

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Fiscal Year Ended February 1, 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:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
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

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

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

Indicate by check mark whether the registrant has submitted electronically 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  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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

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

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

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.

## 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 “likely” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected earnings, revenues, costs, expenditures, cash flows, growth rates, and financial results, our plans and objectives for future operations, growth, initiatives, or strategies, or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- 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.

- 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.

## **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.

*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 <sup>(1)</sup>	15.1%	13.2%	9.5%
Total <sup>(2)</sup>	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.

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.

*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.

### *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.

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.

## 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](http://www.verabradley.com), as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission (“SEC”). No information contained on our website is intended to be included as part of, or incorporated by reference into, this Annual Report on Form 10-K.

**Item 1A. Risk Factors**

*You should carefully consider all of the information in this report, 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 phenomena. Consumer purchases of discretionary items, including our merchandise, generally decline during periods when disposable income is adversely affected or there is economic uncertainty, and this could adversely impact our results of operations. In the event 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;



- 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.

***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:

- 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.

***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.

***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.

***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.

***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.



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.

**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.

<b>Location</b>	<b>Primary Use</b>	<b>Square Footage</b>	<b>Leased /Owned</b>
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.

*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

## 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
<b>Fiscal 2014 Quarter ended:</b>		
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
<b>Fiscal 2013 Quarter ended:</b>		
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:

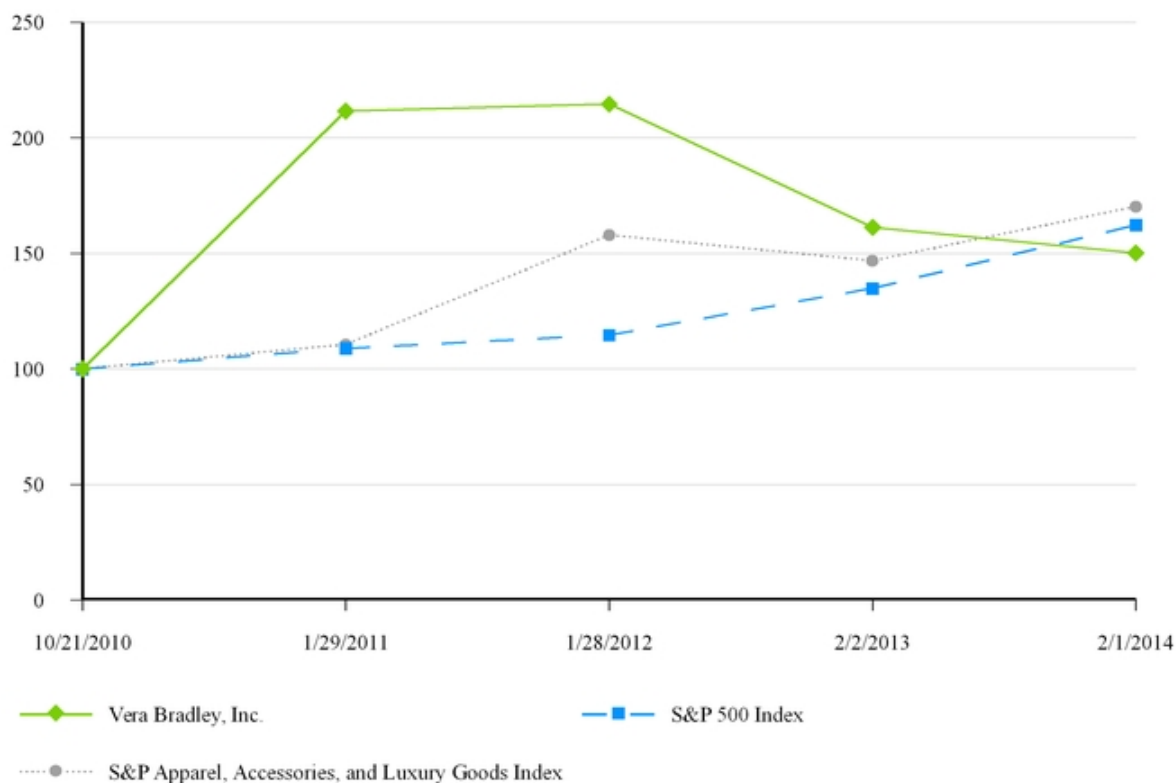
Plan Category	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) (\$)	Number of Securities Remaining Available for Future Issuance Under the Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders <sup>(1)</sup>	400,029	—	5,675,972
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>400,029</b>	<b>—</b>	<b>5,675,972</b>

(1) Approved before our initial public offering.

**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

**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.

(\$ in thousands, except per share data and as otherwise indicated)	Fiscal Year Ended (1)				
	February 1, 2014	February 2, 2013	January 28, 2012	January 29, 2011	January 29, 2010
<b>Consolidated Statement of Income Data:</b>					
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
<b>Net Revenues by Segment:</b>					
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
<b>Store Data (4):</b>					
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

(\$ in thousands)	As of				
	February 1, 2014	February 2, 2013	January 28, 2012	January 29, 2011	January 29, 2010
<b>Consolidated Balance Sheet Data:</b>					
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 53<sup>rd</sup> 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.

## 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.



## 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.

### 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 53<sup>rd</sup> week in fiscal 2013 resulted in incremental net revenues of approximately \$4.9 million and approximately \$0.02 per diluted share.

(\$ in thousands)	Fiscal Year Ended (1)		
	February 1, 2014	February 2, 2013	January 28, 2012
<b>Statement of Income Data:</b>			
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
<b>Percentage of Net Revenues:</b>			
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%

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:

	Fiscal Year Ended (1)		
	February 1, 2014	February 2, 2013	January 28, 2012
<i>(\$ in thousands, except as otherwise indicated)</i>			
<b>Net Revenues by Segment:</b>			
Direct	\$ 326,217	\$ 292,564	\$ 225,287
Indirect	209,804	248,584	235,556
Total	<u>\$ 536,021</u>	<u>\$ 541,148</u>	<u>\$ 460,843</u>
<b>Percentage of Net Revenues by Segment:</b>			
Direct	60.9%	54.1%	48.9%
Indirect	39.1%	45.9%	51.1%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Fiscal Year Ended</b>			
	February 1, 2014	February 2, 2013	January 28, 2012
<b>Store Data (2):</b>			
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 53<sup>rd</sup> 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.

### 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		\$ Change	% Change
	February 1, 2014	February 2, 2013		
<b>Operating Income:</b>				
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	<u>\$ 94,251</u>	<u>\$ 110,146</u>	<u>\$ (15,895)</u>	<u>(14.4)%</u>

*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.

**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		\$ Change	% Change
	February 2, 2013	January 28, 2012		
<b>Operating Income:</b>				
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.

*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.

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:

(\$ in thousands)	Payments Due by Period <sup>(3)</sup>				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Operating leases <sup>(1)</sup>	\$ 151,967	\$ 19,855	\$ 39,637	\$ 37,331	\$ 55,144
Purchase obligations <sup>(2)</sup>	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.

## **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.



*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.

