

Vera Bradley, Inc.
Form 10-Q
September 06, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended July 28, 2012

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)

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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)

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant had 40,533,011 shares of its common stock outstanding as of August 31, 2012.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this report are forward-looking statements. Forward-looking statements refer to our current expectations and projections relating to our financial condition, results of operations, plans, objectives, strategies, future performance, and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as anticipate, estimate, expect, project, plan, intend, believe, may, might, will, should, can have, and likely and other words having 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;

possible inability to sustain levels of comparable-store sales; and

possible adverse changes in the cost of raw materials and labor used to manufacture our products.

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 our Annual Report on Form 10-K for the fiscal year ended January 28, 2012.

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.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Vera Bradley, Inc.****Consolidated Balance Sheets****(in thousands)****(unaudited)**

| | July 28, 2012 | January 28, 2012 |
|---|--------------------------|-----------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,612 | \$ 4,922 |
| Accounts receivable, net | 49,279 | 38,097 |
| Inventories | 117,895 | 106,967 |
| Prepaid expenses and other current assets | 8,177 | 8,343 |
| Deferred income taxes | 8,396 | 8,010 |
| Total current assets | 191,359 | 166,339 |
| Property, plant, and equipment, net of accumulated depreciation of \$46,068 and \$41,872, respectively | 70,220 | 52,312 |
| Other assets | 1,669 | 862 |
| Total assets | \$ 263,248 | \$ 219,513 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 45,016 | \$ 27,276 |
| Accrued employment costs | 11,209 | 15,738 |
| Other accrued liabilities | 17,693 | 15,297 |
| Income taxes payable | | 1,705 |
| Current portion of long-term debt | 90 | 89 |
| Total current liabilities | 74,008 | 60,105 |
| Long-term debt | 25,301 | 25,095 |
| Deferred income taxes | 4,314 | 4,205 |
| Other long-term liabilities | 8,474 | 6,101 |
| Total liabilities | 112,097 | 95,506 |
| 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, 40,533 and 40,507 shares issued and outstanding, respectively | | |
| Additional paid-in-capital | 74,752 | 73,590 |
| Retained earnings | 76,319 | 50,320 |
| Accumulated other comprehensive income | 80 | 97 |

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| | | |
|--|------------|------------|
| Total shareholders' equity | 151,151 | 124,007 |
| Total liabilities and shareholders' equity | \$ 263,248 | \$ 219,513 |

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

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|-----------------------------|--------------------------|-------------------------------|--------------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Net revenues | \$ 123,037 | \$ 103,789 | \$ 240,238 | \$ 205,179 |
| Cost of sales | 54,425 | 44,161 | 106,324 | 89,107 |
| Gross profit | 68,612 | 59,628 | 133,914 | 116,072 |
| Selling, general, and administrative expenses | 47,833 | 39,120 | 95,024 | 79,109 |
| Other income | 1,020 | 2,418 | 3,719 | 5,023 |
| Operating income | 21,799 | 22,926 | 42,609 | 41,986 |
| Interest expense, net | 152 | 329 | 343 | 645 |
| Income before income taxes | 21,647 | 22,597 | 42,266 | 41,341 |
| Income tax expense | 8,274 | 8,964 | 16,267 | 16,484 |
| Net income | \$ 13,373 | \$ 13,633 | \$ 25,999 | \$ 24,857 |
| Basic weighted-average shares outstanding | 40,532 | 40,507 | 40,524 | 40,507 |
| Diluted weighted-average shares outstanding | 40,568 | 40,541 | 40,557 | 40,537 |
| Basic net income per share | \$ 0.33 | \$ 0.34 | \$ 0.64 | \$ 0.61 |
| Diluted net income per share | \$ 0.33 | \$ 0.34 | \$ 0.64 | \$ 0.61 |

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

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Vera Bradley, Inc.

Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|-----------------------------------|-----------------------------|--------------------------|-------------------------------|--------------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Net income | \$ 13,373 | \$ 13,633 | \$ 25,999 | \$ 24,857 |
| Cumulative translation adjustment | 166 | 74 | (17) | 74 |
| Comprehensive income | \$ 13,539 | \$ 13,707 | \$ 25,982 | \$ 24,931 |

