Vera Bradley, Inc.
Form 10-K
April 02, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended February 1, 2014

OR

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

For the Transition Period From to

Commission File Number: 001-34918

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

Indiana (State or other jurisdiction of incorporation or organization)	27-2935063 (I.R.S. Employer Identification No.)
2208 Production Road, Fort Wayne, Indiana (Address of principal executive offices)	46808 (Zip Code)

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

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

The aggregate market value of the registrant’s voting common stock held by non-affiliates of the registrant as of August 2, 2013 was $489,409,014.

The registrant had 40,685,249 shares of its common stock outstanding as of April 2, 2014.

DOCUMENT INCORPORATED BY REFERENCE:

Portions of the registrant’s definitive proxy statement for the 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Forward-Looking Statements

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

- possible adverse changes in general economic conditions and their impact on consumer confidence and consumer spending;
- possible inability to predict and respond in a timely manner to changes in consumer demand;
- possible loss of key management or design associates or inability to attract and retain the talent required for our business;
- possible inability to maintain and enhance our brand;
- possible inability to successfully implement our growth strategies or manage our growing business;
- possible inability to successfully open and operate new stores as planned

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

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

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

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PART I

In this Form 10-K, references to "Vera Bradley," "we," "our," "us" and the "Company" refer to Vera Bradley, Inc. and its subsidiaries, including Vera Bradley Designs, Inc. The fiscal years ended February 1, 2014 ("fiscal 2014") and January 28, 2012 ("fiscal 2012") were each 52-week periods. The fiscal year ending February 2, 2013 ("fiscal 2013") was a 53-week period. The fiscal year ending January 31, 2015 ("fiscal 2015") will be also be a 52-week period.

Item 1. Business

Our Company

Vera Bradley is a leading designer, producer, marketer, and retailer of stylish and highly functional accessories for women. Our products include a wide offering of handbags, accessories, and travel and leisure items. Over our 30-year history, Vera Bradley has become a true lifestyle brand that appeals to a broad range of consumers. Our brand positioning emphasizes the high quality, distinctive and vibrant styling, and functional design of our products. New designs help keep the brand fresh and our customers continually engaged.

We generate revenues by selling products through two reportable segments: Direct and Indirect. As of February 1, 2014, our Direct segment consisted of sales of Vera Bradley products through our 84 full-price and 15 outlet stores in the United States; 13 department store locations in Japan; our websites, verabradley.com and verabradley.co.jp; and our annual outlet sale in Fort Wayne, Indiana. As of February 1, 2014, our Indirect segment consisted of sales of Vera Bradley products to approximately 3,100 specialty retailers, substantially all of which are located in the United States, as well as select department stores and third party e-commerce sites. For financial information about our reportable segments, refer to Note 14 of the Notes to Consolidated Financial Statements set forth in Part II, "Item 8. Financial Statements and Supplementary Data," of this report.

Our History

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

1982	–	Barbara Bradley Baekgaard and Patricia Miller launched Vera Bradley by introducing three products: the handbag, the sports bag, and the duffel bag.
1987	–	Ernst & Young honored our Co-Founders with an "Entrepreneur of the Year" award.
1991	–	To accommodate the increasing number of attendees, we relocated our annual outlet sale from a tent in our parking lot to its present location at the Allen County War Memorial Coliseum Exposition Center in Fort Wayne, Indiana.
1998	–	We founded our primary philanthropy, the Vera Bradley Foundation for Breast Cancer.
1999	–	Our products were being sold in all 50 states through Indirect retailers.
2005	–	We launched the Vera Bradley Visual Merchandising Program, providing our retail partners a framework for presenting the brand and merchandising our products in a consistent manner.
2006	–	We launched our e-commerce business through our website, verabradley.com.
2007	–	We opened a state-of-the-art distribution facility in Roanoke, Indiana. In September, we also opened our first full-price store at the Natick Collection, in greater Boston.

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2009	–	We opened our first outlet store at Chicago Premium Outlets in Aurora, Illinois.
2010	–	We completed our initial public offering.
2011	–	We entered the Japanese market, opened the Vera Bradley Design Center in Roanoke, Indiana, and launched our products in 65 Dillard’s locations.
2012	–	We completed the 200,000 square-foot expansion of the distribution facility in Roanoke, Indiana; increased our presence to all Dillard’s locations; and launched a relationship with Von Maur, and are carried in all of their locations.
2013	–	We launched the Vera Bradley for Disney Collection at the Florida World of Disney Store and migrated verabradley.com to a more responsive design, providing an enhanced shopping experience and optimal product viewing regardless of the device being used to shop.

The passion for design and customer service established by our founders has driven our growth over the past 30 years and remains the cornerstone of Vera Bradley today. Chief Creative Officer, Ms. Bradley Baekgaard continues to be responsible for our day-to-day creative functions, including product development and store design. Ms. Miller retired in October 2012 as our National Spokesperson, but continues to serve on the Board of Directors.

Evolution of Our Business

Beginning in 2005, we embarked on a series of strategic initiatives designed to take advantage of the growing interest in the Vera Bradley brand. These initiatives were designed to strengthen and enhance our business and operating model, expand our demographic and geographic market opportunity, and position us for future growth. The core components of these initiatives included the following:

Merchandising Strategy. To appeal to a broader range of consumers, we developed a mix of pattern and product offerings specifically targeted at different consumer demographics and refined our product release strategy to expand our product portfolio. In addition, we substantially enhanced our visual merchandising strategy, focusing on a consistent presentation of Vera Bradley as a lifestyle brand. In fiscal 2012, we established a dedicated merchant function and elevated the role of marketing to work more collaboratively with the design team to continue improving our process of bringing products to market.

Multi-Channel Distribution Capability. In 2006, we initiated a Direct channel strategy that was designed to expand our brand presence and broaden our consumer demographic while complementing the growing Indirect segment of our business. The first step in establishing the Direct segment of our business was selling directly to consumers through verabradley.com beginning in 2006. In fiscal 2014, we had more than 69 million visits to verabradley.com. In September 2007, we opened our first full-price store. As of February 1, 2014, we operated 84 full-price stores and 15 outlet stores in the United States, and 13 department store locations in Japan.

Infrastructure Investment. Beginning in 2005, we made a series of investments to strengthen our supply chain capabilities, information systems, and product development processes, resulting in substantial cost savings and a more flexible and scalable operating structure. During this period, we shifted our production from a primarily domestic manufacturing model to a more cost-effective global sourcing platform. In 2007, we opened a state-of-the-art distribution facility in Roanoke, Indiana, which was doubled in size to approximately 400,000 square feet as a result of an expansion that was completed in fiscal 2013.

In March 2014, the Company refined its strategic initiatives by unveiling its comprehensive five-year strategic plan, designed to drive improved financial performance and shareholder value over the long-term. The vision is to build on the Company's rich heritage and establish Vera Bradley as a premium lifestyle brand that is relevant to the future, expanding our customer reach and growing our customer connections.

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Our Brand
For over 30 years, we have created, developed, and solidified a true lifestyle brand that resonates with a broad range of female consumers. Employees, family members, and friends are often depicted throughout our advertising in fun, friendly, and family-oriented settings, accentuating our brand image in an authentic manner. Our visual merchandising strategy, particularly in our full-price stores, seeks to create the feeling of home. We believe that our lifestyle brand is well positioned to extend into complementary product categories. The strength of our brand is demonstrated during our annual outlet sale in Fort Wayne, Indiana, a sales event that attracts tens of thousands of highly enthusiastic shoppers from across the country.
Our brand positioning emphasizes the high quality, distinctive and vibrant styling, and functional design of our products. At the same time, our releases of new patterns and styles keep the brand fresh, inspire our customers to express their individuality and sense of style in a colorful way, and encourage multiple purchases. We also provide consumers a consistently fresh set of patterns, styles, and products from which to choose that fit with different ages, wardrobes, seasons, and personalities.
We offer a broad assortment of products that meet our customers' different functional needs, including: handbags, such as purses, totes, and specialty bags; accessories, such as wallets, wristlets, smartphone cases, technology accessories, and eyewear; and travel and leisure items, such as weekend bags, duffel bags, and garment bags. We believe this combination of patterns, styles, and products allows us to appeal to all age brackets, including teens, young women, mature women, mothers, and grandmothers. Although our customers represent a broad range of demographic segments, our market research has shown that they generally have a common attitude toward the brand: Vera Bradley is a colorful way of allowing them to express their individuality and sense of style.
Competitive Strengths
We believe the following competitive strengths differentiate us within the marketplace and provide a strong foundation for our future growth:
Strong Brand Identity and Positioning. We believe the Vera Bradley brand is highly recognized for its distinctive and vibrant style. Vera Bradley is positioned in the market as a lifestyle brand that inspires consumers to express their individuality and sense of style. We have also positioned our brand to highlight the high quality and functional attributes of our products. The Vera Bradley brand is more price accessible than many competing brands, which allows us to attract a wide range of consumers and inspire repeat purchases.
Exceptional Customer Loyalty. We believe that as consumers become familiar with the Vera Bradley brand and begin using our products, they become loyal and enthusiastic brand advocates. We believe enthusiasm for our brand inspires repeat purchases and helps us expand our customer base. Our customers often purchase our products as gifts for family members and friends, who, in turn, become loyal customers.
Product Development Expertise. Our product development team combines an understanding of consumer preferences with a knowledge of color, fashion, and style trends to design our products. Our highly creative design associates utilize a disciplined product design process that seeks to maximize the productivity of our product releases and drive consumer demand.
Dynamic Multi-Channel Distribution Model. We offer our products through a diverse choice of shopping options across channels that are intimate, highly shop-able, fun, and characteristic of our brand. Whether they are at a Vera Bradley store, a specialty retail store, a department store, or verabradley.com, we believe consumers have an opportunity to find the brand in places that match their unique shopping interests. Our multi-channel distribution model enables us to maximize brand exposure and customer access to our products.
Established Network of Indirect Retailers. Our Indirect business consists of an established and diverse network of over 3,100 specialty retailers and department store partners. This channel of gift, apparel and accessories, travel, and other specialty retailers, located throughout the United States, provides a strong foundation for our growth. Our Indirect retailers include some of the brand's strongest advocates, and their passion has been instrumental in the development of our brand.
Distinctive Retail Stores. Our stores provide a shopping experience that is uniquely "Vera Bradley." We bring the Vera Bradley brand to life in our stores through visual presentation of our wide range of product offerings, the stylish, inviting décor of our stores, and personalized service from our friendly and knowledgeable sales associates. We

believe the distinctive shopping experience and personalized service encourage repeat visits and multiple purchases.

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Unique Company Culture. We were founded in 1982 by two friends, Barbara Bradley Baekgaard and Patricia Miller, who built our company around their passion for design and commitment to customer service. We believe our founders created a unique company culture that attracts passionate and motivated employees who are excited about our products and our brand. Our employees share our founders' commitment to Vera Bradley customers. We believe that a fun, friendly, and welcoming work environment fosters creativity and collaboration and that, by empowering our employees to become personally involved in product design, testing, and marketing, they become passionate and devoted brand advocates.

Experienced Management Team. Our senior management team led by Robert Wallstrom, our Chief Executive Officer, has extensive experience across a diverse range of disciplines in product design, merchandising, marketing, store operations and development, supply chain management, and finance.

Growth Strategies

In March 2014, the Company unveiled its comprehensive five-year strategic plan, designed to drive improved financial performance and shareholder value over the long-term. We intend to achieve this vision through the following three key elements:

Product. We will begin offering an elevated product assortment, which will extend our price offering and build aspiration by creating "halo" product in new fabrications that build on our core assortment. We will work to stabilize the business by "majoring in the majors," making a bigger impact in the classifications Vera Bradley is known for and what we do best, like travel, backpacks, bags, and accessories. We will also invest in emerging growth and brand-enhancing opportunities that will strengthen the core of the future, such as scarves and jewelry.

Our product assortment will be more focused and more narrowed in the short term by paring the number of signature patterns launched each year and reducing the style count. We will add more solids to the assortment to showcase our signature patterns even more and add career elements into our assortment, which we believe will help expand our customer base. Every product launch will not be treated equally - as they generally are today - and will have a predetermined lifecycle. We will pursue brand extensions that will enhance our position as a lifestyle brand via a structured approach.

Distribution Channels. We will shape Vera Bradley into a tightly integrated multi-channel business by growing our Direct distribution channel (including full-line stores, factory outlet stores, and e-commerce), right-size and work to strengthen the performance in our gift channel, and further develop our department store and other Indirect channel relationships.

We continue to have a long-term vision of around 300 full-line and 100 factory outlet Vera Bradley stores. We plan to add 13 new full-line stores in fiscal 2015 and believe we can accelerate that pace beginning in fiscal 2016 to add approximately 20 to 25 new stores per year for at least the next four years. We expect to add at least seven new outlet stores in fiscal 2015. We believe that we can accelerate this growth rate going forward to approximately 10 to 15 new stores per year for at least the next four years. Furthermore, within three years, we expect approximately 40% of the product in the outlet channel to be made specifically for our outlets, growing to approximately 70% in a five-year time frame. We believe this made-for-outlet ("MFO") strategy is a profitable financial model which should drive both sales and gross margins. E-commerce will be a key part of the foundation to support our brand and marketing strategies. Our eventual goal is for the e-commerce experience to mirror the in-store shopping experience by segregating our full-line and factory outlet product onto different sites.

We will be placing greater focus on our department store relationships and we will continue to explore other expansion opportunities in the department store space, especially since this is the number one destination for career handbag purchasing. The Indirect specialty gift channel is the heritage of our business and remains very important to us. We will continue to add select accounts while discontinuing unproductive accounts. While the specialty gift business is rapidly becoming a much smaller percentage of our total revenue base, it is still an important piece of our business, and we are working hard to stabilize this channel by narrowing our product assortments, changing the order cycle, and doing a better job of segmenting our assortments by door.

Marketing. Our marketing goal will be to generate excitement and desire for the aspirational Vera Bradley brand, attracting new customers while continuing to foster strong connections with our loyal fan base. We plan to build a cohesive brand story that connects with our target customers, and more of our marketing will be allocated to the "halo" brand-enhancing assortments and less to what is already well-known. We will advertise the brand in relevant national magazines and leverage our database and insights to conduct more segmented, and even personalized, digital and direct mail marketing.

Our Product Release Strategy

We introduce new patterns seasonally. Within each season, we generally introduce two to four patterns. These patterns are incorporated into the designs of a wide range of products, including handbags, accessories, and travel and leisure items, that are part of the core seasonal release. These product assortments each season can be classic styles, updates to older designs, or new product introductions.

To keep our assortment current and fresh and to focus our inventory investments on our best performers, we discontinue patterns at regular intervals. We sell our remaining inventory of retired products primarily through our website, outlet stores, and at our annual outlet sale.

Our Products

The following chart presents net revenues generated by each of our three product categories and other revenues as a percentage of our total net revenues for fiscal 2014, 2013, and 2012:

	Fiscal Year Ended					
	February 1, 2014		February 2, 2013		January 28, 2012	
Handbags	40.0	%	40.4	%	43.1	%
Accessories	30.1	%	31.7	%	32.2	%
Travel and Leisure Items	14.8	%	14.7	%	15.2	%
Other (1)	15.1	%	13.2	%	9.5	%
Total (2)	100.0	%	100.0	%	100.0	%

(1) Includes primarily home, merchandising, freight, and licensing revenues.

(2) Excludes net revenues generated by our annual outlet sale.

Handbags. Handbags are a core part of our product offerings and are the primary component of every seasonal assortment. The category consists of classic and new styles developed by our product development team to meet consumer demand and drive repeat purchases. Our handbag product category extends beyond handbags to include totes and specialty bags such as crossbodies, baby bags, backpacks, and laptop portfolios. Handbags play a prominent role in our visual merchandising, and we focus on showcasing the different patterns, colors, and features of each bag.

Accessories. Accessories, our second largest revenue category, include technology accessories and fashion accessories such as wallets, wristlets, eyeglass cases, cosmetics cases, and paper and gift products. Our accessories are attractively priced and allow the consumer to include some color in her wardrobe, even if tucked into another bag. Our product development team consistently updates the accessories assortment based on consumer demand and fashion trends.

Travel and Leisure Items. Our travel and leisure product category includes duffel bags, garment bags, rolling luggage, and travel accessories, such as travel cosmetic cases. The first Vera Bradley product offering included duffel bags, which consistently have been a strong performer. We believe their popularity, as well as the appeal of our other travel and leisure items, results from our vibrant designs, functional styles, and lightweight fabrications.

Product Development

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

We typically begin the development stage of our products in the Vera Bradley portfolio 12 – 18 months in advance of their release. The development of each new pattern includes the design of an overall print, a complementary fabric backing, and three sizes of coordinating trim materials. To seek fresh perspectives, we collaborate with independent designers to create unique patterns for each season. We oversee the development and exercise the final approval of all patterns and designs. Once developed, we generally copyright each pattern, including the print, fabric backing and coordinating trim. We believe that great design is not only central to our product development efforts, but also is a fundamental part of our brand development and growth strategies. In the past several years, we have made investments to evolve and integrate our product development expertise, including opening a design office in New York City, as well as opening a design center in Roanoke, Indiana.

Our product development team works to ensure that new collections contain an assortment of products and styles that are in line with both fashion trends and customer needs and regularly updates classic styles to enhance functionality. In addition, we actively pursue opportunities to expand our product offerings through new line and brand extensions.

Our product development team monitors fashion trends and customer needs by attending major trend shows in Europe and the United States, subscribing to trend monitoring services, and engaging in comparison-shopping.

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Our product development team is also responsible for assortment planning, pricing, forecasting, promotional development, and product lifecycle management. Forecasting is based on seasonal market research and in-store testing. We gather seasonal market research through a variety of methodologies, including scheduled interviews and online and in-person surveys. We conduct seasonal in-store testing by releasing test products in our full-price stores and evaluating their success in the marketplace prior to product introduction on a larger scale. The team assures that we offer a broad range of patterns, fabrics, styles, and functionality features in a cost-effective manner. We believe that with our cross-functional, collaborative approach, we are able to introduce and sell our merchandise in a way that clearly communicates the Vera Bradley brand and the Vera Bradley lifestyle.

Marketing

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

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

Advertising. We employ print and outdoor advertising to increase overall brand awareness. Our advertisements are placed primarily in national magazines that have a readership similar to our target demographics. These publications have recently included Seventeen, InStyle, Better Homes and Gardens, and Real Simple. We continually assess our advertising strategies and tactics.

Public Relations and Product Placement. Vera Bradley has received considerable exposure in the press, including in publications such as InStyle, O the Oprah Magazine, Good Housekeeping, Southern Living, and The New York Times. In addition, we have expanded our marketing efforts to promote product placement in feature-length films and on prime-time television shows such as Modern Family and New Girl.

Social Media and Online Marketing. In recent years, we have greatly increased traffic to verabradley.com and have increased awareness of our brand through online marketing and social networking sites. We have captured more than 2.8 million customer e-mail addresses in our online customer file, with many of these customers providing age, occupation, and location data. This captured information provides us with deeper insight into the products and categories that are in the highest demand, and allows us to better target our customers with appropriate messages. As of February 1, 2014, we had approximately 1.6 million Facebook fans, over 65 thousand Twitter followers, and over 7.9 million visits to our blog, The Inside Stitch. We believe these media not only connect us with our fans, but also allow us to target them through cross-channel marketing.

Seasonality

Because Vera Bradley products are frequently given as gifts, Vera Bradley has historically realized, and expects to continue to realize, higher sales and operating income in the fourth quarter of its fiscal year, which includes the holiday months of November and December. In addition, fluctuations in sales and operating income in any fiscal quarter are affected by the timing of seasonal wholesale shipments and other events affecting retail sales. Over the last several years, we have achieved higher levels of growth in the non-holiday quarters, which has reduced these seasonal fluctuations.

Channels of Distribution

We distribute our products through our Direct and Indirect segments. This multi-channel distribution model not only enables us to have operational flexibility, but also maximizes the methods by which we can access potential customers.

Direct Segment

Full-Price Stores. We have developed a retail presence through our full-price stores, all located in the United States, which provides us with a format to showcase the image and products of Vera Bradley. As of February 1, 2014, we operated 84 full-price stores averaging approximately 1,800 square feet per store. Our stores are designed to create a feeling of home with a high standard of visual merchandising. The welcoming nature of our full-price stores provides our customers with a comfortable shopping experience in a setting that showcases our merchandise and conveys the Vera Bradley lifestyle. Our sales associates are passionate about our products and customer service, which, we believe, translates into a superior shopping experience.

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E-Commerce. In 2006, we began selling our products through the verabradley.com website. The objective of verabradley.com is to provide both a mechanism for marketing directly to consumers and a storefront where consumers can find the entire Vera Bradley collection. In fiscal 2013, we invested in upgrades to our website allowing for a more user friendly homepage, enabling us to ship to over 13 international countries, and enhancing the checkout experience. In fiscal 2014, we migrated our website to a responsive design in order to provide a better shopping experience for our customers by providing an optimal viewing experience regardless of the device being used to shop. We had over 69 million visits to verabradley.com during fiscal 2014.

Outlet Stores. Our outlet stores are a vehicle for selling retired merchandise at discounted prices, while maintaining brand integrity. We believe our outlet stores are an integral part of our distribution strategy, as this format provides an additional channel of distribution for our products and enables us to better target value-oriented customers. Our outlet stores average approximately 3,000 square feet per store. As of February 1, 2014, we operated 15 outlet stores.

