The following table details the fair value measurements of the Company's investments as of February 2, 2019 and February 3, 2018 (in thousands):

	Level 1		Level 2		Level 3	
	February 2, 2019	February 3, 2018	February 2, 2019	February 3, 2018	February 2, 2019	February 3, 2018
Cash equivalents [1]	$2,169	$ 1,889	$6,493	$ 4,058	$ —	$ —
Short-term investments:						
Non-U.S. corporate debt securities	—	—	5,808	6,451	—	—
U.S. corporate debt securities	—	—	5,769	8,727	—	—
Municipal securities	—	—	4,190	12,942	—	—
U.S. treasury securities	3,116	—	—	—		
Commercial paper	—	—	498	998	—	—
Certificate of deposit	—	—	—	25,032	—	—
Long-term investments:						
U.S. corporate debt securities	—	—	9,499	4,543	—	—
U.S. asset-backed securities			7,169	—		
Non-U.S. corporate debt securities	—	—	4,675	2,775	—	—
Municipal securities	—	—	1,265	5,098	—	—
Non-U.S. asset-backed securities			1,127	—		
U.S. treasury securities	—	3,099	—	—	—	—

(1) Cash equivalents as of February 2, 2019 include commercial paper and a money market fund. Cash equivalents as of February 3, 2018 also included municipal securities. These securities have a maturity of three months or less at the date of purchase. Due to their short maturity, the Company believes the carrying value approximates fair value.

The Company has certain assets that are measured on a non-recurring basis under circumstances and events described in Note 4 herein. The categorization of the framework to price these assets are within Level 3 due to the subjective nature of unobservable inputs.

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

Table of Contents

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

The Company adopted this standard in the first quarter of fiscal 2019 using the modified retrospective method with a $0.5 million cumulative adjustment to beginning retained earnings. As a result of this adoption method, the prior-year period presented in the Company's Consolidated Financial Statements was not recast.
The Company no longer adjusts revenue for shipments not yet received at each reporting period as it recognizes revenue as control is passed to the customer. It was determined that control is passed to the customer upon shipment, consistent with when legal title is passed. This accelerates the recognition of revenue at each reporting period compared to the Company's historical practice.
Revenue for unredeemed gift cards is estimated and recognized based on the historical patterns of gift card redemption. Historically, the Company recognized revenue for gift card breakage when the likelihood of the customer exercising their remaining rights became remote. The new revenue standard results in accelerated recognition of gift card breakage revenue at each reporting period compared to the Company's historical practice.
Revenue associated with contractually guaranteed minimum royalties in sales-based royalty arrangements is recognized straight-line over the remaining license period once determined that the minimum sales level will not be achieved. Historically, the Company recognized any excess of the guaranteed minimum royalty over the actual royalties earned at the end of the license period.
Certain liabilities for estimated product returns have been re-classified to other accrued liabilities from a contra-asset within accounts receivable, net, as of the adoption date.
Refer to Note 3 herein for additional information regarding the adoption of ASC 606.
Recently Issued Accounting Pronouncements Not Yet Adopted
In February 2016, the FASB issued ASU 2016-02, Leases, which increases transparency and comparability among organizations by requiring lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases and disclosing key information about leasing arrangements. This guidance is effective for interim and annual periods beginning on or after December 15, 2018. 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 plans to adopt the standard using this adoption method and is on track to adopt the standard on February 3, 2019. In addition, the Company anticipates electing certain practical expedients and transition reliefs, including the short-term lease recognition exemption, which excludes leases with a term of 12 months or less from recognition on the balance sheet, recognizing lease components and nonlease components together as a single lease component, and the transition relief package which, among other things, includes not reassessing the lease classification or whether a contract is or contains a lease.
The Company has operating leases at all of its retail stores; therefore, the adoption of this standard will result in a material increase of assets and liabilities on the Company's Consolidated Balance Sheets. The Company is still assessing the potential impact that the adoption of this standard with have on its financial statements and disclosures, but estimates the opening balance of its operating lease liabilities to be approximately $130 million to $160 million at transition on February 3, 2019. The Company expects to record corresponding operating right-of-use assets based upon the operating lease liabilities adjusted for prepaid and deferred rent, unamortized tenant allowances, and the impairment of right-of-use assets at the transition date, if any. The Company is continuing to evaluate the impact on its Consolidated Statements of Income and Consolidated Statements of Cash Flows, but does not expect the result to be material.
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 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

Table of Contents

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

permitted, and the amendments can be adopted either retrospectively or prospectively. 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 periods.

