

Vera Bradley, Inc.
Form 10-Q
September 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended August 2, 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 27-2935063
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

12420 Stonebridge Road, 46783
Roanoke, Indiana (Zip Code)
(Address of principal executive offices)

(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.

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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 40,688,692 shares of its common stock outstanding as of September 10, 2014.

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FORWARD-LOOKING STATEMENTS

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

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 February 1, 2014, as well as Item 1A of Part II of this Quarterly Report on Form 10-Q.

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | August 2, 2014 | February 1, 2014 |
|---|-------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$79,091 | \$59,215 |
| Accounts receivable, net | 28,676 | 27,718 |
| Inventories | 112,023 | 136,923 |
| Income taxes receivable | 3,852 | — |
| Prepaid expenses and other current assets | 9,486 | 9,952 |
| Deferred income taxes | 14,307 | 13,094 |
| Total current assets | 247,435 | 246,902 |
| Property, plant, and equipment, net | 93,180 | 84,940 |
| Other assets | 847 | 1,085 |
| Total assets | \$341,462 | \$332,927 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$19,633 | \$27,745 |
| Accrued employment costs | 10,151 | 10,586 |
| Other accrued liabilities | 22,532 | 20,403 |
| Income taxes payable | — | 1,625 |
| Total current liabilities | 52,316 | 60,359 |
| Deferred income taxes | 3,849 | 4,643 |
| Other long-term liabilities | 14,628 | 12,778 |
| Total liabilities | 70,793 | 77,780 |
| 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, 40,687 and 40,607 shares issued and outstanding, respectively | — | — |
| Additional paid-in-capital | 79,520 | 78,153 |
| Retained earnings | 192,167 | 178,002 |
| Accumulated other comprehensive loss | (1,018) | (1,008) |
| Total shareholders' equity | 270,669 | 255,147 |
| Total liabilities and shareholders' equity | \$341,462 | \$332,927 |

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

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|----------------------|-------------------|------------------------|-------------------|
| | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 |
| Net revenues | \$120,104 | \$125,372 | \$233,565 | \$248,405 |
| Cost of sales | 56,045 | 53,599 | 108,981 | 108,166 |
| Gross profit | 64,059 | 71,773 | 124,584 | 140,239 |
| Selling, general, and administrative expenses | 51,763 | 48,336 | 103,075 | 103,563 |
| Other income | 465 | 630 | 2,042 | 2,581 |
| Operating income | 12,761 | 24,067 | 23,551 | 39,257 |
| Interest expense, net | 24 | 82 | 104 | 223 |
| Income before income taxes | 12,737 | 23,985 | 23,447 | 39,034 |
| Income tax expense | 5,139 | 9,034 | 9,282 | 14,894 |
| Net income | \$7,598 | \$14,951 | \$14,165 | \$24,140 |
| Basic weighted-average shares outstanding | 40,686 | 40,603 | 40,663 | 40,592 |
| Diluted weighted-average shares outstanding | 40,719 | 40,623 | 40,722 | 40,624 |
| Basic net income per share | \$0.19 | \$0.37 | \$0.35 | \$0.59 |
| Diluted net income per share | \$0.19 | \$0.37 | \$0.35 | \$0.59 |

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 | |
|-----------------------------------|----------------------|-------------------|------------------------|-------------------|
| | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 |
| Net income | \$7,598 | \$14,951 | \$14,165 | \$24,140 |
| Cumulative translation adjustment | (20 |) (25 |) (10 |) (280 |
| Comprehensive income | \$7,578 | \$14,926 | \$14,155 | \$23,860 |