**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.

**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

**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

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

	February 1, 2014	February 2, 2013
<b>Assets</b>		
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	<u>\$ 332,927</u>	<u>\$ 277,319</u>
<b>Liabilities and Shareholders' Equity</b>		
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	<u>\$ 332,927</u>	<u>\$ 277,319</u>

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

**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.

**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	<u>\$ 58,414</u>	<u>\$ 68,163</u>	<u>\$ 58,018</u>

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



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

	Number of Shares	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Equity
	Common Stock				
<b>Balance at January 29, 2011</b>	<b>40,506,670</b>	<b>\$ 71,923</b>	<b>\$ (7,601)</b>	<b>\$ —</b>	<b>\$ 64,322</b>
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
<b>Balance at January 28, 2012</b>	<b>40,506,720</b>	<b>\$ 73,590</b>	<b>\$ 50,320</b>	<b>\$ 97</b>	<b>\$ 124,007</b>
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
<b>Balance at February 2, 2013</b>	<b>40,563,056</b>	<b>\$ 75,675</b>	<b>\$ 119,190</b>	<b>\$ (610)</b>	<b>\$ 194,255</b>
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)
<b>Balance at February 1, 2014</b>	<b>40,606,731</b>	<b>\$ 78,153</b>	<b>\$ 178,002</b>	<b>\$ (1,008)</b>	<b>\$ 255,147</b>

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
<b>Cash flows from operating activities</b>			
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
<b>Cash flows from investing activities</b>			
Purchases of property, plant, and equipment	(22,862)	(35,893)	(18,836)
Net cash used in investing activities	(22,862)	(35,893)	(18,836)
<b>Cash flows from financing activities</b>			
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
<b>Supplemental disclosure of cash-flow information</b>			
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.

**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.

**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

**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.

**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	<u>\$ 136,923</u>	<u>\$ 131,562</u>

**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
	<u>151,377</u>	<u>128,948</u>
Less: Accumulated depreciation and amortization	(66,437)	(51,737)
Property, plant, and equipment, net	<u>\$ 84,940</u>	<u>\$ 77,211</u>

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
	<u>—</u>	<u>15,095</u>
Less: Current maturities	—	58
	<u>\$ —</u>	<u>\$ 15,037</u>

**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
	<u>38,298</u>	<u>42,062</u>	<u>35,465</u>
Deferred:			
Federal	(2,540)	(351)	1,591
State	(701)	(1,114)	47
	<u>(3,241)</u>	<u>(1,465)</u>	<u>1,638</u>
Total income tax expense	<u>\$ 35,057</u>	<u>\$ 40,597</u>	<u>\$ 37,103</u>

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	<u>\$ 93,869</u>	<u>\$ 109,467</u>	<u>\$ 95,024</u>



**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
<b>Total income tax expense</b>	<b>\$ 35,057</b>	<b>37.3 %</b>	<b>\$ 40,597</b>	<b>37.1 %</b>	<b>\$ 37,103</b>	<b>39.0 %</b>

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
<b>Deferred tax assets:</b>		
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
<b>Subtotal deferred tax assets</b>	<b>22,859</b>	<b>18,447</b>
Less: valuation allowances	(2,245)	(1,679)
<b>Total deferred tax assets</b>	<b>20,614</b>	<b>16,768</b>
<b>Deferred tax liabilities:</b>		
Property, plant, and equipment	(10,154)	(9,871)
Other	(2,009)	(1,627)
<b>Total deferred tax liabilities</b>	<b>(12,163)</b>	<b>(11,498)</b>
<b>Net deferred tax assets</b>	<b>\$ 8,451</b>	<b>\$ 5,270</b>

**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	<u>\$ 3,115</u>	<u>\$ 1,236</u>

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
	<u>\$ 151,967</u>

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 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.

**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 restricted stock units as well as other equity awards. As of February 1, 2014, there were 5,675,972 of shares remaining in that program.

During the fiscal year ended February 1, 2014, the Company granted a total of 322,218 time-based and performance-based restricted stock units to certain employees under the 2010 Equity and Incentive Plan with an aggregate fair value of \$7.7 million. The Company determined the fair value of the units based on the closing price of the Company's common stock on the grant date.

The majority of time-based restricted stock units vest and settle in shares of the Company's common stock, on a one-for-one basis, in equal installments on each of the first three anniversaries of the grant date. Beginning in fiscal 2014, all restricted stock awards issued to non-employee Directors vest after a one-year period from grant date. The Company is recognizing the expense relating to these awards, net of estimated forfeitures, on a straight-line basis over the vesting period.

The majority of performance-based restricted stock units vest upon the completion of a three-year period of time (cliff vesting), subject to the employee's continuing employment throughout the three-year performance period and the Company's achievement of annual net income targets during the three-year performance period. The Company is recognizing the expense relating to these units, net of estimated forfeitures and based on the probable outcome of achievement of the net income targets, on a straight-line basis over the vesting period.

The following table summarizes information about restricted-stock units as of and for the year ended February 1, 2014 (units in thousands):

	Time-based Restricted Stock Units		Performance-based Restricted Stock Units	
	Number of Units	Weighted- Average Grant Date Fair Value (per unit)	Number of Units	Weighted- Average Grant Date Fair Value (per unit)
Nonvested units outstanding at February 2, 2013	150	\$ 34.71	76	\$ 29.62
Granted	184	23.79	138	23.82
Vested	(61)	35.26	—	—
Forfeited	(42)	28.91	(54)	26.25
Nonvested units outstanding at February 1, 2014	231	\$ 26.92	160	\$ 25.75

As of February 1, 2014, there was \$4.5 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested restricted stock units. That cost is expected to be recognized over a weighted average period of 1.8 years. The total fair value of restricted stock units for which restrictions lapsed (vested) during fiscal 2014 was \$1.4 million. No restricted-stock awards were granted, vested, or forfeited for the year ended February 1, 2014.

**9. Commitments and Contingencies**

The Company is subject to various claims and contingencies arising in the normal course of business, including those relating to product liability, legal, employee benefit, regulatory, environmental, and other matters. Management believes that it is not reasonably possible that any of these claims will have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

## 10. 401(k) Profit Sharing Plan and Trust

The Company has a 401(k) profit sharing plan and trust for all qualified employees and provides a 50% match of an employee's contribution to the plan up to a maximum employer contribution of either 10% of the employee's annual compensation or the annual legal allowable contribution limit, whichever is lower. Additionally, the Company has the option of making discretionary profit sharing payments to the plan as approved by the board of directors. As of February 1, 2014, and February 2, 2013, no discretionary profit sharing payments had been approved. Total Company contributions to the plan were as follows (in thousands):

Fiscal year ended February 1, 2014	\$	1,508
Fiscal year ended February 2, 2013		1,507
Fiscal year ended January 28, 2012		1,231

## 11. Related-Party Transactions

The Company leased two of its facilities, in fiscal 2014, from leasing companies owned by certain shareholders and directors, as described further in Note 7.