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

Table of Contents**Vera Bradley, Inc.****Consolidated Statements of Cash Flows****(in thousands)****(unaudited)**

| | Twenty-Six Weeks Ended | |
|---|-------------------------------|--------------------------|
| | July 28, 2012 | July 30, 2011 |
| Cash flows from operating activities | | |
| Net income | \$ 25,999 | \$ 24,857 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation of property, plant, and equipment | 4,759 | 4,461 |
| Provision for doubtful accounts | 347 | 75 |
| Loss on disposal of property, plant, and equipment | 25 | |
| Stock-based compensation | 1,431 | 662 |
| Deferred income taxes | (277) | (325) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (11,529) | (10,495) |
| Inventories | (10,928) | (21,388) |
| Other assets | (641) | 1,012 |
| Accounts payable | 17,740 | 583 |
| Income taxes payable | (1,705) | (9,605) |
| Accrued and other liabilities | 240 | (1,615) |
| Net cash provided by (used in) operating activities | 25,461 | (11,778) |
| Cash flows from investing activities | | |
| Purchases of property, plant, and equipment | (22,704) | (6,526) |
| Net cash used in investing activities | (22,704) | (6,526) |
| Cash flows from financing activities | | |
| Payments on financial-institution debt | (62,750) | (12,000) |
| Borrowings on financial-institution debt | 63,000 | 16,700 |
| Payments on vendor-financed debt | (43) | (40) |
| Change in bank overdraft | | 329 |
| Tax withholdings for equity compensation | (269) | |
| Other | | 76 |
| Net cash (used in) provided by financing activities | (62) | 5,065 |
| Effect of exchange rate changes on cash and cash equivalents | (5) | 74 |
| Net increase (decrease) in cash and cash equivalents | 2,690 | (13,165) |
| Cash and cash equivalents, beginning of period | 4,922 | 13,953 |
| Cash and cash equivalents, end of period | \$ 7,612 | \$ 788 |

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

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Vera Bradley, Inc.

Notes to the Consolidated Financial Statements

(unaudited)

1. Description of the Company and Basis of Presentation

Vera Bradley Designs, Inc. is a wholly owned subsidiary of Vera Bradley, Inc. Except where context requires or where otherwise indicated, the terms "Company" and "Vera Bradley" refer to Vera Bradley, Inc. and its subsidiaries, including Vera Bradley Designs, Inc.

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 business consists of sales of Vera Bradley products through the Company's full-price and outlet stores in the United States, pop-up stores and permanent shop-in-shops in Japan, its websites, verabradley.com and verabradley.co.jp, and its annual outlet sale in Fort Wayne, Indiana. As of July 28, 2012, the Company operated 60 full-price stores and 10 outlet stores. The Indirect business consists of sales of Vera Bradley products to approximately 3,300 specialty retailers, select national retailers, and independent e-commerce retailers.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been omitted. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2012, filed with the SEC.

The interim financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly the results for the interim periods presented. All such adjustments are of a normal, recurring nature. The results of operations for the twenty-six weeks ended July 28, 2012, are not necessarily indicative of the results to be expected for the full fiscal year.

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's fiscal year ends on the Saturday closest to January 31. References to the fiscal quarters ended July 28, 2012, and July 30, 2011, refer to the thirteen-week periods ended on those dates.

Recently Adopted Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, *Comprehensive Income Presentation of Comprehensive Income*. This guidance eliminates the option to present the components of other comprehensive income as part of the Statement of Shareholders' Equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. The guidance is effective for fiscal years beginning after December 15, 2011. In accordance with this guidance, we have presented two separate but consecutive statements which include the components of net income and other comprehensive income.

In May 2011, FASB issued ASU 2011-04, *Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The guidance requires additional disclosures, including disclosures related to the measurement of Level 3 assets. The guidance is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

Table of Contents**Vera Bradley, Inc.****Notes to the Consolidated Financial Statements****(unaudited)****2. Earnings Per Share**

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|--|----------------------|--------------|------------------------|--------------|
| | July 28,2012 | July 30,2011 | July 28,2012 | July 30,2011 |
| <i>Numerator:</i> | | | | |
| Net income | \$ 13,373 | \$ 13,633 | \$ 25,999 | \$ 24,857 |
| <i>Denominator:</i> | | | | |
| Weighted-average number of common shares (basic) | 40,532 | 40,507 | 40,524 | 40,507 |
| Dilutive effect of stock-based awards | 36 | 34 | 33 | 30 |
| Weighted-average number of common shares (diluted) | 40,568 | 40,541 | 40,557 | 40,537 |
| <i>Earnings per share:</i> | | | | |
| Basic | \$ 0.33 | \$ 0.34 | \$ 0.64 | \$ 0.61 |
| Diluted | \$ 0.33 | \$ 0.34 | \$ 0.64 | \$ 0.61 |

As of July 28, 2012, there was an aggregate of 0.2 million additional shares issuable upon the vesting of restricted stock units that were excluded from the diluted share calculations because they were anti-dilutive. As of July 30, 2011, there were no additional shares issuable upon the vesting of restricted stock units that were excluded from the diluted share calculations.

3. 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.

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The carrying amounts reflected on the Consolidated Balance Sheet for cash and cash equivalents, receivables, and payables approximate fair value at July 28, 2012, because of their short-term nature.

The carrying amount for the amended and restated credit agreement (credit agreement) approximates fair value at July 28, 2012 as the interest rates of these borrowings fluctuate with the market. The credit agreement falls within Level 2 of the fair value hierarchy.

