Vera Bradley, Inc.
Form S-1/A
October 13, 2010
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As filed with the Securities and Exchange Commission on October 13, 2010

Registration No. 333-167934

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 6

to

Form S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

VERA BRADLEY, INC.

(Exact name of registrant as specified in its charter)

Indiana	**3171**	**27-2935063**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

2208 Production Road

Fort Wayne, Indiana 46808

Phone: (877) 708-8372

(Address, including zip code, and telephone number, including area code,

of registrant s principal executive offices)

Michael C. Ray

Chief Executive Officer

Vera Bradley, Inc.

2208 Production Road

Fort Wayne, Indiana 46808

Phone: (877) 708-8372

(Name, address, including zip code, and telephone number,

including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public:

As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is to be a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

Indicate by check mark whether the registrant is a large accelerated filed, 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. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer þ Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of each class of Securities to be registered	Amount to be registered(1)	Proposed maximum offering price per share	Proposed maximum aggregate offering price(1) (2)	Amount of registration fee
Common Stock, without par value	12,650,000 shares	$ 16.00	$ 202,400,000	$ 14,431.12

(1) Includes 1,650,000 that may be sold if the over-allotment option granted to the underwriters is exercised in full.
(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(a) under the Securities Act of 1933, as amended.
(3) Includes $12,477.50 previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated October 13, 2010

PROSPECTUS

Vera Bradley, Inc.

11,000,000 Shares of Common Stock

We are selling 4,000,000 shares of common stock and the selling shareholders are selling 7,000,000 shares of common stock. We will not receive any of the proceeds from the shares of common stock sold by the selling shareholders.

Prior to this offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between $14.00 and $16.00 per share. We have applied to list our common stock on The Nasdaq Global Market under the symbol VRA .

Investing in our common stock involves risks. See Risk Factors section beginning on page 8 for a description of various risks you should consider in evaluating an investment in the shares.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to us	$	$
Proceeds, before expenses, to selling shareholders	$	$

The underwriters have a 30-day option to purchase up to 1,650,000 additional shares from certain selling shareholders on the same terms set forth above to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of our common stock to purchasers on or about , 2010.

Baird **Piper Jaffray**

Wells Fargo Securities **KeyBanc Capital Markets** **Lazard Capital Markets**

, 2010

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus is current as of the date such information is presented. Our business, financial condition, results of operations and prospects may have changed since those dates.

MARKET AND INDUSTRY DATA AND FORECASTS

This prospectus includes estimates of market share and industry data and forecasts that we obtained from industry publications and surveys. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. We have not independently verified any of the data from third party sources, nor have we ascertained the underlying economic assumptions relied upon therein.

BASIS OF PRESENTATION

In January 2008, we changed our fiscal year end from December 31 to the Saturday closest to January 31. Accordingly, references in this prospectus to fiscal years 2012, 2011, 2010 and 2009 refer to the years ended January 28, 2012, January 29, 2011, January 30, 2010 and January 31, 2009, respectively, and references to calendar years 2007, 2006 and 2005 refer to the years ended December 31, 2007, December 31, 2006 and December 31, 2005, respectively. Certain differences in the numbers in the tables and text throughout this prospectus may exist due to rounding.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read this entire prospectus carefully, including the sections titled Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes thereto contained in this prospectus, before making an investment in shares of our common stock. Unless otherwise indicated, the information in this prospectus assumes (1) completion of the reorganization transaction (as defined below), (2) completion of the stock split (as defined below) and (3) that the underwriters will not exercise their over-allotment option to purchase an additional 1,650,000 shares.

We are a newly-formed Indiana corporation that has not, prior to the completion of the reorganization transaction, conducted any activities other than those incident to our formation and the preparation of this prospectus. We were formed solely for the purpose of reorganizing the corporate structure of Vera Bradley Designs, Inc. On October 3, 2010, the shareholders of Vera Bradley Designs, Inc. contributed all of their equity interests in that corporation to us in return for shares of our common stock on a one-for-one basis. As a result, Vera Bradley Designs, Inc. became our wholly-owned subsidiary. We refer to the foregoing as our reorganization transaction. As used in this prospectus, except where the context otherwise requires or where otherwise indicated, the terms company, Vera Bradley, we, our, and us refer to Vera Bradley Desig Inc. and its subsidiaries before the reorganization transaction, and Vera Bradley, Inc. and its subsidiaries, including Vera Bradley Designs, Inc., after the reorganization transaction.

Our Company

Vera Bradley is a leading designer, producer, marketer and retailer of stylish and highly-functional accessories for women. Our products include a wide offering of handbags, accessories and travel and leisure items. Over our 28-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.

Our recent growth reflects the expanding demographic appeal of our brand and product offerings. Our customers span generations and include young girls, teens, college students, young professionals, mothers and grandmothers. Our broad product offerings enable our customers to express their personal style in all aspects of their lives, whether at the beach, a weekend getaway, school or work.

We generate net revenues by selling products through two reportable segments: Indirect and Direct. As of July 31, 2010, our Indirect business consisted of sales of Vera Bradley products to approximately 3,300 independent retailers, substantially all of which are located in the U.S., as well as select national retailers and third party e-commerce sites. As of July 31, 2010, our Direct business consisted of sales of Vera Bradley products through our 31 full-price stores, our two outlet stores, verabradley.com, and our annual outlet sale in Fort Wayne, Indiana.

Our net revenues have grown from $238.6 million in fiscal year 2009 to $288.9 million in fiscal year 2010, reflecting a growth rate of 21.1%. During fiscal year 2010, net revenues in our Indirect and Direct segments grew 15.2% and 35.1%, respectively. In mid-September 2007, we opened our first full-price Vera Bradley store, growing our store base to 31 full-price stores as of July 31, 2010. Our full-price stores produced comparable-store sales increases of 36.4% in fiscal year 2010 compared to fiscal year 2009 and 26.0% in the six months ended July 31, 2010 compared to the six months ended August 1, 2009. In addition, we have experienced strong sales growth in our e-commerce business in recent years.

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Evolution of Our Business

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

Merchandising Strategy. To appeal to a broader range of consumers, we developed a mix of pattern and product offerings specifically targeted at different consumer demographics, refined our product release strategy to significantly expand our product portfolio and increased the number of new patterns released as well as the frequency of new product launches. In addition, we substantially enhanced our visual merchandising strategy, focusing on a consistent presentation of Vera Bradley as a lifestyle brand.

Multi-Channel Distribution Capability. In 2006, we initiated a Direct channel strategy that was designed to expand our brand presence and broaden our consumer demographic while complementing the growing Indirect channel of our business. The first step in establishing the Direct channel of our business was selling directly to consumers through verabradley.com beginning in 2006. In mid-September 2007, we opened our first full-price store. In fiscal year 2010, we had more than 23 million visits to verabradley.com, and as of July 31, 2010, we had 31 full-price stores and two outlet stores.