In December 2013, the Company purchased land and a building, that was previously leased, from Great Dane Realty, LLC, a company owned by Barbara Bradley Baekgaard. The Board of Directors, along with independent real estate appraisers, determined the purchase price of the property, which totaled \$2.4 million. This building is adjacent to the distribution center in Roanoke, Indiana.

In June 2011, the Company sold certain life insurance policies on the lives of its founders, who are also directors and officers of the Company, to the insureds at the fair market value of \$0.7 million. The cash surrender value of the policies was \$0.6 million, resulting in a \$0.1 million gain. The cash surrender value was included in other assets prior to the sale and the gain on the sale was recorded in other income. Other life insurance policies not purchased by the insureds were terminated.

During fiscal year ended February 1, 2014, the Company made charitable contributions of approximately \$1.0 million to the Vera Bradley Foundation for Breast Cancer (the "Foundation"). In fiscal years ended February 2, 2013 and January 28, 2012, the Company made charitable contributions of 10% of the net proceeds from the sale of inventory of certain designated patterns to the Foundation. The Foundation was founded by two of the Company's directors, who are also on the board of directors of the Foundation. The liability associated with this commitment was approximately \$0.4 million at both February 1, 2014 and February 2, 2013, which is included in other accrued liabilities in the Consolidated Balance Sheets. The associated expense, which is included in selling, general, and administrative expenses, was as follows (in thousands):

Fiscal year ended February 1, 2014	\$	982
Fiscal year ended February 2, 2013		982
Fiscal year ended January 28, 2012		1,046

## 12. Earnings Per Share

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

	Fiscal Year Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
<i>Numerator:</i>			
Net income	\$ 58,812	\$ 68,870	\$ 57,921
<i>Denominator:</i>			
Weighted-average number of common shares (basic)	40,599	40,536	40,507
Dilutive effect of stock-based awards	49	35	35
Weighted-average number of common shares (diluted)	40,648	40,571	40,542
<i>Earnings per share:</i>			
Basic	\$ 1.45	\$ 1.70	\$ 1.43
Diluted	\$ 1.45	\$ 1.70	\$ 1.43

As of February 1, 2014, the amount of additional shares issuable upon the vesting of restricted stock units that were excluded from the diluted share calculations because they were anti-dilutive was immaterial. As of February 1, 2014, there were no additional shares issuable upon the vesting of restricted stock units that were excluded from the diluted share calculations.

### 13. Segment Reporting

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

The Indirect segment represents revenues generated through the distribution of Company-branded products to approximately 3,100 specialty Indirect retailers and department store partners across the United States. The Direct segment includes the Company's full-price and outlet stores, department store locations in Japan, the Company's websites, verabradley.com and verabradley.co.jp, and the annual outlet sale. Revenues generated through this segment are driven through the sale of Company-branded products from Vera Bradley to end consumers. No customer accounted for 10% or more of the Company's net revenues during fiscal years 2014, 2013 and 2012.

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

Company management evaluates segment operating results based on several indicators. The primary or key performance indicators for each segment are net revenues and operating income. The table below represents key financial information for each of the Company's operating and reportable segments, Direct and Indirect.

The accounting policies of the segments are the same as those described in Note 2. The Company does not report depreciation or amortization expense, total assets, or capital expenditures by segment as such information is neither used by management nor accounted for at the segment level. Net revenues and operating income information for the Company's reportable segments consisted of the following (in thousands):

	Fiscal Year Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
<b>Segment net revenues:</b>			
Direct	\$ 326,217	\$ 292,564	\$ 225,287
Indirect	209,804	248,584	235,556
Total	<u>\$ 536,021</u>	<u>\$ 541,148</u>	<u>\$ 460,843</u>
<b>Segment operating income:</b>			
Direct	\$ 79,877	\$ 85,059	\$ 68,097
Indirect	84,130	101,059	93,042
Total	<u>\$ 164,007</u>	<u>\$ 186,118</u>	<u>\$ 161,139</u>
<b>Reconciliation:</b>			
Segment operating income	\$ 164,007	\$ 186,118	\$ 161,139
<b>Less:</b>			
Unallocated corporate expenses	(69,756)	(75,972)	(64,968)
Operating income	<u>\$ 94,251</u>	<u>\$ 110,146</u>	<u>\$ 96,171</u>

Sales outside of the United States were included in the Direct segment and are considered immaterial.

**Vera Bradley, Inc.**  
**Notes to Consolidated Financial Statements**

Revenues to external customers for Vera Bradley brand products are attributable to sales of handbags, accessories, and travel and leisure items. Other revenue to external customers primarily includes revenue from our annual outlet sale, home products, merchandising, freight, and licensing revenues. Net revenues by product category are as follows (in thousands):

	Fiscal Year Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Net revenues:			
Handbags	\$ 208,478	\$ 214,307	\$ 193,861
Accessories	157,132	167,929	144,575
Travel and Leisure Items	77,390	77,667	68,385
Other	93,021	81,245	54,022
Total	<u>\$ 536,021</u>	<u>\$ 541,148</u>	<u>\$ 460,843</u>

As of February 1, 2014 and February 2, 2013, substantially all of the Company's long-lived assets were located in the United States.

#### 14. Quarterly Financial Information (Unaudited)

The table below sets forth selected quarterly financial data for each of the last two fiscal years (in thousands, except per share data). Each of the quarters presented was thirteen weeks in duration, except the fourth quarter of fiscal year ended February 2, 2013, which was fourteen weeks.

	Fiscal Year Ended February 1, 2014			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter <sup>(1)</sup>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net revenues	\$ 123,033	\$ 125,372	\$ 130,094	\$ 157,522
Gross profit	68,466	71,773	71,933	83,260
Operating income	15,190	24,067	24,189	30,805
Net income	9,189	14,951	15,226	19,446
Basic net income per common share	0.23	0.37	0.37	0.48
Diluted net income per common share	0.23	0.37	0.37	0.48

	Fiscal Year Ended February 2, 2013			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net revenues	\$ 117,201	\$ 123,037	\$ 138,346	\$ 162,564
Gross profit	65,302	68,612	80,228	94,139
Operating income	20,810	21,799	27,571	39,966
Net income	12,626	13,373	17,742	25,129
Basic net income per common share	0.31	0.33	0.44	0.62
Diluted net income per common share	0.31	0.33	0.44	0.62

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

<sup>(1)</sup> The Quarterly financial data reflects a pre-tax inventory write-down of approximately \$4.8 million.

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

None.

**Item 9A. Controls and Procedures**

***Disclosure Controls and Procedures***

Based on the evaluation of the Company's disclosure controls and procedures, as that term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), each of Robert Wallstrom, the Chief Executive Officer of the Company, and Kevin J. Sierks, the Executive Vice President – Chief Financial Officer of the Company, has concluded that the Company's disclosure controls and procedures are effective as of February 1, 2014.

***Management's Report on Internal Control over Financial Reporting***

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission (1992 framework) in *Internal Control-Integrated Framework*. Based on the results of that evaluation, management has concluded that such internal control over financial reporting was effective as of February 1, 2014.