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

	Fifty-Two Weeks Ended February 2, 2019		
	As Reported	Adjustments	Amounts Under Prior U.S. GAAP
Consolidated Statement of Income			
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

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 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)

Disaggregation of Revenue

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

	Fifty-Two Weeks Ended February 2, 2019		
	Direct Segment	Indirect Segment	Total
Product categories			
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 2, 2019, consisted of $1.6 million 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 2, 2019.

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

Performance Obligations

The performance obligations for the Direct and Indirect segments include the promise to transfer distinct goods (or a bundle of distinct goods). The Indirect segment also includes the right to access the Company's intellectual property ("IP").

65

Table of Contents

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

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 2, 2019.
Significant Judgments
Product Sales
In the Company’s retail stores (recognized within the Direct segment), control is transferred and net revenue is recognized at the point of sale. Product shipments for the Company’s e-commerce channel (recognized within the Direct segment) and shipments to its Indirect retailers (recognized within the Indirect segment) are generally shipped Free on Board (“FOB”) shipping point typically from its distribution center in Roanoke, Indiana, and 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 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 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.

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

4. Property, Plant, and Equipment
Property, plant, and equipment consisted of the following (in thousands):

	February 2, 2019	February 3, 2018
Land and land improvements	$ 5,981	$ 5,981
Building and building improvements	46,233	46,233
Furniture, fixtures, leasehold improvements, computer equipment and software	112,316	108,351
Equipment and vehicles	21,002	20,264
Construction in progress	1,699	903
	187,231	181,732
Less: Accumulated depreciation and amortization	(109,280)	(95,269)
Property, plant, and equipment, net	$ 77,951	$ 86,463

Property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The reviews are conducted at the lowest identifiable level of cash flows. If the estimated undiscounted future cash flows related to the property, plant, and equipment are less than the carrying value, the Company recognizes a loss equal to the difference between the carrying value and the fair value, as further defined in Note 2. Impairment charges of $6.3 million and $12.7 million were recognized, using level 3 inputs, in the fiscal years ended February 3, 2018 and January 28, 2017, respectively, for assets related to underperforming stores and are included in selling, general, and administrative expenses in the Consolidated Statements of Income and in impairment charges in the Consolidated Statements of Cash Flows. The impairment charges are included in the Direct segment. There were no impairment charges recorded during the fiscal year ended February 2, 2019.

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

Fiscal year ended February 2, 2019	$16,540
Fiscal year ended February 3, 2018	19,570
Fiscal year ended January 28, 2017	19,516

5. Debt
As of February 2, 2019 and February 3, 2018, the Company had no borrowings outstanding and availability of $75.0 million and $125.0 million under its New Credit Agreement and Prior Credit Agreement, respectively.

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

Amounts outstanding under the New Credit Agreement bear interest at a per annum rate equal to either (i) for CBFR borrowings (including swingline loans), the CB Floating Rate, where the CB Floating Rate is the prime rate which shall never be less than the adjusted one month LIBOR rate on such day, plus the Applicable Rate, where the

Applicable Rate is a percentage spread ranging from -1.00% to -1.50% or (ii) for each eurodollar borrowing, the Adjusted LIBO Rate, where the Adjusted LIBO Rate is the LIBO rate for such interest period multiplied by the statutory reserve rate, for the interest period in effect for such borrowing, plus the Applicable Rate, where the Applicable Rate is a percentage ranging from 1.00% to 1.30%. The applicable CB Floating Rate, Adjusted LIBO Rate, or LIBO Rate shall be determined by the administrative agent. The New Credit Agreement also requires VBD to pay a commitment fee for the unused portion of the revolving facility of up to 0.20% per annum.

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

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

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

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

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

Prior to September 7, 2018, VBD was party to the Second Amended and Restated Credit Agreement (the “Prior Credit Agreement”), which was entered into on July 15, 2015. The Prior Credit Agreement was among VBD, the lenders from time to time party thereto, JPMorgan Chase Bank, National Association, as administrative agent; Wells Fargo Bank, National Association, as syndication agent; and KeyBank National Association, as documentation agent. The Prior Credit Agreement provided for certain credit facilities to VBD in an aggregate principal amount not to initially exceed $125.0 million, the proceeds of which could be used for general corporate purposes of VBD and its subsidiaries, including but not limited to Vera Bradley International, LLC and Vera Bradley Sales, LLC. The Prior Credit Agreement was terminated concurrently with entering into the New Credit Agreement.