4. Inventories

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

| | July 28, 2012 | January 28, 2012 |
|-------------------|------------------|---------------------|
| Raw materials | \$ 18,180 | \$ 10,748 |
| Work in process | 864 | 692 |
| Finished goods | 98,851 | 95,527 |
| Total inventories | \$ 117,895 | \$ 106,967 |

Table of Contents**Vera Bradley, Inc.****Notes to the Consolidated Financial Statements****(unaudited)****5. Long-Term Debt**

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

| | July 28, 2012 | January 28, 2012 |
|----------------------------|------------------|---------------------|
| Financial-institution debt | \$ 25,250 | \$ 25,000 |
| Other borrowings | 141 | 184 |
| | 25,391 | 25,184 |
| Less: Current maturities | 90 | 89 |
| | \$ 25,301 | \$ 25,095 |

At July 28, 2012, the interest rate on outstanding borrowings under the Company's \$125.0 million credit agreement was 1.30%, and the Company had borrowing availability of \$99.7 million under the agreement.

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 provision for income taxes for interim periods is based on an estimate of the annual effective tax rate adjusted to reflect the impact of discrete items. Significant management judgment is required in projecting ordinary income (loss) to estimate the Company's annual effective tax rate.

The effective tax rate for the thirteen weeks ended July 28, 2012, was 38.2%, compared to 39.6% for the thirteen weeks ended July 30, 2011. The valuation allowance recorded against the deferred tax asset arising from the net operating loss of the Company's Japanese subsidiary decreased the effective tax rate by approximately 1.4% for the thirteen weeks ended July 28, 2012, when compared to the thirteen weeks ended July 30, 2011. This is due to a lower net operating loss for the thirteen weeks ended July 28, 2012.

The effective tax rate for the twenty-six weeks ended July 28, 2012, was 38.5%, compared to 39.9% for the twenty-six weeks ended July 30, 2011. The Company's effective tax rate for the twenty-six weeks ended July 30, 2011, was negatively impacted by the non-deductibility of expenses related to the April 2011 secondary offering. The expenses were recorded as a discrete event and increased the effective tax rate by approximately 0.5% for the twenty-six weeks ended July 30, 2011. The valuation allowance recorded against the deferred tax asset arising from the net operating loss of the Company's Japanese subsidiary decreased the effective tax rate by approximately 1.0% for the twenty-six weeks ended July 28, 2012, when compared to the twenty-six weeks ended July 30, 2011. This is due to a lower net operating loss for the twenty-six weeks ended July 28, 2012.

Table of Contents**Vera Bradley, Inc.****Notes to the Consolidated Financial Statements****(unaudited)****7. Stock-Based Compensation**

The Company accounts for stock-based compensation under 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 share-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 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.

Awards of Restricted Stock Units

During the thirteen weeks ended July 28, 2012, the Company granted a total of 3,158 time-based restricted stock units with an aggregate fair value of \$0.1 million to certain employees under the 2010 Equity and Incentive Plan compared to a total of 3,213 time-based restricted stock units with an aggregate fair value of \$0.1 million granted in the same period of the prior year.

During the twenty-six weeks ended July 28, 2012, the Company granted a total of 177,512 time-based and performance-based restricted stock units with an aggregate fair value of \$5.3 million to certain employees and non-employee directors under the 2010 Equity and Incentive Plan compared to a total of 106,889 time-based restricted stock units with an aggregate fair value of \$4.4 million granted in the same period of the prior year. The Company determined the fair value of the awards based on the closing price of the Company's common stock on the grant date.

The 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. The Company is recognizing the expense relating to these awards, net of estimated forfeitures, on a straight-line basis over three years.

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 awards, net of estimated forfeitures and based on the probable outcome of achievement of the net income targets, on a straight-line basis over three years.

The following table sets forth a summary of restricted stock unit activity for the period ended July 28, 2012 (in thousands, except as otherwise indicated):

| | 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 January 28, 2012 | 160 | \$ 33.49 | | \$ |
| Granted | 91 | 29.90 | 86 | 29.62 |
| Vested | (35) | 41.28 | | |
| Forfeited | (6) | 24.30 | | |
| Nonvested units outstanding at July 28, 2012 | 210 | \$ 30.89 | 86 | \$ 29.62 |

Table of Contents**Vera Bradley, Inc.****Notes to the Consolidated Financial Statements****(unaudited)****8. 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, litigation, employee benefits, 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.

9. Segment Reporting

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

The Direct segment includes the Company's full-price and outlet stores in the United States, pop-up stores and permanent shop-in-shops in Japan, e-commerce activity driven by the Company's websites, and the annual outlet sale. Revenues generated through this segment are driven by the sale of Company-branded products from Vera Bradley to end customers. The Indirect segment represents activity driven by revenues generated through the distribution of Company-branded products to approximately 3,300 specialty retailers, select national retailers, and independent e-commerce retailers.