The effectiveness of the Company's internal control over financial reporting as of February 1, 2014 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report which appears in Item 8. of this Annual Report on Form 10-K.

***Changes in Internal Control over Financial Reporting***

There were no changes in internal control over financial reporting that occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information set forth in the Proxy Statement for the 2014 Annual Meeting of Shareholders under the headings “Nominees for Election as Class III Directors at the 2013 Annual Meeting,” “Directors Continuing in Office,” “Director Nominations,” “Family Relationships,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Code of Ethics,” and “Committees – Audit Committee” is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. In addition, the information set forth under the heading “Business – Executive Officers” in this Form 10-K is incorporated herein by reference.

### **Item 11. Executive Compensation**

The information set forth in the Proxy Statement for the 2014 Annual Meeting of Shareholders under the headings “Executive Compensation Discussion and Analysis”, and “Compensation Committee Interlocks and Insider Participation” is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

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

The information set forth in the Proxy Statement for the 2014 Annual Meeting of Shareholders under the heading “Share Ownership by Certain Beneficial Owners and Management” is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. In addition, the information set forth in Part II, Item 5 of this Form 10-K under the heading “Dividends” is incorporated herein by reference.

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

The information set forth in the Proxy Statement for the 2014 Annual Meeting of Shareholders under the headings “Certain Relationships and Related Party Transactions” and “Board Independence” is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

### **Item 14. Principal Accounting Fees and Services**

The information required by this item is incorporated herein by reference to our 2014 Proxy Statement under the caption “Principal Accounting Fees and Services.” The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.



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

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

<a href="#">Report of Independent Registered Public Accounting Firm</a>	<a href="#">43</a>
<a href="#">Consolidated Balance Sheets as of February 1, 2014, and February 2, 2013</a>	<a href="#">45</a>
<a href="#">Consolidated Statements of Income for the fiscal years ended February 1, 2014, February 2, 2013, and January 28, 2012</a>	<a href="#">46</a>
<a href="#">Consolidated Statements of Comprehensive Income for the fiscal years ended February 1, 2014, February 2, 2013, and January 28, 2012</a>	<a href="#">47</a>
<a href="#">Consolidated Statements of Shareholders' Equity for the fiscal years ended February 1, 2014, February 2, 2013, and January 28, 2012</a>	<a href="#">48</a>
<a href="#">Consolidated Statements of Cash Flows for the fiscal years ended February 1, 2014, February 2, 2013, and January 28, 2012</a>	<a href="#">49</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">50</a>

**(2) Financial Statement Schedules**

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

**(3) List of Exhibits**

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

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on April 2, 2014.

Vera Bradley, Inc.

/s/ Kevin J. Sierks

Kevin J. Sierks

Executive Vice President – Chief Financial Officer

## POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrant and in the capacities indicated on April 2, 2014.

<u>Signature</u>	<u>Title</u>
/s/ Robert Wallstrom Robert Wallstrom	Director and Chief Executive Officer (principal executive officer)
/s/ Kevin J. Sierks Kevin J. Sierks	Executive Vice President – Chief Financial Officer (principal accounting officer)
/s/ Barbara Bradley Baekgaard Barbara Bradley Baekgaard	Director
/s/ Richard Baum Richard Baum	Director
/s/ Robert J. Hall Robert J. Hall	Director
/s/ Karen Kaplan Karen Kaplan	Director
/s/ John E. Kyees John E. Kyees	Director

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

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Second Amended and Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1, Registration No. 333-167934)
3.2	Amended and Restated Bylaws (Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1, Registration No. 333-167934)
4.1	Specimen Common Stock Certificate (Incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-1, Registration No. 333-167934)
10.1	Vera Bradley, Inc. 2010 Equity and Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1, Registration No. 333-167934)
10.2	Vera Bradley Designs, Inc. 2010 Restricted Stock Plan (Incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-1, Registration No. 333-167934)
10.3	Form of Restricted Stock Award Agreement under Vera Bradley Designs, Inc. 2010 Restricted Stock Plan (Incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1, Registration No. 333-167934)
10.4	Form of Indemnification Agreement (Incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1, Registration No. 333-167934)
10.5	Amended and Restated Credit Agreement dated as of October 4, 2010 among Vera Bradley Designs, Inc. and JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-1, Registration No. 333-167934)
10.6	Parent Guaranty dated as of October 4, 2010 made by Vera Bradley, Inc. in favor of JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1, Registration No. 333-167934)
10.7	Reaffirmation of Guaranty and Security Documents dated as of October 4, 2010 by Vera Bradley Designs, Inc., Vera Bradley Retail Stores, LLC and Vera Bradley International, LLC for the benefit of JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.13 to the Registration Statement on Form S-1, Registration No. 333-167934)
10.8	2011 Restricted Stock Unit Terms And Conditions for Employees (Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2011)
10.9	2011 Restricted Stock Unit Terms And Conditions for Non-Employee Directors (Incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2011)
10.10	Lease Agreement, dated as of March 28, 2011, by and between Vera Bradley Designs, Inc., as tenant, and Great Dane Realty, LLC, as landlord (Incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2011)
10.11	Lease Extension, dated April 19, 2011, by and between Vera Bradley, Inc., as tenant, and Milburn, LLC, as landlord (Incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2011)
10.12	Fiscal 2013 Restricted Stock Unit/Performance Unit Terms and Conditions (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended April 28, 2012)
10.13	Fiscal 2013 Outside Director Restricted Stock Unit Terms and Conditions (Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the fiscal quarter ended April 28, 2012)

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<u>Exhibit No.</u>	<u>Description</u>
10.14	Fiscal 2013 Annual Incentive Compensation Plan (Incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the fiscal quarter ended April 28, 2012)
10.15	Form of Time-Based Award Agreement under the 2010 Equity and Incentive Plan (Incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the fiscal quarter ended April 28, 2012)
10.16	Form of Performance-Based Award Agreement under the 2010 Equity and Incentive Plan (Incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q for the fiscal quarter ended April 28, 2012)
10.17	Amendment No. 3 to Amended and Restated Credit Agreement, dated as of June 1, 2012, among Vera Bradley Designs, Inc., JPMorgan Chase Bank N.A. and the lenders party thereto (Incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q for the fiscal quarter ended April 28, 2012)
10.18	Letter of Agreement with Kevin J. Sierks (Incorporated by reference to Exhibit 10.23 to the Annual Report on Form 10-K for the fiscal year ended February 2, 2013)
10.19*	Letter of Agreement with Sue Fuller
10.20*	Amendment No. 1 to Amended and Restated Credit Agreement, dated as of November 18, 2010, among Vera Bradley Designs, Inc., JPMorgan Chase Bank N.A. and the lenders party thereto
10.21*	Amendment No. 2 to Amended and Restated Credit Agreement, dated as of March 10, 2011, among Vera Bradley Designs, Inc., JPMorgan Chase Bank N.A. and the lenders party thereto
21.1*	Subsidiaries of Vera Bradley, Inc.
23.1*	Consent of Ernst & Young LLP
23.2*	Consent of PricewaterhouseCoopers LLP
31.1*	Rule 13a-14(a)/15d-4(a) Certification of Chief Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1*	Section 1350 Certifications
101	The following materials from Vera Bradley, Inc.'s Annual Report on Form 10-K for the year ended February 1, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations and Comprehensive Income for the fiscal years ended February 1, 2014, February 2, 2013, and January 28, 2012; (ii) Consolidated Balance Sheets as of February 1, 2014, and February 2, 2013; (iii) Consolidated Statements of Shareholders' Equity for the fiscal years ended February 1, 2014, February 2, 2013 and January 28, 2012; (iv) Consolidated Statements of Cash Flows for the fiscal years ended February 1, 2014, February 2, 2013, and January 28, 2012; and (v) related notes. **
*	Filed herewith
**	Pursuant to Rule 406T of SEC Regulation S-T, the Interactive Data Files included as Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these Sections.