Infrastructure Investment. Beginning in 2005, we made a series of investments to strengthen our supply chain capabilities, product development processes and information systems, resulting in substantial cost savings and a more flexible and scalable operating structure. During this period, we shifted our production from a primarily domestic manufacturing model to a more cost-effective global sourcing platform. In 2007, we opened a state-of-the-art warehouse and distribution facility in Fort Wayne, Indiana.

Competitive Strengths

We believe the following competitive strengths differentiate us within the marketplace and provide a strong foundation for our future growth:

Strong Brand Identity and Positioning. We believe the Vera Bradley brand is highly recognized for its distinctive and vibrant style. Vera Bradley is positioned in the market as a lifestyle brand that inspires consumers to express their individuality and sense of style. We have also positioned our brand to highlight the high quality and functional attributes of our products. The Vera Bradley brand is more price accessible than many competing brands, which allows us to attract a wide range of consumers and inspire repeat purchases.

Exceptional Customer Loyalty. We believe that, as consumers become familiar with the Vera Bradley brand and begin using our products, they become loyal and enthusiastic brand advocates. We believe enthusiasm for our brand inspires repeat purchases and helps us expand our customer base. Our customers often purchase our products as gifts for family and friends, who, in turn, become loyal customers.

Product Development Expertise. Our product development team combines an understanding of consumer preferences with a knowledge of color, fashion and style trends to design our products. Our highly creative design associates utilize a disciplined product design process that seeks to maximize the productivity of our product releases and drive consumer demand.

Dynamic Multi-Channel Distribution Model. We offer our products through a diverse choice of shopping options across channels that are intimate, highly shop-able, fun and characteristic of our brand. Whether at a Vera Bradley store, an independent specialty retail store or verabradley.com, we believe consumers have an opportunity to find the brand in places that match their unique shopping interests. Our multi-channel distribution model enables us to maximize brand exposure and customer access to our products.

Established Network of Indirect Retailers. Our Indirect business consists of an established and diverse network of over 3,300 independent retailers. This channel of gift, apparel and accessories, travel and specialty retailers, located throughout the U.S., provides a strong foundation for our future growth. Our Indirect retailers include some of the brand s strongest advocates and their passion has been instrumental in the development of our brand.

Distinctive Retail Stores. Our stores provide a shopping experience that is uniquely Vera Bradley. We bring the Vera Bradley brand to life in our stores through visual presentation of our wide range of product offerings, the stylish, inviting décor of our stores and personalized service from our friendly and knowledgeable sales associates. We believe the distinctive shopping experience and personalized service encourage repeat visits and multiple purchases.

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

Experienced Management Team. Our senior management team led by Michael C. Ray, our Chief Executive Officer, has extensive experience across a diverse range of disciplines in product design, merchandising, marketing, store development, supply chain management and finance. The current management team has been instrumental in the development and execution of our long-term strategies.

Growth Strategies

We believe there are significant opportunities to expand our business and increase our net revenues and net income through the execution of the following growth strategies:

Grow in Underpenetrated U.S. Markets. Our historic growth focused primarily on the eastern U.S., and accordingly the Vera Bradley brand is most recognized in that region. In recent years, we have successfully expanded our Indirect and Direct channels in key developing markets in the midwest and southwest. We believe the success of our expansion efforts is a testament to the strength and portability of our brand and the power of our multi-channel distribution capabilities. We intend to rely on these strengths to further penetrate our existing markets and successfully expand both Direct and Indirect channels of our business into relatively underpenetrated markets in the midwest, southwest and west.

Expand Our U.S. Store Base. We plan to expand our retail presence in the U.S. by opening new stores. We believe that the market in the U.S. can support at least 300 Vera Bradley full-price stores. We plan to open nine full-price stores and three outlet stores over the course of fiscal year 2011. We plan to open 14 to 16 new stores over the course of fiscal year 2012 and 14 to 20 new stores annually for the following five fiscal years. We believe that expansion of our store base complements our Indirect segment by increasing brand awareness and reinforcing our brand image.

Drive Comparable-Store Sales and Our E-Commerce Business. We have several ongoing initiatives to drive comparable-store sales growth, including focusing on store-level merchandising programs and enhancing in-store customer service and selling capabilities. As a key element of our Direct channel strategy, we will continue to grow our e-commerce business through focused marketing efforts, online merchandising initiatives and social networking sites such as Facebook and Twitter. We believe our retail and e-commerce businesses are complementary and facilitate frequent contact with our customers.

Expand Our Product Offerings. We design products to accessorize a woman s life and believe this core competence serves as a platform for growth within and beyond our current product lines. We have expanded our product offerings to include new line extensions, such as our Vera Vera microfiber collection, and brand extensions, such as our recently launched paper and stationery collection. We believe that opportunities exist to accessorize a woman s life through complementary product collections that fit within our positioning as a lifestyle brand.

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Risk Factors

Our business is subject to risks, as discussed more fully in the section entitled Risk Factors beginning on page 8. In particular, the following risks, among others, may have an adverse effect on our growth strategies, which could cause a decrease in the price of our common stock and result in a loss of all or a portion of your investment:

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

Reorganization Transaction and Stock Split

Vera Bradley, Inc. is a newly-formed Indiana corporation that has not, prior to the completion of the reorganization transaction, conducted any activities other than those incident to our formation and the preparation of this prospectus. We were formed solely for the purpose of reorganizing the corporate structure of Vera Bradley Designs, Inc.

On October 3, 2010, the shareholders of Vera Bradley Designs, Inc. contributed all of their shares of Class A Voting Common Stock and Class B Non-Voting Common Stock of Vera Bradley Designs, Inc. to us in return for shares of our Class A Voting Common Stock and Class B Non-Voting Common Stock, respectively, on a one-for-one basis. As a result, Vera Bradley Designs, Inc. became our wholly-owned subsidiary. We refer to the foregoing in this prospectus as our reorganization transaction.

The only asset of Vera Bradley, Inc. is its investment in Vera Bradley Designs, Inc., and all of our operations are conducted through Vera Bradley Designs, Inc.

Prior to the effectiveness of the registration statement of which this prospectus is a part, we intend to recapitalize all of our Class A Voting Common Stock and Class B Non-Voting Common Stock into a single class of common stock and authorize and effectuate a 35.437-for-1 stock split of all outstanding shares of our common stock. We refer to the foregoing in this prospectus as our stock split.

Company Information

Our principal executive offices are located at 2208 Production Road, Fort Wayne, Indiana, 46808, and our telephone number at that address is (877) 708-8372. Our website is www.verabradley.com. The information contained on our website or that can be accessed through our website is not part of this prospectus.

