Vera Bradley, Inc.
Form 10-Q
June 13, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended May 5, 2018
OR

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
The registrant had 35,636,983 shares of its common stock outstanding as of June 6, 2018.

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FORWARD-LOOKING STATEMENTS

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

- possible inability to successfully implement our long-term strategic plan, including our Vision 20/20 initiatives;
- possible continued declines in our comparable sales;
- possible inability to maintain and enhance our brand;
- possible failure of our multi-channel distribution model;
- possible adverse changes in general economic conditions and their impact on consumer confidence and consumer spending;
- possible inability to predict and respond in a timely manner to changes in consumer demand;
- possible inability to successfully open new stores and/or operate current stores as planned;
- possible loss of key management or design associates or inability to attract and retain the talent required for our business;
- possible ramifications from the payment card incident disclosed in October 2016; and
- possible data security or privacy breaches or disruptions in our computer systems or website.

We derive many of our forward-looking statements from our operating plans and forecasts, which are based upon detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. For a discussion of risks and uncertainties that could cause actual results to differ materially from those contained in our forward-looking statements, please refer to "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 3, 2018.

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. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	May 5, 2018	February 3, 2018
Assets		
Current assets:		
Cash and cash equivalents	$61,403	$68,751
Short-term investments	59,892	54,150
Accounts receivable, net	17,523	15,566
Inventories	86,188	87,838
Income taxes receivable	4,575	4,391
Prepaid expenses and other current assets	10,895	11,327
Total current assets	240,476	242,023
Property, plant, and equipment, net	86,411	86,463
Long-term investments	10,992	15,515
Deferred income taxes	5,437	5,385
Other assets	1,183	1,283
Total assets	$344,499	$350,669
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$13,373	$13,503
Accrued employment costs	6,181	13,616
Other accrued liabilities	13,850	12,343
Income taxes payable	906	812
Total current liabilities	34,310	40,274
Long-term liabilities	25,494	25,112
Total liabilities	59,804	65,386
Commitments and contingencies		
Shareholders' equity:		
Preferred stock; 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, without par value; 200,000 shares authorized, 41,279 and 41,102 shares issued and 35,636 and 35,459 shares outstanding, respectively	—	—
Additional paid-in-capital	91,569	91,192
Retained earnings	269,867	270,783
Accumulated other comprehensive loss	(163)	(114)
Treasury stock	(76,578)	(76,578)
Total shareholders' equity	284,695	285,283
Total liabilities and shareholders' equity	$344,499	$350,669

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

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

	Thirteen Weeks Ended	
	May 5, 2018	April 29, 2017
Net revenues	$86,591	$96,135
Cost of sales	37,975	43,435
Gross profit	48,616	52,700
Selling, general, and administrative expenses	50,705	57,771
Other income	177	267
Operating loss	(1,912)	(4,804)
Interest income, net	(243)	(39)
Loss before income taxes	(1,669)	(4,765)
Income tax benefit	(299)	(716)
Net loss	$(1,370)	$(4,049)
Basic weighted-average shares outstanding	35,532	36,235
Diluted weighted-average shares outstanding	35,532	36,235
Basic net loss per share	$(0.04)	$(0.11)
Diluted net loss per share	$(0.04)	$(0.11)

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

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

	Thirteen Weeks Ended	
	May 5, 2018	April 29, 2017
Net loss	$ (1,370)	$ (4,049)
Unrealized (loss) gain on available-for-sale investments	(45)	13
Cumulative translation adjustment	(4)	(6)
Comprehensive loss, net of tax	$ (1,419)	$ (4,042)