January 1, 2014

Dear Sue,

I am pleased to offer you the position of Executive Vice President, Chief Merchandising Officer at Vera Bradley, Inc. and its subsidiaries effective as of January 6, 2014, reporting to the Chief Executive Officer, with duties and responsibilities commensurate with such position. A detailed overview of the compensation and benefits associated with this offer follows. Please note that this offer is contingent upon the successful completion of your background check and pre-employment drug screen.

Upon acceptance of this offer, please sign a copy of this letter and return it to Julie North, Vice President, Human Resources. Please feel free to contact me should you have any questions regarding the offer details.

We are thrilled you are joining Vera Bradley! Your experience, qualifications, and positive energy will be an excellent addition to our team!

### **Compensation**

Your bi-weekly base salary will be \$19,231, which equates to an annual base salary of \$500,000.

You will be eligible for both an Annual Incentive and a Long-term Incentive starting in Vera Bradley's fiscal 2015. These incentives are tied to performance during fiscal 2015, which begins February 2, 2014 and ends January 31, 2015. Please note that although you will be employed at Vera Bradley for approximately one month of fiscal 2014 (which ends February 2, 2014), you will not be eligible to participate in any fiscal 2014 incentive plans.

In fiscal 2015, your Annual Incentive will be a guaranteed annual bonus at the target payout level (which is 50% of your base salary) for that fiscal year. The fiscal 2015 Annual Incentive is anticipated to be paid in March 2015. Thereafter, the Annual Incentive will have a target incentive set at 50% of your annual base salary. Also starting in fiscal 2015, you will be eligible for a Long-Term Incentive, with a target incentive set at 60% of your base salary. Both the Annual Incentive and the Long-Term Incentive grants are subject to specific plan documents, which will be provided to you in March 2014. These incentives are also described in further detail in the attached Total Rewards Summary.

As additional consideration, you will receive a one-time grant of Restricted Stock Units (RSUs). The number of RSUs actually granted will be equal to \$600,000 calculated based upon the price of VRA shares at the close of the market on your first day of employment with the Company. These RSU's will vest ratably over three years and will be subject to specific plan documents that will be provided upon grant.

You will be entitled to a retention bonus of \$375,000 to be paid in three equal payments of \$125,000: August 1, 2014, August 1, 2015 and August 1, 2016. In the event that your employment terminates prior to the payment of the third installment of the retention bonus which is earned August 1, 2016, you will be paid an amount equal to any unpaid portion of the retention bonus in addition to any other amounts owed to you under the Vera Bradley 2014 Executive Severance Plan (the "Plan") or any other applicable plan or document; provided, however, that this sentence will not apply in the case of any voluntary termination by you without Good Reason (as defined in the Plan) or by Vera Bradley for Cause (as defined in the Plan).

### **Benefits**

Listed below is information regarding our complete benefits package based on a tentative January 1, 2014 start date. Further details can be found in the attached Vera Bradley Employee Benefits Guide.

- Nine (9) paid holidays annually
- 25 days (200 hours) of paid managed time off (MTO) per calendar year. MTO provides for time away from work for any purpose.
- Short-term disability insurance (one year waiting period)
- Long-term disability insurance (one year waiting period)
- Life insurance coverage equal to one times your annual salary with a minimum of \$50,000, maximum of \$200,000 (30 day waiting period)
- Health/Dental insurance through Anthem. Vera Bradley pays a portion of both the employee and dependent premium after a 30 day waiting period
- Section 125 Flexible Spending Plan (30 day waiting period). You can create a non-taxable account to pay non-reimbursable medical expenses and dependent care expenses.
- A 401(k) Profit Sharing Plan (one year waiting period). Your eligibility date will be January 1, 2015.
- Ability to purchase on account, Vera Bradley product at discounted pricing.

- Participation in the Vera Bradley, Inc. 2013 Executive Severance Plan.

**Temporary Living & Relocation Assistance**

Vera Bradley will provide you the following relocation benefits to assist with your transition from Michigan to Indiana:

- Reasonable, interim living expenses (rent, utilities, internet, cleaning fees, etc.) up to a maximum of \$3,000 per month for a period of nine months.
- Directly pay costs associated with moving your household goods and personal effects from your current residence to your new permanent residence up to a maximum of \$25,000.
- Expenses relating to two pre-move house hunting trips for you and your family up to a maximum of \$5,000.
- Expenses to assist with customary closing costs and realtor fees of sale of existing home in Michigan not to exceed 6% of sales price up to a maximum of \$80,000.
- Expenses relating to two flights per month from Fort Wayne to Michigan for a period of nine months up to a maximum of \$9,000.
- A lump sum cash payment of \$80,000 to be paid January 31, 2014 to be used to cover miscellaneous expenses including taxes due.

Please note that some reimbursed expenses are considered taxable income and will be reported as income upon reimbursement by Vera Bradley. If you have any questions about the tax consequences of this reimbursement, please consult your tax advisor. In addition, supporting documentation will be required for reimbursement.

**Repayment Provision**

In the event you elect to voluntarily resign employment from Vera Bradley (except in the case of a resignation for Good Reason (as defined in the Plan)) or are involuntary terminated for cause, at any time within twelve (12) months of receiving relocation assistance, you will be subject to the repayment costs associated with any relocation assistance provided.

Sue, please note that this letter merely memorializes our offer to you and does not constitute a written employment contract for any specific term. Your employment with Vera Bradley will be on an "at will" basis, which means that either party may end the employment relationship at any time without notice, for any reason.