Prior to the completion of the reorganization transaction, we were taxed as an S Corporation for purposes of federal and state income taxes. Accordingly, each of our shareholders was required to include his or her portion of our taxable income or loss on his or her federal and state income tax returns. Upon the consummation of the reorganization transaction, our S Corporation status automatically terminated and we became subject to increased taxes.

Vera Bradley is a trademark of Vera Bradley. All other trademarks appearing in this prospectus are the property of their respective owners.

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Summary Consolidated Financial and Other Data

The following table presents summary consolidated financial and other data for the periods and at the dates indicated and certain pro forma information to reflect our conversion from an S Corporation to a C Corporation for tax purposes and to reflect the reorganization transaction. The summary income statement data for the fiscal years ended January 31, 2009 and January 30, 2010 and summary consolidated balance sheet data as of January 31, 2009 and January 30, 2010 are derived from our consolidated financial statements audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, included elsewhere in this prospectus. The summary income statement data for the six months ended August 1, 2009 and July 31, 2010 and the summary balance sheet data as of July 31, 2010 are derived from our unaudited consolidated financial statements that are included elsewhere in this prospectus. The historical results presented below are not necessarily indicative of the results to be expected for any future period. You should read the following information together with the more detailed information contained in Selected Consolidated Financial and Other Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the accompanying notes appearing elsewhere in this prospectus.

($ in thousands, except per share data and as otherwise indicated)	**Fiscal Years Ended**		**Six Months Ended**	
	January 31, 2009(1)	**January 30, 2010**	**August 1, 2009** (unaudited)	**July 31, 2010** (unaudited)
Consolidated Statements of Income:				
Net revenues	$ 238,577	$ 288,940	$ 131,087	$ 165,078
Cost of sales	115,473	137,803	66,850	69,441
Gross profit	123,104	151,137	64,237	95,637
Selling, general and administrative expenses	109,195	116,168	54,724	72,585
Other income	13,282	10,743	4,980	3,912
Operating income	27,191	45,712	14,493	26,964
Interest expense, net	2,511	1,604	1,015	644
Income before state income taxes	24,680	44,108	13,478	26,320
State income taxes	1,009	889	315	356
Net income	$ 23,671	$ 43,219	$ 13,163	$ 25,964
Basic net income per common share	$ 0.67	$ 1.22	$ 0.37	$ 0.73
Diluted net income per common share	0.67	1.22	0.37	0.73
Basic weighted average shares outstanding	35,440,547	35,440,547	35,440,547	35,440,547
Diluted weighted average shares outstanding	35,440,547	35,440,547	35,440,547	35,443,559
Pro Forma Data (unaudited):				
Pro forma interest expense, net		$ 2,454		$ 1,200
Pro forma income tax provision		17,303		10,306
Pro forma net income(2)		25,955		15,458
Pro forma basic and diluted net income per common share(3)		0.65		0.39
Net Revenues by Segment:				
Indirect	$ 167,454	$ 192,829	$ 87,861	$ 101,532
Direct	71,123	96,111	43,226	63,546
Total	$ 238,577	$ 288,940	$ 131,087	$ 165,078
Full-Price Store Data:(4)				
Total stores open at end of period	21	26	23	31
Comparable-store sales increase(5)	8.0%	36.4%	36.1%	26.0%
Total gross square footage at end of period	39,285	48,285	43,199	56,264
Average net revenues per gross square foot(6)	$ 578	$ 615	$ 306	$ 349

($ in thousands)	**Actual July 31, 2010** (unaudited)	**Pro forma July 31, 2010[7]** (unaudited)	**Pro forma as adjusted July 31, 2010[8]** (unaudited)
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 7,592	$ 7,592	$ 7,592
Working capital	71,314	84,741	84,741
Total assets	169,169	178,542	178,542
Long-term debt, including current portion	33,153	140,154	86,854
Shareholders equity (deficit)	84,773	(18,768)	34,532

(1) In January 2008, we changed our fiscal year end from December 31 to the Saturday closest to January 31. In connection with our fiscal year end change, fiscal year 2009 included activity for greater than 52 weeks. This was a one-time occurrence and did not have a material effect on our results of operations.

(2) The unaudited pro forma income statement information for the fiscal year ended January 30, 2010 and for the six months ended July 31, 2010 gives effect to:

- ¡ an adjustment for income tax expense as if we had been a C Corporation as of February 1, 2009 at an assumed combined federal, state, and local effective income tax rate of 40%, which approximates the calculated effective tax rate for each period, equal to $16,754 and $10,172, respectively; and

- ¡ an adjustment to interest expense as if the borrowings under our amended and restated credit facility and the issuance of the undistributed taxable earnings notes had occurred as of February 1, 2009, which approximates $850 and $556, respectively, and a related income tax expense adjustment of $340 and $222, respectively.

An assumed increase or decrease of 1/8 of one percent in the interest rate of the amended and restated credit facility and undistributed taxable earnings notes, which have a variable interest rate, would impact total pro forma interest expense for the fiscal year ended January 30, 2010 and for the six months ended July 31, 2010 by $175 and $88, respectively.

(3) Reflects the (i) increase in the number of shares which would be sufficient to replace the capital in excess of earnings being withdrawn pursuant to the reorganization transaction and the related distributions of notes and cash (see footnote 7 below) and (ii) the vesting of restricted stock awards upon the initial public offering. The pro forma adjustment to basic and diluted weighted average shares outstanding both for the fiscal year ended January 30, 2010 and for the six months ended July 31, 2010 is 4.40 million shares.

(4) These data exclude our two outlet stores as of July 31, 2010.

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

(6) Dollars not in thousands. Average net revenues per gross square foot is 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.

(7) This column gives effect to the reorganization transaction as described under Description of Capital Stock Reorganization Transaction, including (i) our issuance of the undistributed taxable earnings notes to our existing shareholders in the aggregate principal amount equal to 100% of our undistributed taxable income from the date of our formation through October 2, 2010 as a final distribution resulting from the termination of our S Corporation status, equal to approximately $106,000, (ii) borrowings of $58,734 under our amended and restated credit facility (a) to repay our existing shareholders $52,700 of the $106,000 in aggregate principal amount of undistributed taxable earnings notes, (b) to repay the $5,033 current portion of our existing long-term debt and (c) to pay $1,001 of debt issuance costs, (iii) an increase in net deferred tax assets of $2,550 assuming our S Corporation status terminated on July 31, 2010, and (iv) the vesting of 1.066 million restricted stock awards, which increases additional paid-in capital by $15,700.

(8) This column gives effect to (i) the sale by us of 4,000,000 shares of our common stock in this offering assuming an initial public offering price of $15.00 per share, the midpoint of the filing range set forth on the cover page of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us and (ii) the application of the estimated proceeds from this offering as described under Use of Proceeds.