International. We launched a marketing campaign to connect with the Japanese consumer on April 18, 2011. This campaign included seven temporary pop-up stores in several department stores including Isetan Shinjuku and Marui Yurakucho located across Tokyo and Kyoto. The international channel includes the Japanese website verabradley.co.jp launched in fiscal 2012. As of February 1, 2014, we operated 13 Japanese department store locations.

Annual Outlet Sale. Our annual outlet sale is held in the Allen County War Memorial Coliseum Exposition Center in Fort Wayne, Indiana. The annual outlet sale is an important tradition for Vera Bradley, has many loyal followers, and is an opportunity for us to sell our retired merchandise at discounted prices in a brand-right fashion. We attracted approximately 68 thousand attendees to our 2013 annual outlet sale.

Store Location Selection Strategy

Our store location decisions are made case by case, depending on the retail strategy we have developed for the particular market. This includes actual and planned penetration in both Indirect and Direct segments, as well as existing e-commerce demand. At this time, we do not believe any market has been fully penetrated. We believe that expansion of our store base complements our Indirect segment by increasing brand awareness and reinforcing our brand image. In addition to analyzing store economics, we pay particular attention to the location within the shopping center, the size and shape of the space, and desirable co-tenancies. Along with seeking co-tenants that we believe share our target customer, we seek a balanced mix of moderate and high-end retailers to encourage high levels of traffic. Our target full-price store size is approximately 1,800 square feet, but we are able to work with spaces as small as 1,000 square feet or, depending on our market strategy and relevant economic factors, spaces as large as 2,800 square feet.

Store Operations

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

Store Economics

We believe that our innovative retail concept and distinctive retail experience contribute to the success of our stores, most of which generate strong productivity and returns. We expect our full-price stores to average approximately 1,800 square feet per store, and we expect to invest approximately $0.4 million per new store, consisting of inventory costs, pre-opening costs, and build-out costs, less tenant-improvement allowances. New full-price stores generate on average between $1.2 million and $1.4 million in net revenues during the first twelve months, and the payback on our investment is expected to occur in less than 18 months.

Indirect Segment

As of February 1, 2014, we had approximately 3,100 Indirect retailer partners, the majority of which were specialty retailers with whom we have had long-standing relationships. The top 30% of our specialty retailers account for over 70% of revenue from our specialty retailers. No single account represented more than 5% of total Indirect net revenues in fiscal 2014, with the top ten accounts representing in the aggregate less than 24% of total Indirect net revenues. The majority of our Indirect retailers have been customers for over five years. In fiscal 2012, we launched our products in the department store channel.

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Sales Force
We believe that having an in-house sales force results in more consistent brand presentation and messaging, enhanced support for our Indirect retailers, and a more predictable, scalable, and cost-efficient business model. As of February 1, 2014, our sales team consisted of 84 in-house, full-time sales consultants. The compensation structure for our sales consultants consists of a combination of fixed pay and sales-based incentives.
In addition to acquiring new and growing existing accounts, our sales consultants serve as a support center for our Indirect retailers by assisting and educating them in areas such as merchandising and visual presentation, marketing of the brand, product selection, and inventory management. Our sales consultants also participate in our semi-annual product introduction and education event for our Indirect retailers. Our visual merchandising program provides our sales consultants with a framework to guide our Indirect retailers regarding optimal product placement and display that is intended to reinforce the message that our brand is distinct from those of our competitors.
Manufacturing and Supply Chain Model
Our manufacturing and supply chain model is designed to maximize flexibility in order to meet shifting demands in the market. Our model utilizes offshore raw material suppliers and a blend of offshore and domestic manufacturing. We place a strong emphasis on continuous improvement and have employed lean manufacturing concepts. Our broad-based, multi-country manufacturing and supply chain model is designed to achieve efficient, timely, and accurate order fulfillment while maintaining appropriate levels of inventory.
Our sourcing strategy is part of the larger cross-functional product development process. The overall objective for our sourcing team is to build and sustain collaborative partnerships throughout our supply chain, with a focus on identifying appropriate countries and partners to manufacture our products. The sourcing team leverages its expertise in negotiation, relationship management, and change management to maintain a strong global supply chain.
We strive to maintain the appropriate balance of inventory to enable us to provide a high level of service to our customers, including prompt and accurate delivery of our products. We have an active sales and operations planning process that helps us balance the supply and demand issues that we encounter in our business, optimize our inventory levels, and anticipate inventory needs. We have also integrated our planning, forecasting, and segmentation processes under one function called Merchandise Planning and Allocation.
The majority of our products are cotton-based. Our other products are made primarily from specialty fabrics (including nylon and microfiber) and paper. We source our materials from various suppliers in Asia, with the majority coming from China and South Korea. Our global supply chain and purchasing teams work together with select suppliers enabling us to optimize the mix of cost, lead time, quality, and reliability within our global supply network. All of our suppliers must comply with our quality standards, and we use only a limited number of pre-approved suppliers who have demonstrated a commitment to delivering the highest quality products. In December 2008, we opened an office in Dongguan, China, which enables us to increase our control over the manufacturing and supply chain process and monitor compliance with our quality standards.
A significant majority of our finished goods products are manufactured externally overseas. These products are made by a variety of global manufacturers located primarily in China. We are not dependent upon any single manufacturer for our products. When determining the size of orders placed with our manufacturers, we take into account forward-looking demand, lead times for specific products, current inventory levels, and minimum order quantity requirements. Overseas production has resulted in substantial cost savings and a reduction of capital investment. With the oversight of our office in China and our independent contractors, we believe these financial benefits have been realized without sacrificing the level of quality inherent in our products or service to our customers.
The remainder of our products are manufactured in the United States to provide flexibility in our supply chain. This production, almost all of which is internal to Vera Bradley, enables us to manufacture a finished product in two weeks. This capability allows us to respond quickly to shifts in marketplace demand and changes in consumer preferences. In fiscal 2014, approximately 6.1% of our units were produced in our domestic manufacturing facility.
Distribution Center
In 2007, we consolidated our warehousing and shipping functions into one, 217,320 square-foot distribution center, located in Roanoke, Indiana. In fiscal 2013, we completed a 200,000 square-foot expansion of the distribution facility. This highly automated, computerized facility allows Vera Bradley employees to receive information directly from the

order-collection center and quickly identify the products and quantities necessary for a particular order. The recent expansion resulted in capacity gains in the areas of inbound receiving, inventory storage, order fulfillment, value-add processing and shipping. The facility's advanced technology enables us to more accurately process and pack orders, as well as track shipments and inventory.

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We believe that our systems for the processing and shipment of orders from our distribution center have enabled us to improve our overall customer service through enhanced order accuracy and reduced turnaround time.

We strive to maintain the appropriate balance of inventory to enable us to provide a high level of service to our customers, including prompt and accurate delivery of our products. We have an active Merchandise Planning and Allocation function that strives to balance the supply and demand issues that we encounter in our business, optimize our inventory levels, and anticipate inventory needs.

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

Management Information Systems

We believe that high levels of automation and technology are essential to maintain our competitive position. We maintain computer hardware, systems applications, and networks to enhance and accelerate the design process, to support the sale and distribution of our products to our customers, and to improve the integration and efficiency of our operations. Our management information systems are designed to provide, among other things, comprehensive order processing, production, accounting, and management information for the product development, retail, sales, marketing, manufacturing, distribution, finance, and human resources functions of our business. We use several systems, including MICROS-Retail, SAP, JDA, and SCALE, for our information technology requirements.

Competition

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

The market for handbags, in particular, is highly competitive. Our competitors include not only established companies that are expanding their production and marketing of handbags, but also frequent new entrants to the market. We directly compete with wholesalers and direct sellers of branded handbags and accessories, such as Coach, Nine West, Liz Claiborne, Dooney & Bourke, Kate Spade, and Michael Kors.

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

Copyrights and Trademarks

The development of each new pattern includes the design of an overall print, a complementary fabric backing, and coordinating trim materials. Once developed, we generally copyright each pattern, including the print, fabric backing, and coordinating trim. We currently have in excess of 650 copyrights.

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

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Employees

As of February 1, 2014, we had approximately 2,900 employees. Of the total, 1,850 were engaged in retail selling positions, 350 were engaged in manufacturing functions, 35 were engaged in product design, and 325 were engaged in corporate support and administrative functions. The remaining employees were engaged in other aspects of our business. None of our employees are represented by a union. We believe that our relations with our employees are good, and we have never encountered a significant work stoppage.

Government Regulation

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

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

Executive Officers

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

Name	Age	Position(s)
Robert Wallstrom	48	Chief Executive Officer, President and Director
Barbara Bradley Baekgaard	75	Co-Founder, Chief Creative Officer, and Director
Kevin J. Sierks	41	Executive Vice President – Chief Financial Officer
Sue Fuller	39	Executive Vice President – Chief Merchandising Officer
Kimberly F. Colby	52	Executive Vice President – Design
C. Roddy Mann	44	Executive Vice President – Strategy & Operations
Anastacia S. Knapper	39	Senior Vice President – General Counsel and Corporate Secretary
David O. Thompson	49	Senior Vice President – Multi-Channel Commerce

Robert Wallstrom has served as our Chief Executive Officer, President and Director since November 2013. Prior to joining Vera Bradley, Mr. Wallstrom served as President of Saks Fifth Avenue's OFF 5TH division from 2007 until November 2013. Previously, he was Group Senior Vice President and General Manager of Saks' flagship New York store from 2002 to 2007, where he articulated a vision to return the store to its luxury heritage and dramatically improve merchandising, service and the in-store experience. Prior to joining Saks, Mr. Wallstrom held a variety of roles of increasing responsibility at Macy's Inc. from 1987 to 1995 and began his career in 1983 at J. W. Robinson department stores.

Barbara Bradley Baekgaard co-founded Vera Bradley in 1982 and has served as a director since then. From 1982 through June 2010, she also served as Co-President. From the outset, Ms. Bradley Baekgaard has provided leadership and strategic direction in our brand's development by providing creative vision to areas such as marketing, product design, assortment planning, and the design and visual merchandising of our stores. In May 2010, she was appointed Chief Creative Officer. She currently serves as a board member of the Indiana University Cancer Center Development and the Vera Bradley Foundation for Breast Cancer.

As Co-Founder of Vera Bradley, Ms. Bradley Baekgaard serves a key leadership role on our board of directors and provides the board with a broad array of institutional knowledge and historical perspective as well as an in-depth knowledge of business strategy, branding, product development, and store design.

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Kevin J. Sierks has served as our Chief Financial Officer since February 2014. Mr. Sierks joined the Company as the Vice President – Controller and Chief Accounting Officer in December 2011, and also served as the Interim Chief Financial Officer starting in January 2013. Prior to joining Vera Bradley, from 2007 to 2011 Mr. Sierks served as Vice President – Controller at Biomet, Inc., a large orthopedic medical device company. Mr. Sierks previously served as Director of Accounting and U.S. Shared Services at Boston Scientific Corporation from 2005 to 2007. From 2002 to 2005, Mr. Sierks served as Director of Financial Reporting and Business Development at Guidant Corporation, which was acquired by Boston Scientific Corporation in 2006. Formerly, Mr. Sierks was with Deloitte & Touche from 1995 to 2002, departing as an Audit Manager. Mr. Sierks is a Certified Public Accountant.

Sue Fuller has served as our Executive Vice President – Chief Merchandising Officer since January 2014. Prior to joining Vera Bradley, Ms. Fuller served as Senior Vice President, General Merchandise Manager of Carhartt, Inc. from July 2010 through November 2013. Between 2005 and July 2010, she served in various roles of increasing responsibility with Kohl’s Department Stores, including Director, Product Development for Juniors Private Label. She gained prior experience with L.L. Bean, Lands’ End and Polo Ralph Lauren.

Kimberly F. Colby has served as our Executive Vice President – Design since 2005. From 2003 through 2005, she served as our Vice President of Design. From 1989 to 2003, Ms. Colby served as our Design Director responsible for Marketing and Product Development. Ms. Colby’s professional history includes retail advertising, public relations, direct mail creative direction and management, special event planning, and interior design.

C. Roddy Mann has served as our Executive Vice President – Strategy and Operations since February 2014. From April 2010 to February 2014, Mr. Mann served as our Executive Vice President – Strategy and Business Development. Mr. Mann is responsible for the development of our strategies and new business opportunities in both our Indirect and Direct channels, as well as manufacturing and distribution. From 2007 to April 2010, Mr. Mann served as our Vice President – Strategy, Sales and Marketing. From 2006 to 2007, he served as Vice President – Strategic Initiatives. Prior to joining Vera Bradley, Mr. Mann was a Vice President at LakeWest Group, a consulting firm based in Cleveland, Ohio, from 1999 to 2006. In 2006, in a consulting capacity, Mr. Mann assisted us with the development of our Direct retail store strategy and execution plans.

Anastacia S. Knapper has served as our Senior Vice President – General Counsel, Corporate Secretary since February 2014. Ms. Knapper joined the Company in 2011 as the Vice President – General Counsel, Corporate Secretary. Prior to joining Vera Bradley, Ms. Knapper served as the Vice President – General Counsel, Corporate Secretary for CTS Corporation from January 2011 to November 2011 and the Vice President – General Counsel, Corporate Secretary for Haynes International, Inc. from August 2006 to December 2010. Formerly, Ms. Knapper was with Ice Miller LLP from August 2000 to August 2006, where she departed as a Senior Associate.

David O. Thompson has served as our Senior Vice President - Multi-Channel Commerce since 2013. From 2008 to 2013, Mr. Thompson served as Vice President – Direct Sales. Prior to joining Vera Bradley, Mr. Thompson was a Senior Consultant, Manager and Vice President at LakeWest Group from 1998 to 2008. Prior to working at LakeWest Group, he served in various retail positions at OfficeMax, based in Cleveland, Ohio, and Bradlees, based in Braintree, Massachusetts. With over 20 years of experience in the retail industry, Mr. Thompson has expertise in retail operations, web operations, business process improvements, and information technology in traditional retail, catalog and e-commerce channels.

Available Information

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

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Item 1A. Risk Factors

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

Risks Related to Our Business

If we are unable to successfully implement our growth strategies or manage our growing business, our future operating results could suffer.

The success of our growth strategies, alone or collectively, will depend on various factors, including the appeal of our product designs, retail presentation to consumers, competitive conditions, and economic conditions. If we are unsuccessful in implementing some or all of our strategies or initiatives, our future operating results could be adversely impacted.

Successful implementation of our strategies will require us to manage our growth. To manage our growth effectively, we will need to continue to increase production while maintaining strict quality control. We also will need to continue to improve and invest in our systems and processes to keep pace with planned increases in demand. We could suffer a decline in sales if our products do not continue to meet our quality control standards or if we are unable to respond adequately to increases in customer demand for our products.

We are continuing to invest in our specialty retailers to support them in growing along with Vera Bradley. This channel will continue to evolve over time as we balance the channel dynamics between the specialty retailers, department stores, our Direct stores, and e-commerce. We sell our wholesale merchandise primarily to specialty retailers and department stores substantially located in the United States and extend credit based on an evaluation of each customer’s financial condition, without requiring collateral. However, the financial difficulties of a specialty retail customer could cause us to limit or eliminate our business with that customer.

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

Our performance is subject to general economic conditions and their impact on levels of consumer confidence and consumer spending. In recent years, consumer confidence and consumer spending deteriorated significantly, influenced by fluctuating interest rates and credit availability, changing fuel and other energy costs, fluctuating commodity prices, higher levels of unemployment and consumer debt levels, reductions in net worth based on market declines, home foreclosures and reductions in home values, general uncertainty regarding the overall future economic environment, and weather and weather-related phenomenas. Consumer purchases of discretionary items, including our merchandise, generally decline during periods when disposable income is adversely affected or there is economic uncertainty, and this could adversely impact our results of operations. In the event of another significant economic downturn, we could experience lower than expected net revenues, which could force us to delay or slow the implementation of our growth strategies and adversely impact our results of operations.

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

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

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

Our continued growth will depend on our ability to successfully open and operate new stores. We plan to open approximately 20 to 25 new stores during each of the next five fiscal years. Our ability to successfully open and operate new stores depends on many factors, including our ability to:

- identify suitable store locations, the availability of which may be uncertain;

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- negotiate acceptable lease terms, including desired tenant improvement allowances;
- hire, train, and retain store personnel and management;
- assimilate new store personnel and management into our corporate culture;
- source and manufacture inventory; and
- successfully integrate new stores into our existing operations and information technology systems.

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

Our business depends on a strong brand. If we are unable to maintain and enhance our brand, then we may be unable to sell our products, which could adversely impact our results of operations.

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

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

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

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

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

- the timing of new store openings;
- net revenues and profits contributed by new stores;
- increases or decreases in comparable-store sales;
- shifts in the timing of holidays, particularly in the United States and China;
- changes in our merchandise mix;
- timing of sales to Indirect retailers; and
- the timing of new pattern releases and new product introductions.

As a result of these quarterly fluctuations, we believe that comparisons of our sales and operating results between different quarters within a single fiscal year are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of our future performance. Any quarterly fluctuations that we report in the future may not match the expectations of market analysts and investors. This could cause the trading price of our common stock to fluctuate significantly.

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

We are dependent on information technology systems and networks, including the Internet, for a significant portion of our Direct store sales, including our e-commerce operations and retail business credit card transaction authorization and processing. We are also responsible for storing data relating to our customers and employees and rely on third parties for the operation of our e-commerce websites and for the various social media tools and websites we use as part of our marketing strategy. As part of our normal course of business, we often collect, retain, and transmit certain sensitive and confidential customer information, including credit card information, over public networks. There is a significant concern by consumers and employees over the security of personal information transmitted over the Internet, consumer identity theft and user privacy. Despite the security measures we currently have in place, our facilities and systems and those of our third party service providers may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any electronic or physical security breach involving the misappropriation, loss or other unauthorized disclosure of confidential or personally identifiable information, including penetration of our network security, whether by us or by a third-party, could disrupt our business, severely damage our reputation and our relationships with our customers, expose us to risks of litigation and liability and adversely affect our business and results of operations. Since we do not control third-party service providers and cannot guarantee that no electronic or physical computer break-ins and security breaches will occur in the future, any perceived or actual unauthorized disclosure of personally identifiable information regarding our customers or website visitors could harm our reputation and credibility, reduce our e-commerce net sales, impair our ability to attract website visitors and reduce our ability to attract and retain customers. We may also incur significant costs in complying with the various applicable state, federal and foreign laws regarding unauthorized disclosure of personal information.

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

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

Our inability to meet market expectations of comparable-store sales could cause our stock price to decline.

We may not be able to sustain the levels of comparable-store sales that we have experienced in the recent past. If our future comparable-store sales fail to meet market expectations, then the price of our common stock could decline. Also, the aggregate results of operations of our stores have fluctuated in the past and will fluctuate in the future. Numerous factors influence comparable-store sales, including fashion trends, competition, national and regional economic conditions, pricing, inflation, the timing of the release of new merchandise and promotional events, changes in our merchandise mix, inventory shrinkage, marketing programs, changes in consumer shopping trends towards on-line shopping, and weather conditions. In addition, many companies with retail operations have been unable to sustain high levels of comparable-store sales during and after periods of substantial expansion. These factors may cause our comparable-store sales results to be lower in the future than in recent periods or lower than expectations, either of which could result in a decline in the price of our common stock.

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

We currently own our distribution and design center facilities. We lease our corporate headquarters, our other offices, and all of our store locations. We typically occupy our stores under operating leases with terms of ten years. We have been able to negotiate favorable rental rates in recent years due in part to the state of the economy and high vacancy rates within some shopping centers, but there is no assurance that we will be able to continue to negotiate such favorable terms. Some of our leases have early cancellation clauses, which permit the lease to be terminated by us or the landlord if certain sales levels are not met in specific periods or if the shopping center does not meet specified occupancy standards. In addition to requiring future minimum lease payments, some of our store leases provide for the payment of common area maintenance charges, real property insurance, and real estate taxes. Many of our lease agreements have escalating rent provisions over the initial term and any extensions. As we expand our store base, our lease expense and our cash outlays for rent under lease agreements will increase. Our substantial operating lease obligations could have significant negative consequences, including:

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

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

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

We operate in a competitive market. Our competitors might develop products that are more popular with consumers than our products.

The market for handbags, accessories, and travel and leisure items is competitive. Our competitive challenges include:

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

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

We rely on various contract manufacturers to produce a significant majority of our products and generally do not have long-term contracts with our manufacturers. Disruptions in our contract manufacturers' systems, losses of manufacturing certifications, or other actions by these manufacturers could increase our cost of sales, adversely affect our net revenues, and injure our reputation and customer relationships, thereby harming our business.

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

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We rely on various suppliers to supply a significant majority of our raw materials. Disruption in the supply of raw materials could increase our cost of goods sold and adversely affect our net revenues.

We generally do not enter into long-term formal written agreements with our suppliers and typically transact business with each of them on an order-by-order basis. As a result, we cannot assure that there will be no significant disruption in the supply of fabrics or raw materials from our current sources or, in the event of a disruption, that we would be able to locate alternative suppliers of materials of comparable quality at an acceptable price, or at all.

We rely on a single distribution facility for all of the products we sell. Disruption to that facility could adversely impact our results of operations, and expansion of that facility could have unpredictable adverse effects.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We face various risks as an e-commerce retailer.