6. Income Taxes

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

	February 2, 2019	February 3, 2018	January 28, 2017
Current:			
Federal	$ 7,020	$ 488	$ 8,810
Foreign	610	364	526
State	1,336	(628)	1,124
	8,966	224	10,460

Deferred:			
Federal	(1,663)	7,476	(1,623)
State	166	678	(553)
	(1,497)	8,154	(2,176)
Total income tax expense	$ 7,469	$ 8,378	$ 8,284

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

68

Table of Contents

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

	February 2, 2019	February 3, 2018	January 28, 2017
Domestic	$ 24,426	$ 13,666	$ 24,891
Foreign	3,800	1,728	3,151
Total income before income taxes	$ 28,226	$ 15,394	$ 28,042

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

	February 2, 2019		February 3, 2018		January 28, 2017	
Federal taxes at statutory rate	$5,927	21.0 %	$5,067	32.9 %	$9,815	35.0 %
State and local income taxes, net of federal benefit	1,203	4.3	665	4.3	371	1.3
Impact of foreign rate differential	(188)	(0.7)	(247)	(1.6)	(413)	(1.5)
Change in uncertain tax positions	(17)	(0.1)	(632)	(4.1)	(1,426)	(5.1)
Change in U.S. tax rate	—	—	2,026	13.2	—	—
Deemed mandatory repatriation	—	—	345	2.2	—	—
Shortfall from stock-based compensation	101	0.4	1,111	7.2	17	0.1
Other	443	1.6	43	0.3	(80)	(0.3)
Total income tax expense	$7,469	26.5 %	$8,378	54.4 %	$8,284	29.5 %

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was signed into law. The Tax Act includes, among other things, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, bonus depreciation that will allow for full expensing for qualified property, the transition of U.S. international taxation from a worldwide system to a territorial system with a new provision designed to tax global intangible low-taxed income ("GILTI"), and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings. 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.

Table of Contents

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

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 2, 2019	February 3, 2018
Deferred tax assets:		
Compensation and benefits	$ 2,912	$ 992
Inventories	1,753	1,576
Deferred credits from landlords	6,922	7,305
Other	1,241	2,156
Total deferred tax assets	12,828	12,029
Deferred tax liabilities:		
Property, plant, and equipment	(3,859)	(4,386)
Other	(2,245)	(2,258)
Total deferred tax liabilities	(6,104)	(6,644)
Net deferred tax assets	$ 6,724	$ 5,385

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 2, 2019	February 3, 2018	January 28, 2017
Beginning balance	$ 104	$ 877	$ 3,099
Net increases in unrecognized tax benefits as a result of current year activity	44	—	15
Net increases in unrecognized tax benefits as a result of prior year activity	—	210	—
Reductions for tax positions of prior years	—	(877)	(1,695)
Settlements	—	—	(214)
Lapse of statute of limitations	(65)	(106)	(328)
Ending balance	$ 83	$ 104	$ 877

As of February 2, 2019, $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 2, 2019, February 3, 2018, and January 28, 2017. 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 2016 and forward. With a few exceptions, the Company is subject to audit by various state and foreign taxing authorities for fiscal 2015 through the current fiscal year.

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

7. Leases
The Company is party to non-cancellable operating leases. Future minimum lease payments under the non-cancellable operating leases through expiration are as follows (in thousands and by fiscal year):

Fiscal Year	Amount
2020	$32,658
2021	32,017
2022	29,707
2023	25,933
2024	22,250
Thereafter	45,099
	$187,664

Rental expense for all leases was as follows (in thousands):

Fiscal year ended February 2, 2019	$34,279
Fiscal year ended February 3, 2018	35,663
Fiscal year ended January 28, 2017	33,925

Lease terms generally range from three to ten years, generally ten years in the case of the Company's retail stores, with options to renew for varying terms. Future minimum lease payments relate primarily to the lease of retail space. Additionally, several lease agreements contain a provision for payments based on a percentage of sales in addition to the stated lease payments. Percentage rent expense was $3.4 million, $3.1 million, and $2.8 million for fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017, respectively.