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

The chief operating decision maker 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 reportable segments: Direct and Indirect (in thousands):

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|----------------------------------|----------------------|------------------|------------------------|------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Segment net revenues: | | | | |
| Direct | \$ 65,692 | \$ 47,871 | \$ 124,917 | \$ 92,012 |
| Indirect | 57,345 | 55,918 | 115,321 | 113,167 |
| Total | \$ 123,037 | \$ 103,789 | \$ 240,238 | \$ 205,179 |
| Segment operating income: | | | | |
| Direct | \$ 16,252 | \$ 13,045 | \$ 31,631 | \$ 25,405 |
| Indirect | 23,664 | 24,049 | 46,102 | 45,788 |
| Total | \$ 39,916 | \$ 37,094 | \$ 77,733 | \$ 71,193 |
| Reconciliation: | | | | |
| Segment operating income | \$ 39,916 | \$ 37,094 | \$ 77,733 | \$ 71,193 |
| Less: | | | | |
| Unallocated corporate expenses | (18,117) | (14,168) | (35,124) | (29,207) |

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|------------------|-----------|-----------|-----------|-----------|
| Operating income | \$ 21,799 | \$ 22,926 | \$ 42,609 | \$ 41,986 |
|------------------|-----------|-----------|-----------|-----------|

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity, and cash flows of our Company as of and for the thirteen and twenty-six weeks ended July 28, 2012, and July 30, 2011. The following discussion should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended January 28, 2012, and our unaudited consolidated financial statements and the related notes included in Item 1 of this Quarterly Report.

Overview

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, luggage, eyewear, travel items, and gifts. Over our 30-year history, Vera Bradley has become a true lifestyle brand that appeals to a broad range of consumers. Our brand vision is accessible luxury that inspires a casual, fun, and family-oriented lifestyle. We have positioned our brand to highlight the high quality, distinctive and vibrant styling, and functional design of our products. Frequent releases of 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 July 28, 2012, our Direct business consisted of sales of Vera Bradley products through our full-price and outlet stores in the United States, pop-up stores and permanent shop-in-shops in Japan, our websites, verabradley.com and verabradley.co.jp, and our annual outlet sale in Fort Wayne, Indiana. In the United States we operated 60 full-price and 10 outlet stores as of July 28, 2012, compared to 43 full-price stores and six outlet stores as of July 30, 2011. As of July 28, 2012, our Indirect business consisted of sales of Vera Bradley products to approximately 3,300 specialty retailers, substantially all of which are located in the United States, and to select national retailers and independent e-commerce retailers.

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 shipping and handling fees, less returns and discounts. Revenues for the Direct segment reflect sales through our full-price and outlet stores in the United States, pop-up stores and permanent shop-in-shops 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 specialty retailers, select national retailers, and independent e-commerce retailers.

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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. Non-comparable store sales include sales from stores not included in comparable-store 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;

Store traffic;

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, operational efficiencies, such as leveraging of fixed costs, promotional activities, such as free shipping, commodity prices such as cotton, and fluctuations in pricing structures.

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

SG&A expenses include selling; advertising, marketing, merchandising, 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, merchandising, 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 compensation costs for corporate functions, corporate headquarters occupancy costs, consulting and software expenses, and charitable donations. SG&A expenses increase as the number of stores increase.

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.

Table of Contents*Operating Income*

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

Income Taxes

Our provisions for income taxes for interim reporting periods are based on an estimate of the effective tax rate for each of the periods presented. The computation of the effective tax rate includes a forecast of our estimated ordinary income, which is the annual income from operations before income tax, excluding unusual or infrequently occurring (or discrete) items.

Results of Operations

The following tables summarize key components of our consolidated results of operations for the periods indicated, both in dollars and as a percentage of our net revenues (in thousands):

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|-----------------------------|--------------------------|-------------------------------|--------------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Statement of Income Data: | | | | |
| Net revenues | \$ 123,037 | \$ 103,789 | \$ 240,238 | \$ 205,179 |
| Cost of sales | 54,425 | 44,161 | 106,324 | 89,107 |
| Gross profit | 68,612 | 59,628 | 133,914 | 116,072 |
| Selling, general, and administrative expenses | 47,833 | 39,120 | 95,024 | 79,109 |
| Other income | 1,020 | 2,418 | 3,719 | 5,023 |
| Operating income | 21,799 | 22,926 | 42,609 | 41,986 |
| Interest expense, net | 152 | 329 | 343 | 645 |
| Income before income taxes | 21,647 | 22,597 | 42,266 | 41,341 |
| Income tax expense | 8,274 | 8,964 | 16,267 | 16,484 |
| Net income | \$ 13,373 | \$ 13,633 | \$ 25,999 | \$ 24,857 |
| Percentage of Net Revenues: | | | | |
| Net revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 44.2% | 42.5% | 44.3% | 43.4% |
| Gross profit | 55.8% | 57.5% | 55.7% | 56.6% |
| Selling, general, and administrative expenses | 38.9% | 37.7% | 39.6% | 38.6% |
| Other income | 0.8% | 2.3% | 1.6% | 2.5% |
| Operating income | 17.7% | 22.1% | 17.7% | 20.5% |
| Interest expense, net | 0.1% | 0.3% | 0.1% | 0.3% |
| Income before income taxes | 17.6% | 21.8% | 17.6% | 20.2% |
| Income tax expense | 6.7% | 8.7% | 6.8% | 8.0% |
| Net income | 10.9% | 13.1% | 10.8% | 12.2% |