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The Offering

Common stock offered by us	4,000,000 shares
Common stock offered by selling shareholders	7,000,000 shares (excluding up to 1,650,000 shares that may be sold by the selling shareholders upon exercise of the underwriters over-allotment option)
Total shares offered	11,000,000 shares
Common stock outstanding after the offering(1)	40,506,670 shares
Use of proceeds	We expect our net proceeds from this offering will be approximately $53.3 million, after deducting the underwriting discounts and commissions and estimated expenses payable by us. We will not receive any proceeds from the sale of shares of our common stock by the selling shareholders. We intend to use approximately $53.3 million of the net proceeds from this offering, together with approximately $52.7 million of borrowings under our amended and restated credit facility, to pay in full the principal amount of the undistributed earnings notes held by our existing shareholders in connection with our final S Corporation distribution. See Use of Proceeds.
Dividend policy	We do not anticipate paying dividends on our common stock. We intend to retain earnings to fund our working capital needs and growth opportunities.
Risk factors	See Risk Factors and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
Nasdaq Global Market symbol	VRA

(1) The number of shares of our common stock outstanding set forth above is based on 40,506,670 shares of common stock outstanding upon completion of this offering after giving effect to the reorganization transaction as described under Description of Capital Stock Reorganization Transaction and the stock split as described under Description of Capital Stock Stock Split and includes the shares to be sold by us in this offering. The number of shares outstanding after the offering includes 1,066,123 shares of restricted stock that vest upon the completion of this offering. The number of shares outstanding after the offering does not include an aggregate of 6,076,001 shares of common stock reserved for issuance under our 2010 Equity and Incentive Plan (the 2010 Plan), which has been approved and will be effective upon the completion of this offering.

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Risk Factors

You should carefully consider each of the risk factors set forth below and all of the other information in this prospectus before deciding to invest in our common stock. If any of the events described below occur, then our business, financial condition or results of operations could be harmed. In such an event, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Business

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

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

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

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

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

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

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

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

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

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

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

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

Our continued growth will depend on our ability to successfully open and operate new stores. We plan to open nine full-price stores and three outlet stores over the course of fiscal year 2011. We plan to open 14 to 16 new stores over the course of fiscal year 2012 and 14 to 20 new stores annually for the following five fiscal years. Our ability to successfully open and operate new stores depends on many factors, including our ability to:

- identify suitable store locations, the availability of which is outside our control;
- negotiate acceptable lease terms, including desired tenant improvement allowances;
- hire, train and retain store personnel and management;
- assimilate new store personnel and management into our corporate culture;
- source and manufacture inventory; and
- successfully integrate new stores into our existing operations and information technology systems.

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

Our inability to sustain levels of comparable-store sales could cause our stock price to decline.

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

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

We do not own any real estate other than our warehouse and distribution facility. We lease our corporate headquarters, our other offices and all of our store locations. We typically occupy our stores under operating leases with

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

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

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

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

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

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

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

- developing high-quality products; and

- establishing and maintaining good working relationships with our Indirect retailers.

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

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

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

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

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

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

Our warehouse and distribution operations are currently concentrated in a single company-owned distribution center in Fort Wayne, Indiana. Any significant disruption in the operation of the facility due to natural disaster or severe weather, or events such as fire, accidents, power outages, system failures or other unforeseen causes, could devalue or damage a significant portion of our inventory and could adversely affect our product distribution and sales until such time as we could secure an alternative facility. In addition, our growth could require us to expand our current facility, which could affect us adversely in ways that we cannot predict.

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

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

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

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

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

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

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

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

We may be subject to unionization, work stoppages, slowdowns or increased labor costs, especially if the Employee Free Choice Act is adopted.

Currently, none of our employees is represented by a union. Nevertheless, our employees have the right at any time under the National Labor Relations Act to organize or affiliate with a union. If some or all of our workforce were to become unionized, then our business would be exposed to work stoppages and slowdowns as a unionized business. If, in addition, the terms of the collective bargaining agreement were significantly more favorable to union workers than our current pay-and-benefits arrangements, then our costs would increase and our results of operations would suffer. The Employee Free Choice Act of 2007: H.R. 800, or EFCA, was passed in the U.S. House of Representatives in 2007 and the same legislation has been re-introduced as H.R. 1409 and S. 560. President Obama and leaders of Congress have made public statements in support of this bill. Accordingly, the EFCA, or a variant of it, could become law. Enactment of the EFCA could have adverse

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effects on our business by making it easier for workers to obtain union representation and by increasing the penalties that employers may incur by engaging in labor practices that violate the National Labor Relations Act.

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

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

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

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

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

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

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

We plan to use cash provided by operating activities to fund our expanding business and execute our growth strategies and may require additional capital, which may not be available to us.

Our business relies on cash provided by operating activities as our primary source of liquidity. To support our growing business and execute our growth strategies, we will need significant amounts of cash from that source, including funds to pay our lease obligations, build out new store space, purchase inventory, pay personnel, invest further in our infrastructure and facilities and pay for the increased costs associated with operating as a public company. If our business does not generate cash flow from operating activities sufficient to fund these activities, and if sufficient funds are not otherwise available to us from our existing revolving credit facility, then we will need to seek additional capital, through debt or equity financings, to fund our growth. We cannot assure you that we will be able to raise needed cash on terms acceptable to us or at all. Additional debt financing that we may undertake might impose upon us covenants that restrict our operations and strategic initiatives, including limitations on our ability to incur liens or additional debt, pay dividends, repurchase our capital stock, make investments and engage in merger, consolidation and asset sale transactions. Equity financings may be on terms that are dilutive or potentially dilutive to our shareholders, and the prices at which new investors would be willing to purchase our equity securities may be

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lower than the price per share of our common stock in this offering. The holders of new securities may also have rights, preferences or privileges that are senior to those of existing holders of common stock. If new sources of financing are required, but are insufficient or unavailable, then we will be required to modify our growth and operating plans based on available funding, if any, which would inhibit our growth and could harm our business.

We face various risks as an e-commerce retailer.

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

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

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

Prior to the completion of the reorganization transaction, we were treated as an S Corporation under Subchapter S of the Internal Revenue Code, and claims of taxing authorities related to our prior status as an S Corporation could harm us. Possible changes in tax laws also would affect our results.

Upon the completion of the reorganization transaction, our S Corporation status terminated automatically and we became subject to increased federal and state income taxes. If the unaudited, open tax years in which we were an S Corporation are audited by the Internal Revenue Service, and we are determined not to have qualified for, or to have violated, our S Corporation status, we will be obligated to pay back taxes, interest and penalties, and we do not have the right to reclaim tax distributions we have made to our shareholders during those periods. These amounts could include taxes on all of our taxable income while we were an S Corporation. Any such claims could result in additional costs to us and could have a material adverse effect on our results of operations and financial condition. In addition, possible changes in federal, state, local and non-U.S. tax laws bearing upon our revenues, income, property or other aspects of our operations or business would, if enacted, affect our results of operations in ways and to a degree that we cannot currently predict.

Failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting, which could have an adverse impact on our business.

Reporting obligations as a public company may place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. In addition, as a public company we will be required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify the effectiveness of our internal controls and our independent registered public accounting firm can render an opinion on management s assessment and on the effectiveness of our internal controls over financial reporting by the time our annual report on Form 10-K for fiscal year 2012 is due and thereafter. As a result, we will be required to improve our financial and managerial controls, reporting systems and procedures, to incur substantial expenses to test our

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systems and to hire additional qualified personnel. If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render a favorable opinion on management s assessment and on the effectiveness of our internal controls over financial reporting, or if material weaknesses in our internal controls are identified, we could be subject to regulatory scrutiny and loss of public confidence, which could harm our business and cause a decline in our stock price. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance timely, which could cause a decline in our stock price and harm our ability to raise capital. Failure to accurately report our financial performance timely could also jeopardize our continued listing on The Nasdaq Global Market.

We will incur significant expenses as a result of being a public company, which will negatively impact our results of operations.

We will incur significant legal, accounting, insurance and other expenses as a result of being a public company. The Sarbanes-Oxley Act of 2002, as well as other rules implemented by the Securities and Exchange Commission (the SEC) and by The Nasdaq Stock Market, have required changes in corporate governance practices of public companies. We expect that compliance with these laws, rules and regulations will substantially increase our expenses, including our legal and accounting costs, and make some activities more time-consuming and costly than in the past. We also expect these laws, rules and regulations to make it more expensive for us to obtain director and officer liability insurance, and we may be required either to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may become more difficult for us to attract and retain qualified persons to serve on our board of directors or as officers. As a result of the foregoing, we expect a substantial increase in legal, accounting, insurance and other expenses in the future, which will negatively impact our results of operations.

Additional indebtedness incurred in connection with the reorganization transaction may decrease business flexibility and increase borrowing costs.

On October 4, 2010, we entered into an amended and restated credit facility that increased our available credit from $75 million to $125 million. Under the amended and restated credit facility, we borrowed as of October 4, 2010, approximately $32.8 million to repay our prior credit agreement and to pay debt issuance costs. Upon the completion of this offering, we expect to increase our indebtedness by approximately $52.7 million to repay our existing shareholders a portion of their undistributed earnings notes. We estimate that as of July 31, 2010, after giving effect to the reorganization transaction, the amendment and restatement of our credit facility, the completion of this offering and the application of the estimated proceeds of this offering, our long term debt, including current portion would have been $86.9 million on a pro forma basis. The increased indebtedness and resulting higher debt-to-equity ratio in comparison to indebtedness and debt-to-equity ratio on a recent historical basis could have the effect, among other things, of:

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

Our Indirect business could suffer as a result of bankruptcies or operational or financial difficulties of our Indirect retailers.

We do not enter into long-term agreements with any of our Indirect retailers. Instead, we enter into a number of purchase order commitments with our customers for each of our lines every season. A decision by a significant number of Indirect retailers, whether motivated by competitive conditions, operational or financial difficulties, reduced access to capital, or otherwise, to decrease or eliminate the amount of merchandise purchased from us or to change their manner of doing business with us could adversely impact our results of operations. As a result of the recent unfavorable economic

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environment, we have experienced a softening of demand from a number of Indirect retailers. Although we recommend retail sale prices for our products to our Indirect retailers, we do not provide dealer allowances or other economic incentives to support those prices. Possible promotional pricing or discounting by Indirect retailers in response to softening retail demand could have a negative effect on our brand image and prestige, which might be difficult to counteract as the economy improves.

We sell our Indirect merchandise primarily to specialty retail stores across the U.S. and extend trade credit based on an evaluation of each Indirect retailer s financial condition, usually without requiring collateral. Perceived financial difficulties of a customer could cause us to curtail or eliminate business with that customer. Pending the resolution of a relationship with a financially troubled Indirect retailer, we might assume credit risk that we would otherwise avoid relating to our receivables from that customer. Inability to collect on accounts receivable from our Indirect retailers would adversely impact our results of operations.

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

Our common stock has no prior market. We cannot assure you that our stock price will not decline after the offering.

Before this offering, there has not been a public market for our common stock, and an active public market for our common stock may not develop or be sustained after this offering. The market price of our common stock could be subject to significant fluctuations after this offering. The price of our stock may change in response to variations in our operating results and also may change in response to other factors, including factors specific to fashion retail companies, many of which are beyond our control. Among the factors that could affect our stock price are:

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

In particular, we cannot assure you that you will be able to resell your shares of our common stock at or above the initial public offering price. The initial public offering price will be determined by negotiations between the representatives of the underwriters and us.

Because a limited number of shareholders will control the majority of the voting power of our common stock, investors in this offering will not be able to determine the outcome of shareholder votes.

Upon the completion of this offering, assuming the overallotment option is exercised in full, Barbara Bradley Baekgaard, Patricia R. Miller and P. Michael Miller will, directly or indirectly, beneficially own and have the ability to exercise voting control over, in the aggregate, 54.8% of our outstanding shares of common stock. As a result, these shareholders will be able to exercise significant control over all matters requiring shareholder approval, including the election of directors, any amendments to our second amended and restated articles of incorporation and significant corporate transactions. These shareholders may exercise this control even if they are opposed by our other shareholders. Without the consent of these shareholders, we could be delayed or prevented from entering into transactions (including the acquisition of our company by third parties) that may be viewed as beneficial to us or our other shareholders. In addition, this significant concentration of stock ownership may adversely affect the trading price of our common stock should investors perceive disadvantages in owning shares of common stock in a company that has controlling shareholders.

Possible future sales of our common stock could negatively affect our stock price after this offering.

After this offering, we will have 40,506,670 shares of common stock outstanding, 11,000,000 of which will be available for immediate public sale. The remaining 29,506,670 shares of common stock outstanding after this offering, including shares beneficially owned, directly or indirectly, by Barbara Bradley Baekgaard, Patricia R. Miller and P. Michael Miller, will be available for sale 180 days after the date of this prospectus, subject to volume, manner of sale and other limitations under SEC Rules 144 and 701. Additional sales of our common stock in the public market after this offering, or the perception that these sales could occur, could cause the market price of our common stock to decline.

Our directors, officers and shareholders have agreed to enter into lock-up agreements with the underwriters, in which they will agree to refrain from selling their shares for a period of 180 days after the date of this prospectus. Approximately 29,506,670 of our shares will become available for sale upon the expiration of these agreements. Possible sales of these shares of our common stock in the market could exert significant downward pressure on our stock price. Possible sales also may make it more difficult for us to sell equity or equity-related securities in the future at a time and price we deem necessary or appropriate.