Business risks relating to e-commerce sales include the need to keep pace with rapid technological change, internet security risks, risks of system failure or inadequacy, governmental regulation, and taxation. We have contracted with several different companies to maintain and operate various aspects of our e-commerce business and are reliant on them and their ability to perform their tasks, as well as their operational, privacy, and security procedures and controls as they affect our business. If the independent contractors on which we rely fail to perform their tasks, we could incur liability or suffer damages to our reputation, or both.

Our copyrights, trademarks and other proprietary rights could conflict with the rights of others, and we may be inhibited from selling some of our products. If we are unable to protect our copyrights and other proprietary rights, others may sell imitation brand products.

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

Prior to the completion of the Reorganization, we were treated as an "S" Corporation under Subchapter S of the Internal Revenue Code, and claims of taxing authorities related to our prior status as an "S" Corporation could harm us.
Upon the completion of the Reorganization in fiscal 2011, our "S" Corporation status terminated automatically and we became subject to increased federal and state income taxes. If the unaudited, open tax years in which we were an "S" Corporation are audited by the Internal Revenue Service, and we are determined not to have qualified for, or to have violated, our "S" Corporation status, we will be obligated to pay back taxes, interest, and penalties, and we do not have the right to reclaim tax distributions we have made to our shareholders during those periods. These amounts could include taxes on all of our taxable income while we were an "S" Corporation. Any such claims could result in additional costs to us and could have a material adverse effect on our results of operations and financial condition.
Fluctuations in our tax obligations and effective tax rate may result in volatility of our operating results and stock price.
We are subject to income taxes in many U.S. and certain foreign jurisdictions. We record tax expense based on our estimates of future payments, which includes reserves for uncertain tax positions in multiple tax jurisdictions. At any one time, many tax years are subject to audit by various taxing jurisdictions. Further, possible changes in federal, state, local, and non-U.S. tax laws bearing upon our revenues, income, property, or other aspects of our operations or business would, if enacted, affect our results of operations in ways and to a degree that we cannot currently predict.
Additional indebtedness may decrease business flexibility and increase borrowing costs.
As of February 1, 2014, we had no outstanding borrowings under our amended and restated credit agreement, compared to $15.0 million outstanding under our former credit facility as of February 2, 2013. Future indebtedness, if any, could have the effect, among other things, of:

- reducing the availability of cash flow from operations to fund working capital, capital expenditures and other general corporate purposes;
- increasing our vulnerability to adverse general economic and industry conditions;
- limiting our ability to adapt to changes in our business and the industry in which we operate; and
- placing us at a competitive disadvantage compared to companies that have less debt.

We plan to use cash provided by operating activities to fund our expanding business and execute our growth strategies and may require additional capital, which may not be available to us.
Our business relies on cash provided by operating activities as our primary source of liquidity. To support our growing business and execute our growth strategies, we will need significant amounts of cash from that source. If our business does not generate cash flow from operating activities sufficient to fund these activities, and if sufficient funds are not otherwise available to us from our existing revolving credit facility, we will need to seek additional capital, through debt or equity financings, to fund our growth. If new sources of financing are required, but are insufficient or unavailable, then we will be required to modify our growth and operating plans based on available funding, if any, which would inhibit our growth and could harm our business.
Our Indirect business could suffer as a result of bankruptcies or operational or financial difficulties of our Indirect retailers.
We do not enter into long-term agreements with any of our Indirect retailers. Instead, we enter into a number of purchase order commitments with our customers for each of our lines every season. A decision by a significant number of Indirect retailers, whether motivated by competitive conditions, operational or financial difficulties, reduced access to capital, or otherwise, to decrease or eliminate the amount of merchandise purchased from us or to change their manner of doing business with us could adversely impact our results of operations. Although we recommend retail sale prices for our products to our Indirect retailers, we do not provide dealer allowances or other economic incentives to support those prices. Possible promotional pricing or discounting by Indirect retailers in response to softening retail demand could have a negative effect on our brand image and prestige, which might be difficult to counteract as the economy improves.
We sell our Indirect merchandise primarily to specialty retail stores across the United States and extend trade credit based on an evaluation of each Indirect retailer's financial condition, usually without requiring collateral. Perceived financial difficulties of a customer could cause us to curtail or eliminate business with that customer. Pending the resolution of a relationship with a financially troubled Indirect retailer, we might assume credit risk that we would

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

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

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

Health care reform could adversely affect the Company’s business.

In 2010, Congress enacted comprehensive health care reform legislation which, among other things, includes guaranteed coverage requirements, eliminates pre-existing condition exclusions and annual and lifetime maximum limits, restricts the extent to which policies can be rescinded, and imposes new and significant taxes on health insurers and health care benefits. Due to the breadth and complexity of the health reform legislation, the current lack of implementing regulations and interpretive guidance, and the phased-in nature of the implementation, it is difficult to predict the overall effect of the legislation and related regulations on the business over the coming years. Possible adverse effects of the health reform legislation include increased costs, exposure to expanded liability and requirements for the Company to revise ways in which it conducts business.

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

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

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

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

These and other factors may result in a lower market price of our common stock, regardless of our actual operating performance. As a result, our common stock may trade at prices significantly below the offering price.

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

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

Michael Ray (former CEO and Ms. Bradley Baekgaard's son in-law), Robert Hall, Barbara Bradley Baekgaard, Joan Hall (Mr. Hall's wife and Ms. Bradley Baekgaard's daughter), Patricia R. Miller and P. Michael Miller, directly or indirectly, beneficially own and have the ability to exercise voting control over, in the aggregate, 43.6% of our outstanding shares of common stock. As a result, these shareholders are able to exercise significant influence over all matters requiring shareholder approval, including the election of directors, any amendments to our second amended and restated articles of incorporation and significant corporate transactions. This concentrated ownership of outstanding common stock may limit your ability to influence corporate matters, and the interests of these shareholders may not coincide with our interests or your interests. As a result, we may take actions that you do not believe to be in our interests or your interests and that could depress our stock price. In addition, this significant concentration of stock ownership may adversely affect the trading price of our common stock should investors perceive disadvantages in owning shares of common stock in a company that has such concentrated ownership.

Our actual operating results may differ significantly from our guidance.

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

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

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

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

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

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

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

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

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table sets forth the location, use, and size of our manufacturing, distribution, and corporate facilities as of February 1, 2014. The leases on the leased properties expire at various times through 2016, subject to renewal options.

Location	Primary Use	Square Footage	Leased /Owned
Fort Wayne, Indiana	Corporate headquarters	27,287	Leased*
Roanoke, Indiana	Design center and showroom	39,269	Owned**
Roanoke, Indiana	Warehouse and distribution	418,500	Owned***
Fort Wayne, Indiana	Support staff	66,886	Leased
Fort Wayne, Indiana	Sewing and quilting	125,356	Leased
New York, New York	Product design and showroom	2,505	Leased
Dongguan City, China	China office	6,962	Leased
Atlanta, Georgia	Showroom	5,172	Leased
Dallas, Texas	Showroom	1,782	Leased

* This property is owned by Milburn, LLC, a leasing company in which Barbara Bradley Baekgaard owns a 50% interest and Patricia R. Miller and P. Michael Miller each own a 25% interest. See Item 13, “Certain Relationships and Related Transactions, and Director Independence,” of this report for additional information regarding this property.

** This property was purchased from Great Dane Realty, LLC, a company owned by Barbara Bradley Baekgaard, in December 2013. See Item 13, “Certain Relationships and Related Transactions, and Director Independence,” of this report for additional information regarding this property.

*** The 200,000 square-foot expansion of the distribution facility was completed in fiscal 2013.

As of February 1, 2014, we also leased 105 store locations in the United States, including 6 store locations opened or to be opened in fiscal 2015. See below for more information regarding the locations of our open stores as of February 1, 2014.

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

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Store Locations

Our full-price stores are located primarily in high-traffic regional malls, lifestyle centers, and mixed-use shopping centers across the United States. The following table shows the number of full-price and outlet stores we operated in each state as of February 1, 2014:

State	Total Number of Full-Price Stores	Total Number of Outlet Stores	State	Total Number of Full-Price Stores	Total Number of Outlet Stores
Alabama	1	—	Michigan	3	—
Arizona	2	—	Minnesota	2	—
California	4	—	Missouri	2	1
Colorado	1	—	New Jersey	6	—
Connecticut	2	—	New York	7	2
Delaware	1	—	North Carolina	2	—
Florida	4	2	Ohio	2	—
Georgia	3	—	Oklahoma	2	—
Hawaii	1	—	Pennsylvania	4	2
Illinois	5	1	Rhode Island	1	—
Indiana	2	1	Tennessee	2	1
Iowa	1	—	Texas	11	2
Kansas	1	—	Virginia	1	2
Kentucky	1	—	Washington	1	—
Maryland	4	—	Wisconsin	1	—
Massachusetts	4	1	Totals	84	15

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosure

Not Applicable

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PART II

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

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

	High	Low
Fiscal 2014 Quarter ended:		
February 1, 2014	$25.72	$21.85
November 2, 2013	23.37	17.27
August 3, 2013	26.33	19.50
May 4, 2013	27.15	20.90
Fiscal 2013 Quarter ended:		
February 2, 2013	$30.25	$22.00
October 27, 2012	31.00	20.22
July 28, 2012	26.38	18.91
April 28, 2012	39.48	26.00

As of March 25, 2014, we had approximately 25 registered shareholders of record. The number of shareholders of record is based upon the actual number of shareholders registered at such date and does not include holders of shares in "street names" or persons, partnerships, associations, corporations, or other entities identified in security position listings maintained by depositories.

Dividends

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

Prior to our initial public offering, as an "S" Corporation, we distributed annually to our shareholders amounts sufficient to cover their tax liabilities, due to the income that flowed through the shareholders' tax returns. Additional amounts were distributed from time to time to our shareholders at the discretion of the board of directors. During fiscal 2011, we paid distributions of $132.8 million to our shareholders, which included a final distribution (resulting from the termination of our "S" Corporation status) of 100% of our undistributed taxable income from the date of our formation through October 2, 2010.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information regarding equity securities authorized for issuance under our equity compensation plans as of February 1, 2014:

Plan Category	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	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)	400,029	—	5,675,972
Equity compensation plans not approved by security holders	—	—	—
Total	400,029	—	5,675,972

(1) Approved before our initial public offering.

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Stock Performance Graph

The graph set forth below compares the cumulative shareholder return on our common stock between October 21, 2010 (the date of our initial public offering), and February 1, 2014, to the cumulative return of (i) the S&P 500 Index and (ii) the S&P 500 Apparel, Accessories, and Luxury Goods Index over the same period. This graph assumes an initial investment of $100 on October 21, 2010, in our common stock, the S&P 500 Index, and the S&P 500 Apparel, Accessories, and Luxury Goods Index and assumes the reinvestment of dividends, if any. The graph also assumes that the initial price of our common stock on October 21, 2010, was the initial public offering price of $16.00 per share and that the initial prices of the S&P 500 Index and the S&P 500 Apparel, Accessories, and Luxury Goods Index on October 21, 2010, were the closing prices on the previous trading day.

The comparisons shown in the graph below are based on historical data. We caution that the stock price performance presented in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock. Information used in the graph was obtained from The NASDAQ Stock Market website; we do not assume responsibility for any errors or omissions in such information.

Company/Market/Peer Group	10/21/2010	1/29/2011	1/28/2012	2/2/2013	2/1/2014
Vera Bradley, Inc.	$100.00	$211.56	$214.56	$161.25	$150.12
S&P 500 Index	$100.00	$108.89	$114.69	$134.89	$162.28
S&P 500 Apparel, Accessories, and Luxury Goods Index	$100.00	$110.58	$157.90	$146.75	$170.15

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Item 6. Selected Financial Data

The following tables present selected consolidated financial and other data as of and for the years indicated. The selected income statement data for the most recent three fiscal years presented and the selected balance sheet data as of February 1, 2014 and February 2, 2013 are derived from our audited consolidated financial statements included in Item 8 of this report. The selected income statement data for the fiscal years ended January 29, 2011, and January 29, 2010, and selected balance sheet data as of January 28, 2012, January 29, 2011, and January 29, 2010, are derived from our audited consolidated financial statements that are not included elsewhere in this report. The historical results presented below are not necessarily indicative of the results to be expected for any future period. You should read this selected consolidated financial and other data in conjunction with the consolidated financial statements and related notes and the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this report.

	Fiscal Year Ended (1)				
($ in thousands, except per share data and as otherwise indicated)	February 1, 2014	February 2, 2013	January 28, 2012	January 29, 2011	January 29, 2010
Consolidated Statement of Income Data:					
Net revenues	$536,021	$541,148	$460,843	$366,057	$288,940
Cost of sales	240,589	232,867	203,220	156,910	137,803
Gross profit	295,432	308,281	257,623	209,147	151,137
Selling, general, and administrative expenses	205,957	204,412	169,427	163,053	116,168
Other income	4,776	6,277	7,975	7,225	10,743
Operating income	94,251	110,146	96,171	53,319	45,712
Interest expense, net	382	679	1,147	1,625	1,604
Income before income taxes	93,869	109,467	95,024	51,694	44,108
Income tax expense (2)	35,057	40,597	37,103	5,496	889
Net income	$58,812	$68,870	$57,921	$46,198	$43,219
Basic weighted-average shares outstanding (3)	40,599	40,536	40,507	36,813	35,441
Diluted weighted-average shares outstanding (3)	40,648	40,571	40,542	36,851	35,441
Basic net income per share (3)	$1.45	$1.70	$1.43	$1.25	$1.22
Diluted net income per share (3)	1.45	1.70	1.43	1.25	1.22
Net Revenues by Segment:					
Direct	$326,217	$292,564	$225,287	$151,118	$96,111
Indirect	209,804	248,584	235,556	214,939	192,829
Total	$536,021	$541,148	$460,843	$366,057	$288,940
Store Data (4):					
Total stores open at end of year	99	76	56	39	27
Comparable-store sales (decrease) increase (5)	(5.7)%	3.4%	10.9%	25.8%	36.4%
Total gross square footage at end of year	207,096	156,310	113,504	74,426	50,506
Average net revenues per gross square foot (6)	$887	$1,083	$1,042	$851	$615

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($ in thousands)	As of February 1, 2014	February 2, 2013	January 28, 2012	January 29, 2011	January 29, 2010
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$59,215	$9,603	$4,922	$13,953	$6,509
Working capital	186,543	145,641	106,234	91,919	61,238
Total assets	332,927	277,319	219,513	206,039	153,752
Long-term debt, including current portion	—	15,095	25,184	67,017	30,136
Shareholders' equity	255,147	194,255	124,007	64,322	77,893

(1) The Company utilizes a 52-53 week fiscal year. Fiscal years 2014, 2012, 2011 and 2010 consisted of 52 weeks. Fiscal 2013 consisted of 53 weeks.

(2) On October 3, 2010, we converted from an "S" Corporation to a "C" Corporation for income-tax purposes and became subject to corporate level federal and state income taxes at prevailing corporate rates.

(3) Adjusted all historical share and per share information to reflect this stock split.

(4) Includes full-price and outlet stores. Our first full-price store opened in September 2007 and our first outlet store opened in November 2009.

(5) Comparable-store sales are the net revenues of our stores that have been open at least 12 full fiscal months as of the end of the period. Increase or decrease is reported as a percentage of the comparable-store sales for the same period in the prior fiscal year. Remodeled stores are included in comparable-store sales unless the store was closed for a portion of the current or comparable prior period or the remodel resulted in a significant change in square footage. Calculation excludes e-commerce sales and sales for the 53rd week in fiscal 2013.

(6) 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.

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

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

Executive summary

Below is a summary of our strategic progress and financial highlights:

Strategic Progress

- We successfully opened 23 new full-price and outlet stores during the year in both current and underpenetrated markets.
- Over 69 million people visited verabradley.com, an 11% increase over the prior year. We consistently rank among the top in number of annual website visits compared to our most closely related peer companies.
- In August, we announced the expansion of our current design and distribution centers, both of which are located just outside of Fort Wayne, Indiana, to create a company campus for the majority of our office personnel increasing efficiency and ease of collaboration.
- In September, we launched the Vera Bradley for Disney Collection at the Florida World of Disney Store.
- We migrated our website to a responsive design in order to provide a better shopping experience for our customers by providing an optimal viewing experience regardless of the device being used to shop.
- We contributed approximately $1 million to the Vera Bradley Foundation supporting breast cancer research.

Financial Highlights

- Net revenues decreased 0.9% to $536.0 million in fiscal 2014 compared to $541.1 million in fiscal 2013.
- Direct segment sales increased 11.5% to $326.2 million in fiscal 2014 compared to $292.6 million in fiscal 2013. Comparable store net sales for fiscal 2014 decreased 5.7%.
- Indirect segment sales decreased 15.6% to $209.8 million in fiscal 2014 compared to $248.6 million in fiscal 2013.
- Gross profit was $295.4 million (55.1% of net revenue) in fiscal 2014 compared to $308.3 million (57.0% of net revenue) in fiscal 2013.
- Selling, general and administrative expenses were $206.0 million (38.4% of net revenue) in fiscal 2014 compared to $204.4 million (37.8% of net revenue) in fiscal 2013.
- Operating income was $94.3 million (17.6% of net revenue) in fiscal 2014 compared to $110.1 million (20.4% of net revenue) in fiscal 2013.
- Net income was $58.8 million in fiscal 2014 compared to $68.9 million in fiscal 2013.
- Diluted net income per share decreased 14.7% to $1.45 in fiscal 2014 from $1.70 in fiscal 2013.
- Cash and cash equivalents were $59.2 million at February 1, 2014.
- Cash generated from operations was $87.9 million in fiscal 2014 and was used to fund capital expenditures of $22.9 million and pay down debt by $15.0 million in fiscal 2014.

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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-price and outlet stores, department store locations in Japan, our websites, verabradley.com and verabradley.co.jp, and our annual outlet sale in Fort Wayne, Indiana. Revenues for the Indirect segment reflect sales to Indirect specialty retailers and department stores.

Comparable-Store Sales

Comparable-store sales are calculated based upon our stores that have been open at least 12 full fiscal months as of the end of the reporting period. Remodeled stores are included in comparable-store sales unless the store was closed for a portion of the current or comparable prior period or the remodel resulted in a significant change in square footage. Some of our competitors and other retailers calculate comparable or “same store” sales differently than we do. As a result, data in this report regarding our comparable-store sales may not be comparable to similar data made available by other companies. Comparable store sales do not include e-commerce sales.

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

- Overall economic trends;
- Consumer preferences and fashion trends;
- Competition;
- The timing of our releases of new patterns and collections;
- Changes in our product mix;
- Pricing;
- The level of customer service that we provide in stores;
- Our ability to source and distribute products efficiently;
- The number of stores we open and close in any period; and
- The timing and success of promotional and 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 and manufactured 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, and commodity prices such as cotton, and labor in Asia.

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

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

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Other Income

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

Operating Income

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

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.

The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to January 31. As such, fiscal year 2014 ended on February 1, 2014 and reflected a 52-week period; fiscal year 2013 ended on February 2, 2013 and reflected a 53-week period; fiscal year 2012 ended on January 28, 2012 and reflected a 52-week period. The inclusion of the 53rd week in fiscal 2013 resulted in incremental net revenues of approximately \$4.9 million and approximately \$0.02 per diluted share.

	Fiscal Year Ended (1)					
($ in thousands)	February 1, 2014		February 2, 2013		January 28, 2012	
Statement of Income Data:						
Net revenues	$536,021		$541,148		$460,843	
Cost of sales	240,589		232,867		203,220	
Gross profit	295,432		308,281		257,623	
Selling, general, and administrative expenses	205,957		204,412		169,427	
Other income	4,776		6,277		7,975	
Operating income	94,251		110,146		96,171	
Interest expense, net	382		679		1,147	
Income before income taxes	93,869		109,467		95,024	
Income tax expense	35,057		40,597		37,103	
Net income	$58,812		$68,870		$57,921	
Percentage of Net Revenues:						
Net revenues	100.0	%	100.0	%	100.0	%
Cost of sales	44.9	%	43.0	%	44.1	%
Gross profit	55.1	%	57.0	%	55.9	%
Selling, general, and administrative expenses	38.4	%	37.8	%	36.8	%
Other income	0.9	%	1.2	%	1.7	%
Operating income	17.6	%	20.4	%	20.9	%
Interest expense, net	0.1	%	0.1	%	0.3	%
Income before income taxes	17.5	%	20.2	%	20.6	%
Income tax expense	6.5	%	7.5	%	8.1	%
Net income	11.0	%	12.7	%	12.6	%

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

($ in thousands, except as otherwise indicated)	Fiscal Year Ended [(1)] February 1, 2014	February 2, 2013	January 28, 2012
Net Revenues by Segment:			
Direct	$326,217	$292,564	$225,287
Indirect	209,804	248,584	235,556
Total	$536,021	$541,148	$460,843
Percentage of Net Revenues by Segment:			
Direct	60.9 %	54.1 %	48.9 %
Indirect	39.1 %	45.9 %	51.1 %
Total	100.0 %	100.0 %	100.0 %

	Fiscal Year Ended February 1, 2014	February 2, 2013	January 28, 2012
Store Data [(2)]:			
Total stores open at end of period	99	76	56
Comparable-store sales (decrease) increase [(3)]	(5.7)%	3.4 %	10.9 %
Total gross square footage at end of period	207,096	155,919	113,504
Average net revenues per gross square foot [(4)]	$887	$1,083	$1,042

(1) Fiscal 2013 consisted of 53 weeks. All other fiscal years presented consisted of 52 weeks.

(2) Includes full-price and outlet stores.