Sincerely,

Robert T. Wallstrom  
President & Chief Executive Officer

Accepted by Sue Fuller

/s/ Sue Fuller  
Sue Fuller

1/1/2014  
Date

**Total Rewards - Sue Fuller, EVP & Chief Merchandising Officer**

<b>ANNUAL CASH AND AWARDS</b>	<b>Value</b>	<b>Details</b>
Annual Base Salary	\$500,000	\$19,231 paid bi-weekly.
Annual Cash Incentive	\$250,000	Target based on 50% of annual salary (FY2015 bonus guaranteed at target (50% annual salary)
Annual Long-Term Equity Incentive	\$300,000	Target based on 60% of annual salary (60% performance based; 40% time based vesting ratably over three years)
Estimated Annual Cash and Awards in FY2015	\$1,050,000	

<b>Retirement &amp; Employee Health &amp; Welfare Benefits</b>	<b>Value</b>	<b>Details</b>
Company 401k match contributions	\$8,750	Assumes participation at maximum IRS contribution of \$17,500.
Company provided health and welfare benefits	\$18,200	Estimated annual average contribution paid by Vera Bradley for employee's behalf for health, dental, life and AD&D coverages. Assumes employee plus family medical and dental coverage elected.
Estimated Annual Company Contributions of Retirement and Employee Health & Welfare Benefits	\$26,950	
<b>Total Annual Awards</b>	<b>\$1,076,950</b>	

<b>ONE-TIME AWARDS</b>	<b>Value</b>	<b>Details</b>
Equity Grant awarded upon first day of employment with Vera Bradley	\$600,000	Granted in Restricted Stock Units (RSUs) equivalent to \$600,000. The exact number of RSUs granted will be calculated based on the VRA strike price at the end of business on your first day of employment. This grant will vest ratably over three years.
Retention Bonus	\$375,000	Cash lump sum paid ratably over three years. First payment of \$125,000 to be paid on August 1, 2014. Unpaid portion payable upon termination, other than in the case of voluntary termination without Good Reason or termination by the Company for Cause (as described more fully in offer letter).
<b>One-Time Awards</b>	<b>\$975,000</b>	

<b>OTHER CONSIDERATIONS - Interim Living &amp; Relocation Assistance</b>	<b>Details</b>
Temporary Living	Interim living expenses up to \$3,000 per month for 9 months (commuting from Birmingham, MI to Fort Wayne, IN). Approximate cost: \$27,000
Moving of Household Goods	Reimbursement of costs associated with moving household and personal effects from Michigan to Indiana. Approximate cost: \$25,000
House Hunting	Two house hunting trips for you and your family. Approximate cost: \$5,000
Home Sale/Purchase Assistance	Assistance with sale of current home including customary closing costs, agent fees and base expenses associated with sale (6% commission on house sale plus other customary expenses). Approximate cost: \$80,000.
Flights	Up to two flights per month from Fort Wayne to Michigan for a period of nine months. Approximate cost: \$9,000
One time Cash Lump sum	Lump sum cash bonus paid January 31, 2014 of \$80,000 to help offset taxes incurred relative to relocation expenses and other miscellaneous expenses.
Flights	Up to two flights per month from Fort Wayne to Michigan for a period of nine months. Approximate cost: \$9,000



Vera Bradley Executive Severance Plan	Details
<p>This is a summary of the applicable terms and conditions of the Vera Bradley 2014 Executive Severance Plan, and is in all cases subject to the terms of the plan document including conditions not set forth below.</p>	
<p><b>Severance Outside of a Change in Control</b></p>	
<p><b>Termination by Company without “Cause” or by Executive for “Good Reason”</b></p>	<ul style="list-style-type: none"> <li>• All unpaid Base Salary</li> <li>• Any accrued Benefits Any Bonus that was earned in a prior fiscal year, but not yet paid</li> <li>• A pro rata portion of Bonus in the current year at actual performance levels</li> <li>• A lump sum equal to one and one-half (1.5) times the sum of base salary and target bonus (currently there are five total EVP positions)</li> <li>• 12 months of COBRA</li> <li>• Recurring LTI grants to be treated in accordance with the terms of grant documents</li> </ul>
<p><b>Severance Following a Change in Control</b></p>	
<p><b>Termination in anticipation of, upon or within 24 months following a Change in Control by the Company without “Cause” or by the Executive with “Good Reason”</b></p>	<ul style="list-style-type: none"> <li>• All unpaid Base Salary</li> <li>• Any accrued Benefits</li> <li>• Any Bonus that was earned in a prior fiscal year, but not yet paid</li> <li>• A pro rata portion of Bonus in the current year at target performance levels</li> <li>• A lump sum equal to two times the sum of base salary and target bonus</li> <li>• 12 months of COBRA</li> <li>• Outplacement services up to \$30,000</li> <li>• Recurring LTI grants to be treated in accordance with the terms of grant documents</li> </ul>

**Restrictive Covenants**

**Non-Competition**

- During the period of Executive's employment and for a period of one (1) year following Executive's termination of employment for any reason, Executive shall not:
  - singly, jointly, or in any other capacity, in a manner that contributes to any research, design, development, strategy, marketing, promotion, or sales, or that relates to Executive's employment with the Company, directly or beneficially engage in, manage, join, participate in the management, operation or control of, or work for, or permit the use of her name by, or provide financial or other assistance to, any person or entity that engages in the design, production, marketing, and retailing of (A) handbags and other bags and related accessories ("Handbag Competitive Activities"), or (B) accessories such as jewelry, travel and leisure items, and baby clothes and accessories ("Other Competitive Activities"), and, in the case of either (A) or (B), has received in the prior fiscal year at least twenty-five percent (25%) of its revenues from Handbag Competitive Activities and more than fifty (50%) of its revenues from the combination of Handbag and Other Competitive Activities (a "Competitor");
  - provide any service or assistance to a Competitor, (A) that is of the general type of service or assistance provided by Executive to the Company, (B) that relates to any design, product, project or piece of work with which Executive was involved during her employment, (C) that contributes to causing an entity to design, manufacture, sell and market any product or service that competes with or that is similar to the handbags and other bags, jewelry, travel and leisure items, and baby clothes and accessories that are designed, produced, sold or marketed by the Company, or (D) in which there is a reasonable possibility that Executive may, intentionally or inadvertently, use or rely upon the Company's secret or confidential information;
  - solicit or accept if offered to Executive, with or without solicitation, on his own behalf or on behalf of any other person, the services of any person who is a then-current employee of the Company (or was an employee of the Company during the year preceding such solicitation), (B) solicit any of the Company's then-current employees (or an individual who was employed by or engaged by the Company during the year preceding such solicitation) to terminate employment or an engagement with the Company, or (C) agree to hire any then-current employee (or an individual who was an employee of the Company during the year preceding such hire) of the Company into employment with Executive or any company, individual or other entity; or
  - On behalf of a Competitor, directly or indirectly divert or attempt to divert from the Company any business in which the Company has been actively engaged during Executive's employment, nor interfere with the relationships of the Company or with their sources of business.

<b>Confidentiality</b>	<ul style="list-style-type: none"><li>• Participant shall not during his employment (except in connection with the proper performance of his duties) and thereafter, disclose to any person or entity, or use for any reason or purpose, any material or significant secret or confidential information concerning the business of the Company that Participant obtained in the course of Participant's employment.</li><li>• Participant further agrees that if Participant's employment is terminated for any reason, Participant will not take, but will leave with the Company, all records and papers and all matter of whatever nature that bears secret or confidential information of the Company.</li></ul>
<b>Non-Disparagement</b>	Participant agrees not to make, repeat, authorize, or permit any person under his control to make, directly or indirectly, any public statements (whether oral or written), comments, remarks, or publications of any type or of any nature, to anyone, which would defame or disparage the business reputation, practices, or conduct of the Company (including its products, services or its business decisions), or its employees, directors or officers, or any of them, at any time now or in the future.