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

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

| | Twenty-Six Weeks Ended | |
|---|------------------------|-------------------|
| | August 2, 2014 | August 3, 2013 |
| Cash flows from operating activities | | |
| Net income | \$14,165 | \$24,140 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property, plant, and equipment | 7,150 | 6,796 |
| Provision for doubtful accounts | (63 |) (117 |
| Loss on disposal of property, plant, and equipment | — | 9 |
| Stock-based compensation | 1,962 | 1,820 |
| Deferred income taxes | (2,007 |) (1,039 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (895 |) (566 |
| Inventories | 24,897 | (11,507 |
| Prepaid expenses and other assets | 704 | 1,640 |
| Accounts payable | (11,271 |) 11,371 |
| Income taxes payable | (5,477 |) (5,068 |
| Accrued and other liabilities | 3,591 | (475 |
| Net cash provided by operating activities | 32,756 | 27,004 |
| Cash flows from investing activities | | |
| Purchases of property, plant, and equipment | (12,231 |) (11,976 |
| Net cash used in investing activities | (12,231 |) (11,976 |
| Cash flows from financing activities | | |
| Payments on financial-institution debt | — | (45,000 |
| Borrowings on financial-institution debt | — | 30,000 |
| Tax withholdings for equity compensation | (595 |) (406 |
| Other financing activities, net | (47 |) 145 |
| Net cash used in financing activities | (642 |) (15,261 |
| Effect of exchange rate changes on cash and cash equivalents | (7 |) (39 |
| Net increase (decrease) in cash and cash equivalents | 19,876 | (272 |
| Cash and cash equivalents, beginning of period | 59,215 | 9,603 |
| Cash and cash equivalents, end of period | \$79,091 | \$9,331 |
| Supplemental disclosure of cash flow information | | |
| Non-cash operating and investing activities | | |
| Property, plant, and equipment expenditures incurred but not yet paid | \$3,159 | \$— |

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

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

Vera Bradley is a leading designer of women’s handbags and accessories, luggage and travel items, eyewear, and stationery and gifts. Founded in 1982 by friends Barbara Bradley Baekgaard and Patricia R. Miller, the brand’s iconic designs and versatile styles offer women of all ages a colorful way to accessorize every look.

Vera Bradley offers a unique, multi-channel sales model, as well as a focus on service and a high level of customer engagement. The Company sells its products through two reportable segments: Direct and Indirect. The Direct business consists of sales of Vera Bradley products through the Company’s full-line and factory outlet stores in the United States; department store locations in Japan; its websites, verabradley.com and verabradley.co.jp; direct-to-consumer eBay sales; and its annual outlet sale in Fort Wayne, Indiana. As of August 2, 2014, the Company operated 89 full-line stores and 20 factory outlet stores. The Indirect business consists of sales of Vera Bradley products to approximately 3,000 specialty retail doors, substantially all of which are located in the United States, as well as department stores, national accounts, third party e-commerce sites, and third party inventory liquidation. 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 February 1, 2014, filed with the SEC.

The interim financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly the results for the interim periods presented. All such adjustments are of a normal, recurring nature. The results of operations for the thirteen and twenty-six weeks ended August 2, 2014, 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 August 2, 2014, and August 3, 2013, refer to the thirteen-week periods ended on those dates.

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 August 2, 2014 and February 1, 2014, step-up rent liability was \$7.9 million and \$7.0 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 August 2, 2014 and February 1, 2014, the deferred lease credit liability was \$12.2 million and

\$10.3 million, respectively. Of this, \$1.6 million and \$1.4 million is included within other accrued liabilities as of August 2, 2014 and February 1, 2014, respectively; \$10.6 million and \$8.9 million is included within other long-term liabilities as of August 2, 2014 and February 1, 2014, respectively.

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

Recently Issued Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This guidance states that the disposal of a component of an entity is to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. The pronouncement also requires additional disclosures regarding individually significant disposals of components that do not meet the criteria to be recognized as a discontinued operation as well as additional and expanded disclosures. The guidance is effective for all disposals (or classifications as held for sale) of components of an entity and all businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015; it is applied prospectively. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company does not expect this standard to have a material impact on the Company’s consolidated financial statements upon adoption.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, to clarify the principles used to recognize revenue for all entities. The new guidance is effective for annual and interim periods beginning after December 15, 2016, with no early adoption permitted. The Company is currently evaluating the impact, if any, the adoption of this guidance will have on its financial position, results of operations or cash flows.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern which requires management to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and provide related footnote disclosures. The guidance is effective for annual or interim reporting periods beginning on or after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The standard allows for either a full retrospective or modified retrospective transition method. The Company does not expect this standard to have an impact on the Company’s consolidated financial statements upon adoption.

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 data):

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|--|----------------------|-------------------|------------------------|-------------------|
| | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 |
| Numerator: | | | | |
| Net income | \$7,598 | \$14,951 | \$14,165 | \$24,140 |
| Denominator: | | | | |
| Weighted-average number of common shares (basic) | 40,686 | 40,603 | 40,663 | 40,592 |
| Dilutive effect of stock-based awards | 33 | 20 | 59 | 32 |
| Weighted-average number of common shares (diluted) | 40,719 | 40,623 | 40,722 | 40,624 |
| Earnings per share: | | | | |
| Basic | \$0.19 | \$0.37 | \$0.35 | \$0.59 |
| Diluted | \$0.19 | \$0.37 | \$0.35 | \$0.59 |

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As of August 2, 2014 and August 3, 2013, there were an immaterial number of additional shares issuable upon the vesting of restricted stock units that were excluded from the diluted share calculations because they were anti-dilutive.