(3) Comparable-store sales are the net revenues of our stores that have been open at least 12 full fiscal months as of the end of the period. Increase or decrease is reported as a percentage change of the comparable-store sales for the same period in the prior fiscal year. Remodeled stores are included in comparable-store sales unless the store was closed for a portion of the current or comparable prior period or the remodel resulted in a significant change in square footage. Comparable store sales do not include e-commerce sales. Calculation excludes sales for the 53rd week in fiscal 2013.

(4) Dollars not in thousands. Average net revenues per gross square foot are calculated by dividing total net revenues for our stores that have been open at least 12 full fiscal months as of the end of the period by total gross square footage for those stores.

Fiscal 2014 Compared to Fiscal 2013

Net Revenues

For fiscal 2014, net revenues decreased $5.1 million, or 0.9%, to $536.0 million, from $541.1 million for fiscal 2013, primarily due to an additional 7 days included in fiscal 2013 compared to fiscal 2014, which added net revenues of $4.9 million and decreased volume.

Direct. For fiscal 2014, net revenues increased $33.7 million, or 11.5%, to $326.2 million, from $292.6 million for fiscal 2013. This growth resulted primarily from a $31.0 million increase in revenues at our stores due to 23 additional full-price and outlet stores which is offset by a comparable-store sales decrease of $8.4 million, or 5.7%. E-commerce revenues decreased $0.4 million. The decreases in comparable store and e-commerce sales related to year-over-year declines in traffic, a lower average transaction size, and underperformance of the product offering. The number of our stores grew from 76 at the end of fiscal 2013 to 99 at the end of fiscal 2014.

Indirect. For fiscal 2014, net revenues decreased $38.8 million, or 15.6%, to $209.8 million, from $248.6 million for fiscal 2013, primarily due to lower orders from the Company’s specialty retailers combined with closing approximately 400 wholesale accounts during the year, through a combination of remediation, natural attrition, and a more selective approach to opening new specialty gift stores.

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Gross Profit

For fiscal 2014, gross profit decreased $12.8 million, or 4.2%, to $295.4 million, from $308.3 million for fiscal 2013. As a percentage of net revenues, gross profit decreased to 55.1% for fiscal 2014, from 57.0% for fiscal 2013. The decrease in gross margin was due primarily to a $4.8 million inventory write-down, increased year-over-year promotional activity, as well as the sales mix of lower-margin product.

Selling, General and Administrative Expenses (SG&A)

For fiscal 2014, SG&A expenses increased $1.5 million, or 0.8%, to $206.0 million, from $204.4 million for fiscal 2013. As a percentage of net revenues, SG&A expenses were 38.4% and 37.8% for fiscal 2014 and fiscal 2013, respectively. The increase in SG&A expenses as a percent of net revenues was primarily due to fixed expenses being spread over lower revenues in the Indirect segment, the deleveraging of store operating expenses, and the impact of employee-related expenses from headcount added in the first half of fiscal 2014, partially offset by reductions in variable compensation expense associated with Company performance.

Other Income

For fiscal 2014, other income decreased $1.5 million, or 23.9%, to $4.8 million, from $6.3 million for fiscal 2013. The decrease in other income was in line with a decrease in associated advertising costs related to mailers for our specialty retailers.

Operating Income

For fiscal 2014, operating income decreased $15.9 million, or 14.4%, to $94.3 million, from $110.1 million for fiscal 2013. As a percentage of net revenues, operating income was 17.6% and 20.4% for fiscal 2014 and fiscal 2013, respectively. The following table provides additional information about our operating income (in thousands).

	Fiscal Year Ended February 1, 2014	February 2, 2013	$ Change	% Change
Operating Income:				
Direct	$79,877	$85,059	$(5,182)	(6.1)%
Indirect	84,130	101,059	(16,929)	(16.8)%
Less: Unallocated corporate expenses	(69,756)	(75,972)	6,216	(8.2)%
Operating income	$94,251	$110,146	$(15,895)	(14.4)%

Direct. For fiscal 2014, operating income decreased $5.2 million, or 6.1%. As a percentage of Direct segment net revenues, operating income in the Direct segment was 24.5% and 29.1% for fiscal 2014 and 2013, respectively. This decrease as a percentage of net revenues in the Direct segment was primarily due to sales of lower-margin product accounting for a higher percentage of total segment revenue, as well as increased promotional activity.

Indirect. For fiscal 2014, operating income decreased $16.9 million, or 16.8%. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 40.1% and 40.7% for fiscal 2014 and 2013, respectively. This decrease as a percentage of net revenues in the Indirect segment resulted primarily from deleveraging of the relatively fixed SG&A expenses against sales declines.

Corporate Unallocated. For fiscal 2014, unallocated expenses decreased $6.2 million, or 8.2%, primarily as a result of discretionary spending cuts and reductions in variable compensation expense associated with the Company's financial performance.

Interest Expense, Net. For fiscal 2014, net interest expense decreased $0.3 million, or 43.7%, to $0.4 million, from $0.7 million in fiscal 2013. The decrease was due to lower average borrowing levels in fiscal 2014.

Income Tax Expense. For fiscal 2014, we recorded income tax expense of $35.1 million at an effective tax rate of 37.3%, compared to 37.1% for fiscal year 2013.

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Fiscal 2013 Compared to Fiscal 2012

Net Revenues

For fiscal 2013, net revenues increased $80.3 million, or 17.4%, to $541.1 million, from $460.8 million for fiscal 2012, primarily due to increased volume and an additional 7 days included in fiscal 2013 compared to fiscal 2012, which added net revenues of $4.9 million.

Direct. For fiscal 2013, net revenues increased $67.3 million, or 29.9%, to $292.6 million, from $225.3 million for fiscal 2012. This growth resulted primarily from a $44.8 million increase in revenues related to additional full-price and outlet stores; a comparable-store sales increase of $3.4 million, or 3.4%, primarily driven by the improved performance of the product assortment and various in-store events to drive traffic; and an $18.9 million increase in e-commerce revenues due to the continued growth in website traffic. The number of our stores grew from 56 at the end of fiscal 2012 to 76 at the end of fiscal 2013.

Indirect. For fiscal 2013, net revenues increased $13.0 million, or 5.5%, to $248.6 million, from $235.6 million for fiscal 2012, due to growth in the number of department store locations and increased sales volume to our specialty retailers.

Gross Profit

For fiscal 2013, gross profit increased $50.7 million, or 19.7%, to $308.3 million, from $257.6 million for fiscal 2012. As a percentage of net revenues, gross profit increased to 57.0% for fiscal 2013, from 55.9% for fiscal 2012. The increase in gross margin was due primarily to operational efficiencies, lower freight expense, positive channel mix, and lower input costs.

Selling, General and Administrative Expenses (SG&A)

For fiscal 2013, SG&A expenses increased $35.0 million, or 20.6%, to $204.4 million, from $169.4 million for fiscal 2012. As a percentage of net revenues, SG&A expenses were 37.8% and 36.8% for fiscal 2013 and fiscal 2012, respectively. The increase as a percentage of net revenues in SG&A expenses was due primarily to increased headcount expenses and increased store operating expenses.

Other Income

For fiscal 2013, other income decreased $1.7 million, or 21.3%, to $6.3 million, from $8.0 million for fiscal 2012. The decrease in other income was in line with a decrease in associated advertising costs related to mailers for our specialty retailers.

Operating Income

For fiscal 2013, operating income increased $14.0 million, or 14.5%, to $110.1 million, from $96.2 million for fiscal 2012. As a percentage of net revenues, operating income was 20.4% and 20.9% for fiscal 2013 and fiscal 2012, respectively (in thousands).

	Fiscal Year Ended February 2, 2013	Fiscal Year Ended January 28, 2012	$ Change	% Change
Operating Income:				
Direct	$85,059	$68,097	$16,962	24.9%
Indirect	101,059	93,042	8,017	8.6%
Less: Unallocated corporate expenses	(75,972)	(64,968)	(11,004)	16.9%
Operating income	$110,146	$96,171	$13,975	14.5%

Direct. For fiscal 2013, operating income increased $17.0 million, or 24.9%. As a percentage of Direct segment net revenues, operating income in the Direct segment was 29.1% and 30.2% for fiscals 2013 and 2012, respectively. This decrease as a percentage of net revenues in the Direct segment was primarily due to increased store operating expense.

Indirect. For fiscal 2013, operating income increased $8.0 million, or 8.6%. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 40.7% and 39.5% for fiscals 2013 and 2012, respectively. This increase as a percentage of net revenues in the Indirect segment resulted primarily due to leverage of the relatively fixed SG&A expenses, against sales growth.

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Corporate Unallocated. For fiscal 2013, unallocated expenses increased $11.0 million, or 16.9%, primarily as a result of increased corporate personnel and marketing costs.
Interest Expense, Net. For fiscal 2013, net interest expense decreased $0.5 million, or 40.8%, to $0.7 million, from $1.1 million in fiscal 2012. The decrease was due to lower average borrowing levels in fiscal 2013.
Income Tax Expense. For fiscal 2013, we recorded income tax expense of $40.6 million at an effective tax rate of 37.1%, compared to 39.0% for fiscal year 2012. The effective tax rate reduction was primarily related to state income tax credits associated with the completion of our distribution center expansion and discrete items recorded primarily during the third quarter. The impact of these items on the effective tax rate was approximately 1.2% for the fiscal year. During fiscal 2012, there were other permanent items that caused a higher rate which did not recur during fiscal 2013 causing the rate to decrease approximately 0.5% compared to the prior year. The effective tax rate also reflects a loss for the Japanese operations for which a tax benefit was not recognized.

Liquidity and Capital Resources

General

Our primary source of liquidity is cash flow from operations. We also have access to additional liquidity, if needed, through borrowings under our $125.0 million amended and restated credit agreement. Historically, our primary cash needs have been for purchasing inventories, payroll, store rent, capital expenditures associated with opening new stores, buildings, operational equipment, information technology, and debt repayments. The most significant components of our working capital are cash and cash equivalents, purchasing inventories, accounts receivable, accounts payable, and other current liabilities. We do not believe that the expansion of our Direct business will materially increase borrowings under our amended and restated credit agreement, in the near term.
We believe that cash flows from operating activities and the availability of borrowings under our amended and restated credit agreement or other financing arrangements will be sufficient to meet working capital requirements and anticipated capital expenditures for the foreseeable future.

Cash Flow Analysis

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

	Fiscal Year Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Net cash provided by operating activities	$87,864	$51,492	$51,516
Net cash used in investing activities	(22,862)	(35,893)	(18,836)
Net cash used in financing activities	(15,313)	(10,827)	(41,757)

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, 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 increased to $87.9 million during fiscal 2014, as compared to $51.5 million during fiscal 2013. This increase in cash provided by operating activities was primarily driven by a net working capital increase of $44.5 million, as a result of a reduced inventory build of $19.4 million along with an increase in accounts payable of $25.3 million. This increase was partially offset by a decrease in net income of $10.1 million.
Net cash provided by operating activities was $51.5 million in fiscal 2013. Net income increased $10.9 million, non-cash changes in balances increased $12.8 million, and income taxes payable provided an incremental increase of $13.7 million, offset by working capital changes including an incremental inventory build of $24.6 million and an incremental reduction in accounts payable of $12.4 million.
Net cash provided by operating activities was $51.5 million for fiscal 2012 which was primarily driven by our net income during the year.

Net Cash Used in Investing Activities

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

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Net cash used in investing activities was $22.9 million in fiscal 2014, compared to $35.9 million in fiscal 2013. The $13.0 million decrease in capital expenditures was driven primarily by the expansion of the distribution facility which occurred in fiscal 2013, partially offset by the cost associated with opening of three additional stores during fiscal 2014.

Net cash used in investing activities was $35.9 million in fiscal 2013, compared to $18.8 million in fiscal 2012. The $17.1 million increase in capital expenditures was driven primarily by the expansion of the distribution facility.

Capital expenditures for fiscal 2015 are expected to be approximately $40 million, including the corporate campus expansion, build-out of new stores, and continued investment in our systems, including the e-commerce platform.

Net Cash Used in Financing Activities

Net cash used in financing activities was $15.3 million in fiscal 2014, primarily resulting from $15.0 million net payments under our amended and restated credit agreement.

Net cash used in financing activities was $10.8 million in fiscal 2013, resulting from $10.0 million net payments under our amended and restated credit agreement.

Net cash used in financing activities was $41.8 million in fiscal 2012, resulting from the net payments under our amended and restated credit agreement.

Amended and Restated Credit Agreement

On October 4, 2010, Vera Bradley Designs, Inc. entered into an agreement to amend and restate our credit agreement with JPMorgan Chase Bank, as administrative agent, and certain other lenders. The amended and restated credit agreement provides for a revolving credit commitment of $125.0 million and was to mature on October 3, 2015. On June 1, 2012, Vera Bradley Designs, Inc. entered into an amendment to the credit agreement. The amendment extends the maturity date from October 3, 2015 to June 1, 2017. Certain permitted indebtedness covenants were also amended. All borrowings under the amended and restated credit agreement are collateralized by substantially all of the assets of Vera Bradley Design, Inc. The credit agreement is also guaranteed by the Company. The credit agreement requires us to comply with various financial covenants, including a fixed charge coverage ratio of not less than 1.20 to 1.00 and a leverage ratio of not more than 3.50 to 1.00. The agreement also contains various other covenants, including restrictions on the incurrence of certain indebtedness, liens, investments, acquisitions, and asset sales. We were in compliance with these covenants as of February 1, 2014.

Borrowings under the amended and restated credit agreement bear interest at either LIBOR plus the applicable margin (ranging from 1.05% to 2.05%) or the alternate base rate (as defined in the agreement) plus the applicable margin (ranging from 0.05% to 1.05%). The applicable margin is tied to our leverage ratio. In addition, we are required to pay a quarterly facility fee (as defined in the agreement) ranging from 0.20% to 0.45% of the revolving credit commitment. We had borrowing availability of $125.0 million under the agreement as of February 1, 2014.

Contractual Obligations

We enter into long-term contractual obligations and commitments in the normal course of business, primarily non-cancellable operating leases and debt obligations. As of February 1, 2014, 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)	$151,967	$19,855	$39,637	$37,331	$55,144
Purchase obligations (2)	43,841	43,841	—	—	—
Total	$195,808	$63,696	$39,637	$37,331	$55,144

(1) Our store leases generally range from five to ten years with varying renewal options. Our future operating lease obligations would change if we were to extend these leases, or if we were to enter into new operating leases.

(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 1, 2014, we are unable to make reasonably reliable estimates of the period of cash settlement with the

respective taxing authorities. Therefore, $3.1 million of uncertain tax positions have been excluded from the contractual obligations table above.

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Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

We reserve for projected merchandise returns based on historical experience and other assumptions that we believe to be reasonable. In the Direct business returns are refunded by issuing the same payment tender of the original purchase and in the Indirect business the customer is issued a credit to its account to apply to outstanding invoices. Merchandise exchanges of the same product at the same price are not considered merchandise returns. Product returns are often resalable through our annual outlet sale or other channels. Additionally, we reserve for other potential product credits and for customer shipments not yet received. The total reserve for returns, customer shipments not yet received, and general credits was $3.7 million and $4.1 million at February 1, 2014, and February 2, 2013, respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method. Market is determined based on net realizable value, which includes costs to dispose. 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 shrink provision accordingly.

Inventory adjustments of $8.9 million and $3.5 million were recorded for these matters as of the fiscal years ended February 1, 2014, and February 2, 2013, respectively. These adjustments related primarily to raw materials of retired patterns and certain merchandise from the baby gift category, which is being discontinued by the Company, as we have the ability to move retired finished goods through a number of channels, including the annual outlet sale, our website and outlet stores, and through liquidators as needed.

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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.

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 $1.2 million and $0.2 million for the periods ended February 1, 2014 and February 2, 2013, respectively.

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

Transactions with Related Parties

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

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are subject to interest rate risk in connection with borrowings under our amended and restated credit agreement, which bear interest at variable rates. The amended and restated credit agreement allows for a revolving credit commitment of $125.0 million, bearing interest at a variable rate, based on either LIBOR plus the applicable margin (ranging from 1.05% to 2.05%) or the alternate base rate (as defined in the agreement) plus the applicable margin (ranging from 0.05% to 1.05%). Assuming the amended and restated credit agreement is fully drawn, each quarter point increase or decrease in the interest rate would change our annual interest expense by approximately $0.3 million.

Impact of Inflation

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

Foreign Exchange Rate Risk

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

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Vera Bradley, Inc. and subsidiaries as of February 1, 2014 and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year ended February 1, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vera Bradley, Inc. and subsidiaries at February 1, 2014, and the consolidated results of their operations and their cash flows for the year ended February 1, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Vera Bradley, Inc. and subsidiaries’ internal control over financial reporting as of February 1, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated April 2, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Indianapolis, Indiana
April 2, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the consolidated balance sheet as of February 2, 2013, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of two years in the period ended February 2, 2013, present fairly, in all material respects, the financial position of Vera Bradley, Inc. and its subsidiaries at February 2, 2013, and the results of their operations and their cash flows for each of the two years in the period ended February 2, 2013, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Indianapolis, Indiana
April 2, 2013

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

	February 1, 2014	February 2, 2013
Assets		
Current assets:		
Cash and cash equivalents	$59,215	$9,603
Accounts receivable, net	27,718	34,811
Inventories	136,923	131,562
Prepaid expenses and other current assets	9,952	11,016
Deferred income taxes	13,094	11,348
Total current assets	246,902	198,340
Property, plant, and equipment, net	84,940	77,211
Other assets	1,085	1,768
Total assets	$332,927	$277,319
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$27,745	$14,853
Accrued employment costs	10,586	14,162
Other accrued liabilities	20,403	16,532
Income taxes payable	1,625	7,094
Current portion of long-term debt	—	58
Total current liabilities	60,359	52,699
Long-term debt	—	15,037
Deferred income taxes	4,643	6,078
Other long-term liabilities	12,778	9,250
Total liabilities	77,780	83,064
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, 40,607 and 40,563 shares issued and outstanding, respectively	—	—
Additional paid-in capital	78,153	75,675
Retained earnings	178,002	119,190
Accumulated other comprehensive loss	(1,008)	(610)
Total shareholders' equity	255,147	194,255
Total liabilities and shareholders' equity	$332,927	$277,319

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

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

	Fiscal Year Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Net revenues	$536,021	$541,148	$460,843
Cost of sales	240,589	232,867	203,220
Gross profit	295,432	308,281	257,623
Selling, general, and administrative expenses	205,957	204,412	169,427
Other income	4,776	6,277	7,975
Operating income	94,251	110,146	96,171
Interest expense, net	382	679	1,147
Income before income taxes	93,869	109,467	95,024
Income tax expense	35,057	40,597	37,103
Net income	$58,812	$68,870	$57,921
Basic weighted-average shares outstanding	40,599	40,536	40,507
Diluted weighted-average shares outstanding	40,648	40,571	40,542
Basic net income per share	$1.45	$1.70	$1.43
Diluted net income per share	1.45	1.70	1.43

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

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

	Fiscal Year Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Net income	$58,812	$68,870	$57,921
Cumulative translation adjustment	(398)	(707)	97
Comprehensive income	$58,414	$68,163	$58,018

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

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

	Number of Shares Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Equity
Balance at January 29, 2011	40,506,670	$71,923	$(7,601)	$—	$64,322
Net income	—	—	57,921	—	57,921
Recovery of short-swing profit	—	76	—	—	76
Translation adjustments	—	—	—	97	97
Restricted shares vested, net of repurchase for taxes	50	1	—	—	1
Stock-based compensation	—	1,590	—	—	1,590
Balance at January 28, 2012	40,506,720	$73,590	$50,320	$97	$124,007
Net income	—	—	68,870	—	68,870
Translation adjustments	—	—	—	(707)	(707)
Restricted shares vested, net of repurchase for taxes	56,336	(738)	—	—	(738)
Stock-based compensation	—	2,763	—	—	2,763
Tax related benefit of restricted stock units	—	60	—	—	60
Balance at February 2, 2013	40,563,056	$75,675	$119,190	$(610)	$194,255
Net income	—	—	58,812	—	58,812
Translation adjustments	—	—	—	(398)	(398)
Stock-based compensation	—	2,950	—	—	2,950
Restricted shares vested, net of repurchase for taxes	43,675	(412)	—	—	(412)
Tax related benefit of restricted stock units	—	(60)	—	—	(60)
Balance at February 1, 2014	40,606,731	$78,153	$178,002	$(1,008)	$255,147

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

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

	Fiscal Year Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Cash flows from operating activities			
Net income	$58,812	$68,870	$57,921
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, plant, and equipment	15,104	10,834	9,457
(Recovery of) Provision for doubtful accounts	(153)	541	553
Loss on disposal of property, plant, and equipment	29	37	51
Stock-based compensation	2,950	2,763	1,591
Deferred income taxes	(3,241)	(1,405)	1,638
Changes in assets and liabilities:			
Accounts receivable	7,246	2,745	(4,350)
Inventories	(5,682)	(25,088)	(10,199)
Other assets	1,747	(3,579)	137
Accounts payable	12,892	(12,423)	(2,736)
Income taxes payable	(5,469)	5,389	(8,305)
Accrued and other liabilities	3,629	2,808	5,758
Net cash provided by operating activities	87,864	51,492	51,516
Cash flows from investing activities			
Purchases of property, plant, and equipment	(22,862)	(35,893)	(18,836)
Net cash used in investing activities	(22,862)	(35,893)	(18,836)
Cash flows from financing activities			
Payments on financial-institution debt	(45,000)	(106,000)	(76,200)
Borrowings on financial-institution debt	30,000	96,000	34,450
Payments on vendor-financed debt	—	(89)	(83)
Shares surrendered for tax withholding	(412)	(738)	—
Other	99	—	76
Net cash used in financing activities	(15,313)	(10,827)	(41,757)
Effect of exchange rate changes on cash and cash equivalents	(77)	(91)	46
Increase (decrease) in cash and cash equivalents	49,612	4,681	(9,031)
Cash and cash equivalents, beginning of period	9,603	4,922	13,953
Cash and cash equivalents, end of period	$59,215	$9,603	$4,922
Supplemental disclosure of cash-flow information			
Income taxes paid	$42,287	$36,743	$43,850
Interest paid	$161	$797	$956

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

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Vera Bradley, Inc.
Notes to Consolidated Financial Statements

1. Description of the Company

Vera Bradley is a leading designer, producer, marketer, and retailer of stylish, highly functional accessories for women. The Company's products include a wide offering of handbags, accessories, and travel and leisure items. The Company generates net revenues by selling products through two reportable segments: Direct and Indirect. The Direct segment consists of sales of Vera Bradley products through our 84 full-price stores, our 15 outlet stores in the United States, 13 department store locations in Japan, our websites, verabradley.com and verabradley.co.jp, and our annual outlet sale in Fort Wayne, Indiana. The Indirect business consists of sales of Vera Bradley products to approximately 3,100 specialty retailers, substantially all of which are located in the United States, as well as select department stores and third-party e-commerce sites. Except where context requires or where otherwise indicated, the terms"Vera Bradley" and "Company" refer to Vera Bradley, Inc. and its subsidiaries, including Vera Bradley Designs, Inc.