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The following tables present net revenues and operating income by operating segment, both in dollars and as a percentage of our net revenues, and store data for the periods indicated (in thousands, except as otherwise indicated):

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---------------------------------|----------------------|------------------|------------------------|------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Net Revenues by Segment: | | | | |
| Direct | \$ 65,692 | \$ 47,871 | \$ 124,917 | \$ 92,012 |
| Indirect | 57,345 | 55,918 | 115,321 | 113,167 |
| Total | \$ 123,037 | \$ 103,789 | \$ 240,238 | \$ 205,179 |

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|----------------------|------------------|------------------------|------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Percentage of Net Revenues by Segment: | | | | |
| Direct | 53.4% | 46.1% | 52.0% | 44.8% |
| Indirect | 46.6% | 53.9% | 48.0% | 55.2% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|-------------------------------------|----------------------|------------------|------------------------|------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Operating Income by Segment: | | | | |
| Direct | \$ 16,252 | \$ 13,045 | \$ 31,631 | \$ 25,405 |
| Indirect | 23,664 | 24,049 | 46,102 | 45,788 |
| Total | \$ 39,916 | \$ 37,094 | \$ 77,733 | \$ 71,193 |
| Less: | | | | |
| Corporate unallocated | (18,117) | (14,168) | (35,124) | (29,207) |
| Total | \$ 21,799 | \$ 22,926 | \$ 42,609 | \$ 41,986 |

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|----------------------|------------------|------------------------|------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Operating Income as a Percentage of Net Revenues by Segment: | | | | |
| Direct | 24.7% | 27.3% | 25.3% | 27.6% |
| Indirect | 41.3% | 43.0% | 40.0% | 40.5% |

Store Data: (1)

| | | | | |
|--|---------|--------|---------|--------|
| Total stores open at end of period | 70 | 49 | 70 | 49 |
| Comparable-store sales increase (2) | 5.3% | 10.5% | 4.9% | 14.9% |
| Total gross square footage at end of period | 142,142 | 95,016 | 142,142 | 95,016 |
| Average net revenues per gross square foot (3) | \$ 292 | \$ 264 | \$ 510 | \$ 461 |

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- (1) Includes only our full-price and outlet stores. Our first full-price store opened in mid-September 2007 and our first outlet store opened in November 2009.
- (2) Comparable-store sales represent 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.
- (3) Dollars not in thousands. Average net revenues per gross square foot are calculated by dividing total net revenues for our stores that have been open at least 12 full fiscal months as of the end of the period by total gross square footage for those stores. Remodeled stores are included in average net revenues per gross square foot unless the store was closed for a portion of the period.

Thirteen Weeks Ended July 28, 2012, Compared to Thirteen Weeks Ended July 30, 2011

Net Revenues

For the thirteen weeks ended July 28, 2012, net revenues increased \$19.2 million, or 18.5%, to \$123.0 million, from \$103.8 million in the comparable prior-year period.

Direct. For the thirteen weeks ended July 28, 2012, net revenues in the Direct segment increased \$17.8 million, or 37.2%, to \$65.7 million, from \$47.9 million in the comparable prior-year period. This growth resulted from an \$11.7 million increase in revenues related to the opening of eight new stores, a \$4.8 million increase in e-commerce revenues due primarily to increased traffic, and a comparable-store sales increase of \$1.3 million, or 5.3%, primarily driven by the strength of the July Fall Back to Campus collection. The aggregate number of our full-price and outlet stores grew from 49 at July 30, 2011, to 70 at July 28, 2012.

Indirect. For the thirteen weeks ended July 28, 2012, net revenues in the Indirect segment increased \$1.4 million, or 2.6%, to \$57.3 million, from \$55.9 million in the comparable prior-year period, driven by the strength of the Fall Back to Campus collection in July, partially offset by a slowdown in May and June due to a product portfolio that underperformed.