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

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.

The carrying amounts reflected on the Consolidated Balance Sheets for cash and cash equivalents, receivables, other current assets, and payables as of August 2, 2014, and August 3, 2013, approximated their fair values.

The carrying amount for the amended and restated credit agreement approximated its fair value at August 3, 2013, 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):

| | August 2, 2014 | February 1, 2014 |
|-------------------|-------------------|---------------------|
| Raw materials | \$13,259 | \$10,772 |
| Work in process | 584 | 850 |
| Finished goods | 98,180 | 125,301 |
| Total inventories | \$112,023 | \$136,923 |

5. Debt

As of August 2, 2014, the Company had borrowing availability of \$125.0 million under the amended and restated credit agreement.

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. Management judgment is required in projecting ordinary income to estimate the Company's annual effective tax rate.

The effective tax rate for the thirteen weeks ended August 2, 2014, was 40.3%, compared to 37.7% for the thirteen weeks ended August 3, 2013. The year-over-year increase in the effective rate is primarily due to state tax matters including an incremental reserve related to an ongoing state income tax audit.

The effective tax rate for the twenty-six weeks ended August 2, 2014, was 39.6%, compared to 38.2% for the twenty-six weeks ended August 3, 2013. The year-over-year increase in the effective rate is primarily due to state tax matters including an incremental reserve related to an ongoing state income tax audit.

7. Stock-Based Compensation

The Company recognizes share-based compensation expense, for its awards of restricted stock and restricted stock units, 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.

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

Awards of Restricted Stock Units

During the thirteen weeks ended August 2, 2014, the Company granted 60,511 time-based and performance-based restricted stock units with an aggregate fair value of \$1.4 million to certain employees under the 2010 Equity and Incentive Plan. The Company did not grant any restricted stock units in the same period of the prior year.

During the twenty-six weeks ended August 2, 2014, the Company granted 278,491 time-based and performance-based restricted stock units with an aggregate fair value of \$7.3 million to certain employees and non-employee directors under the 2010 Equity and Incentive Plan compared to a total of 244,814 time-based and performance-based restricted stock units with an aggregate fair value of \$5.8 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 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 units issued to non-employee directors vest after a one-year period from grant date. The Company is recognizing the expense relating to these units, net of estimated forfeitures, on a straight-line basis over the vesting period.

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 or earnings per share targets during the three-year performance period. The Company is recognizing the expense relating to these units, net of estimated forfeitures, based on the probable outcome of achievement of the financial 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 August 2, 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 1, 2014 | 231 | \$26.92 | 160 | \$25.75 |
| Granted | 166 | 25.79 | 112 | 26.94 |
| Vested | (102) |) 27.20 | — | — |
| Forfeited | (24) |) 25.92 | (34) |) 26.07 |
| Nonvested units outstanding at August 2, 2014 | 271 | \$26.21 | 238 | \$26.26 |

As of August 2, 2014, there was \$7.7 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 2.1 years.

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, legal, employee benefit, 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

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

which operating results are evaluated on a regular basis by the chief operating decision maker in deciding how to allocate resources and in assessing the performance of the segments.

The Direct segment includes the Company's full-line and factory outlet stores, department store locations in Japan, the Company's websites, verabradley.com and verabradley.co.jp, direct-to-consumer eBay sales, 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. The Indirect segment represents revenues generated through the distribution of Company-branded products to specialty retailers representing approximately 3,000 doors, substantially all of which are located in the United States, as well as key accounts, which include department stores, national accounts, third party e-commerce sites, and third party inventory liquidation. Corporate costs represent the Company's administrative expenses, which include, but are not limited to: human resources, legal, finance, information technology, design, merchandising, 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. Net revenues and operating income information for the Company's reportable segments consisted of the following (in thousands):