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

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

	Thirteen Weeks Ended	
	May 5, 2018	April 29, 2017
Cash flows from operating activities		
Net loss	$(1,370)	$(4,049)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant, and equipment	4,156	4,948
Provision for doubtful accounts	120	162
Stock-based compensation	899	1,278
Deferred income taxes	(210)	867
Cash gain on investments	—	152
Other non-cash charges (gain), net	35	(19)
Changes in assets and liabilities:		
Accounts receivable	(1,417)	458
Inventories	1,399	(3,138)
Prepaid expenses and other assets	532	(748)
Accounts payable	(123)	(6,040)
Income taxes	(90)	(2,332)
Accrued and other liabilities	(5,777)	(1,476)
Net cash used in operating activities	(1,846)	(9,937)
Cash flows from investing activities		
Purchases of property, plant, and equipment	(3,677)	(3,362)
Purchases of investments	(5,804)	(26,975)
Proceeds from maturities and sales of investments	4,505	30,000
Net cash used in investing activities	(4,976)	(337)
Cash flows from financing activities		
Tax withholdings for equity compensation	(522)	(579)
Repurchase of common stock	—	(1,116)
Net cash used in financing activities	(522)	(1,695)
Effect of exchange rate changes on cash and cash equivalents	(4)	(6)
Net decrease in cash and cash equivalents	(7,348)	(11,975)
Cash and cash equivalents, beginning of period	68,751	86,375
Cash and cash equivalents, end of period	$61,403	$74,400
Supplemental disclosure of cash flow information		
Cash (received) paid for income taxes, net	$(10)	$522
Supplemental disclosure of non-cash activity		
Non-cash operating, investing, and financing activities		
Repurchase of common stock		
Expenditures incurred but not yet paid as of May 5, 2018 and April 29, 2017	$—	$83
Expenditures incurred but not yet paid as of February 3, 2018 and January 28, 2017	$—	$—
Purchases of property, plant, and equipment		
Expenditures incurred but not yet paid as of May 5, 2018 and April 29, 2017	$1,610	$2,780
Expenditures incurred but not yet paid as of February 3, 2018 and January 28, 2017	$1,183	$2,204

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

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

1. Description of the Company and Basis of Presentation

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

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

Vera Bradley offers a unique, multi-channel sales model, as well as a focus on service and a high level of customer engagement. The Company sells its products through two reportable segments: Direct and Indirect. The Direct business consists of sales of Vera Bradley products through the Company's full-line and factory outlet stores in the United States; verabradley.com; the Company's online outlet site; direct-to-consumer eBay sales; and the Company's annual outlet sale in Fort Wayne, Indiana. As of May 5, 2018, the Company operated 105 full-line stores and 55 factory outlet stores. The Indirect business consists of sales of Vera Bradley products to approximately 2,400 specialty retail locations, substantially all of which are located in the United States, as well as department stores, national accounts, third-party e-commerce sites, third-party inventory liquidators, and royalties recognized through licensing agreements.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted as permitted by such rules and regulations. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2018, filed with the SEC.

The interim financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly the results for the interim periods presented. All such adjustments are of a normal, recurring nature. The results of operations for the thirteen weeks ended May 5, 2018, are not necessarily indicative of the results to be expected for the full fiscal year.

Principles of Consolidation

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

Fiscal Periods

The Company's fiscal year ends on the Saturday closest to January 31. References to the fiscal quarters ended May 5, 2018 and April 29, 2017, refer to the thirteen-week periods ended on those dates.

Revenue Recognition and Accounts Receivable

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

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

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

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

The 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 $0.9 million as of May 5, 2018 and February 3, 2018.

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. In addition, the Company recognizes revenue on estimated unredeemed gift cards based upon the historical patterns of gift card redemption. During the thirteen weeks ended May 5, 2018, the Company recorded an immaterial amount of revenue related to gift card breakage. Gift card breakage is included in net revenues in the Condensed Consolidated Statements of Operations, as well as Direct segment net revenues for the current-year period. The Company did not recognize gift card breakage revenue within net revenues in the comparable prior-year period as ASC Topic 606 was adopted using the modified transition approach with an immaterial adjustment to fiscal 2019 beginning retained earnings. Refer to Note 2 herein for additional information regarding the Company’s net revenues and its policies.

Operating Leases and Tenant-Improvement Allowances

The Company has leases that contain rent holidays and predetermined, fixed escalations of minimum rentals. For each of these leases, the Company recognizes the related rent expense on a straight-line basis commencing on the date of initial possession of the leased property. The Company records the difference between the recognized rent expense and the amount payable under the lease as a deferred rent liability. As of May 5, 2018 and February 3, 2018, deferred rent liability was $13.1 million and $12.9 million, respectively, and is included within long-term liabilities on the Condensed Consolidated Balance Sheets.