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Gross Profit

For the thirteen weeks ended July 28, 2012, gross profit increased \$9.0 million, or 15.1%, to \$68.6 million, from \$59.6 million in the comparable prior-year period. As a percentage of net revenues, gross profit decreased to 55.8% for the thirteen weeks ended July 28, 2012, from 57.5% in the comparable prior-year period. The decline as a percentage of net revenues was due to increased promotional activity in both segments of our business, partially offset by a positive channel mix with the Direct segment becoming a larger part of our business, and operational savings.

Selling, General and Administrative Expenses

For the thirteen weeks ended July 28, 2012, SG&A expenses increased \$8.7 million, or 22.3%, to \$47.8 million, from \$39.1 million in the comparable prior-year period. As a percentage of net revenues, SG&A expenses were 38.9% and 37.7% for the fiscal quarters ended July 28, 2012, and July 30, 2011, respectively. The increase as a percentage of net revenues in SG&A expenses was due primarily to annualizing fiscal 2012 infrastructure investments made in the second half of last year and higher occupancy costs driven by opening full-price stores earlier than originally anticipated.

Other Income

For the thirteen weeks ended July 28, 2012, other income decreased \$1.4 million, or 57.5%, to \$1.0 million, from \$2.4 million in the comparable prior-year period. 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 the thirteen weeks ended July 28, 2012, operating income decreased \$1.1 million, or 4.9%, to \$21.8 million, from \$22.9 million in the comparable prior-year period. As a percentage of net revenues, operating income was 17.7% and 22.1% for the thirteen weeks ended July 28, 2012, and July 30, 2011, respectively.

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Direct. For the thirteen weeks ended July 28, 2012, operating income in the Direct segment increased \$3.2 million, or 24.6%. As a percentage of Direct segment net revenues, operating income in the Direct segment was 24.7% and 27.3% for the thirteen weeks ended July 28, 2012, and July 30, 2011, respectively. This decrease as a percentage of net revenues in the Direct segment was due primarily to increased promotional activity, offset in part by operational savings.

Indirect. For the thirteen weeks ended July 28, 2012, operating income in the Indirect segment decreased \$0.4 million, or 1.6%. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 41.3% and 43.0% for the thirteen weeks ended July 28, 2012, and July 30, 2011, respectively. This decrease as a percentage of net revenues in the Indirect segment resulted primarily from a decline in gross margin due to promotional activity, offset in part by sales-driven leverage of SG&A.

Corporate Unallocated. For the thirteen weeks ended July 28, 2012, unallocated expenses increased \$3.9 million, or 27.9%, primarily as a result of higher corporate personnel and advertising costs.

Interest Expense, Net

For the thirteen weeks ended July 28, 2012, net interest expense decreased \$0.2 million, or 53.9%, to \$0.1 million, from \$0.3 million in the comparable prior-year period. The decrease of \$0.2 million was due primarily to lower average borrowing levels in the thirteen weeks ended July 28, 2012.

Income Tax Expense

The effective tax rate for the thirteen weeks ended July 28, 2012, was 38.2%, compared to 39.6% for the thirteen weeks ended July 30, 2011. The valuation allowance recorded against the deferred tax asset arising from the net operating loss of the Company's Japanese subsidiary decreased the effective tax rate by approximately 1.4% for the thirteen weeks ended July 28, 2012, when compared to the thirteen weeks ended July 30, 2011. This is due to a lower net operating loss for the thirteen weeks ended July 28, 2012.

Twenty-Six Weeks Ended July 28, 2012, Compared to Twenty-Six Weeks Ended July 30, 2011

Net Revenues

For the twenty-six weeks ended July 28, 2012, net revenues increased \$35.0 million, or 17.1%, to \$240.2 million, from \$205.2 million in the comparable prior-year period.

Direct. For the twenty-six weeks ended July 28, 2012, net revenues in the Direct segment increased \$32.9 million, or 35.8%, to \$124.9 million, from \$92.0 million in the comparable prior-year period. This growth resulted from a \$21.5 million increase in revenues related to the opening of 14 new stores, a \$9.3 million increase in e-commerce revenues due primarily to greater traffic resulting from marketing initiatives, a comparable-store sales increase of \$1.9 million, or 4.9%, and an increase of \$0.2 million in outlet-sale revenues. The aggregate number of our full-price and outlet stores grew from 49 at July 30, 2011 to 70 at July 28, 2012.

Indirect. For the twenty-six weeks ended July 28, 2012, net revenues in the Indirect segment increased \$2.1 million, or 1.9%, to \$115.3 million, from \$113.2 million in the comparable prior-year period, driven by the strength of the Fall Back to Campus collection in July, partially offset by a slowdown due to a product portfolio that underperformed.

Gross Profit

For the twenty-six weeks ended July 28, 2012, gross profit increased \$17.8 million, or 15.4%, to \$133.9 million, from \$116.1 million in the comparable prior-year period. As a percentage of net revenues, gross profit decreased to 55.7% for the twenty-six weeks ended July 30, 2011, from 56.6% in the comparable prior-year period. The decline as a percentage of net revenues was due to increased promotional activity in both segments of our business, partially offset by a positive channel mix, and operational savings.