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|--------------------------------|----------------------|-------------------|------------------------|-------------------|
| | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 |
| Segment net revenues: | | | | |
| Direct | \$78,921 | \$75,016 | \$152,369 | \$148,703 |
| Indirect | 41,183 | 50,356 | 81,196 | 99,702 |
| Total | \$120,104 | \$125,372 | \$233,565 | \$248,405 |
| Segment operating income: | | | | |
| Direct | \$16,811 | \$19,118 | \$30,260 | \$36,083 |
| Indirect | 15,947 | 21,806 | 31,386 | 39,545 |
| Total | \$32,758 | \$40,924 | \$61,646 | \$75,628 |
| Reconciliation: | | | | |
| Segment operating income | \$32,758 | \$40,924 | \$61,646 | \$75,628 |
| Less: | | | | |
| Unallocated corporate expenses | (19,997 |) (16,857 |) (38,095 |) (36,371 |
| Operating income | \$12,761 | \$24,067 | \$23,551 | \$39,257 |

10. Subsequent Events

On September 9, 2014, the Company's board of directors approved a share repurchase program authorizing up to \$40.0 million in common stock repurchases which expires in October 2016. On September 9, 2014, The Company also entered into a fifth amendment to the amended and restated credit agreement allowing for the repurchase of equity interests not to exceed \$40.0 million.

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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 August 2, 2014 and August 3, 2013. The following discussion should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended February 1, 2014, and our unaudited consolidated financial statements and the related notes included in Item 1 of this Quarterly Report.

Executive Summary

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

Strategic Progress

- We opened one new full-line store and four factory outlet stores during the second quarter.
- We hired a key executive in marketing.
- We enhanced the navigation in e-commerce, improved the browsing and sorting capabilities, added customer survey and cart/site abandonment emails, and added product recommendations which we believe will drive customer acquisition, full-price conversion, and retention.
- We introduced a limited selection of our products in 70 Macy's stores across the country in July.

Financial Summary

- Net revenues decreased 4.2% to \$120.1 million.
- Direct segment sales increased 5.2% to \$78.9 million. Total comparable sales declined 5.3%.
- Indirect segment sales decreased 18.2% to \$41.2 million.
- Gross profit was \$64.1 million (53.3% of net revenue).
- Operating income was \$12.8 million (10.6% of net revenue).
- Net income was \$7.6 million, or \$0.19 per diluted share.
- Cash and cash equivalents were \$79.1 million at August 2, 2014.
- Capital expenditures for the twenty-six weeks totaled \$12.2 million which were funded from cash generated from operations of \$32.8 million.

How We Assess the Performance of Our Business

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

Net Revenues

Net revenues reflect revenues from the sale of our merchandise and from distribution and shipping and handling fees, less returns and discounts. Revenues for the Direct segment reflect sales through our full-line and factory outlet stores; department store locations in Japan; our websites, verabradley.com and verabradley.co.jp; direct-to-consumer eBay sales; and our annual outlet sale in Fort Wayne, Indiana. Revenues for the Indirect segment reflect sales to specialty retail partners, department stores, national accounts, third party e-commerce sites, and third party inventory liquidation.

Comparable Sales

Comparable sales are calculated based upon our stores that have been open at least 12 full fiscal months. Remodeled stores are included in comparable 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. Total comparable sales includes net revenues from our e-commerce operations including our site verabradley.com and direct-to-consumer eBay sales. Some of our competitors and other retailers calculate comparable or "same store" sales differently than we do. As a result, data in this report regarding our comparable sales may not be comparable to similar data made available by other companies. Non-comparable sales include sales from stores not included in comparable sales.

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Measuring the change in year-over-year comparable sales allows us to evaluate how our store base is performing.

Various factors affect our comparable 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; commodity prices, such as cotton; and labor costs.

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.

Operating Income

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

Net Income

Net income equals operating income less net interest expense and income taxes.