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 $4.9 million, $3.1 million, and $4.0 million in the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017, respectively.
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 2, 2019, there were 4,384,555 shares remaining in that program.
During the fiscal year ended February 2, 2019, the Company granted a total of 491,162 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 $5.5 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.

71

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

The following table summarizes information about restricted-stock units as of and for the year ended February 2, 2019 (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 3, 2018	401	$ 12.38	363	$ 13.83
Granted	300	11.23	191	10.94
Change due to performance condition achievement	—	—	(9)	13.77
Vested	(214)	12.26	(20)	16.06
Forfeited	(14)	10.95	(83)	15.04
Nonvested units outstanding at February 2, 2019	473	$ 11.75	442	$ 11.38

As of February 2, 2019, there was $4.9 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 2019 was $2.5 million.

9. Commitments and Contingencies
Payment Card Incident
Description of Event
On September 15, 2016, the Company received information from law enforcement regarding a potential data security issue related to its retail store network. Findings from the investigation showed unauthorized access to the Company's payment processing system and the installation of a program that looked for payment card data. The program was specifically designed to find track data in the magnetic stripe of a payment card that may contain the card number, cardholder name, expiration date, and internal verification code as the data was being routed through the affected payment system. There is no indication that other customer information was at risk. Payment cards used at Vera Bradley store locations between July 25, 2016 and September 23, 2016 may have been affected. Not all cards used in stores during this time frame were affected. Cards used on verabradley.com were not affected.
The Company timely resolved this incident and continues to work with a computer security firm to further strengthen the security of its systems to help prevent events of this nature from happening in the future. The Company promptly notified the payment card networks so that the banks that issue payment cards could initiate heightened monitoring on the affected cards. As of the date of this filing, the Company has resolved all claims associated with this incident and does not expect any material changes to its exposure.
Expenses Incurred and Amounts Accrued
During the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017, the Company recorded an immaterial amount of expense relating to the Payment Card Incident. Expenses included remediation activities during fiscals 2019 and 2018 and costs to investigate the Payment Card Incident and obtain legal and other professional services during fiscal 2017. There were no incremental expenses associated with the claims received in fiscals 2019 or 2018 as they were reimbursed under the Company's insurance coverage. The insurance deductible was accrued during

fiscal 2017.

Future Costs

The Company believes there are no outstanding amounts due with respect to this matter.

Insurance Coverage

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

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

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

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 2, 2019, February 3, 2018, and January 28, 2017, 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 2, 2019	$1,661
Fiscal year ended February 3, 2018	1,533
Fiscal year ended January 28, 2017	1,624

11. Related-Party Transactions
Charitable Contributions. During each of the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017 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 two of the Company's directors, who are also on the board of directors of the Foundation. The liability associated with commitments to the Foundation was approximately $0.3 million and $0.4 million as of February 2, 2019 and February 3, 2018, respectively. 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 2, 2019	$144
Fiscal year ended February 3, 2018	140
Fiscal year ended January 28, 2017	53

Share Repurchases. During the fiscal year ended February 2, 2019, the Company repurchased a total of 400,000 common shares 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 common shares 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 common shares 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

73

Table of Contents

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

and is a director of the Company. P. Michael Miller and Patricia Miller, the Company's co-founder and a director, are husband and wife.

12. Earnings Per Share

Basic net income per share is computed based on the weighted-average number of common shares 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 2, 2019	February 3, 2018	January 28, 2017
Numerator:			
Net income	$20,757	$ 7,016	$ 19,758
Denominator:			
Weighted-average number of common shares (basic)	35,222	35,925	36,838
Dilutive effect of stock-based awards	245	101	132
Weighted-average number of common shares (diluted)	35,467	36,026	36,970
Earnings per share:			
Basic	$0.59	$ 0.20	$ 0.54
Diluted	$0.59	$ 0.19	$ 0.53

As of February 2, 2019, February 3, 2018, and January 28, 2017, 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.

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

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

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

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

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

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

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 2, 2019 and January 28, 2017.
The Company has incurred the following Vision 20/20-related charges during the fiscal year ended February 3, 2018 (in thousands):

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

(1) Refer to Note 4 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
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)	$ —	$ —	$ 1,558	$ —	$ —	$1,558

(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.

75

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

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 6 herein.