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 ending on the Saturday closest to January 31. As such, fiscal 2014 ended on February 1, 2014 and reflected a 52-week period; fiscal 2013 and 2012 ended on February 2, 2013, and January 28, 2012, and reflected 53-week and 52-week periods, respectively. The inclusion of the 53rd week in fiscal 2013 resulted in incremental revenues of approximately $4.9 million and approximately $0.02 per diluted share.

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, 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.

Concentration of Credit Risk

The Company maintains nearly all of its cash and cash equivalents with one financial institution. The Company monitors the credit standing of this financial institution on a regular basis.

Inventories

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

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Vera Bradley, Inc.
Notes to Consolidated Financial Statements

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	5 – 10 years
Computer equipment and software	3 – 5 years
Production equipment	7 years
Vehicles	5 years

Leasehold improvements are amortized over the shorter of the life of the asset or the lease term. Lease terms typically range from five 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
Revenue from the sale of the Company's products is recognized upon customer receipt of the product when collection of the associated receivables is reasonably assured, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and ownership and risk of loss have been transferred to the customer, which, for e-commerce and most Indirect sales, reflects an adjustment for shipments that customers have not yet received. The adjustment of these shipments is based on actual delivery dates to the customer.

Included in net revenues are product sales to Direct and Indirect customers, including amounts billed to customers for shipping fees. Costs related to shipping of product are classified in cost of sales in the Consolidated Statements of Income. Net revenues exclude sales taxes collected from customers and remitted to governmental authorities.

Historical experience provides the Company the ability to estimate reasonably the amount of product sales that customers will return. Product returns are often resalable through the Company's annual outlet sale or other channels. The Company accounts for anticipated returns by reducing net revenues, cost of sales, and accounts receivable and increasing inventories, essentially reversing the effects of the original sales transactions. Additionally, the Company reserves for 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	Balance at End of Year
Fiscal year ended February 1, 2014	$2,145	$30,335	$(31,056)	$1,424
Fiscal year ended February 2, 2013	1,807	28,656	(28,318)	2,145
Fiscal year ended January 28, 2012	1,265	20,804	(20,262)	1,807

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

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 \$0.7 million at February 1, 2014, and February 2, 2013, respectively.
The Company sells gift cards with no expiration dates to customers and does not charge administrative fees on unused gift cards. Gift cards issued by the Company are recorded as a liability until they are redeemed, at which point revenue is recognized. The Company currently does not recognize breakage on its gift cards.

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 manufacture 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 step-up rent liability. As of February 1, 2014 and February 2, 2013, step-up rent liability was \$7.0 million and \$5.5 million, respectively and is included within other accrued 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 1, 2014 and February 2, 2013, the deferred lease credit liability was \$10.3 million and \$8.5 million, respectively. Of this, \$1.4 million and \$1.1 million is included within other accrued liabilities and \$8.9 million and \$7.4 million is included within other long term liabilities as of February 1, 2014 and February 2, 2013, 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 ASC 718, Stock Compensation. Under these provisions, for its awards of restricted stock and restricted-stock units, the Company recognizes stock-based compensation expense in an amount equal to the fair market value of the underlying stock on the grant date of the respective award. The Company recognizes this expense, net of estimated forfeitures, on a straight-line basis over the requisite service period.

Other Income and Advertising Costs

The Company expenses advertising costs at the time the promotion first appears in media, in stores, or on the website, and includes those costs in selling, general, and administrative expenses in the Consolidated Statements of 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 1, 2014	\$18,123

Fiscal year ended February 2, 2013	22,495
Fiscal year ended January 28, 2012	20,154

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Vera Bradley, Inc.
Notes to Consolidated Financial Statements

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

Fiscal year ended February 1, 2014	$4,483
Fiscal year ended February 2, 2013	5,984
Fiscal year ended January 28, 2012	7,692

Debt-Issuance Costs

During the fiscal year ended January 29, 2011, in connection with the amendment and restatement of the credit agreement (see Note 5), the Company incurred debt-issuance costs of $1.1 million and wrote off, to interest expense, $0.2 million of unamortized debt-issuance costs relating to certain portions of the original credit agreement. The Company is amortizing the remaining debt-issuance costs to interest expense over the five-year term of the amended and restated credit agreement. Debt-issuance costs, net of accumulated amortization, totaled $0.7 million at February 1, 2014, and $0.9 million at February 2, 2013, and are included in other assets on the Consolidated Balance Sheets. Amortization expense of $0.2 million, $0.2 million, and $0.3 million is included in interest expense in the Consolidated Statements of Income for the fiscal years ended February 1, 2014, February 2, 2013, and January 28, 2012, 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, receivables, other current assets, and payables as of February 1, 2014, and February 2, 2013, approximated their fair values.

The carrying amount for the amended and restated credit agreement ("credit agreement") approximates fair value at February 1, 2014, and February 2, 2013, as the interest rates of these borrowings fluctuate with the market. The credit agreement falls within Level 2 of the fair value hierarchy.

The Company has certain assets that are measured on a non-recurring basis under circumstances and events described in Note 2. The categorization of the framework to price these assets are level 3 due to 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 GAAP 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.

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.

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3. Inventories

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

	February 1, 2014	February 2, 2013
Raw materials	$10,772	$19,490
Work in process	850	836
Finished goods	125,301	111,236
Total inventories	$136,923	$131,562

4. Property, Plant, and Equipment

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

	February 1, 2014	February 2, 2013
Land and land improvements	$3,677	$3,261
Building and building improvements	31,108	29,163
Furniture, fixtures, leasehold improvements and computer equipment	88,859	74,379
Production equipment and vehicles	20,421	19,947
Construction in progress	7,312	2,198
	151,377	128,948
Less: Accumulated depreciation and amortization	(66,437)	(51,737)
Property, plant, and equipment, net	$84,940	$77,211

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. An impairment charge of $1.2 million and $0.2 million was recognized, using level 3 inputs, in the fiscal years ended February 1, 2014 and February 2, 2013, respectively, for assets related to underperforming stores and is included in selling, general, and administrative expenses in the Consolidated Statements of Income and in depreciation and amortization of property, plant, and equipment in the Consolidated Statements of Cash Flows. The Company did not record any impairment charges in fiscal 2012.

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

Fiscal year ended February 1, 2014	$13,942
Fiscal year ended February 2, 2013	10,601
Fiscal year ended January 28, 2012	9,457

5. Debt

Long-term debt consisted of the following (in thousands):

	February 1, 2014	February 2, 2013
Financial-institution debt	$—	$15,000
Other borrowings	—	95
	—	15,095
Less: Current maturities	—	58
	$—	$15,037

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Vera Bradley, Inc.
Notes to Consolidated Financial Statements

Credit Agreement
On October 4, 2010, Vera Bradley Designs, Inc. entered into an agreement to amend and restate its credit agreement with JPMorgan Chase Bank, as administrative agent, and certain other lenders. The amended and restated credit agreement provides for a revolving credit commitment of $125.0 million and matures on October 3, 2015. All borrowings under the amended and restated credit agreement are collateralized by substantially all of the Company’s assets. The credit agreement is also guaranteed by the Company. The credit agreement requires the Company to comply with various financial covenants, including a fixed charge coverage ratio of not less than 1.20 to 1.00 and a leverage ratio of not more than 3.50 to 1.00. The agreement also contains various other covenants, including restrictions on the incurrence of certain indebtedness, liens, investments, acquisitions, and asset sales. The Company was in compliance with these covenants as of February 1, 2014.

Borrowings under the amended and restated credit agreement bear interest at either LIBOR plus the applicable margin (ranging from 1.05% to 2.05%) or the alternate base rate (as defined in the agreement) plus the applicable margin (ranging from 0.05% to 1.05%). The applicable margin is tied to the Company’s leverage ratio. In addition, the Company is required to pay a quarterly facility fee (as defined in the agreement) ranging from 0.20% to 0.45% of the revolving credit commitment. As of February 1, 2014, the Company had borrowing availability of $125.0 million. On June 1, 2012, Vera Bradley Designs, Inc. entered into an amendment to the credit agreement. The amendment extends the maturity date from October 3, 2015 to June 1, 2017. Certain permitted indebtedness covenants were also amended.

6. Income Taxes
The components of income tax expense were as follows (in thousands):

	February 1, 2014	February 2, 2013	January 28, 2012
Current:			
Federal	$34,578	$38,065	$31,437
Foreign	77	5	38
State	3,643	3,992	3,990
	38,298	42,062	35,465
Deferred:			
Federal	(2,540)	(351)	1,591
State	(701)	(1,114)	47
	(3,241)	(1,465)	1,638
Total income tax expense	$35,057	$40,597	$37,103

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

	February 1, 2014	February 2, 2013	January 28, 2012
Domestic	$94,975	$111,660	$96,370
Foreign	(1,106)	(2,193)	(1,346)
Total income before income taxes	$93,869	$109,467	$95,024

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Vera Bradley, Inc.
Notes to Consolidated Financial Statements

A reconciliation of income tax expense to the amount computed at the federal statutory rate is as follows for the fiscal years ended February 1, 2014, February 2, 2013, and January 28, 2012 (in thousands):

	February 1, 2014		February 2, 2013		January 28, 2012	
Federal taxes at statutory rate	$32,854	35.0 %	$38,312	35.0 %	$33,258	35.0 %
State and local income taxes, net of federal benefit	1,912	2.0	1,871	1.7	2,624	2.8
Impact of foreign operations	(71)	(0.1)	(111)	(0.1)	(75)	(0.1)
Foreign valuation allowance	566	0.6	885	0.8	600	0.6
Valuation allowance on capital loss	—	—	—	—	194	0.2
Other	(204)	(0.2)	(360)	(0.3)	502	0.5
Total income tax expense	$35,057	37.3 %	$40,597	37.1 %	$37,103	39.0 %

During fiscal year 2014, the Company continued retail operations in Japan. Since operations began in 2012, these retail activities have resulted in a loss. The Company has not recorded a tax benefit for losses incurred in fiscal year 2012, 2013, or 2014 due to the uncertainty regarding the future realizability of the tax benefit of these losses. Accordingly, a valuation allowance was recorded for the Japan entity for $0.6 million, $0.9 million and $0.6 million for fiscal year 2014, 2013 and 2012, respectively. If not used, these carryforwards will expire in fiscal year 2021, 2020 and 2019.

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

	February 1, 2014	February 2, 2013
Deferred tax assets:		
Compensation and benefits	$3,860	$4,202
Inventories	6,856	5,348
Deferred credits from landlords	6,911	5,082
Foreign operating loss	2,051	1,485
Other	3,181	2,330
Subtotal deferred tax assets	22,859	18,447
Less: valuation allowances	(2,245)	(1,679)
Total deferred tax assets	20,614	16,768
Deferred tax liabilities:		
Property, plant, and equipment	(10,154)	(9,871)
Other	(2,009)	(1,627)
Total deferred tax liabilities	(12,163)	(11,498)
Net deferred tax assets	$8,451	$5,270

Vera Bradley, Inc.
Notes to Consolidated Financial Statements

Uncertain Tax Positions
A reconciliation of the beginning and ending gross amount of unrecognized tax benefits (excluding interest and penalties) for the fiscal years ended February 1, 2014, and February 2, 2013, is as follows (in thousands):

	February 1, 2014	February 2, 2013
Beginning balance	$1,236	$887
Increases in unrecognized tax benefits as a result of current-year activity	1,879	349
Ending balance	$3,115	$1,236

As of February 1, 2014, of the $3.1 million of total unrecognized tax benefits, $2.5 million, which is net of federal benefit, would, if recognized, favorably affect the effective tax rate in future periods. It is reasonably possible that the total unrecognized tax benefits could decrease by $0.5 million in the next twelve months. The Company recognized an immaterial amount of interest only, no penalties, related to unrecognized tax benefits in the fiscal years ended February 1, 2014 and February 2, 2013.
The Company files income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. Income tax returns for calendar year 2010 to present are open for examination in the federal jurisdiction and in significant state jurisdictions. Taxable income/loss in foreign jurisdictions are not material.

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
2015	$19,855
2016	19,831
2017	19,806
2018	19,414
2019	17,917
Thereafter	55,144
	$151,967

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

Fiscal year ended February 1, 2014	$24,289
Fiscal year ended February 2, 2013	20,609
Fiscal year ended January 28, 2012	15,358

Lease terms generally range from five to ten years 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 was $2.5 million, $2.3 million and $1.6 million for fiscal years ended February 1, 2014, February 2, 2013, and January 28, 2012, respectively.
In fiscal 2014, the Company leased two of its facilities from leasing companies owned by certain shareholders and directors. The Company is currently under a month-to-month lease agreement with Milburn, LLC. Lease expense related to this arrangement, was $0.2 million in each of the fiscal years ended February 1, 2014, February 2, 2013, and January 28, 2012, respectively. The Company was also also under a lease agreement during ten months of fiscal 2014 with Great Dane Realty, LLC, a company owned by Barbara Bradley Baekgaard. Lease expense for fiscal years ended February 1, 2014, February 2, 2013 and January 28, 2012, related to this arrangement was approximately $0.3 million,

$0.5 million and $0.4 million, 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 $3.0 million, $2.8 million and $1.6 million, in the fiscal years ended February 1, 2014, February 2, 2013 and January 28, 2012, respectively.

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Vera Bradley, Inc.
Notes to Consolidated Financial Statements

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 restrictdiv>

$
—

$
20.0

Other Current Assets:

Foreign Exchange Forwards (2)
$
—

$
0.7

$
—

$
0.7

Swap Arrangement (3)
$
—

$
0.2

$
—

$
0.2

Liabilities:

Other Accrued and Current Liabilities:

Foreign Exchange Forwards (2)
$
—

$
1.1

$
—

$
1.1

	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Balance at December 31, 2017
Assets:				
Cash Equivalents (1)	$ 216.9	$ —	$ —	$ 216.9
Other Current Assets:				
Foreign Exchange Forwards (2)	$ —	$ 1.5	$ —	$ 1.5
Liabilities:				
Other Accrued and Current Liabilities:				
Foreign Exchange Forwards (2)	$ —	$ 2.1	$ —	$ 2.1

(1) The carrying value of cash equivalents represents fair value as they consist of highly liquid investments with an initial term from the date of purchase by the Company to maturity of three months or less.

(2)

Primarily represents foreign currency forward contracts. Fair value is determined based on observable market data and considers a factor for nonperformance in the valuation.

(3) Represents interest rate swap agreements. Fair value is determined based on observable market data.

There were no transfers between Levels I and II or transfers in or transfers out of Level III in the fair value hierarchy for the six months ended June 30, 2018 and for the year ended December 31, 2017.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-continued
(Tabular dollar amounts in millions, except per share data)

At June 30, 2018 and December 31, 2017, the fair value of cash and cash equivalents, accounts receivable, other receivables and accounts payable approximated carrying value due to the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on valuation models using discounted cash flow methodologies with market data inputs from globally recognized data providers and third-party quotes from major financial institutions (categorized as Level II in the fair value hierarchy), are as follows:

	Balance at June 30, 2018		December 31, 2017	
	Carrying Amount (Asset) Liability	Fair Value (Asset) Liability	Carrying Amount (Asset) Liability	Fair Value (Asset) Liability
Short-term and Long-term Debt	$596.1	$ 593.8	$595.4	$ 606.4
Revolving Credit Facility	$441.3	$ 443.9	$731.1	$ 729.0
Term Loan Facility	$299.4	$ 305.9	$351.6	$ 355.3

Items Measured at Fair Value on a Nonrecurring Basis

In addition to assets and liabilities that are recorded at fair value on a recurring basis, we are required to record assets and liabilities at fair value on a nonrecurring basis as required by GAAP. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges.

During the three month and six month periods ended June 30, 2018 and 2017, we did not measure any assets or liabilities at fair value on a nonrecurring basis.

Note 13 -- Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in the accumulated balances for each component of accumulated other comprehensive income (“AOCI”) as of June 30, 2018 and 2017:

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plans	Derivative Financial Instruments	Total
Balance, December 31, 2016	$ (266.2)	$(683.4)	$ —	$(949.6)
Other Comprehensive Income Before Reclassifications	22.4	—	—	22.4
Amounts Reclassified From Accumulated Other Comprehensive Income, net of tax	—	12.3	—	12.3
Balance, June 30, 2017	$ (243.8)	$(671.1)	$ —	$(914.9)
Balance, December 31, 2017	$ (218.2)	$(798.7)	$ —	$(1,016.9)
Other Comprehensive Income Before Reclassifications	(0.1)	—	0.2	0.1
Amounts Reclassified From Accumulated Other Comprehensive Income, net of tax	—	15.9	—	15.9
Balance, June 30, 2018	$ (218.3)	$(782.8)	$ 0.2	$(1,000.9)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-continued
(Tabular dollar amounts in millions, except per share data)

The following table summarizes the reclassifications out of AOCI as of June 30, 2018 and 2017:

Details About Accumulated Other Comprehensive Income Components	Affected Line Item in the Statement Where Net Income is Presented	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Three Months Ended June 30, 2018	2017	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Six Months Ended June 30, 2018	2017
Defined Benefit Pension Plans:					
Amortization of Prior Service Costs	Selling and Administrative Expenses	$ —	$ (0.1)	$ 0.1	$ (0.3)
	Operating Expenses	—	(0.1)	—	(0.2)
Amortization of Actuarial Gain/Loss	Selling and Administrative Expenses	6.2	6.3	12.4	12.6
	Operating Expenses	4.1	3.3	8.1	6.8
Total Before Tax		10.3	9.4	20.6	18.9
Tax (Expense) or Benefit		(2.4)	(3.3)	(4.7)	(6.6)
Total After Tax		$ 7.9	$ 6.1	$ 15.9	$ 12.3
Total Reclassifications for the Period, Net of Tax		$ 7.9	$ 6.1	$ 15.9	$ 12.3

Note 14 -- Acquisition

Avention, Inc.

On January 9, 2017, we acquired a 100% equity interest in Avention. Avention is a Massachusetts-based company that provides organizations with a deeper understanding of company, contact and market data, delivered through a robust technology platform. As a result of the acquisition, the combined capability of our data and Avention’s technology positions Dun & Bradstreet as a leader in the sales acceleration market. The results of Avention have been included in our unaudited consolidated financial statements since the date of acquisition.