Selling, General, and Administrative Expenses

For the twenty-six weeks ended July 28, 2012, SG&A expenses increased \$15.9 million, or 20.1%, to \$95.0 million, from \$79.1 million in the comparable prior-year period. As a percentage of net revenues, SG&A expenses were 39.6% and 38.6% for the fiscal quarters ended July 28, 2012, and July 30, 2011, respectively. The increase as a percentage of net revenues in SG&A expenses was due primarily to annualizing fiscal

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2012 infrastructure investments made in the second half of last year and higher occupancy costs driven by increased store count, offset in part by a decrease in advertising costs as a percentage of net revenues.

Other Income

For the twenty-six weeks ended July 28, 2012, other income decreased \$1.3 million, or 25.7%, to \$3.7 million, from \$5.0 million in the comparable prior-year period. The decrease in other income was in line with a decrease in associated advertising costs related to mailers for our specialty retailers.

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Operating Income

For the twenty-six weeks ended July 28, 2012, operating income increased \$0.6 million, or 1.5%, to \$42.6 million, from \$42.0 million in the comparable prior-year period. As a percentage of net revenues, operating income was 17.7% and 20.5% for the twenty-six weeks ended July 28, 2012, and July 30, 2011, respectively.

Direct. For the twenty-six weeks ended July 28, 2012, operating income in the Direct segment increased \$6.2 million, or 24.5%. As a percentage of Direct segment net revenues, operating income in the Direct segment was 25.3% and 27.6% for the twenty-six weeks ended July 28, 2012, and July 30, 2011, respectively. This decrease as a percentage of net revenues in the Direct segment was due primarily to increased promotional activity, offset in part by a positive channel mix and operational savings.

Indirect. For the twenty-six weeks ended July 28, 2012, operating income in the Indirect segment increased \$0.3 million, or 0.7%. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 40.0% and 40.5% for the twenty-six weeks ended July 28, 2012, and July 30, 2011, respectively. This decrease as a percentage of net revenues in the Indirect segment resulted primarily from a decline in gross margin due to promotional activity, offset in part by sales-driven leverage of SG&A.

Corporate Unallocated. For the twenty-six weeks ended July 28, 2012, unallocated expenses increased \$5.9 million, or 20.3%, primarily as a result of higher corporate personnel and advertising costs.

Interest Expense, Net

For the twenty-six weeks ended July 28, 2012, net interest expense decreased \$0.3 million, or 46.9%, to \$0.3 million, from \$0.6 million in the comparable prior-year period. The decrease was due to lower average borrowing levels in the twenty-six weeks ended July 28, 2012.

Table of Contents*Income Tax Expense*

The effective tax rate for the twenty-six weeks ended July 28, 2012, was 38.5%, compared to 39.9% for the twenty-six weeks ended July 30, 2011. The Company's effective tax rate for the twenty-six weeks ended July 30, 2011, was negatively impacted by the non-deductibility of expenses related to the April 2011 secondary offering. The expenses were recorded as a discrete event and increased the effective tax rate by approximately 0.5% for the twenty-six weeks ended July 30, 2011. The valuation allowance recorded against the deferred tax asset arising from the net operating loss of the Company's Japanese subsidiary decreased the effective tax rate by approximately 1.0% for the twenty-six weeks ended July 28, 2012, when compared to the twenty-six weeks ended July 30, 2011. This is due to a lower net operating loss for the twenty-six weeks ended July 28, 2012.

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 credit agreement. Historically, our primary cash needs have been for inventories, payroll, store rent, capital expenditures associated with opening new stores, debt repayments, operational equipment, and information technology. The most significant components of our working capital are cash and cash equivalents, inventories, accounts receivable, accounts payable, and other current liabilities. We do not believe that the expansion of our Direct business will materially alter the nature and levels of our accounts receivable and inventories, or require materially increased borrowings under our credit agreement, in the near term.

We believe that cash flows from operating activities and the availability of borrowings under our credit agreement or other financing arrangements will be sufficient to meet working capital requirements, anticipated capital expenditures, and debt payments for the foreseeable future.

Cash Flow Analysis

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

| | Twenty-Six Weeks Ended | |
|---|-------------------------------|--------------------------|
| | July 28, 2012 | July 30, 2011 |
| | (unaudited) | (unaudited) |
| Net cash provided by (used in) operating activities | \$ 25,461 | \$ (11,778) |
| Net cash used in investing activities | (22,704) | (6,526) |
| Net cash (used in) provided by financing activities | (62) | 5,065 |

Net Cash Provided by (Used in) 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 for the twenty-six weeks ended July 28, 2012 was \$25.5 million, compared to net cash used in operating activities of \$11.8 million for the twenty-six weeks ended July 30, 2011. The \$37.3 million increase in cash provided by operating activities was due primarily to increased net cash inflows from operating assets and liabilities driven by improvements in our supply chain and inventory management processes which enabled lower inventory growth and timing of estimated tax payments.