Fifty-Two Weeks Ended January 28, 2017

Other charges recognized in selling, general, and administrative expenses during fiscal 2017 totaled $13.6 million ($8.6 million after the associated tax benefit) and consisted of store impairment charges of $12.7 million (recognized within the Direct segment) and a severance charge of $0.9 million (recognized within corporate unallocated expenses). Refer to Note 4 herein for additional details regarding the store impairment charges. Fiscal 2017 also included a $1.6 million tax benefit (reflected in income tax expense) related to the release of certain income tax reserves.

15. Investments

The Company held $19.4 million and $54.2 million in short-term investments as of February 2, 2019 and February 3, 2018, respectively. The following table summarizes the Company's short-term investments (in thousands):

	February 2, 2019	February 3, 2018
Non-U.S. corporate debt securities	$ 5,808	$ 6,451
U.S. corporate debt securities	5,769	8,727
Municipal securities	4,190	12,942
U.S. treasury securities	3,116	—
Commercial paper	498	998
Certificate of deposit	—	25,032
Total short-term investments	$ 19,381	$ 54,150

The Company held $23.7 million and $15.5 million in long-term investments as of February 2, 2019 and February 3, 2018, respectively. The following table summarizes the Company's long-term investments (in thousands):

	February 2, 2019	February 3, 2018
U.S. corporate debt securities	$ 9,499	$ 4,543
U.S. asset-back securities	7,169	—
Non-U.S. corporate debt securities	4,675	2,775
Municipal securities	1,265	5,098
Non-U.S. asset-backed securities	1,127	—
U.S. treasury securities	—	3,099
Total long-term investments	$ 23,735	$ 15,515

There were no material gross unrealized gains or losses on available-for-sale debt securities as of February 2, 2019 and February 3, 2018.

16. Segment Reporting

The Company has two operating segments, which are also its reportable segments: Direct and Indirect. These operating segments are components of the Company for which separate financial information is available and for which operating results are evaluated on a regular basis by the chief operating decision maker in deciding how to allocate resources and in assessing the performance of the segments.

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

Table of Contents

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

The Indirect segment represents revenues generated through the distribution of Company-branded products to specialty retailers representing approximately 2,300 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. No customer accounted for 10% or more of the Company's net revenues during fiscal years 2019, 2018, and 2017.
Corporate costs represent the Company's administrative expenses, which include, but are not limited to: human resources, legal, finance, information technology, and various other corporate-level-activity-related expenses. All intercompany-related activities are eliminated in consolidation and are excluded from the segment reporting.
Company management evaluates segment operating results based on several indicators. The primary or key performance indicators for each segment are net revenues and operating income. The table below represents key financial information for each of the Company's operating and reportable segments: Direct and Indirect.
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 2, 2019	February 3, 2018	January 28, 2017
Segment net revenues:			
Direct	$328,034	$351,786	$355,175
Indirect	88,063	102,862	130,762
Total	$416,097	$454,648	$485,937
Segment operating income:			
Direct	$67,862	$60,979	$62,577
Indirect	34,500	34,763	50,955
Total	$102,362	$95,742	$113,532
Reconciliation:			
Segment operating income	$102,362	$95,742	$113,532
Less:			
Unallocated corporate expenses	(75,261)	(80,761)	(85,312)
Operating income	$27,101	$14,981	$28,220

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

Table of Contents

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 external customers primarily include revenues associated with our apparel/footwear, stationery, freight, licensing, merchandising, and gift card breakage. Refer to Note 3 herein for disaggregation of net revenues by reportable segment for fiscal 2019.
Net revenues by product categories are as follows (in thousands):

	Fiscal Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Net revenues:			
Bags	$170,881	$ 184,773	$ 207,765
Travel	107,513	118,655	119,082
Accessories	92,794	100,246	106,223
Home	29,603	30,819	27,574
Other	15,306	20,155	25,293
Total	$416,097	$ 454,648	$ 485,937

As of February 2, 2019 and February 3, 2018, substantially all of the Company’s long-lived assets were located in the United States.

17. 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). The fourth quarter of fiscal 2018 was fourteen weeks in duration. Each of the other quarters presented was thirteen weeks in duration.