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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 | | |
|---|----------------------|-------------------|------------------------|-------------------|---|
| | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 | |
| Statement of Income Data: | | | | | |
| Net revenues | \$ 120,104 | \$ 125,372 | \$ 233,565 | \$ 248,405 | |
| Cost of sales | 56,045 | 53,599 | 108,981 | 108,166 | |
| Gross profit | 64,059 | 71,773 | 124,584 | 140,239 | |
| Selling, general, and administrative expenses | 51,763 | 48,336 | 103,075 | 103,563 | |
| Other income | 465 | 630 | 2,042 | 2,581 | |
| Operating income | 12,761 | 24,067 | 23,551 | 39,257 | |
| Interest expense, net | 24 | 82 | 104 | 223 | |
| Income before income taxes | 12,737 | 23,985 | 23,447 | 39,034 | |
| Income tax expense | 5,139 | 9,034 | 9,282 | 14,894 | |
| Net income | \$ 7,598 | \$ 14,951 | \$ 14,165 | \$ 24,140 | |
| Percentage of Net Revenues: | | | | | |
| Net revenues | 100.0 | % 100.0 | % 100.0 | % 100.0 | % |
| Cost of sales | 46.7 | % 42.8 | % 46.7 | % 43.5 | % |
| Gross profit | 53.3 | % 57.2 | % 53.3 | % 56.5 | % |
| Selling, general, and administrative expenses | 43.1 | % 38.6 | % 44.1 | % 41.7 | % |
| Other income | 0.4 | % 0.5 | % 0.9 | % 1.0 | % |
| Operating income | 10.6 | % 19.2 | % 10.1 | % 15.8 | % |
| Interest expense, net | — | % 0.1 | % — | % 0.1 | % |
| Income before income taxes | 10.6 | % 19.1 | % 10.0 | % 15.7 | % |
| Income tax expense | 4.3 | % 7.2 | % 4.0 | % 6.0 | % |
| Net income | 6.3 | % 11.9 | % 6.1 | % 9.7 | % |

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 | | |
|---|----------------------|-------------------|------------------------|-------------------|---|
| | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 | |
| Net Revenues by Segment: | | | | | |
| Direct | \$ 78,921 | \$ 75,016 | \$ 152,369 | \$ 148,703 | |
| Indirect | 41,183 | 50,356 | 81,196 | 99,702 | |
| Total | \$ 120,104 | \$ 125,372 | \$ 233,565 | \$ 248,405 | |
| Percentage of Net Revenues by Segment: | | | | | |
| Direct | 65.7 | % 59.8 | % 65.2 | % 59.9 | % |
| Indirect | 34.3 | % 40.2 | % 34.8 | % 40.1 | % |
| Total | 100.0 | % 100.0 | % 100.0 | % 100.0 | % |

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| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | | |
|---|----------------------|-------------------|------------------------|-------------------|---|
| | August 2, 2014 | August 3, 2013 | August 2, 2014 | August 3, 2013 | |
| Operating Income by Segment: | | | | | |
| Direct | \$16,811 | \$19,118 | \$30,260 | \$36,083 | |
| Indirect | 15,947 | 21,806 | 31,386 | 39,545 | |
| Less: Corporate unallocated | (19,997) | (16,857) | (38,095) | (36,371) | |
| Total | \$12,761 | \$24,067 | \$23,551 | \$39,257 | |
| Operating Income as a Percentage of Net Revenues by Segment: | | | | | |
| Direct | 21.3 | % 25.5 | % 19.9 | % 24.3 | % |
| Indirect | 38.7 | % 43.3 | % 38.7 | % 39.7 | % |
| Store Data ⁽¹⁾ : | | | | | |
| Total stores open at end of period | 109 | 94 | 109 | 94 | |
| Total comparable sales (decrease) increase ⁽²⁾ | (5.3) | % (1.6) | % (6.4) | % 3.7 | % |
| Total gross square footage at end of period (all stores) | 233,836 | 195,816 | 233,836 | 195,816 | |
| Average net revenues per gross square foot ⁽³⁾ | \$208 | \$270 | \$362 | \$490 | |

(1) Includes our full-line and factory outlet stores.

Comparable sales are the net revenues of our stores that have been open at least 12 full fiscal months. Increase or decrease is reported as a percentage of the comparable sales for the same period in the prior fiscal year. Remodeled

(2) stores are included in comparable 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. Total comparable sales includes net revenues from our e-commerce operations including our site verabradley.com and direct-to-consumer eBay sales.

Dollars not in thousands. Average net revenues per gross square foot are calculated by dividing total net revenues

(3) 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 August 2, 2014, Compared to Thirteen Weeks Ended August 3, 2013

Net Revenues

For the thirteen weeks ended August 2, 2014, net revenues decreased \$5.3 million, or 4.2%, to \$120.1 million, from \$125.4 million in the comparable prior-year period.

Direct. For the thirteen weeks ended August 2, 2014, net revenues in the Direct segment increased \$3.9 million, or 5.2%, to \$78.9 million, from \$75.0 million in the comparable prior-year period. This change resulted primarily from an \$8.0 million increase in revenues at our non-comparable stores which included 15 additional full-line and factory outlet stores partially offset by a total comparable sales decrease of \$3.9 million, or 5.3% (which includes a 9.3% increase in e-commerce sales). Our comparable sales excluding e-commerce decreased 14.2%. The total comparable sales decrease was primarily due to declines in traffic and underperformance of the product offering. The aggregate number of full-line and factory outlet stores grew from 94 at August 3, 2013, to 109 at August 2, 2014.