The acquisition was accounted for in accordance with ASC 805 “Business Combinations.” The acquisition was valued at $150 million, net of cash acquired. Transaction costs of $4.1 million were included in Selling and Administrative Expenses in the unaudited consolidated statement of operations and comprehensive income (loss). The acquisition was accounted for as a purchase transaction, and accordingly, the assets and liabilities of the acquired entity were recorded at their estimated fair values at the date of the acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-continued
(Tabular dollar amounts in millions, except per share data)

The table below reflects the purchase price related to the acquisition and the resulting purchase allocation:

	Amortization Life (years)	Initial Purchase Price Allocation at March 31, 2017	Measurement Period Adjustments	Final Purchase Price Allocation at December 31, 2017
Cash		$ 4.2	$ —	$ 4.2
Accounts Receivable		13.6	—	13.6
Other Current Assets		2.3	—	2.3
Total Current Assets		$ 20.1	$ —	$ 20.1
Intangible Assets:				
Customer Relationships	10 to 12	31.2	(0.3)	30.9
Technology	6	15.8	(1.4)	14.4
Backlog	2	5.8	0.7	6.5
Goodwill	Indefinite	112.8	3.9	116.7
Other		5.3	—	5.3
Total Assets Acquired		$ 191.0	$ 2.9	$ 193.9
Deferred Revenue		$ 23.3	$ (1.0)	$ 22.3
Deferred Tax Liability		7.7	3.9	11.6
Other Liabilities		5.8	—	5.8
Total Liabilities Assumed		$ 36.8	$ 2.9	$ 39.7
Total Purchase Price		154.2	—	154.2
Less:				
Cash Acquired		(4.2)	—	(4.2)
Net Cash Consideration		$ 150.0	$ —	$ 150.0

The fair value of the customer relationships and backlog intangible assets was determined by applying the income approach through a discounted cash flow analysis, specifically a multi-period excess earnings method. The valuation was based on the present value of the net earnings, or after-tax cash flows attributable to the measured assets.
The technology intangible asset represents Avention's data service platform to deliver customer services and solutions. The fair value of this intangible asset was determined by applying the income approach; specifically, a relief-from-royalty method.
The fair value of the deferred revenue was determined based on estimated direct costs to fulfill the related obligations, plus a reasonable profit margin based on selected peer companies' margins as a benchmark.
The preliminary fair values of the acquired assets and liabilities were subject to change within the one-year measurement period. We obtained information to determine the fair values of the net assets acquired at the acquisition date during the measurement period. Since the initial valuation reflected in our financial results as of March 31, 2017, we have allocated goodwill and intangible assets between our Americas and Non-Americas segments based on their respective projected cash flows. In addition, we recorded adjustments to the deferred tax liability reflecting the allocation of intangible assets between segments as well as applying a revised tax rate. The above measurement period adjustments to the preliminary valuation of assets and liabilities resulted in a net increase of goodwill of $0.8 million, $0.5 million and $2.6 million in the second, third and fourth quarter of 2017, respectively.
Goodwill of $83.9 million and $32.8 million was assigned to our Americas and Non-Americas segment, respectively, at December 31, 2017. The value of the goodwill is primarily related to Avention's capability associated with product

development which provides potential growth opportunities in the Sales Acceleration space. In addition, we expect cost synergies as a result of the acquisition. The intangible assets, with useful lives from 2 to 12 years, are being amortized over a weighted-average useful life of 8.6 years utilizing a straight-line method, which approximates the timing of the benefits

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-continued
(Tabular dollar amounts in millions, except per share data)

derived. The intangibles have been recorded within Other Intangibles in our consolidated balance sheet since the date of acquisition.

Tax Treatment of Goodwill

The goodwill acquired is not deductible for tax purposes.

Note 15 -- Goodwill and Other Intangibles

Computer Software and Goodwill:

	Computer Software	Goodwill
December 31, 2017	$ 132.1	$ 779.6
Additions at Cost (1)	13.4	—
Amortization	(9.9)	—
Other (2)	0.9	2.9
March 31, 2018	136.5	782.5
Additions at Cost (1)	12.9	—
Amortization	(11.6)	—
Other (2)	(2.4)	(4.4)
June 30, 2018	$ 135.4	$ 778.1

(1) Computer Software - Primarily related to software-related enhancements on products.
(2) Computer Software and Goodwill - Primarily due to the impact of foreign currency fluctuations.

Other Intangibles:

	Customer Relationships	Trademark and Other	Other Indefinite-Lived Intangibles	Total
December 31, 2017 (3)	$ 91.6	$ 66.9	$ 158.4	$ 316.9
Additions at Cost	—	—	—	—
Amortization	(3.7)	(4.4)	—	(8.1)
Other	0.1	0.1	—	0.2
March 31, 2018 (3)	88.0	62.6	158.4	309.0
Additions at Cost	—	0.2	—	0.2
Amortization	(3.8)	(4.5)	—	(8.3)
Other	(0.4)	0.1	—	(0.3)
June 30, 2018 (3)	$ 83.8	$ 58.4	$ 158.4	$ 300.6

(3) Customer Relationships - Net of accumulated amortization of $47.9 million, $44.4 million and $40.6 million as of June 30, 2018, March 31, 2018 and December 31, 2017, respectively.

Trademark and Other - Net of accumulated amortization of $111.7 million, $107.7 million and $102.9 million as of June 30, 2018, March 31, 2018 and December 31, 2017, respectively.

Note 16 -- Contractual Obligations

Cognizant Technology Solutions

In February 2018, we entered into a new three-year agreement with Cognizant Technology Solutions ("CTS") to consolidate the majority of the existing service agreements in which CTS provides technology support to develop applications for our products and solutions. The agreement is effective retroactively to January 1, 2018. We can terminate the agreement at any time with six months' prior written notice and a $4.5 million termination fee. Concurrently, a separate three-year agreement

(Tabular dollar amounts in millions, except per share data)

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dated June 1, 2015, in which CTS provides global maintenance and support for our daily applications and systems, was extended to May 31, 2020.
Our additional minimum commitments related to these agreements over the remaining terms aggregates to approximately $72 million. The following table quantifies our additional contractual obligations related to the new agreement and extension discussed above:

Contractual Obligations	2018	2019	2020	Total
Cognizant Technology Solutions	$24.3	$28.4	$19.3	$72.0

Note 17 -- Subsequent Events
Agreement and Plan of Merger
On August 8, 2018, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Star Parent, L.P., a Delaware limited partnership (“Parent”), and Star Merger Sub, Inc., a Delaware corporation and an indirect wholly owned subsidiary of Parent (“Merger Sub”), pursuant to which Merger Sub will merge with and into the Company on the terms and subject to the conditions set forth in the Merger Agreement, with the Company surviving the Merger as a wholly owned subsidiary of Parent (the “Merger”). At the effective time of the Merger, on the terms and subject to the conditions set forth in the Merger Agreement, each issued and outstanding share of the Company’s common stock outstanding immediately prior to the effective time of the Merger (other than (i) any shares owned by the Company, Parent, Merger Sub or their direct or indirect subsidiaries, including treasury shares, and (ii) any shares issued and outstanding at the Effective Time that are held by any holder who has not voted in favor of the merger and perfects a demand for appraisal rights pursuant to Section 262 of the General Corporation Law of the State of Delaware), will be converted automatically into the right to receive $145 in cash, without interest, and subject to deduction for any required withholding tax. The completion of the Merger is subject to approval of the Company’s stockholders and certain regulatory approvals and other customary closing conditions. The completion of the Merger is expected to occur within six months of August 8, 2018. Upon the completion of the transaction, Dun & Bradstreet will become a privately held company and shares of Dun & Bradstreet common stock will no longer be listed on any public market.
During the period beginning on the date of the Merger Agreement and continuing until 11:59 p.m. New York time on September 22, 2018 (the “Go-Shop Period”), the Company and its representatives may initiate, solicit, encourage and facilitate any alternative acquisition proposal from third parties, participate in discussions and negotiations regarding any acquisition proposal and provide nonpublic information to any persons related to any acquisition proposal (pursuant to a confidentiality agreement with each such person which complies with the terms of the Merger Agreement). Until October 7, 2018, the Company may continue solicitation of, or discussions or negotiations with, third parties engaged by the Company during the Go-Shop Period from whom a written acquisition proposal was received during the Go-Shop Period that the Board determines in good faith, after consultation with outside counsel and its financial advisors, constitutes or is reasonably likely to result in a Superior Proposal (as defined in the Merger Agreement) (each such third party, an “Excluded Party”).
If the Merger Agreement is terminated by either Parent or the Company in connection with the Company’s entry into a definitive agreement with an Excluded Party with respect to a Superior Proposal prior to the fifteenth day after expiration of the Go-Shop Period (the “Cut-Off Time”), then the Company will be required to pay Parent a termination fee equal to $81.4 million. If the Merger Agreement is terminated (i) by Parent because the Board changes its recommendation with respect to the Merger, or the Company materially breaches certain of its covenants under the Merger Agreement relating to the no-shop restrictions; or (ii) by the Company in connection with the Company’s entry into a definitive agreement with respect to a Superior Proposal with any person other than an Excluded Person after the Go-Shop Period, or with an Excluded Person after the Cut-Off Time, then the Company will be required to pay Parent a termination fee equal to $203.6 million.
Dividend Declaration

In August 2018, the Board of Directors approved the declaration of a dividend of $0.5225 per share of common stock for the third quarter of 2018. This cash dividend will be payable on September 7, 2018 to shareholders of record at the close of business on August 22, 2018. As set forth in the above referenced Merger Agreement, the Company may not declare subsequent dividends to shareholders without the consent of the Parent.

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

Business Overview

The Dun & Bradstreet Corporation ("Dun & Bradstreet" or "we" or "us" or "our" or the "Company") helps companies around t world improve their business performance. The global leader in commercial data and analytics, we glean insight from data to enable our customers to connect with the prospects, suppliers, clients and partners that matter most. Since 1841, companies of every size rely on Dun & Bradstreet to help them manage risk and reveal opportunity. Our global commercial database as of June 30, 2018 contained more than 300 million business records. We transform commercial data into valuable insight which is the foundation of our global solutions that customers rely on to make critical business decisions.

Dun & Bradstreet provides solution sets that meet a diverse set of customer needs globally. Customers use Risk Management Solutions™ to mitigate credit, compliance and supplier risk, increase cash flow and drive increased profitability. Our Sales & Marketing Solutions™ help customers better use data to grow sales, digitally engage with customers and prospects, improve marketing effectiveness and also for data management capabilities that provide effective and cost efficient marketing solutions to increase revenue from new and existing customers.

How We Manage Our Business

In addition to reporting generally accepted accounting principles in the United States of America ("GAAP") results, the Company evaluates performance and reports on a total company basis and on a business segment level basis its results (such as revenue, operating income, operating income growth, operating margin, net income, tax rate and diluted earnings per share) on an "As Adjusted" basis. The term "As Adjusted" refers to the following: the elimination of the impact of Topic 606, the elimination of the effect on revenue due to purchase accounting fair value adjustments to deferred revenue; restructuring charges; other non-core gains and charges that are not in the normal course of our business (such as gains and losses on sales of businesses, impairment charges, effect of significant changes in tax laws and material tax and legal settlements); acquisition and divestiture-related fees (such as costs for bankers, legal fees, due diligence, retention payments and contingent consideration adjustments); and acquisition-related intangible amortization expense. A recurring component excluded from our "As Adjusted" results is our restructuring charges, which we believe do not reflect our underlying business performance. Such charges are variable from period to period based upon actions identified and taken during each period. Additionally, our "As Adjusted" results exclude the results of Discontinued Operations. Management reviews operating results on an "As Adjusted" basis on a monthly basis and establishes internal budgets and forecasts based upon such measures. Management further establishes annual and long-term compensation such as salaries, target cash bonuses and target equity compensation amounts based on performance on an "As Adjusted" basis and a significant percentage weight is placed upon performance on an "As Adjusted" basis in determining whether performance objectives have been achieved. Management believes that by reflecting these adjustments to our GAAP financial measures, business leaders are provided incentives to recommend and execute actions that support our long-term growth strategy rather than being influenced by the potential impact one of these items can have in a particular period on their compensation. The Company adjusts for these items because they do not reflect the Company's underlying business performance and they may have a disproportionate positive or negative impact on the results of its ongoing business operations. We believe that the use of our non-GAAP financial measures provides useful supplemental information to our investors.

We also isolate the effects of changes in foreign exchange rates on our revenue growth because we believe it is useful for investors to be able to compare revenue from one period to another, both after and before the effects of foreign exchange. The change in our operating performance attributable to foreign currency rates is determined by converting both our prior and current periods by a constant rate. As a result, we monitor our "As Adjusted" revenue growth both after and before the effects of foreign exchange.

We also analyze "As Adjusted" revenue growth on an organic basis because management believes this information provides important insight into the underlying/ongoing performance of the business. Organic revenue excludes the estimated revenue contributed from acquired businesses for one year from the date of the acquisition and net divested revenue which we define as the historical revenues from the divested businesses net of the annual ongoing future revenue streams resulting from the commercial arrangements entered into in connection with such divestitures.

We may from time to time use the term sales, which we define as the annual value of committed customer contracts. This term is often referred to as bookings or commitments by other companies.
We monitor free cash flow as a measure of our business. We define free cash flow as net cash provided by operating activities minus capital expenditures and additions to computer software and other intangibles. Free cash flow measures our available cash flow for potential debt repayment, acquisitions, share repurchases, dividend payments and additions to cash,

cash equivalents and short-term investments. We believe free cash flow to be relevant and useful to our investors as this measure is used by our management in evaluating the funding available after supporting our ongoing business operations and our portfolio of investments.

Free cash flow should not be considered as a substitute measure for, or superior to, net cash flows provided by operating activities, investing activities or financing activities. Therefore, we believe it is important to view free cash flow as a complement to the consolidated statements of cash flows.

We also monitor deferred revenue after adjusting for the effect of foreign exchange, dispositions, acquisitions and the impacts of the write-down of deferred revenue due to purchase accounting.

We report and monitor our revenue performance as Risk Management Solutions and Sales & Marketing Solutions. Within Risk Management Solutions, we monitor the performance as Trade Credit and Other Enterprise Risk Management. Trade Credit represents our commercial credit products such as D&B Credit Suite (which includes D&B Credit and DNBi® solutions), and "Other Trade Credit" solutions, which are products and services used to manage credit risk and support our customers' internal credit risk decisioning process. Other Enterprise Risk Management includes all of our remaining Risk Management products, such as our compliance, supply chain, credit on self and D&B Direct risk solutions. We manage and report our Sales and Marketing Solutions as Sales Acceleration and Advanced Marketing Solutions. Sales Acceleration includes solutions designed to align sales and marketing teams around the same refined and inter-connected information (data that is current, tied to buying signals, and delivered with context) to shorten sales cycles, increase win rates, and accelerate revenue growth more quickly. Our customers want to target more intelligently to enhance sales productivity; that is to know who they are selling to, what their customers might be buying, how things are changing at their customers' companies, where their customers have purchased before, and how to most efficiently engage with them. We provide these solutions through applications such as D&B Hoovers, as well as direct access to our contact data. Advanced Marketing Solutions consists of our Master Data solutions, which enable our customers to integrate and organize data to create a single view of customers and prospects, enrich data, continuously manage data quality and link company identity and hierarchy. It also consists of Audience Solutions products, which use data and analytics to fuel enhanced programmatic targeting and web visitor intelligence.

We also evaluate our business and provide the following supplemental revenue metrics. For Trade Credit, we further provide revenue for the D&B Credit Suite and Other Trade Credit. We also provide a revenue metric called D&B Hoovers Suite. This metric encompasses our legacy Hoover's product, our new D&B Hoovers product, our Salesforce alliance revenue through data.com and certain of our Avention legacy products.

Management believes that these measures provide further insight into our performance and the growth of our business. Where appropriate, we have reclassified certain prior year amounts to conform to the current year presentation.

The adjustments discussed herein to our results as determined under GAAP are among the primary indicators management uses as a basis for our planning and forecasting of future periods, to allocate resources, to evaluate business performance and, as noted above, for compensation purposes. However, these financial measures (e.g., results on an "As Adjusted" basis and free cash flow) are not prepared in accordance with GAAP, and should not be considered in isolation or as a substitute for total revenue, operating income, operating income growth, operating margin, net income, tax rate, diluted earnings per share, or net cash provided by operating activities, investing activities and financing activities prepared in accordance with GAAP. In addition, it should be noted that because not all companies calculate these financial measures similarly, or at all, the presentation of these financial measures is not likely to be comparable to similar measures of other companies.

See "Results of Operations" below for a discussion of our results reported on a GAAP basis.

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Overview

We manage and report our business through the following two segments:

- Americas, which consists of our operations in the United States ("U.S."), Canada, and our Latin America Worldwide Network; and

- Non-Americas, which consists of our operations in the United Kingdom ("U.K."), Greater China, India and our European and Asia Pacific Worldwide Networks.

The financial statements of our subsidiaries outside of the U.S. and Canada reflect results for the three month and six month periods ended May 31 in order to facilitate the timely reporting of the unaudited consolidated financial results and unaudited consolidated financial position.

The following table presents the contribution by segment to revenue:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue:				
Americas	84%	82%	83%	82%
Non-Americas	16%	18%	17%	18%

The following table presents contributions by customer solution set to revenue:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue by Customer Solution Set:				
Risk Management Solutions	59%	59%	59%	61%
Sales & Marketing Solutions	41%	41%	41%	39%

Our customer solution sets are discussed in greater detail in "Item 1. Business" in our Annual Report on Form 10-K for the year ended December 31, 2017 and "How We Manage Our Business" included in Item 2. of this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

In preparing the unaudited consolidated financial statements and accounting for the underlying transactions and balances reflected therein, we have applied the critical accounting policies described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2017, except for our policy on revenue recognition, which has been updated for the adoption of Topic 606. See Note 2 and Note 3 included in Item 1. of our Quarterly Report on Form 10-Q for further detail.

Recently Issued Accounting Standards

See Note 2 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for disclosure of the impact that recent accounting pronouncements may have on the unaudited consolidated financial statements.

Results of Operations

The following discussion and analysis of our financial condition and results of operations are based upon the unaudited consolidated financial statements and should be read in conjunction with the unaudited consolidated financial statements and related notes set forth in Item 1. of this Quarterly Report on Form 10-Q and the audited financial statements and related notes set forth in Item 8. of our Annual Report on Form 10-K for the year ended December 31, 2017, all of which have been prepared in accordance with GAAP.

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Consolidated Revenue

The following table presents our total revenue by segment:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in millions)		(Amounts in millions)	
Revenue:				
Americas	$ 367.9	$ 333.6	$ 713.6	$ 648.1
Non-Americas	71.7	72.1	144.2	139.1
Total Revenue	$ 439.6	$ 405.7	$ 857.8	$ 787.2

The following table presents our total revenue by customer solution set:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in millions)		(Amounts in millions)	
Revenue:				
Risk Management Solutions	$260.3	$240.6	$ 504.5	$ 477.0
Sales & Marketing Solutions	179.3	165.1	353.3	310.2
Total Revenue	$439.6	$405.7	$ 857.8	$ 787.2

Three Months Ended June 30, 2018 vs. Three Months Ended June 30, 2017

Total revenue increased $33.9 million, or 8% (both after and before the effect of foreign exchange), for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017. The increase in total revenue was driven by an increase in Americas total revenue of $34.3 million, or 10% (both after and before the effect of foreign exchange), partially offset by a decrease in Non-Americas total revenue of $0.4 million, or 1% (4% decrease before the effect of foreign exchange).

The adoption of Topic 606 resulted in an increase in revenue of $45.2 million for the three months ended June 30, 2018. See Note 2 and Note 3 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details. Excluding the impact of the adoption of Topic 606, total revenue decreased $11.3 million, or 3% (4% decrease before the effect of foreign exchange).

Also, we acquired a 100% equity interest in Avention during the first quarter of 2017. The impact of the deferred revenue fair value adjustment was a reduction to revenue of $2.7 million for the three months ended June 30, 2017. See Note 14 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details on the Avention acquisition.

Customer Solution Sets

On a customer solution set basis, total revenue reflects:

- A $19.7 million, or 8% increase (7% increase before the effect of foreign exchange), in Risk Management Solutions. The increase was driven by an increase in revenue in Americas of $21.5 million, or 12% (both after and before the effect of foreign exchange), partially offset by a decrease in revenue in Non-Americas of $1.8 million, or 3% (7% decrease before the effect of foreign exchange). Excluding the impact of the adoption of Topic 606, Risk Management Solutions increased $3.5 million, or 1% (less than 1% increase before the effect of foreign exchange); and

- A $14.2 million, or 9% increase (8% increase before the effect of foreign exchange), in Sales & Marketing Solutions. The increase was driven by an increase in revenue in Americas of $12.8 million, or 9% (both after and before the effect of foreign exchange) and an increase in revenue in Non-Americas of $1.4 million, or 9% (4% increase before the effect of foreign exchange). Excluding the impact of the adoption of Topic 606, Sales & Marketing Solutions decreased $14.8 million, or 9% (both after and before the effect of foreign exchange).

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Six Months Ended June 30, 2018 vs. Six Months Ended June 30, 2017

Total revenue increased $70.6 million, or 9% (8% increase before the effect of foreign exchange), for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. The increase in total revenue was driven by an increase in Americas total revenue of $65.5 million, or 10% (both after and before the effect of foreign exchange) and an increase in Non-Americas total revenue of $5.1 million, or 4% (1% decrease before the effect of foreign exchange).

The adoption of Topic 606 resulted in an increase in revenue of $78.7 million for the six months ended June 30, 2018. See Note 2 and Note 3 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details. Excluding the impact of the adoption of Topic 606, total revenue decreased $8.1 million, or 1% (2% decrease before the effect of foreign exchange).

Also, we acquired a 100% equity interest in Avention during the first quarter of 2017. The impact of the deferred revenue fair value adjustment was a reduction to revenue of $5.0 million for the six months ended June 30, 2017. See Note 14 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details on the Avention acquisition.

Customer Solution Sets

On a customer solution set basis, total revenue reflects:

- A $27.5 million, or 6% increase (4% increase before the effect of foreign exchange), in Risk Management Solutions. The increase was driven by an increase in revenue in Americas of $26.7 million, or 7% (both after and before the effect of foreign exchange) and an increase in revenue in Non-Americas of $0.8 million, or 1% (4% decrease before the effect of foreign exchange). Excluding the impact of the adoption of Topic 606, Risk Management Solutions increased $0.5 million, or less than 1% (1% decrease before the effect of foreign exchange); and

- A $43.1 million, or 14% increase (13% increase before the effect of foreign exchange), in Sales & Marketing Solutions. The increase was driven by an increase in revenue in Americas of $38.8 million, or 14% (both after and before the effect of foreign exchange) and an increase in revenue in Non-Americas of $4.3 million, or 16% (10% increase before the effect of foreign exchange). Excluding the impact of the adoption of Topic 606, Sales & Marketing Solutions decreased $8.6 million, or 3% (both after and before the effect of foreign exchange).