Our board of directors and our shareholders have approved, effective upon the completion of this offering, a 2010 Equity and Incentive Plan (the 2010 Plan), which will permit us to issue, among other things, stock options, restricted stock units and restricted stock to eligible employees (including our named executive officers), directors and advisors, as determined by the compensation committee of the board of directors. We intend to file a registration statement under the Securities Act of 1933, as amended (the Securities Act), as soon as practicable after the completion of this offering to cover the issuance of shares upon the exercise of options granted, and of shares granted, under the 2010 Plan. As a result, any shares issued or optioned under the 2010 Plan after the completion of this offering also will be freely tradable in the public market. If equity securities are granted under the 2010 Plan and it is perceived that they will be sold in the public market, then the price of our common stock could decline substantially.

If securities analysts do not publish research or publish inaccurate or unfavorable research about us, the price of our common stock could decline.

The trading market for our common stock will rely in part on the research and reports that securities analysts choose to publish about us. We do not control these analysts. The price of our stock could decline if one or more securities analysts downgrade our stock or publish inaccurate or unfavorable research about us or cease publishing reports about us.

We do not intend to pay dividends for the foreseeable future.

We intend to retain all of our earnings for the foreseeable future to finance the operation and expansion of our business and do not anticipate paying cash dividends. As a result, you can expect to receive a return on your investment in our common stock only if the market price of the stock increases.

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

Our second amended and restated articles of incorporation and amended and restated bylaws will contain provisions that may delay or prevent a change in control, discourage bids at a premium over the market price of our common

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stock, harm the market price of our common stock and diminish the voting and other rights of the holders of our common stock. These provisions include:

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

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

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

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FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this prospectus 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, likely and othe 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 or initiatives, 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; and
- possible inability to sustain levels of comparable-store sales.

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

See Risk Factors for a more complete discussion of the risks and uncertainties mentioned above and for discussion of other risks and uncertainties. All forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements as well as others made in this prospectus and hereafter in our other SEC filings and public communications. You should evaluate all forward-looking statements made by us in the context of these risks and uncertainties.

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 prospectus 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 otherwise required by law.

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Use of Proceeds

We estimate that the net proceeds to us from the sale of the 4,000,000 shares of our common stock we are offering will be approximately $53.3 million, assuming an initial public offering price of $15.00 per share, the midpoint of the filing range set forth on the cover of this prospectus, and after deducting the underwriting discounts and estimated expenses payable by us. We will not receive any proceeds from the sale of shares of our common stock by the selling shareholders.

We intend to use approximately $53.3 million of the net proceeds from this offering, together with approximately $52.7 million of borrowings under our amended and restated credit facility, to pay in full the principal amount of the undistributed earnings notes held by our existing shareholders in connection with our final S Corporation distribution. Therefore, our shareholders, which include certain of our officers and directors, will receive substantially all of the net proceeds from the sale of shares offered hereby. We expect any proceeds in excess of the final S Corporation distribution to be minimal and will use such proceeds for working capital and other general corporate purposes. Pending their use, we intend to invest the balance of our net proceeds from this offering in short-term, investment-grade, interest-bearing instruments.

Dividend Policy

As an S Corporation, we distributed annually to our shareholders an amount sufficient to cover their tax liability due to the income that has flowed through the shareholders tax returns. Additional amounts were distributed to our shareholders at the discretion of the board of directors. For fiscal years 2009 and 2010, we paid distributions to our shareholders of $24.1 million and $25.6 million, respectively. For the six months ended July 31, 2010, we paid distributions to our shareholders of $20.2 million. Since July 31, 2010, we have paid an additional $5.9 million to our shareholders in connection with their quarterly estimated tax liability. We have accrued and expect to pay, prior to calendar year end 2010, an additional $0.6 million on behalf of our shareholders in connection with their quarterly estimated tax liability. In connection with our reorganization transaction, we distributed to our existing shareholders, in proportion to their ownership of our shares, notes in an aggregate principal amount equal to approximately $106.0 million, or 100% of our undistributed taxable income from the date of our formation through October 2, 2010, as a final distribution resulting from the termination of our S Corporation status. Upon the completion of this offering, we will use all of the net proceeds from this offering, together with approximately $52.7 million of borrowings under our amended and restated credit facility, to pay in full the principal amount of these undistributed earnings notes as described under Use of Proceeds. Upon completion of the reorganization transaction, we automatically converted to a C Corporation.

We do not anticipate paying any additional distributions to our shareholders in fiscal year 2011. In addition, we do not anticipate paying dividends on our common stock after the completion of this offering. We intend to retain all available funds and any future earnings for use in the operation and expansion of our business. Any determination in the future to pay dividends will depend upon our financial condition, capital requirements, operating results and other factors deemed relevant by our board of directors, including any contractual or statutory restrictions on our ability to pay dividends.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of July 31, 2010:

- on an actual basis;
- on a pro forma basis to give effect to the reorganization transaction as described under Description of Capital Stock Reorganization Transaction, including (i) our issuance of the undistributed taxable earnings notes to our existing shareholders in the aggregate principal amount equal to 100% of our undistributed taxable income from the date of our formation through October 2, 2010 as a final distribution resulting from the termination of our S Corporation status, equal to approximately $106.0 million, (ii) borrowings of $58.7 million under our amended and restated credit facility (a) to repay our existing shareholders $52.7 million of the $106.0 million in aggregate principal amount of undistributed taxable earnings notes, (b) to repay the $5.0 million current portion of our existing long-term debt and (c) to pay $1.0 million of debt issuance costs, (iii) an increase in net deferred tax assets of $2.6 million assuming our S Corporation status terminated on July 31, 2010, (iv) the vesting of 1.066 million shares of restricted stock, which increases additional paid-in capital by $15.7 million and (v) the recapitalization of all of our Class A voting common stock and Class B non-voting common stock into a single class of common stock; and
- on a pro forma basis as adjusted to give effect to: (i) the sale of 4,000,000 shares of our common stock offered by us in this offering assuming an initial public offering price of $15.00 per share, the midpoint of the filing range set forth on the cover of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us and (ii) the application of the estimated proceeds from this offering as described under Use of Proceeds.

You should read this table together with Management s Discussion and Analysis of Financial Condition and Results of Operations, Description of Capital Stock, and our consolidated financial statements and related notes, which are included elsewhere in this prospectus.

($ in thousands)	As of July 31, 2010		
	Actual (unaudited)	**Pro forma** (unaudited)	**Pro forma as adjusted** (unaudited)
Cash and cash equivalents	$ 7,592	$ 7,592	$ 7,592
Long-term debt, including current portion	33,153	140,154	86,854
Shareholders equity			
Capital stock (Class A), voting, without par value; 35,437 shares authorized, 2,835 shares issued and outstanding, actual; no shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted	1		
Capital stock (Class B), non-voting, without par value; 53,155,500 shares authorized; 35,437,712 shares issued and outstanding, actual; no shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted			
Preferred stock, without par value; no shares authorized, no shares issued and outstanding, actual; 5,000,000 shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted			
Common stock, without par value; no shares authorized, no shares issued and outstanding, actual; 200,000,000 shares authorized, 36,506,670 shares issued and outstanding, pro forma; 200,000,000 shares authorized, 40,506,670 shares issued and outstanding, pro forma as adjusted			
Additional paid-in capital	87	15,788	69,088
Retained earnings (accumulated deficit)	84,685	(34,556)	(34,556)
Total shareholders equity (deficit)	84,773	(18,768)	34,532

Total capitalization	$117,926	$121,386	$121,386

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Dilution

If you invest in our common stock, your interest will be diluted immediately to the extent of the difference between the public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after this offering.