	Fiscal Year Ended February 2, 2019			
	First Quarter (unaudited)	Second Quarter (unaudited)	Third Quarter (unaudited)	Fourth Quarter (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
Basic net (loss) income per share	(0.04)	0.26	0.12	0.25
Diluted net (loss) income per share	(0.04)	0.26	0.12	0.25

Table of Contents

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

	Fiscal Year Ended February 3, 2018			
	First Quarter (1)	Second Quarter (2)	Third Quarter (3)	Fourth Quarter (4)(5)(6)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net revenues	$ 96,135	$ 112,418	$ 114,095	$ 132,000
Gross profit	52,700	63,293	63,829	74,187
Operating (loss) income	(4,804)	3,709	462	15,614
Net (loss) income	(4,049)	2,193	359	8,513
Basic net (loss) income per share	(0.11)	0.06	0.01	0.24
Diluted net (loss) income per share	(0.11)	0.06	0.01	0.24

(1) Includes $1.3 million ($0.8 million after the associated tax benefit) for severance charges. Refer to Note 14 herein for additional information.

(2) Includes charges of $2.3 million for strategic consulting related to Vision 20/20, $1.2 million for severance, and $0.3 million for lease termination ($2.4 million collectively after the associated tax benefit). Refer to Note 14 herein for additional information.

(3) Includes Vision 20/20-related charges of $5.9 million for store impairment, $2.9 million for severance, $2.3 million for strategic consulting, $0.9 million for inventory adjustments, and $0.6 million for other Vision 20/20. Collectively, after the associated tax benefit, the charges were $7.9 million. Refer to Note 4 and Note 14 herein for additional information.

(4) Includes Vision 20/20-related charges of $1.2 million for severance, $0.4 million for store impairment, and $0.2 million for other Vision 20/20 ($1.2 million collectively after the associated tax benefit). Refer to Note 4 and Note 14 herein for additional information.

(5) Includes a $2.1 million net tax charge related to the enactment of the Tax Act. Refer to Note 6 herein for additional information.

(6) Includes an extra week which contributed approximately $4.1 million in net revenues and added an estimated $0.01 to diluted net income per share.

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

Table of Contents

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 2, 2019.

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 2, 2019.

The effectiveness of the Company’s internal control over financial reporting as of February 2, 2019, 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

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.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information set forth in the Proxy Statement for the 2019 Annual Meeting of Shareholders under the headings "Board of Directors Information," "Family Relationships," "Section 16(a) Beneficial Ownership Reporting Compliance," "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 2019 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 2019 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 2, 2019:

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)	1,691,446	—	4,384,555
Equity compensation plans not approved by security holders	—	—	—
Total	1,691,446	—	4,384,555

(1) Approved before our initial public offering.

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

Table of Contents

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

The information set forth in the Proxy Statement for the 2019 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 2019 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.

Table of Contents

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:

(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 exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Form 10-K.

Item 16. Form 10-K Summary

Not Applicable

Table of Contents

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 April 2, 2019.

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 April 2, 2019.

Signature	Title
/s/ Robert Wallstrom Robert Wallstrom	Director and Chief Executive Officer (principal executive officer)
/s/ John Enwright John Enwright	Chief Financial Officer (principal accounting officer)
/s/ Barbara Bradley Baekgaard Barbara Bradley Baekgaard	Director
/s/ Richard Baum Richard Baum	Director
/s/ Robert J. Hall Robert J. Hall	Director
/s/ Mary Lou Kelley Mary Lou Kelley	Director
/s/ John E. Kyees John E. Kyees	Director

Table of Contents

Signature	Title
/s/ Matthew McEvoy Matthew McEvoy	Director
/s/ P. Michael Miller P. Michael Miller	Director
/s/ Patricia R. Miller Patricia R. Miller	Director
/s/ Frances P. Philip Frances P. Philip	Director
/s/ Edward M. Schmults Edward M. Schmults	Director

85

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
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)
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)
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 2017 Annual Incentive Compensation Plan (Executives) (Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended April 30, 2016)
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	Fiscal 2018 Annual Incentive Compensation Plan (Executives) (Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended April 29, 2017)
10.11	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)
10.12	

	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)
10.13	Fiscal 2019 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 5, 2018)

Exhibit No.	Description
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 2, 2019 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Income and Comprehensive Income for the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017; (ii) Consolidated Balance Sheets as of February 2, 2019, and February 3, 2018; (iii) Consolidated Statements of Shareholders' Equity for the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017; (iv) Consolidated Statements of Cash Flows for the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017; 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.