Consolidated Operating Costs

The following table presents our consolidated operating costs and operating income for the three month and six month periods ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in millions)		(Amounts in millions)	
Operating Expenses	$139.0	$139.4	$ 278.2	$ 281.0
Selling and Administrative Expenses	155.2	162.7	307.4	333.4
Depreciation and Amortization	22.7	19.4	43.8	38.3
Restructuring Charge	10.5	7.5	21.5	16.5
Operating Costs	$327.4	$329.0	$ 650.9	$ 669.2
Operating Income	$112.2	$76.7	$ 206.9	$ 118.0

Operating Expenses

Operating expenses decreased $0.4 million, or less than 1%, and $2.8 million, or 1%, for the three month and six month periods ended June 30, 2018, respectively, compared to the three month and six month periods ended June 30, 2017. The decrease was primarily as a result of our cost reduction efforts.

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Selling and Administrative Expenses
Selling and administrative expenses decreased $7.5 million, or 5%, and $26.0 million, or 8%, for the three month and six month periods ended June 30, 2018, respectively, compared to the three month and six month periods ended June 30, 2017. The decrease was primarily due to:

- The impact of the adoption of Topic 606, which resulted in capitalizing of commissions paid on new business. See Note 2 and Note 3 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further detail; and
- Decreased costs as a result of our cost reduction efforts.

Matters Impacting Both Operating Expenses and Selling and Administrative Expenses
Pension, Postretirement and 401(k) Plan
As a result of the adoption of ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," effective January 1, 2018, we have included only the service-cost component of the net pension and postretirement benefit cost in our compensation cost and reported the other components of the net pension and postretirement benefit cost in Non-Operating Income (Expense) - Net. We have also reclassified all historical results accordingly. The service-cost component for our pension and postretirement plans was $1.1 million and $2.3 million for the three month and six month periods ended June 30, 2018, respectively, compared to $0.9 million and $1.8 million for the three month and six month periods ended June 30, 2017, respectively. Higher service cost in 2018 as compared to the prior year periods was primarily due to lower discount rates at January 1, 2018 applied to our global plans. The weighted average discount rate applied to the projected benefit obligation for our pension plans globally at January 1, 2018 was 3.25%, a 37 basis points decrease from the 3.62% discount rate at January 1, 2017.
We had expense associated with our 401(k) Plan of $3.0 million and $7.3 million for the three month and six month periods ended June 30, 2018, respectively, compared with $2.7 million and $6.9 million for the three month and six month periods ended June 30, 2017, respectively. Fluctuations in the expense for our 401(k) Plan were driven by company matching contributions associated with employee compensation.
Stock-Based Compensation
For the three month and six month periods ended June 30, 2018, we recognized total stock-based compensation expense of $3.8 million and $3.2 million, respectively, compared to $5.5 million and $10.9 million for the three month and six month periods ended June 30, 2017, respectively.
The following table sets forth the components of our stock-based compensation expense:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in millions)		(Amounts in millions)	
Restricted Stock Unit Programs	$3.5	$5.2	$2.5	$10.1
Employee Stock Purchase Plan	0.3	0.3	0.7	0.8
Total Expense	$3.8	$5.5	$3.2	$10.9

Lower expense for our restricted stock unit programs for the three month and six month periods ended June 30, 2018 was primarily due to significantly higher forfeitures as a result of the departure of several senior executives.
We expect total stock-based compensation expense of approximately $13 million for 2018. We consider these costs to be part of our compensation costs and, therefore, they are included in operating expenses and in selling and administrative expenses, based upon the classifications of the underlying compensation.
Depreciation and Amortization

Depreciation and amortization increased $3.3 million, or 17%, and $5.5 million, or 14%, for the three month and six month periods ended June 30, 2018, as compared to the three month and six month periods ended June 30, 2017. The increase in depreciation and amortization was primarily due to increased capital costs for revenue generating investments to enhance our capabilities.

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Restructuring Charge

We recorded restructuring charges of $10.5 million and $21.5 million for the three month and six month periods ended June 30, 2018, respectively, as compared to $7.5 million and $16.5 million the three month and six month periods ended June 30, 2017, respectively. See Note 4 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further detail.

Interest Income (Expense) — Net

The following table presents our "Interest Income (Expense) – Net" for the three month and six month periods ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in millions)		(Amounts in millions)	
Interest Income	$ 0.3	$ 0.4	$ 1.1	$ 0.8
Interest Expense	(13.2)	(15.1)	(27.3)	(29.7)
Interest Income (Expense) – Net	$ (12.9)	$ (14.7)	$ (26.2)	$ (28.9)

Interest income decreased $0.1 million for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017. The decrease in interest income was primarily attributable to lower average amounts of invested cash. Interest income increased $0.3 million for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017. The increase in interest income was primarily attributable to higher average interest rates on our invested cash.

Interest expense decreased $1.9 million and $2.4 million for the three month and six month periods ended June 30, 2018, respectively, as compared to the three month and six month periods ended June 30, 2017. The decrease in interest expense was primarily attributable to lower average amounts of debt outstanding.

Other Income (Expense) — Net

The following table presents our "Other Income (Expense) — Net" for the three month and six month periods ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in millions)		(Amounts in millions)	
Loss on Sale of Businesses (a)	$ —	$ —	$ —	$ (0.7)
Miscellaneous Other Income (Expense) – Net (b)	1.2	1.5	0.7	—
Other Income (Expense) – Net	$ 1.2	$ 1.5	$ 0.7	$ (0.7)

(a) During the six months ended June 30, 2017, we recorded an additional pre-tax loss of $0.7 million for the divestiture of the Benelux businesses related to a working capital adjustment. See Note 17 to our consolidated financial statements included in Item 8. of our Annual Report on Form 10-K for further detail.

(b) Miscellaneous Other Income - Net increased during the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, primarily due to an increase in dividend income from our minority-interest investments, partially offset by higher bank fees related to our new term loan and credit facilities.

As a result of the adoption of ASU No. 2017-07, non-service cost components of the pension and postretirement cost ("non-service costs components") are reported in Miscellaneous Other Income (Expense) - Net within Other Income (Expense)-Net. We have also reclassified all historical results accordingly. Total non-service cost components for our pension and postretirement plans was $0.5 million and $0.8 million for the three month and six month periods ended

June 30, 2018, respectively, as compared to $0.3 million and $0.7 million for the three month and six month periods ended June 30, 2017, respectively. See Note 10 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further detail.

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Provision for Income Taxes

For the three month and six month periods ended June 30, 2018, our effective tax rate was 6.4% and 12.3%, respectively, as compared to 29.4% and 30.4% for the three month and six month periods ended June 30, 2017, respectively. Our 2018 tax provision reflects the impact of the adoption of Topic 606 which resulted in a higher pretax income of $51.2 million and $93.9 million for the three month and six month periods ended June 30, 2018, respectively. The lower effective tax rates for the three month and six month periods ended June 30, 2018, were due to the impact of the reduction of the U.S. statutory tax rate resulting from the 2017 Tax Cuts and Jobs Act ("2017 Act") enacted in the fourth quarter of 2017 and a U.S. tax accounting method change approved by the Internal Revenue Service ("IRS") in April 2018, partially offset by the impact of non-taxable income in the prior year periods, related to the legal reserve reduction associated with the SEC and DOJ investigation of our China operations.

For the three month and six month periods ended June 30, 2018, there are no known changes in our effective tax rate that either have had or that we expect may reasonably have a material impact on our operations or future performance.

Earnings per Share ("EPS")

Basic earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted-average number of common shares outstanding during the period, plus the dilutive effect of outstanding restricted stock unit awards, stock options, and contingently issuable shares using the treasury stock method. See Note 1 to our consolidated financial statements included in Item 8. of our Annual Report on Form 10-K for further detail on our accounting policies related to EPS.

The following table sets forth our EPS for the three month and six month periods ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Basic Earnings (Loss) Per Share of Common Stock:				
Income (Loss) from Continuing Operations Attributable to Dun & Bradstreet Common Shareholders	$2.51	$1.22	$4.23	$1.66
Loss from Discontinued Operations Attributable to Dun & Bradstreet Common Shareholders	—	—	—	(0.02)
Net Income (Loss) Attributable to Dun & Bradstreet Common Shareholders	$2.51	$1.22	$4.23	$1.64
Diluted Earnings (Loss) Per Share of Common Stock:				
Income (Loss) from Continuing Operations Attributable to Dun & Bradstreet Common Shareholders	$2.50	$1.22	$4.21	$1.65
Loss from Discontinued Operations Attributable to Dun & Bradstreet Common Shareholders	—	—	—	(0.02)
Net Income (Loss) Attributable to Dun & Bradstreet Common Shareholders	$2.50	$1.22	$4.21	$1.63

For the three month and six month periods ended June 30, 2018, both basic and diluted EPS attributable to Dun & Bradstreet common shareholders increased compared with the three month and six month periods ended June 30, 2017. The increases for basic and diluted EPS were primarily due to a 103% and 150% increase in net income from continuing operations for the three month and six month periods ended June 30, 2018, respectively, largely driven by the impact of the adoption of Topic 606, which resulted in an increase in net income from continuing operations of $39.7 million and $72.7 million for the three month and six month periods ended June 30, 2018, respectively, a U.S. tax accounting method change approved by the IRS in April 2018, and the reduction of the U.S. Corporate income tax rate due to the enactment of the 2017 Act in December 2017. The increase in net income from continuing operations was also due to higher costs in the prior year period related to the acquisition of Avention and other investment activities.

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Segment Results

We manage and report our business through the following two segments:

- Americas, which consists of our operations in the U.S., Canada, and our Latin America Worldwide Network; and
- Non-Americas, which consists of our operations in the U.K., Greater China, India and our European and Asia Pacific Worldwide Network.

The segments reported below, Americas and Non-Americas, are our segments for which separate financial information is available, and upon which operating results are evaluated on a timely basis to assess performance and to allocate resources.

Americas

Americas is our largest segment, representing 84% and 82% of our total revenue for the three months ended June 30, 2018 and 2017, respectively. Americas represented 83% and 82% of our total revenue for the six months ended June 30, 2018 and 2017, respectively.

The following table presents our Americas revenue by customer solution set and Americas operating income for the three month and six month periods ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in millions)		(Amounts in millions)	
Revenue:				
Risk Management Solutions	$204.8	$183.3	$ 392.0	$ 365.3
Sales & Marketing Solutions	163.1	150.3	321.6	282.8
Americas Total Revenue	$367.9	$333.6	$ 713.6	$ 648.1
Operating Income	$126.3	$77.8	$ 232.7	$ 135.4

Three Months Ended June 30, 2018 vs. Three Months Ended June 30, 2017

Americas Overview

Americas total revenue increased $34.3 million, or 10% (both after and before the effect of foreign exchange), for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017. The adoption of Topic 606 resulted in an increase of $47.0 million for the three months ended June 30, 2018. See Note 2 and Note 3 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details. Excluding the impact of the adoption of Topic 606, Americas total revenue decreased $12.7 million, or 4% (both after and before the effect of foreign exchange).

Also, we acquired a 100% equity interest in Avention during the first quarter of 2017. The impact of the deferred revenue fair value adjustment was a reduction to revenue of $3.2 million for the three months ended June 30, 2017. See Note 14 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details on the Avention acquisition.

Americas Customer Solution Sets:

Risk Management Solutions

Risk Management Solutions increased $21.5 million, or 12% (both after and before the effect of foreign exchange). The adoption of Topic 606 resulted in increased revenue of $21.7 million for the three months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Risk Management Solutions decreased $0.2 million, or less than 1% (both after and before the effect of foreign exchange). The increase in Risk Management Solutions (on a GAAP basis) reflects:

Trade Credit, which accounted for 67% of total Americas Risk Management Solutions, increased $15.9 million, or 13% (both after and before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in an increase in revenue of $15.1 million for the three months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Trade Credit revenue increased 1% (both after and before the effect of foreign exchange), primarily due to:

- Increased revenue from our Analytics product offerings; and

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- Increased revenue in our D&B Credit Suite driven by higher sales over the past several quarters with small businesses;

partially offset by:

- Lower revenue from certain legacy products.

Other Enterprise Risk Management, which accounted for 33% of total Americas Risk Management Solutions, increased $5.6 million, or 9% (both after and before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in an increase in revenue of $6.6 million for the three months ended June 30, 2018. Excluding the impacts of the adoption of Topic 606, Other Enterprise Risk Management revenue decreased 2% (both after and before the effect of foreign exchange), primarily due to:

- Decreased revenue from our Credit on Self solutions;

partially offset by:

- Increased revenue from our D&B Direct offering and our Compliance products.

Sales & Marketing Solutions

Sales & Marketing Solutions increased $12.8 million, or 9% (both after and before the effect of foreign exchange). The adoption of Topic 606 resulted in increased revenue of $25.3 million for the three months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Sales & Marketing Solutions decreased $12.5 million, or 8% (both after and before the effect of foreign exchange). The increase in Sales & Marketing Solutions (on a GAAP basis) reflects:

Sales Acceleration Solutions, which accounted for 47% of total Americas Sales & Marketing Solutions, increased $10.0 million, or 15% (both after and before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in an increase in revenue of $9.2 million for the three months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Sales Acceleration revenue increased 1% (both after and before the effect of foreign exchange), primarily due to:

- Increased revenue from our S&MS Analytics product offerings;

partially offset by:

- Decreased revenue from our alliance with Salesforce.com.

Advanced Marketing Solutions, which accounted for 53% of total Americas Sales & Marketing Solutions, increased $2.8 million, or 3% (both after and before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in an increase of $16.1 million for the three months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Advanced Marketing Solutions revenue decreased 16% (both after and before the effect of foreign exchange), primarily due to:

- The timing of certain customer contracts where revenue was recognized in the second quarter of 2017 and is now expected to be recognized in the fourth quarter of 2018; and
- Decreased revenue due to a planned reduction in a customer commitment related to a government contract;

partially offset by:

- Increased revenue from our D&B Direct offering; and
- Increased revenue in our Audience Solutions offerings.

Americas Operating Income

Americas operating income for the three months ended June 30, 2018 was $126.3 million, compared to $77.8 million for the three months ended June 30, 2017, an increase of $48.5 million, or 62%. The increase in operating income was primarily attributable to the impact of the adoption of Topic 606, which resulted in an increase of $53.3 million to Americas operating income (See Note 3 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details).

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Six Months Ended June 30, 2018 vs. Six Months Ended June 30, 2017
Americas Overview
Americas total revenue increased $65.5 million, or 10% (both after and before the effect of foreign exchange), for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. The adoption of Topic 606 resulted in an increase of $81.2 million for the six months ended June 30, 2018. See Note 2 and Note 3 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details. Excluding the impact of the adoption of Topic 606, Americas total revenue decreased $15.7 million, or 2% (3% decrease before the effect of foreign exchange).
Also, we acquired a 100% equity interest in Avention during the first quarter of 2017. The impact of the deferred revenue fair value adjustment was a reduction to revenue of $5.0 million for the six months ended June 30, 2017. See Note 14 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details on the Avention acquisition.
Americas Customer Solution Sets:
Risk Management Solutions
Risk Management Solutions increased $26.7 million, or 7% (both after and before the effect of foreign exchange). The adoption of Topic 606 resulted in increased revenue of $33.7 million for the six months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Risk Management Solutions decreased $7.0 million, or 2% (both after and before the effect of foreign exchange). The increase in Risk Management Solutions (on a GAAP basis) reflects:

Trade Credit, which accounted for 68% of total Americas Risk Management Solutions, increased $19.6 million, or 8% (both after and before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in an increase in revenue of $26.2 million for the six months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Trade Credit revenue decreased 3% (both after and before the effect of foreign exchange), primarily due to:

- Lower revenue from certain legacy products; and
- Lower revenue from consulting services related to the conversion of our Latin America operations to our Worldwide Network Partnerships;

partially offset by:

- Increased revenue from our Analytics product offerings.

Other Enterprise Risk Management, which accounted for 32% of total Americas Risk Management Solutions, increased $7.1 million, or 6% (both after and before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in an increase in revenue of $7.5 million for the six months ended June 30, 2018. Excluding the impacts of the adoption of Topic 606, Other Enterprise Risk Management revenue decreased less than 1% (both after and before the effect of foreign exchange), primarily due to:

- Decreased revenue from our Credit on Self solutions;

partially offset by:

- Increased revenue from our D&B Direct offering and our Compliance products.

Sales & Marketing Solutions
Sales & Marketing Solutions increased $38.8 million, or 14% (both after and before the effect of foreign exchange). The adoption of Topic 606 resulted in increased revenue of $47.5 million for the six months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Sales & Marketing Solutions decreased $8.7 million, or 3% (both after and before the effect of foreign exchange). The increase in Sales & Marketing Solutions (on a GAAP basis) reflects:
Sales Acceleration Solutions, which accounted for 46% of total Americas Sales & Marketing Solutions, increased $13.8 million, or 10% (both after and before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in an increase in revenue of $13.4 million for the six months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Sales Acceleration revenue increased less than 1% (both after and before the effect of foreign exchange), primarily due to:

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- Increased revenue from our S&MS Analytics product offerings;

partially offset by:

- Decreased revenue from our alliance with Salesforce.com.

Advanced Marketing Solutions, which accounted for 54% of total Americas Sales & Marketing Solutions, increased $25.0 million, or 17% (both after and before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in an increase of $34.1 million for the six months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Advanced Marketing Solutions revenue decreased 6% (both after and before the effect of foreign exchange), primarily due to;

- The timing of certain customer contracts where revenue was recognized in the second quarter of 2017 and is now expected to be recognized in the fourth quarter of 2018; and
- Decreased revenue due to a planned reduction in a customer commitment related to a government contract;

partially offset by:

- Increased revenue from our D&B Direct offering; and
- Increased revenue in our Audience Solutions offerings.

Americas Operating Income

Americas operating income for the six months ended June 30, 2018 was $232.7 million, compared to $135.4 million for the six months ended June 30, 2017, an increase of $97.3 million, or 72%. The increase in operating income was primarily attributable to the impact of the adoption of Topic 606, which resulted in an increase of $96.5 million to Americas operating income (See Note 3 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details).

Non-Americas

Non-Americas represented 16% and 18% of our total revenue for the three months ended June 30, 2018 and 2017, respectively. Non-Americas represented 17% and 18% of our total revenue for the six months ended June 30, 2018 and 2017, respectively.

The following table presents our Non-Americas revenue by customer solution set and Non-Americas operating income for the three month and six month periods ended June 30, 2018 and 2017.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in millions)		(Amounts in millions)	
Revenue:				
Risk Management Solutions	$55.5	$57.3	$ 112.5	$ 111.7
Sales & Marketing Solutions	16.2	14.8	31.7	27.4
Non-Americas Total Revenue	$71.7	$72.1	$ 144.2	$ 139.1
Operating Income	$18.4	$20.2	$ 38.8	$ 38.4

Three Months Ended June 30, 2018 vs. Three Months Ended June 30, 2017

Non-Americas Overview

Non-Americas total revenue decreased $0.4 million, or 1% (4% decrease before the effect of foreign exchange), for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017. The adoption of Topic 606 resulted in a decrease of $1.8 million for the three months ended June 30, 2018. See Note 2 and Note 3 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details. Excluding the impact of the adoption of Topic 606, Non-Americas total revenue increased $1.4 million, or 2% (2% decrease before the effect of foreign exchange).

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Non-Americas Customer Solution Sets:
Risk Management Solutions
Risk Management Solutions decreased $1.8 million, or 3% (7% decrease before the effect of foreign exchange). The adoption of Topic 606 resulted in decreased revenue of $5.5 million for the three months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Risk Management Solutions increased $3.7 million, or 7% (3% increase before the effect of foreign exchange). The decrease in Risk Management Solutions (on a GAAP basis) reflects:
Trade Credit, which accounted for 72% of total Non-Americas Risk Management Solutions, decreased $1.3 million, or 3% (6% decrease before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in a decrease in revenue of $1.2 million for the three months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Trade Credit revenue decreased less than 1% (3% decrease before the effect of foreign exchange), primarily due to:

- Lower revenue from consulting services related to the conversion of our Benelux operations to our Worldwide Network Partnership model;

partially offset by:

- The positive impact of foreign exchange.

Other Enterprise Risk Management, which accounted for 28% of total Non-Americas Risk Management Solutions, decreased $0.5 million, or 3% (7% decrease before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in a decrease in revenue of $4.3 million for the three months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Other Enterprise Risk Management revenue increased 24% (18% increase before the effect of foreign exchange), primarily due to increased revenue from certain of our Compliance products.
Sales & Marketing Solutions
Sales & Marketing Solutions increased $1.4 million, or 9% (4% increase before the effect of foreign exchange). The adoption of Topic 606 resulted in increased revenue of $3.7 million for the three months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Sales & Marketing Solutions decreased $2.3 million, or 16% (19% decrease before the effect of foreign exchange). The increase in Sales & Marketing Solutions (on a GAAP basis) reflects:
Sales Acceleration Solutions, which accounted for 42% of total Non-Americas Sales & Marketing Solutions, decreased$1.7 million, or 20% (25% decrease before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in an increase in revenue of $0.7 million for the three months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Sales Acceleration Solutions decreased 30% (34% decrease before the effect of foreign exchange), primarily due to a decrease in project revenue in our China market.
Advanced Marketing Solutions, which accounted for 58% of total Non-Americas Sales & Marketing Solutions, increased $3.1 million, or 50% (44% increase before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in an increase in revenue of $3.0 million for the three months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Advanced Marketing Solutions increased 2% (less than 1% decrease before the effect of foreign exchange) on a small base.