The Company receives tenant-improvement allowances from some of the landlords of its leased properties. These allowances generally are in the form of cash received by the Company from its landlords as part of the negotiated lease terms. The Company records each tenant-improvement allowance as a deferred credit and amortizes the allowance on a straight-line basis as a reduction to rent expense over the term of the lease, commencing on the possession date. As of May 5, 2018 and February 3, 2018, the deferred lease credit liability was $14.9 million and $14.6 million, respectively. Of these amounts, $2.6 million and $2.4 million is included within other accrued liabilities as of May 5, 2018 and February 3, 2018, respectively; $12.3 million and $12.2 million is included within long-term liabilities as of May 5, 2018 and February 3, 2018, respectively.

Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncements

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

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The Company adopted this standard in the first quarter of fiscal 2019 using the modified retrospective method with a$0.5 million cumulative adjustment to beginning retained earnings. As a result of this adoption method, the prior-year period presented in the Company's Condensed Consolidated Financial Statements was not recast.
The Company no longer adjusts revenue for shipments not yet received at each reporting period as it recognizes revenue as control is passed to the customer. It was determined that control is passed to the customer upon shipment, consistent with when legal title is passed. This accelerates the recognition of revenue at each reporting period compared to the Company's historical practice.
Revenue for unredeemed gift cards is estimated and recognized based on the historical patterns of gift card redemption. Historically, the Company recognized revenue for gift card breakage when the likelihood of the customer exercising their remaining rights became remote. The new revenue standard results in accelerated recognition of gift card breakage revenue at each reporting period compared to the Company's historical practice.
Revenue associated with contractually guaranteed minimum royalties in sales-based royalty arrangements is recognized straight-line over the remaining license period once determined that the minimum sales level will not be achieved. Historically, the Company recognized any excess of the guaranteed minimum royalty over the actual royalties earned at the end of the license period.
Certain liabilities for estimated product returns have been re-classified to other accrued liabilities from a contra-asset within accounts receivable, net, in the current-year period.
Refer to Note 2 herein for additional information regarding the adoption of ASC 606.
Recently Issued Accounting Pronouncements Not Yet Adopted
In February 2016, the FASB issued ASU 2016-02, Leases, which increases transparency and comparability among organizations by requiring lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases and disclosing key information about leasing arrangements. This guidance is effective for interim and annual periods beginning on or after December 15, 2018. The Company has operating leases at all of its retail stores; therefore, the adoption of this standard will result in a material increase of assets and liabilities on the Company's Consolidated Balance Sheets. The Company is continuing to evaluate the impact on its consolidated results of operations and cash flows.

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2. Revenue from Contracts with Customers

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

The following tables illustrate the financial statement line items that were impacted as a result of the adoption of ASC 606 as of and for the thirteen weeks ended May 5, 2018. These adjustments are a result of adjusting for shipments not yet received by customers, gift card breakage revenue, and the re-classification of certain liabilities for estimated product returns, which are further described in Note 1 herein (schedules in thousands).

	May 5, 2018		
	As Reported	Adjustments	Balances Under Prior U.S. GAAP
Condensed Consolidated Balance Sheet			
Accounts receivable, net	$17,523	$ (2,608)	$14,915
Inventories	86,188	822	87,010
Income taxes receivable	4,575	273	4,848
Total current assets	240,476	(1,513)	238,963
Deferred income taxes	5,437	146	5,583
Total assets	344,499	(1,367)	343,132
Other accrued liabilities	13,850	(124)	13,726
Total current liabilities	34,310	(124)	34,186
Total liabilities	59,804	(124)	59,680
Retained earnings	269,867	(1,243)	268,624
Total shareholders’ equity	284,695	(1,243)	283,452
Total liabilities and shareholders’ equity	344,499	(1,367)	343,132