Our pro forma net tangible book value as of July 31, 2010 was approximately $(28.6) million, or $(0.72) per share of common stock. Pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities, divided by the number of shares of our common stock outstanding, on a pro forma basis after giving effect to the reorganization transaction as described under Description of Capital Stock Reorganization Transaction, including (i) our issuance of the undistributed taxable earnings notes to our existing shareholders in the aggregate principal amount equal to 100% of our undistributed taxable income from the date of our formation through October 2, 2010 as a final distribution resulting from the termination of our S Corporation status, equal to approximately $106.0 million, (ii) borrowings of $58.7 million under our amended and restated credit facility (a) to repay our existing shareholders $52.7 million of the $106.0 million in aggregate principal amount of undistributed taxable earnings notes, (b) to repay the $5.0 million current portion of our existing long-term debt and (c) to pay $1.0 million of debt issuance costs, (iii) an increase in net deferred tax assets of $2.6 million assuming our S Corporation status terminated on July 31, 2010, and (iv) the vesting of 1.066 million shares of restricted stock, which increases additional paid-in capital by $15.7 million.

After giving effect to (i) the sale of the 4,000,000 shares of common stock offered by us assuming an initial public offering price of $15.00 per share, the midpoint of the filing range set forth on the cover of this prospectus less the underwriting discounts and estimated offering expenses payable by us and (ii) the application of the estimated proceeds from this offering as described in Use of Proceeds, our pro forma as adjusted net tangible book value as of July 31, 2010 would have been approximately $24.7 million, or $0.61 per share. This represents an immediate increase in pro forma net tangible book value of $1.33 per share to existing shareholders and an immediate dilution of $14.39 per share to new investors. The following table illustrates this dilution.

Assumed initial public offering price per share		$ 15.00
Pro forma net tangible book value per share as of July 31, 2010	$ (0.72)	
Increase in pro forma net tangible book value per share attributable to this offering	1.33	
Pro forma net tangible book value per share as of July 31, 2010, as adjusted for this offering		0.61
Dilution per share to new investors		$ 14.39

After this offering and assuming the exercise in full of all options outstanding and exercisable as of July 31, 2010, pro forma net tangible book value per share as of July 31, 2010, as adjusted for this offering, would have been approximately $24.7 million, representing an immediate increase in pro forma net tangible book value of $1.33 per share to existing shareholders and an immediate dilution of $14.39 per share to new investors.

We will not receive any proceeds from the sale of 7,000,000 shares by the selling shareholders.

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The following table sets forth on a pro forma basis as of July 31, 2010, after giving effect to the reorganization transaction as described under Description of Capital Stock Reorganization Transaction and the stock split described under Description of Capital Stock Stock Split :

- the number of shares of our common stock purchased by existing shareholders and the total consideration and the average price per share paid for those shares; and
- the number of shares of our common stock purchased by new investors and the total consideration and the average price per share paid for those shares (assuming an initial public offering price of $15.00 per share, the midpoint of the filing range set forth on the cover of this prospectus).

	Number of Shares Purchased	Total Consideration	Average Price Per Share
Existing shareholders[1]	36,506,670	$ 1,000	$ 0.00
New investors	4,000,000	60,000,000	15.00

(1) Includes 1.066 million shares of restricted common stock granted to our named executive officers, certain of our employees and our non-executive directors on July 30, 2010. See Executive Compensation Equity Compensation Awards Pre-IPO Equity Grants.

The information and tables above exclude 6,076,001 shares of common stock available for grants under our 2010 Plan. The issuance of such shares of common stock should be expected to result in further dilution to new investors.

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents selected consolidated financial and other data as of and for the periods indicated and certain pro forma information to reflect our conversion from an S Corporation to a C Corporation for income tax purposes and to reflect the reorganization transaction. The selected income statement data for the calendar year ended December 31, 2007 and for the fiscal years ended January 31, 2009 and January 30, 2010 and selected consolidated balance sheet data as of January 31, 2009 and January 30, 2010 are derived from our consolidated financial statements audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, included elsewhere in this prospectus. The selected balance sheet data as of December 31, 2006 and December 31, 2007 are derived from our consolidated financial statements audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, that have not been included in this prospectus. The selected income statement data for the calendar years ended December 31, 2005 and December 31, 2006 and the selected balance sheet data as of December 31, 2005 are derived from our unaudited consolidated financial statements that have not been included in this prospectus. The selected income statement data for the six months ended August 1, 2009 and July 31, 2010 and the selected balance sheet data as of August 1, 2009 and July 31, 2010 are derived from our unaudited consolidated financial statements that are included elsewhere in this prospectus. The historical results presented below are not necessarily indicative of the results to be expected for any future period. You should read this selected consolidated financial data in conjunction with the consolidated financial statements and related notes and the information under Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus.

($ in thousands, except per share data and as otherwise indicated)	**Years Ended**			**Fiscal Years Ended**		**Six Months Ended**	
	December 31, 2005 (unaudited)	**December 31, 2006** (unaudited)	**December 31, 2007**[(1)]	**January 31, 2009**[(1)]	**January 30, 2010**	**August 1, 2009** (unaudited)	**July 31, 2010** (unaudited)
Consolidated Statements of Income:							
Net revenues	$ 120,650	$ 189,148	$ 281,085	$ 238,577	$ 288,940	$ 131,087	$ 165,078
Cost of sales	61,385	94,612	133,522	115,473	137,803	66,850	69,441
Gross profit	59,265	94,536	147,563	123,104	151,137	64,237	95,637
Selling, general and administrative expenses	31,124	50,679	101,022	109,195	116,168	54,724	72,585
Other income	2,133	1,464	7,799	13,282	10,743	4,980	3,912
Operating income	30,274	45,321	54,340	27,191	45,712	14,493	26,964
Interest expense (income), net	316	(322)	2,924	2,511	1,604	1,015	644
Income before state income taxes	29,958	45,643	51,416	24,680	44,108	13,478	26,320
State income taxes			1,185	1,009	889	315	356
Net income	$ 29,958	$ 45,643	$ 50,231	$ 23,671	$ 43,219	$ 13,163	$ 25,964
Basic net income per common share	$ 0.85	$ 1.29	$ 1.42	$ 0.67	$ 1.22	$ 0.37	$ 0.73
Diluted net income per common share	0.85	1.29	1.42	0.67	1.22	0.37	0.73
Basic weighted average shares outstanding	35,440,547	35,440,547	35,440,547	35,440,547	35,440,547	35,440,547	35,440,547
Diluted weighted average shares outstanding	35,440,547	35,440,547	35,440,547	35,440,547	35,440,547	35,440,547	35,443,559
Pro Forma Data (unaudited):							
Pro forma interest expense, net					$ 2,454		$ 1,200
Pro forma income tax provision					17,303		10,306
Pro forma net income[(2)]					25,955		15,458
Pro forma basic and diluted net income per common share[(3)]					0.65		0.39
Net Revenues by Segment:							