Non-Americas Operating Income

Non-Americas operating income for the three months ended June 30, 2018 was $18.4 million, compared to $20.2 million for the three months ended June 30, 2017, a decrease of $1.8 million, or 9%. The decrease was primarily due to the impact of the adoption of Topic 606, which resulted in a decrease of $2.1 million to Non-Americas operating income (See Note 3 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details), partially offset by an increase in revenue.
Six Months Ended June 30, 2018 vs. Six Months Ended June 30, 2017
Non-Americas Overview
Non-Americas total revenue increased $5.1 million, or 4% (1% decrease before the effect of foreign exchange), for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. The adoption of Topic 606

resulted in a decrease of $2.5 million for the six months ended June 30, 2018. See Note 2 and Note 3 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details. Excluding the impact of the adoption of Topic 606, Non-Americas total revenue increased $7.6 million, or 5% (less than 1% increase before the effect of foreign exchange).

Also, we acquired a 100% equity interest in Avention during the first quarter of 2017. See Note 14 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details on the Avention acquisition.

Non-Americas Customer Solution Sets:

Risk Management Solutions

Risk Management Solutions increased $0.8 million, or 1% (4% decrease before the effect of foreign exchange). The adoption of Topic 606 resulted in decreased revenue of $6.7 million for the six months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Risk Management Solutions increased $7.5 million, or 7% (1% increase before the effect of foreign exchange). The increase in Risk Management Solutions (on a GAAP basis) reflects:

Trade Credit, which accounted for 73% of total Non-Americas Risk Management Solutions, increased $0.2 million, or less than 1% (5% decrease before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in an increase in revenue of $1.0 million for the six months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Trade Credit revenue decreased 1% (6% decrease before the effect of foreign exchange), primarily due to:

- Decreased revenue from our Worldwide Network due to a shift to our Other Enterprise Risk Management solution set as well as the completion of transition services related to the conversion of our Benelux operations to our Worldwide Network Partnership model;

partially offset by:

- The positive impact of foreign exchange.

Other Enterprise Risk Management, which accounted for 27% of total Non-Americas Risk Management Solutions, increased $0.6 million, or 2% (2% decrease before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in a decrease in revenue of $7.7 million for the six months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Other Enterprise Risk Management revenue increased 28% (22% increase before the effect of foreign exchange), primarily due to:

- Increased revenue from certain of our Compliance products;
- Increased revenue from our Worldwide Network, including the impact of the shift of revenue from our Trade Credit solution set; and
- The positive impact of foreign exchange.

Sales & Marketing Solutions

Sales & Marketing Solutions increased $4.3 million, or 16% (10% increase before the effect of foreign exchange). The adoption of Topic 606 resulted in increased revenue of $4.2 million for the six months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Sales & Marketing Solutions increased $0.1 million, or less than 1% (5% decrease before the effect of foreign exchange). The increase in Sales & Marketing Solutions (on a GAAP basis) reflects:

Sales Acceleration Solutions, which accounted for 41% of total Non-Americas Sales & Marketing Solutions, decreased $0.2 million, or 1% (8% decrease before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in an increase in revenue of $0.5 million for the six months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Sales Acceleration Solutions decreased 6% (12% decrease before the effect of foreign exchange), primarily due to a decrease in project revenue in our China market.

Advanced Marketing Solutions, which accounted for 59% of total Non-Americas Sales & Marketing Solutions, increased $4.5 million, or 32% (26% increase before the effect of foreign exchange). The impact of the adoption of Topic 606 resulted in an increase in revenue of $3.7 million for the six months ended June 30, 2018. Excluding the impact of the adoption of Topic 606, Advanced Marketing Solutions increased 6% (2% increase before the effect of foreign exchange) on a small base.

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Non-Americas Operating Income

Non-Americas operating income for the six months ended June 30, 2018 was $38.8 million, compared to $38.4 million for the six months ended June 30, 2017, an increase of $0.4 million, or 1%. The increase was primarily due to an increase in revenue, partially offset by the impact of the adoption of Topic 606, which resulted in a decrease of $2.6 million to Non-Americas operating income (See Note 3 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q for further details).

Forward-Looking Statements

We may from time to time make written or oral “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements contained in filings with the Securities and Exchange Commission, in reports to shareholders and in press releases and investor Web casts. These forward-looking statements include, without limitation, any statements related to financial guidance or strategic goals. These forward-looking statements can also be identified by the use of words like “anticipates,” “aspirations,” “believes,” “commits,” “continues,” “estimates,” “expects,” “goals,” “guidance,” “intends,” “p “strategy,” “targets,” “will” and other words of similar meaning. They can also be identified by the fact that they do not relate strictly to historical or current facts.

We cannot guarantee that any forward-looking statement will be realized. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest in, or remain invested in, our securities.

In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, we are identifying the following important factors that, individually or in the aggregate, could cause actual results to differ materially from those contained in any forward-looking statements made by us; any such statement is qualified by reference to the following cautionary factors: (i) risks and uncertainties related to the proposed merger as contemplated by that certain Agreement and Plan of Merger entered into by the Company on August 8, 2018 (the “Merger”), including, but not limited to, the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement; the failure of the parties to satisfy conditions to completion of the proposed Merger, including the failure of the Company’s stockholders to approve the proposed Merger or the failure of the parties to obtain required regulatory approvals; the risk that regulatory or other approvals are delayed or are subject to terms and conditions that are not anticipated; (ii) reliance on third parties to support critical components of our business model; (iii) our ability to protect our information technology infrastructure against cyber attack and unauthorized access; (iv) risks associated with potential violations of the Foreign Corrupt Practices Act and similar laws; (v) customer demand for our products; (vi) risks associated with recent changes in our executive management team and Board of Directors; (vii) the integrity and security of our global databases and data centers; (viii) our ability to maintain the integrity of our brand and reputation; (ix) our ability to renew large contracts and the related revenue recognition and timing thereof; (x) the impact of macro-economic challenges on our customers and vendors; (xi) future laws or regulations with respect to the collection, compilation, storage, use, cross-border transfer, publication and/or sale of information and adverse publicity or litigation concerning the commercial use of such information; (xii) our ability to acquire and successfully integrate other businesses, products and technologies; (xiii) adherence by third-party members of our Dun & Bradstreet Worldwide Network, or other third parties who license and sell under the Dun & Bradstreet name, to our quality standards and to the renewal of their agreements with Dun & Bradstreet; (xiv) the effects of foreign and evolving economies, exchange rate fluctuations, legislative or regulatory requirements and the implementation or modification of fees or taxes to collect, compile, store, use, transfer cross-border, publish and/or sell data; (xv) the impact of the announcement of, or failure to complete, the proposed merger on our relationships with employees, customers, suppliers, vendors and other business partners; and potential or actual litigation; and (xvi) the other factors described under the headings “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Legal Proceedings” and elsewhere in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K, our other Quarterly Reports on Form 10-Q and the Company’s other

reports or documents filed or furnished with the Securities and Exchange Commission.
It should be understood that it is not possible to predict or identify all risk factors. Consequently, the above list of important factors and the Risk Factors discussed in Item 1A. of our Annual Report on Form 10-K and in our Quarterly Reports on Form 10-Q should not be considered to be a complete discussion of all of our potential trends, risks and uncertainties. Except as otherwise required by federal securities laws, we do not undertake any obligation to update any forward-looking statement we may make from time-to-time.

Liquidity and Financial Position

We will remain disciplined in the use of our shareholders’ cash, maintaining three key priorities for the use of this cash:

- First, making ongoing investments in the business to drive organic growth;

- Second, investing in acquisitions that we believe will be value-accretive to enhance our capabilities and accelerate our growth; and

- Third, continuing to return cash to shareholders.

We believe that cash provided by operating activities, supplemented as needed with available financing arrangements, is sufficient to meet our short-term needs (12 months or less), including restructuring charges, our capital investments, contractual obligations, tax liabilities related to our distributed and undistributed foreign earnings and contingencies (see Note 8 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q), excluding the legal matters identified in such note for which exposures cannot be estimated or are not probable. We have the ability to access the short-term borrowings market to supplement the seasonality in the timing of receipts in order to fund our working capital needs. Our future capital requirements will depend on many factors that are difficult to predict, including the size, timing and structure of any future acquisitions, future capital investments and future results of operations.

The enactment of the 2017 Act on December 22, 2017 resulted in a significant impact on our financial statements (see Note 5 to the consolidated financial statements included in Item 8. of our Annual Report on Form 10-K for further detail). One of the key provisions in the 2017 Act was to impose a one-time mandatory U.S. tax on the accumulated undistributed foreign earnings as of December 31, 2017, and as a result we were able to repatriate a majority of our accumulated undistributed earnings from our non-U.S. subsidiaries through December 31, 2017. The 2017 Act also allows us to remit our future earnings to the U.S. without incurring additional U.S. taxes. We recorded a total tax liability of $55.4 million in the consolidated financial statements during the year ended December 31, 2017, of which $5.0 million was related to the foreign withholding tax included in “Accrued Income Tax” and $50.4 million was related to the estimated one-time mandatory U.S. tax included in “Other Non-Current Liabilities.” The one-time U.S. tax liability will be paid over eight years starting April 15, 2019. During the first quarter of 2018, we repatriated approximately $295 million from our overseas operations, for which we recorded an additional $1.7 million current tax liability, included in “Accrued Income Tax,” reflecting changes in foreign currency exchange rates between December 31, 2017 and the dates of the repatriations. We used the repatriated cash to reduce borrowings outstanding under our $1 billion revolving credit facility during the first quarter of 2018. During 2018, we are continuing to assess the tax impact related to the 2017 Act and revised our tax liability as appropriate (see Note 9 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q). As of June 30, 2018, our estimated one-time U.S. tax liability was $48.5 million, of which $3.8 million was included in “Accrued Income Tax” and $44.7 million was included in “Other Non-Current Liabilities.” Our tax liability related to the foreign withholding tax was $3.2 million included in “Accrued Income Tax” at June 30, 2018.

As of June 30, 2018, $190.3 million of our $199.5 million cash and cash equivalents on the unaudited consolidated balance sheet was held by our foreign operations.

On March 27, 2017, Standard & Poor’s Ratings Services downgraded our corporate credit rating to BB+ from BBB-. As a result, the interest rates on each of our senior notes and the spreads under the term loan facility and revolving credit facility were adjusted up. See Note 5 included in Item 1. of our Quarterly Report on Form 10-Q for further detail. In addition, on May 22, 2017, Fitch Ratings downgraded our corporate credit rating to BBB- from BBB. The interest rates and spreads on our borrowings were not impacted as a result of the downgrade. Any further downgrades may increase our overall cost of borrowing and/or may negatively impact our ability to raise additional debt capital.

Cash Provided by Operating Activities from Continuing Operations

Net cash provided by operating activities was $173.3 million and $176.5 million for the six months ended June 30, 2018 and 2017, respectively. The $3.2 million decrease was driven by a net increase in our working capital during the current year period and higher restructuring payments in 2018, partially offset by lower tax payments compared to the prior year period.

Cash Used in Investing Activities from Continuing Operations

Net cash used in investing activities was $32.3 million for the six months ended June 30, 2018, as compared to net cash used in investing activities of $183.3 million for the six months ended June 30, 2017. The $151.0 million decrease in net cash used was primarily driven by payment of $150.0 million in the prior year period for the acquisition of Avention during the first quarter of 2017. See Note 14 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on our Form 10-Q.

Cash (Used in) Provided by Financing Activities from Continuing Operations
Net cash used in financing activities was $390.9 million for the six months ended June 30, 2018, as compared to net cash provided by financing activities of $42.5 million for the six months ended June 30, 2017. As set forth below, this $433.4 million change primarily relates to our revolving credit facility and term loan.

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On June 19, 2018, we replaced our then existing term loan with a new $300 million term loan credit agreement ("2018 Term Loan Facility"). The 2018 Term Loan Facility matures on June 19, 2023, replacing the prior term loan facility entered into on May 14, 2015, with a maturity date of November 13, 2020 ("2015 Term Loan Facility"). We borrowed the full $300 million available under the 2018 Term Loan Facility and utilized the proceeds, together with proceeds from a borrowing under a new revolving credit facility (described below), to pay all amounts then outstanding under our 2015 Term Loan Facility.

On June 19, 2018, we replaced our then existing credit facility with a new $1 billion revolving credit facility ("2018 Revolving Credit Facility"). The 2018 Revolving Credit Facility expires on June 19, 2023, replacing the prior $1 billion credit facility entered into on July 23, 2014 with a maturity date of July 23, 2019 ("2014 Revolving Credit Facility"). We borrowed under the 2018 Revolving Credit Facility in order to pay all amounts outstanding under our 2014 Revolving Credit Facility and a portion of our 2015 Term Loan Facility.

We had $441.3 million of borrowings outstanding under the 2018 Revolving Credit Facility at June 30, 2018 and $292.1 million of borrowings outstanding under the 2014 Revolving Credit Facility at June 30, 2017. We borrowed under the 2014 Revolving Credit Facility from time to time during the six months ended June 30, 2017 to supplement the timing of receipts in order to fund our working capital needs. We also borrowed under the 2014 Revolving Credit Facility during the first quarter of 2017 to fund a portion of the consideration for our purchase of Avention.

All the facilities require the maintenance of interest coverage and total debt to EBITDA ratios which are defined in the respective facility credit agreements in effect. We were in compliance with the respective financial and non-financial covenants at June 30, 2018 and June 30, 2017.

Future Liquidity—Sources and Uses of Funds

Share Repurchase Programs

In August 2014, our Board of Directors approved a $100 million share repurchase program to mitigate the dilutive effect of shares issued under our stock incentive plans and Employee Stock Purchase Program, and to be used for discretionary share repurchases from time to time. The $100 million share repurchase program will remain open until it has been fully utilized. There is currently no definitive timeline under which the program will be completed. As of June 30, 2018, we had not yet commenced share repurchases under this program.

Dividends

In August 2018, the Board of Directors approved the declaration of a dividend of $0.5225 per share of common stock for the third quarter of 2018. This cash dividend will be payable on September 7, 2018 to shareholders of record at the close of business on August 22, 2018.

Potential Payments in Legal Matters

We are involved in certain legal proceedings, regulatory matters, claims and litigation arising in the ordinary course of business. These matters are at various stages of resolution, but could ultimately result in significant cash payments as described in Note 8 to the unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q. We believe we have adequate reserves recorded in the unaudited consolidated financial statements for our current exposures in these matters, where applicable, as described herein.

Unrecognized Tax Benefits

We have a total amount of unrecognized tax benefits of $5.9 million as of June 30, 2018. Although we do not anticipate payments within the next twelve months for these matters, these could require the aggregate use of cash totaling approximately $4.0 million as of such date.

Contractual Cash Obligations

In February 2018, we entered into a new three-year agreement with Cognizant Technology Solutions ("CTS") to consolidate the majority of the existing service agreements in which CTS provides technology support to develop applications for our products and solutions. The agreement is effective retroactively to January 1, 2018. We can terminate the agreement at any time with six months' prior written notice and a $4.5 million termination fee. Concurrently, a separate three-year agreement dated June 1, 2015, in which CTS provides global maintenance and support for our daily applications and systems, was extended to May 31, 2020.

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Our additional minimum commitments related to these agreements over the remaining terms aggregates to approximately $72 million.

Off-Balance Sheet Arrangements

We do not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.

Fair Value Measurements

Our non-recurring non-financial assets and liabilities include long-lived assets held and used, goodwill and intangible assets. These assets are recognized at fair value when they are deemed to be impaired. As of June 30, 2018, we did not have any unobservable (Level III) inputs in determining the fair value of our assets and liabilities measured at fair value on a recurring basis other than our real estate funds within our pension plans.

In addition, the fair value of our real estate funds within our pension plans was measured using Level III inputs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risks primarily consist of the impact of changes in currency exchange rates on assets and liabilities, the impact of changes in the market value of certain of our investments and the impact of changes in interest rates on our borrowing costs and fair value calculations. As of June 30, 2018, no material change had occurred in our market risks, compared with the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2017 included in Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Item 4. Controls and Procedures.

We evaluated the effectiveness of our disclosure controls and procedures (“Disclosure Controls”) as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”) as of the end of the period covered by this report. This evaluation (“Controls Evaluation”) was done with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”).

Disclosure Controls are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our Disclosure Controls or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable assurance that the objectives of a control system are met. Further, any control system reflects limitations on resources, and the benefits of a control system must be considered relative to its costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Dun & Bradstreet have been detected. Judgments in decision-making can be faulty and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts, by collusion of two or more people, or by management override. The design of a control system is also based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected. Our Disclosure Controls are designed to provide reasonable assurance of achieving their objectives.

Conclusions Regarding Disclosure Controls

Based upon our Controls Evaluation, our CEO and CFO have concluded that as of the end of the quarter ended June 30, 2018, our Disclosure Controls are effective at a reasonable assurance level.

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Change in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the second quarter of 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information in response to this Item is included in “Part I — Item 1. — Note 7 — Contingencies” and is incorporated by reference into Part II of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

Risks Related to the Merger

On August 8, 2018, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Star Parent, L.P., a Delaware Limited Partnership (“Parent”) and Star Merger Sub, Inc., a Delaware corporation and an indirect wholly owned subsidiary of Parent (“Merger Sub”), pursuant to which Merger Sub will merge with and into the Company on the terms and subject to the conditions set forth in the Merger Agreement, with the Company surviving the Merger as a wholly owned subsidiary of Parent (the “Merger”).

The Merger is subject to various closing conditions and other risks which may cause the Merger to be delayed or not completed at all or have other adverse consequences.

The Merger is subject to various closing conditions that must be satisfied or waived to complete the Merger. There can be no assurance that these conditions will be satisfied or waived or that the Merger will be completed in a timely manner or at all. Failure to satisfy or obtain waivers of any closing condition may jeopardize or delay the completion of the Merger and result in additional expenditures of money and resources. The Merger is also subject to approval by the Company’s stockholders. There is no assurance that the Company’s stockholders will approve the Merger. In addition, the Merger is contingent upon the receipt of certain regulatory clearances or approvals. There can be no assurance that the conditions to closing will be satisfied or waived or that other events will not intervene to delay or prevent the closing of the Merger. If the Merger is not completed for any reason, the price of our Common Stock may decline to the extent that the current market price reflects an assumption that the Merger will be consummated.

Legal proceedings instituted against the Company and others relating to the Merger Agreement also could delay or prevent the Merger from becoming effective within the agreed upon timeframe. In addition, we may elect to terminate the Merger Agreement in certain circumstances, and the parties can mutually decide to terminate the Merger Agreement at any time prior to the consummation of the Merger before or after stockholder approval. Further, uncertainty among our employees about their future roles after the completion of the Merger may impair our ability to attract, retain and motivate key personnel, and the pendency of the Merger may disrupt our business relationships with our existing and potential customers, suppliers, vendors, landlords, and other business partners, who may attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than us. The adverse consequence of the pendency of the Merger could be exacerbated by any delays in completion of the Merger or termination of the Merger Agreement.

While the Merger Agreement is in effect, we are subject to restrictions on our business activities.

While the Merger Agreement is in effect, we are subject to restrictions on our business activities, including, among other things, restrictions on our ability to acquire other businesses and assets, dispose of our assets, make investments, enter into certain contracts, repurchase or issue securities, pay dividends, make capital expenditures, amend our organizational documents, incur indebtedness and settle litigation. These restrictions could prevent us from pursuing strategic business opportunities, taking actions with respect to our business that we may consider advantageous and responding effectively and/or timely to competitive pressures and industry developments, which may as a result materially adversely affect our business, results of operations and financial condition.

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

The following table provides information about purchases made by or on behalf of the Company or our affiliated purchasers during the quarter ended June 30, 2018, of shares of equity that are registered by the Company pursuant to Section 12 of the Exchange Act.

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs (a)	Approximate Dollar Value of Currently Authorized Shares that May Yet Be Purchased Under the Plans or Programs (a)
	(Dollar amounts in millions, except share data)			
April 1 - 30, 2018	—	$ —	—	$ —
May 1 - 31, 2018	—	$ —	—	$ —
June 1 - 30, 2018	—	$ —	—	$ —
	—	$ —	—	$ 100.0

(a) In August 2014, our Board of Directors approved a $100 million share repurchase program to mitigate the dilutive effect of shares issued under our stock incentive plans and Employee Stock Purchase Program, and to be used for discretionary share repurchases from time to time. The $100 million share repurchase program will remain open until it has been fully utilized. There is currently no definitive timeline under which the program will be completed. As of June 30, 2018, we had not yet commenced share repurchases under this program.

Item 6. Exhibits

Exhibit 31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101	The following financial information from The Dun & Bradstreet Corporation's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited), (ii) the Consolidated Balance Sheets (Unaudited), (iii) the Consolidated Statements of Cash Flows (Unaudited), (iv) the Consolidated Statements of Shareholders' Equity (Deficit) (Unaudited), and (v) the Notes to Consolidated Financial Statements (Unaudited).

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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.

	THE DUN & BRADSTREET CORPORATION
	By: /s/ RICHARD H. VELDRAN
	Richard H. Veldran
Date: August 9, 2018	Chief Financial Officer
	By: /s/ ANTHONY PIETRONTONE JR.
	Anthony Pietrontone Jr.
Date: August 9, 2018	Principal Accounting Officer and Corporate Controller

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