Indirect. For the thirteen weeks ended August 2, 2014, net revenues in the Indirect segment decreased \$9.2 million, or 18.2%, to \$41.2 million, from \$50.4 million in the comparable prior-year period, primarily due to lower orders from the Company's specialty retail partners, as well as a reduction in retail partner accounts.

Gross Profit

For the thirteen weeks ended August 2, 2014, gross profit decreased \$7.7 million, or 10.7%, to \$64.1 million, from \$71.8 million in the comparable prior-year period. As a percentage of net revenues, gross profit decreased to 53.3% for the thirteen weeks ended August 2, 2014, from 57.2% in the comparable prior-year period. The decrease as a percentage of net revenues was primarily due to deleveraging of overhead costs as well as modestly increased year-over-year online promotional activity.

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Selling, General, and Administrative Expenses

For the thirteen weeks ended August 2, 2014, SG&A expenses increased \$3.5 million, or 7.1%, to \$51.8 million, from \$48.3 million in the comparable prior-year period. As a percentage of net revenues, SG&A expenses increased to 43.1% for the thirteen weeks ended August 2, 2014, from 38.6% in the comparable prior-year period. The increase in SG&A expenses as a percentage of net revenues was primarily due to investments related to the five-year strategic plan including key management additions, new store expenses, and marketing and e-commerce initiatives.

Other Income

For the thirteen weeks ended August 2, 2014, other income decreased \$0.1 million, or 26.2%, to \$0.5 million, from \$0.6 million in the comparable prior-year period due to a decrease in reimbursement of co-op mailers from Indirect retailers.

Operating Income

For the thirteen weeks ended August 2, 2014, operating income decreased \$11.3 million, or 47.0%, to \$12.8 million, from \$24.1 million in the comparable prior-year period. As a percentage of net revenues, operating income was 10.6% and 19.2% for the thirteen weeks ended August 2, 2014 and August 3, 2013, respectively.

Direct. For the thirteen weeks ended August 2, 2014, operating income in the Direct segment decreased \$2.3 million, or 12.1%. As a percentage of Direct segment net revenues, operating income in the Direct segment was 21.3% and 25.5% for the thirteen weeks ended August 2, 2014 and August 3, 2013, respectively.

Indirect. For the thirteen weeks ended August 2, 2014, operating income in the Indirect segment decreased \$5.9 million, or 26.9%. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 38.7% and 43.3% for the thirteen weeks ended August 2, 2014 and August 3, 2013, respectively.

Corporate Unallocated. For the thirteen weeks ended August 2, 2014, unallocated expenses increased \$3.1 million, or 18.6%, primarily due to key management additions and marketing initiatives.

Income Tax Expense

The effective tax rate for the thirteen weeks ended August 2, 2014, was 40.3%, compared to 37.7% for the thirteen weeks ended August 3, 2013. The year-over-year increase in the effective rate is primarily due to state tax matters including an incremental reserve related to an ongoing state income tax audit.

Net Income

For the thirteen weeks ended August 2, 2014, net income decreased \$7.4 million, or 49.2%, to \$7.6 million from \$15.0 million in the comparable prior-year period.

Twenty-Six Weeks Ended August 2, 2014, Compared to Twenty-Six Weeks Ended August 3, 2013

Net Revenues

For the twenty-six weeks ended August 2, 2014, net revenues decreased \$14.8 million, or 6.0%, to \$233.6 million, from \$248.4 million in the comparable prior-year period.

Direct. For the twenty-six weeks ended August 2, 2014, net revenues in the Direct segment increased \$3.7 million, or 2.5%, to \$152.4 million, from \$148.7 million in the comparable prior-year period. This change resulted primarily from a \$14.9 million increase in revenues at our non-comparable stores which included 15 additional full-line and factory outlet stores partially offset by a total comparable sales decrease of \$8.5 million, or 6.4% (which includes a 5.0% increase in e-commerce sales), and a decrease in total sales at our annual outlet sale compared to the prior year. Our comparable sales excluding e-commerce decreased 14.3%. The total comparable sales decrease was primarily due to declines in traffic, underperformance of the product offering, and severe weather in the first two months of the fiscal year. The aggregate number of full-line and factory outlet stores grew from 94 at August 3, 2013, to 109 at August 2, 2014.