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Net Cash Used in Investing Activities

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

Net cash used in investing activities was \$22.7 million and \$6.5 million for the twenty-six weeks ended July 28, 2012, and July 30, 2011, respectively. The \$16.2 million increase in capital expenditures was due primarily to the expansion of the distribution facility and to increased investments in new stores, including the opening of 14 stores during the twenty-six weeks ended July 28, 2012, compared to 10 stores during the twenty-six weeks ended July 30, 2011.

Capital expenditures for fiscal year 2013 are expected to be approximately \$36.0 million, which includes approximately \$19.0 million related to the distribution center expansion.

Net Cash (Used in) Provided by Financing Activities

Financing activities consist primarily of borrowings and repayments under our credit agreement.

Net cash used in financing activities was \$0.1 million for the twenty-six weeks ended July 28, 2012.

Net cash provided by financing activities was \$5.1 million for the twenty-six weeks ended July 30, 2011, resulting primarily from \$4.7 million of net borrowings under our credit agreement.

Credit Agreement

On October 4, 2010, Vera Bradley Designs, Inc. entered into a credit agreement with JPMorgan Chase Bank, as administrative agent, and certain other lenders. The credit agreement provides for a revolving credit commitment of \$125.0 million. All borrowings under the credit agreement are collateralized by substantially all of the Company's assets. The credit agreement is also guaranteed by Vera Bradley, Inc. and its subsidiaries (other than Vera Bradley Designs, Inc.). 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 July 28, 2012.

Borrowings under the 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. At July 28, 2012, the interest rate on outstanding borrowings under the credit agreement was 1.30%. The Company had borrowing availability of \$99.7 million under the agreement as of July 28, 2012.

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.

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 requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the related disclosures of contingent assets and liabilities at the date of the financial statements. A summary of the Company's significant accounting policies is included in Note 2 to the Company's consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2012.

Certain of the Company's accounting policies and estimates are considered critical, as these policies and estimates are the most important to the depiction of the Company's consolidated financial statements and require significant, difficult, or complex judgments, often about the effect of

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matters that are inherently uncertain. Such policies are summarized in the Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2012. There was no significant change to any of the critical accounting policies and estimates described in the Annual Report.

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Recently Adopted Accounting Pronouncements

In June 2011, FASB issued ASU 2011-05, *Comprehensive Income – Presentation of Comprehensive Income*. This guidance eliminates the option to present the components of other comprehensive income as part of the Statement of Shareholders' Equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. The guidance is effective for fiscal years beginning after December 15, 2011. In accordance with this guidance, we have presented two separate but consecutive statements which include the components of net income and other comprehensive income.

In May 2011, FASB issued ASU 2011-04, *Fair Value Measurement – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The guidance requires additional disclosures, including disclosures related to the measurement of Level 3 assets. The guidance is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of July 28, 2012, there was no material change in the market risks described in Quantitative and Qualitative Disclosures About Market Risks in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2012.

ITEM 4. CONTROLS AND PROCEDURES

At the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company's Disclosure Committee and management, including the Chief Executive Officer and the Chief Financial and Administrative Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial and Administrative Officer concluded that the Company's disclosure controls and procedures were effective as of July 28, 2012.

There has been no change in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There has been no material change to our risk factors as previously set forth in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2012.

ITEM 6. EXHIBITS

a. Exhibits

| Exhibit No. | Description |
|------------------------|---|
| 31.1 | CEO Section 302 Certification |
| 31.2 | CFO Section 302 Certification |
| 32.1 | Section 906 Certifications* |
| 101 | The following materials from the Vera Bradley, Inc.'s Quarterly Report on Form 10-Q for the quarter ended July 28, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Income and Comprehensive Income for the Thirteen and Twenty-Six Weeks ended July 28, 2012 and July 30, 2011; (ii) Consolidated Balance Sheets at July 28, 2012 and January 28, 2012; (iii) Consolidated Statements of Cash Flows for the Twenty-Six Weeks Ended July 28, 2012 and July 30, 2011, and (iv) Notes to Consolidated Financial Statements. ** |

* Furnished, not filed.

** 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.

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SIGNATURE

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

Vera Bradley, Inc.

(Registrant)

Date: September 6, 2012

/s/ Jeffrey A. Blade

Jeffrey A. Blade

Executive Vice President Chief Financial and Administrative

Officer (duly authorized officer and principal financial officer)

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EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|---|
| 31.1 | CEO Section 302 Certification |
| 31.2 | CFO Section 302 Certification |
| 32.1 | Section 906 Certifications* |
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** 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.