**AMENDMENT NO.1 TO AMENDED AND RESTATED CREDIT AGREEMENT**

This Amendment No. 1 to Amended and Restated Credit Agreement (this "Amendment") is entered into as of November 18, 2010 by and between Vera Bradley Designs, Inc., an Indiana corporation (the "Borrower"), and JPMorgan Chase Bank, National Association, as administrative agent (the "Administrative Agent"), acting with the consent of the Required Lenders.

**RECITALS**

A. The Borrower, the Administrative Agent and the Lenders are party to that certain Amended and Restated Credit Agreement dated as of October 4, 2010 (the "Credit Agreement"). Unless otherwise specified herein, capitalized terms used in this Amendment shall have the meanings ascribed to them by the Credit Agreement.

B. The Borrower and the Administrative Agent, acting with the consent of the Required Lenders, wish to amend the Credit Agreement on the terms and conditions set forth below.

Now, therefore, in consideration of the mutual execution hereof and other good and valuable consideration, the parties hereto agree as follows:

1. Amendment to Credit Agreement. Upon the "Effective Date" (as defined below), Section 2.12(a) of the Credit Agreement is amended in its entirety to read as follows:

"(a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a facility fee, which shall accrue at the Applicable Rate on the daily amount of the Commitment of such Lender (whether used or unused) during the period from and including the date hereof to but excluding the date on which such Commitment terminates; provided that, if such Lender continues to have any Revolving Credit Exposure after its Commitment terminates, then such facility fee shall continue to accrue on the daily amount of such Lender's Revolving Credit Exposure from and including the date on which its Commitment terminates to but excluding the date on which such Lender ceases to have any Revolving Credit Exposure. Accrued facility fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the date hereof; provided that, any facility fees accruing after the date on which the Commitments terminate shall be payable on demand. All facility fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day)."

2. Effective Date. This Amendment shall become effective on the date (the "Effective Date") on which the following conditions have been satisfied:

- (a) The execution and delivery hereof by the Borrower and the Administrative Agent, acting with the consent of the Required Lenders; and
- (b) The execution and delivery by Holdings and each of the Subsidiary Guarantors of a Reaffirmation substantially in the form of Exhibit A hereto.

3. Reference to and Effect Upon the Credit Agreement.

(a) Except as specifically amended above, the Credit Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Administrative Agent or any Lender under the Credit Agreement or any Credit Document, nor constitute a waiver of any provision of the Credit Agreement or any Credit Document, except as specifically set forth herein. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Credit

Agreement as amended hereby.

4. Governing Law. This Amendment shall be construed in accordance with and governed by the law of the State of New York.

5. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purposes.

6. Counterparts. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed an original but all such counterparts shall constitute one and the same instrument. Delivery of an executed signature page of this Amendment by facsimile transmission or by electronic mail shall be effective as delivery of manually executed counterpart hereof.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

VERA BRADLEY DESIGNS, INC.

/s/ David R. Traylor

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Name: David R. Traylor

Title: VP, Finance

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION,  
as Administrative Agent and acting with the consent of the  
Required Lenders

/s/ Stephanie L. Yoder

---

Name: Stephanie L. Yoder

Title: Vice President

[Signature Page to Amendment No.1 to Amended and Restated Credit Agreement]

**EXHIBIT A**

**REAFFIRMATION**

Each of the undersigned (i) acknowledges receipt of a copy of Amendment No. 1 to Amended and Restated Credit Agreement (the "Amendment"), amending the Amended and Restated Credit Agreement dated as of October 4, 2010, (ii) consents to the Amendment and each of the transactions referenced therein, and (iii) hereby reaffirms its obligations, as applicable, under the Subsidiary Guaranty dated as of November 26, 2008 and the Parent Guaranty dated as of October 4, 2010, each, in favor of JPMorgan Chase Bank, National Association, as Administrative Agent.

Dated as of November 18, 2010

**VERA BRADLEY, INC.**

/s/ David R. Traylor

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Title: VP, Finance

**VERA BRADLEY RETAIL STORES, LLC**

/s/ David R. Traylor

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Title: VP, Finance

**VERA BRADLEY INTERNATIONAL, LLC**

/s/ David R. Traylor

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Title: VP, Finance

**AMENDMENT NO.2 TO AMENDED AND RESTATED CREDIT AGREEMENT AND WAIVER**

This Amendment No. 2 to Amended and Restated Credit Agreement and Waiver (this "Amendment") is entered into as of March 10, 2011 by and between Vera Bradley Designs, Inc., an Indiana corporation (the "Borrower"), and JPMorgan Chase Bank, National Association, as administrative agent (the "Administrative Agent"), acting with the consent of the Required Lenders.

**RECITALS**

A. The Borrower, the Administrative Agent and the Lenders are party to that certain Amended and Restated Credit Agreement dated as of October 4, 2010 (as amended from time to time, the "Credit Agreement"). Unless otherwise specified herein, capitalized terms used in this Amendment shall have the meanings ascribed to them by the Credit Agreement.

B. The Borrower, the Subsidiary Guarantors and the Administrative Agent, acting with the consent of the Required Lenders, wish to amend the Credit Agreement and the Security Agreement and waive certain provisions thereof on the terms and conditions set forth below.

Now, therefore, in consideration of the mutual execution hereof and other good and valuable consideration, the parties hereto agree as follows:

1. Amendments to Credit Agreement. Upon the "Effective Date" (as defined below), the Credit Agreement shall be amended as follows:

(a) Section 1.01 shall be amended by inserting the following new defined term therein in the appropriate alphabetical order:

"Domestic Credit Parties" means Holdings, the Borrower and each Subsidiary Guarantor that is a Domestic Subsidiary.

(b) Section 5.10(a)(ii) shall be amended by inserting the following words at the end thereof after the words "Administrative Agent" and before the ".":

(such pledge to occur and related documentation to be delivered within ten (10) Business Days (or such longer period as the Administrative Agent may agree) after such Foreign Subsidiary becoming a Material Subsidiary

(c) Section 6.04(c) shall be amended and restated in its entirety to read as follows:

(c) loans, advances or investments made among the Domestic Credit Parties;

(d) Section 6.04(f) shall be amended by deleting the period at the end thereof and inserting in its place "; and".

(e) Section 6.04 shall be amended by inserting the following new clause (g) therein:

(g) loans by the Borrower to Vera Bradley (Japan) K.K. in an aggregate amount not to exceed \$10,000,000 at any time outstanding.