Indirect. For the twenty-six weeks ended August 2, 2014, net revenues in the Indirect segment decreased \$18.5 million, or 18.6%, to \$81.2 million, from \$99.7 million in the comparable prior-year period, primarily due to lower orders from the Company's specialty retail partners, as well as a reduction in retail partner accounts.

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Gross Profit

For the twenty-six weeks ended August 2, 2014, gross profit decreased \$15.6 million, or 11.2%, to \$124.6 million, from \$140.2 million in the comparable prior-year period. As a percentage of net revenues, gross profit decreased to 53.3% for the thirteen weeks ended August 2, 2014, from 56.5% in the comparable prior-year period. The decrease as a percentage of net revenues was primarily due to deleveraging of overhead costs as well as increased year-over-year promotional activity.

Selling, General, and Administrative Expenses

For the twenty-six weeks ended August 2, 2014, SG&A expenses decreased \$0.5 million, or 0.5%, to \$103.1 million, from \$103.6 million in the comparable prior-year period. As a percentage of net revenues, SG&A expenses increased to 44.1% for the twenty-six weeks ended August 2, 2014, from 41.7% in the comparable prior-year period. The increase in SG&A expenses as a percentage of net revenues was primarily due to fixed expenses being spread over lower revenues in the Indirect segment, deleveraging of store operating expenses, and key management additions which were partially offset by a decline in year-over-year marketing expense and cost containment efforts.

Other Income

For the twenty-six weeks ended August 2, 2014, other income decreased \$0.6 million, or 20.9%, to \$2.0 million, from \$2.6 million in the comparable prior-year period primarily due to a decrease in reimbursement of co-op mailers from Indirect retailers.

Operating Income

For the twenty-six weeks ended August 2, 2014, operating income decreased \$15.7 million, or 40.0%, to \$23.6 million, from \$39.3 million in the comparable prior-year period. As a percentage of net revenues, operating income was 10.1% and 15.8% for the twenty-six weeks ended August 2, 2014 and August 3, 2013, respectively.

Direct. For the twenty-six weeks ended August 2, 2014, operating income in the Direct segment decreased \$5.8 million, or 16.1%. As a percentage of Direct segment net revenues, operating income in the Direct segment was 19.9% and 24.3% for the twenty-six weeks ended August 2, 2014 and August 3, 2013, respectively.

Indirect. For the twenty-six weeks ended August 2, 2014, operating income in the Indirect segment decreased \$8.2 million, or 20.6%. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 38.7% and 39.7% for the twenty-six weeks ended August 2, 2014 and August 3, 2013, respectively.

Corporate Unallocated. For the twenty-six weeks ended August 2, 2014, unallocated expenses increased \$1.7 million, or 4.7%, primarily due to headcount related expenses partially offset by a decrease in marketing.

Income Tax Expense

The effective tax rate for the twenty-six weeks ended August 2, 2014, was 39.6%, compared to 38.2% for the twenty-six weeks ended August 3, 2013. The year-over-year increase in the effective rate is primarily due to state tax matters including an incremental reserve related to an ongoing state income tax audit.

Net Income

For the twenty-six weeks ended August 2, 2014, net income decreased \$9.9 million, or 41.3%, to \$14.2 million from \$24.1 million in the comparable prior-year period.

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 merchandise inventories, payroll, store rent, capital expenditures associated with operational equipment, buildings, information technology, opening new stores, and debt repayments. The most significant components of our working capital are cash and cash equivalents, merchandise inventories, accounts receivable, accounts payable, and other current liabilities.

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, anticipated capital expenditures, share repurchases, and debt payments for the foreseeable future.

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Cash Flow Analysis

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

| | Twenty-Six Weeks Ended | |
|---|------------------------|-------------------|
| | August 2, 2014 | August 3, 2013 |
| Net cash provided by operating activities | \$32,756 | \$27,004 |
| Net cash used in investing activities | (12,231 |) (11,976 |
| Net cash used in financing activities | (642 |) (15,261 |
| 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 for the twenty-six weeks ended August 2, 2014, was \$32.8 million, compared to \$27.0 million for the twenty-six weeks ended August 3, 2013, an increase primarily due to a reduction in inventory, partially offset by a decrease in accounts payable.