	Thirteen Weeks Ended May 5, 2018		
	As Reported	Adjustments	Amounts Under Prior U.S. GAAP
Condensed Consolidated Statement of Operations			
Net revenues	$86,591	$ (1,620)	$84,971
Cost of sales	37,975	(571)	37,404
Gross profit (loss)	48,616	(1,049)	47,567
Operating loss	(1,912)	(1,049)	(2,961)
Loss before income taxes	(1,669)	(1,049)	(2,718)
Income tax benefit	(299)	(260)	(559)
Net loss	(1,370)	(789)	(2,159)

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	Thirteen Weeks Ended May 5, 2018		
	As Reported	Adjustments	Amounts Under Prior U.S. GAAP
Condensed Consolidated Statement of Cash Flows			
Cash flows from operating activities			
Net loss	$(1,370)	$ (789)	$(2,159)
Adjustments to reconcile net loss to net cash used in operating activities:			
Deferred income taxes	(210)	12	(198)
Changes in assets and liabilities:			
Accounts receivable	(1,417)	1,948	531
Inventories	1,399	(571)	828
Income taxes	(90)	(273)	(363)
Accrued and other liabilities	(5,777)	(327)	(6,104)

Disaggregation of Revenue
The following presents our net revenues disaggregated by product category for the thirteen weeks ended May 5, 2018 (in thousands):

	Thirteen Weeks Ended May 5, 2018		
	Direct Segment	Indirect Segment	Total
Product categories			
Bags	$25,600	$10,228	$35,828
Travel	18,059	4,690	22,749
Accessories	15,679	4,168	19,847
Home	4,170	458	4,628
Other	2,024 (1)	1,515 (2)	3,539
Total net revenues	$65,532 (3)	$21,059 (4)	$86,591

(1) Primarily includes net revenues from apparel/footwear, stationery, freight, and gift card breakage.
(2) Primarily includes net revenues from licensing agreements, freight, apparel/footwear, merchandising, and stationery.
(3) Net revenues were related to product sales recognized at a point in time.
(4) $20.1 million of net revenues related to product sales recognized at a point in time and $1.0 million of net revenues related to sales-based royalties

recognized over time.

Contract Balances

Contract liabilities as of May 5, 2018, consisted of $1.4 million of unearned revenue related to unredeemed gift cards and an immaterial amount of unearned revenue for pre-payments of royalties in certain of the Company's licensing arrangements. These contract liabilities are recognized within other accrued liabilities on the Company's Condensed Consolidated Balance Sheets. The Company did not have contract assets as of May 5, 2018.

The balance for accounts receivable from contracts with customers, net of allowances, as of May 5, 2018 was $15.1 million, which is recognized within accounts receivable, net, on the Company's Condensed Consolidated Balance Sheets. The provision for doubtful accounts was $0.1 million for the thirteen weeks.

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Performance Obligations

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

Remaining Performance Obligations

The Company does not have remaining performance obligations in excess of one year or contracts which it does not have the right to invoice as of May 5, 2018.

Significant Judgments

Product Sales

In the Company's retail stores (recognized within the Direct segment), control is transferred and net revenue is recognized at the point of sale. Product shipments for the Company's e-commerce channel (recognized within the Direct segment) and shipments to its Indirect retailers (recognized within the Indirect segment) are generally shipped Free on Board ("FOB") shipping point typically from its distribution center in Roanoke, Indiana, and net revenue is recognized upon shipment consistent with when control is transferred to the customer. Upon shipment, the customer has the right to direct the use of, and obtain substantially all of the benefits from, the product.

Licensing Royalties

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

Transaction Price and Amounts Allocated to Performance Obligations.

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

Contract Costs

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

Other Practical Expedients

Remaining Performance Obligations

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

Significant Financing Components

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

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

3. Earnings Per Share

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

	Thirteen Weeks Ended	
	May 5, 2018	April 29, 2017
Numerator:		
Net loss	$(1,370)	$(4,049)
Denominator:		
Weighted-average number of common shares (basic)	35,532	36,235
Dilutive effect of stock-based awards	—	—
Weighted-average number of common shares (diluted)	35,532	36,235
Loss per share:		
Basic	$(0.04)	$(0.11)
Diluted	$(0.04)	$(0.11)

As of May 5, 2018 and April 29, 2017, all potential common shares were excluded from the diluted share calculations because they were anti-dilutive due to the net loss in the current and prior-year periods.

4. 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 valuatio