2. Amendments to Security Agreement. Upon the Effective Date, the first sentence of Section 4.4(a) of the Security Agreement shall be amended and restated in its entirety to read as follows:

Except as otherwise permitted by the Credit Agreement, no Grantor shall (i) reincorporate or reorganize itself under the laws of any jurisdiction other than the jurisdiction in which it is incorporated or organized as of the date hereof or (ii) otherwise change its name, identity or corporate structure unless, in the case of the foregoing clause (ii), the Collateral Agent shall have determined in its sole discretion that such UCC filings and other actions as are necessary to protect the interests of the Lenders and Collateral Agent hereunder and in respect of the security interest granted hereby have been made or taken.

3. Waiver. The Administrative Agent, acting with the consent of the Required Lenders, hereby waives (a) any breach of Section 4.4(a) of the Security Agreement arising solely as a result of Vera Bradley Retail Stores, LLC changing its legal name to Vera Bradley Sales, LLC and (b) any Defaults or Events of Default under the Credit Agreement or any other Credit Document relating solely to such breach.

4. Representations and Warranties of the Borrower. The Borrower and each Subsidiary Guarantor represent and warrant that:

(a) The execution, delivery and performance by the Borrower or such Subsidiary Guarantor, as applicable, of this Amendment have been duly authorized by all necessary corporate or limited liability company action, as applicable, and that this Amendment is a legal, valid and binding obligation of the Borrower or such Subsidiary Guarantor, as applicable, enforceable against the Borrower or such Subsidiary Guarantor, as applicable, in accordance with its terms, except as the enforcement thereof may be subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally or by general principles of equity;

(b) After giving effect to this Amendment, each of the representations and warranties contained in the Credit Agreement (treating this Amendment as a Credit Document for purposes thereof) and the other Credit Documents is true and correct on and as of the date hereof (except to the extent that such representation or warranty expressly refers to an earlier date, in which case it shall be true and correct as of such earlier date); and

(c) After giving effect to this Amendment, no Default has occurred and is continuing.

5. Effective Date. This Amendment shall become effective on the date (the "Effective Date") on which the following conditions have been satisfied:

(a) The execution and delivery hereof by the Borrower, each Subsidiary Guarantor and the Administrative Agent, acting with the consent of the Required Lenders; and

(b) The execution and delivery by Holdings and each of the Subsidiary Guarantors of a Reaffirmation substantially in the form of Exhibit A hereto.

6. Reference to and Effect Upon the Credit Documents.

(a) Except as specifically amended above, the Credit Agreement, the Security Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Administrative Agent, the Collateral Agent or any Lender under the Credit Agreement, the Security Agreement or any Credit Document, nor constitute a waiver of any provision of the Credit Agreement, the Security Agreement or any Credit Document, except as specifically set forth herein. Upon the effectiveness of this Amendment, (i) each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Credit Agreement as amended hereby and (ii) each reference in the Security Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Security Agreement as amended hereby.

7. Costs and Expenses. The Borrower hereby affirms its obligation under Section 9.03 of the Credit Agreement to reimburse the Administrative Agent for all reasonable out-of-pocket expenses incurred by the Administrative Agent in connection with the preparation, negotiation, execution and delivery of this Amendment, including but not limited to the reasonable fees, charges and disbursements of attorneys for the Administrative Agent with respect thereto.
8. Governing Law. This Amendment shall be construed in accordance with and governed by the law of the State of New York.
9. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purposes.
10. Counterparts. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed an original but all such counterparts shall constitute one and the same instrument. Delivery of an executed signature page of this Amendment by facsimile transmission or electronic mail shall be effective as delivery of manually executed counterpart hereof.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

VERA BRADLEY DESIGNS, INC.

/s/ David R. Traylor

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Name: David R. Traylor

Title: Treasurer

VERA BRADLEY SALES, LLC

/s/ David R. Traylor

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Name: David R. Traylor

Title: Treasurer

VERA BRADLEY INTERNATIONAL, LLC

/s/ David R. Traylor

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Name: David R. Traylor

Title: Treasurer

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION,  
as Administrative Agent and Collateral Agent acting with the  
consent of the Required Lenders

/s/ Stephanie L. Yoder, V.P.

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Name: Stephanie L. Yoder

Title: Vice President

[Signature Page to Amendment No. 2 to Amended and Restated Credit Agreement and Waiver]

**EXHIBIT A**

**REAFFIRMATION**

Each of the undersigned (i) acknowledges receipt of a copy of Amendment No. 2 to Amended and Restated Credit Agreement and Waiver (the "Amendment"), amending the Amended and Restated Credit Agreement dated as of October 4, 2010 (as amended from time to time, the "Credit Agreement") and the Security Agreement and waiving certain provisions thereof, (ii) consents to the Amendment and each of the transactions referenced therein, and (iii) hereby reaffirms its obligations, as applicable, under the Subsidiary Guaranty dated as of November 26, 2008 and the Parent Guaranty dated as of October 4, 2010, each, in favor of JPMorgan Chase Bank, National Association, as Administrative Agent. Capitalized terms used herein shall have the meanings ascribed to them by the Credit Agreement.

Dated as of March 10, 2011

**VERA BRADLEY, INC.**

/s/ David R. Traylor

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Title: Treasurer

**VERA BRADLEY SALES, LLC**

/s/ David R. Traylor

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Title: Treasurer

**VERA BRADLEY INTERNATIONAL, LLC**

/s/ David R. Traylor

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Title: Treasurer

**Vera Bradley, Inc.**  
**Subsidiaries**

<b>Subsidiary</b>	<b>State of Incorporation</b>
Vera Bradley Designs, Inc	Indiana
Vera Bradley International, LLC	Indiana
Vera Bradley Sales, LLC	Indiana
Vera Bradley Handbag Design (Dongguan) Co., Ltd.	The People's Republic of China
Vera Bradley (Japan) K.K.	Japan

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-170062) of Vera Bradley, Inc. of our report dated April 2, 2014 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ Ernst & Young LLP

Indianapolis, Indiana  
April 2, 2014

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-170062) of Vera Bradley, Inc. of our report dated April 2, 2013 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Indianapolis, Indiana

April 2, 2013

## CERTIFICATIONS

I, Robert Wallstrom, certify that:

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

Date: April 2, 2014

/s/ Robert Wallstrom

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Robert Wallstrom  
*Chief Executive Officer*



## CERTIFICATIONS

I, Kevin J. Sierks, certify that:

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

Date: April 2, 2014

/s/ Kevin J. Sierks

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Kevin J. Sierks  
*Chief Financial Officer*

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

I, Robert Wallstrom, the Chief Executive Officer of Vera Bradley, Inc., certify that (i) the annual report on Form 10-K for the fiscal year ended February 1, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Vera Bradley, Inc. as of the dates and for the periods set forth therein.

/s/ Robert Wallstrom

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Robert Wallstrom  
*Chief Executive Officer*

April 2, 2014

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Date

I, Kevin J. Sierks, the Chief Financial Officer of Vera Bradley, Inc., certify that (i) the annual report on Form 10-K for the fiscal year ended February 1, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Vera Bradley, Inc. as of the dates and for the periods set forth therein.

/s/ Kevin J. Sierks

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Kevin J. Sierks  
*Chief Financial Officer*

April 2, 2014

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Date