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 \$12.2 million and \$12.0 million for the twenty-six weeks ended August 2, 2014 and August 3, 2013, respectively; capital expenditures of \$3.2 million were incurred but not paid at August 2, 2014. The \$3.4 million increase in capital expenditures was due primarily to the campus consolidation project, which did not take place in the prior year, partially offset by the opening of 10 stores during the twenty-six weeks ended August 2, 2014, compared to 18 stores during the twenty-six weeks ended August 3, 2013.

Capital expenditures for fiscal year 2015 are expected to be approximately \$40.0 million, which includes approximately \$20.0 million related to the campus consolidation.

Net Cash Used in Financing Activities

Net cash used in financing activities was \$0.6 million for the twenty-six weeks ended August 2, 2014. This compares to net cash used in financing activities of \$15.3 million for the twenty-six weeks ended August 3, 2013, resulting primarily from \$15.0 million net payments under our amended and restated credit agreement.

Amended and Restated Credit Agreement

On October 4, 2010, Vera Bradley Designs, Inc., our wholly owned subsidiary, 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. 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 our assets. 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 August 2, 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. As of August 2, 2014, the Company had borrowing availability of \$125.0 million under the agreement.

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Off-Balance-Sheet Arrangements

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

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States 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 February 1, 2014.

Certain accounting policies and estimates of the Company 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 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 February 1, 2014. There was no significant change to any of the critical accounting policies and estimates described in the Annual Report.

Recently Issued Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This guidance states that the disposal of a component of an entity is to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The pronouncement also requires additional disclosures regarding individually significant disposals of components that do not meet the criteria to be recognized as a discontinued operation as well as additional and expanded disclosures. The guidance is effective for all disposals (or classifications as held for sale) of components of an entity and all businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015; it is applied prospectively. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company does not expect this standard to have a material impact on the Company's consolidated financial statements upon adoption.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, to clarify the principles used to recognize revenue for all entities. The new guidance is effective for annual and interim periods beginning after December 15, 2016, with no early adoption permitted. The Company is currently evaluating the impact, if any, the adoption of this guidance will have on its financial position, results of operations or cash flows.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures. The guidance is effective for annual or interim reporting periods beginning on or after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The standard allows for either a full retrospective or modified retrospective transition method. The Company does not expect this standard to have an impact on the Company's consolidated financial statements upon adoption.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of August 2, 2014, 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 February 1, 2014.

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 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 Officer concluded that the Company’s disclosure controls and procedures were effective as of August 2, 2014.

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

Risks Related to Our Business

Our inability to predict trends and to 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 products or meet changing consumer demands. If we misjudge the market for our products, including changes to our patterns and our fabrications, revenue may be negatively impacted. In addition, we may be faced with significant excess inventories for some products and missed opportunities for other products. Changes to our product assortment, as well as the availability and breadth of pattern assortment and new fabrications may not gain consumer acceptance. Merchandise misjudgments could adversely impact our net revenues and results of operations.

Additional risk factors have been previously set forth in the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2014.

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ITEM 6. EXHIBITS

a. Exhibits

| Exhibit No. | Description |
|-------------|--|
| 10.1 | Letter of Agreement with Karen Peters dated as of May 12, 2014 (Incorporated by reference to Exhibit 10.4 of registrant's Form 10-Q for the period ending May 3, 2014) |
| 10.2 | Vera Bradley, Inc. 2014 Executive Severance Plan (Incorporated by reference to Exhibit 10.5 of registrant's Form 10-Q for the period ending May 3, 2014) |
| 10.3 | Letter of Agreement with Angel Ilagan dated as of May 21, 2014 |
| 10.4 | Amendment No. 5 to Amended and Restated Credit Agreement, dated as of September 9, 2014, among Vera Bradley Designs, Inc., JPMorgan Chase Bank N.A. and the lenders party thereto |
| 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 August 2, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Income for the Thirteen and Twenty-Six Weeks ended August 2, 2014 and August 3, 2013; (ii) Consolidated Statements of Comprehensive Income for the Thirteen and Twenty-Six Weeks ended August 2, 2014 and August 3, 2013; (iii) Consolidated Balance Sheets as of August 2, 2014 and February 1, 2014; (iv) Consolidated Statements of Cash Flows for the Twenty-Six Weeks ended August 2, 2014 and August 3, 2013, and (v) 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 10, 2014

/s/ Kevin J. Sierks
Kevin J. Sierks
Executive Vice President – Chief Financial Officer

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EXHIBIT INDEX

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* 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.