Indirect	$ 115,229	$ 175,397	$ 243,388	$ 167,454	$ 192,829	$ 87,861	$ 101,532
Direct	5,421	13,751	37,697	71,123	96,111	43,226	63,546
Total	$ 120,650	$ 189,148	$ 281,085	$ 238,577	$ 288,940	$ 131,087	$ 165,078
Full-Price Store Data:[4]							
Total stores open at end of period			7	21	26	23	31
Comparable-store sales increase[5]				8.0%	36.4%	36.1%	26.0%
Total gross square footage at end of period			11,927	39,285	48,285	43,199	56,264
Average net revenues per gross square foot[6]				$ 578	$ 615	$ 306	$ 349

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	Years Ended			Fiscal Years Ended		Six Months Ended	
	December 31, 2005 (unaudited)	December 31, 2006 (unaudited)	December 31, 2007(1)	January 31, 2009(1)	January 30, 2010	August 1, 2009 (unaudited)	July 31, 2010 (unaudited)
Consolidated Balance Sheet Data:							
Cash and cash equivalents	$ 11,674	$	$ 111	$ 776	$ 6,509	$ 3,777	$ 7,592
Working capital	30,417	33,010	15,774	62,498	61,238	31,567	71,314
Total assets	45,665	99,772	133,482	149,931	153,752	119,828	169,169
Long-term debt, including current portion	5,513	19,011	54,901	58,825	30,136	18,146	33,153
Shareholders equity	29,230	40,493	49,563	57,947	77,893	64,361	84,773

(1) In January 2008, we changed our fiscal year end from December 31 to the Saturday closest to January 31. In connection with our fiscal year end change, fiscal year 2009 included activity for greater than 52 weeks. This was a one-time occurrence and did not have a material affect on our results of operations. The following table presents the consolidated financial and other data as of and for the months ended January 31, 2007 and January 31, 2008.

($ in thousands, except per share data)	Months Ended	
	January 31, 2007 (unaudited)	January 31, 2008
Consolidated Statements of Income Data:		
Net revenues	$ 34,554	$ 39,621
Net income	6,483	13,607
Net income per basic and diluted common share	0.18	0.38
Consolidated Balance Sheet Data:		
Total assets	$ 120,290	$ 152,420
Long-term debt, including current portion	37,830	63,565

(2) The unaudited pro forma income statement information for the fiscal year ended January 30, 2010 and for the six months ended July 31, 2010 gives effect to:

- an adjustment for income tax expense as if we had been a C Corporation as of February 1, 2009 at an assumed combined federal, state, and local effective income tax rate of 40%, which approximates the calculated effective tax rate for each period, equal to $16,754 and $10,172, respectively; and

- an adjustment to interest expense as if the borrowings under our amended and restated credit facility and the issuance of the undistributed taxable earnings notes had occurred as of February 1, 2009, which approximates $850 and $556, respectively, and a related income tax expense adjustment of $340 and $222, respectively.

An assumed increase or decrease of 1/8 of one percent in the interest rate of the amended and restated credit facility and undistributed taxable earnings notes, which have a variable interest rate, would impact total pro forma interest expense for the fiscal year ended January 30, 2010 and for the six months ended July 31, 2010 by $175 and $88, respectively.

(3) Reflects (i) the increase in the number of shares which would be sufficient to replace the capital in excess of earnings being withdrawn pursuant to the reorganization transaction and the related distributions of notes and cash and (ii) the vesting of restricted stock awards upon the initial public offering. The pro forma adjustment to basic and diluted weighted average shares outstanding both for the fiscal year ended January 30, 2010 and for the six months ended July 31, 2010 is 4.40 million shares.

(4) Our first full-price store opened in mid-September 2007. These data exclude our two outlet stores as of July 31, 2010.

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

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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 and travel and leisure items. Over our 28-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: Indirect and Direct. As of July 31, 2010, our Indirect business consisted of sales of Vera Bradley products to approximately 3,300 independent retailers, substantially all of which are located in the U.S., as well as to select national retailers and independent e-commerce sites. As of July 31, 2010, our Direct business consisted of sales of Vera Bradley products through our 31 full-price stores, two outlet stores, verabradley.com, and our annual outlet sale in Fort Wayne, Indiana. We began selling directly to consumers through verabradley.com in 2006 and we opened our first retail store in mid-September 2007 and our first outlet store in early November 2009.

Over the past five years, we have grown rapidly as a result of the successful implementation of strategic initiatives. These strategies included enhancing our merchandising strategy, establishing a multi-channel distribution sales model and expanding our supply chain capabilities, product development processes and information systems to improve operational flexibility and profitability. Over the last five years, our net revenues have grown from $120.7 million in calendar year 2005 to $288.9 million in fiscal year 2010.

Due to the implementation of these key strategic initiatives, we experienced substantial growth in calendar years 2006 and 2007 as the Vera Bradley brand gained broader exposure in the marketplace. The introduction in 2006 of Java Blue, the best selling pattern in our history, also significantly influenced our growth during this period. We attribute the success of Java Blue to the pattern s universal appeal across all demographic segments of our customer base and its ability to attract many consumers to the Vera Bradley brand for the first time. While sales of Java Blue patterned products contributed meaningfully to our growth in 2006 and 2007, the popularity of Java Blue also positively impacted the sales of our products in other Vera Bradley patterns during the same period. During this period, our net revenues grew from $120.7 million in calendar year 2005 to $281.1 million in calendar year 2007.

In fiscal year 2009, our net revenues declined $42.5 million, or 15.1%, as the economic environment weakened. Consumer purchases of handbags and accessories generally decline during recessionary periods and other periods where disposable income is adversely affected. For our Indirect retailers, the majority of which are independent small businesses, this resulted in reduced traffic and a decline in sales. In addition to softening consumer demand from our Indirect retailers and other consumers, our net revenues were negatively impacted by excess inventory levels held by our Indirect retailers at the end of calendar year 2007. Excess inventory levels resulted from the rapidly deteriorating economic environment following a period of increasing consumer demand for our products in 2006 and 2007 and the sharp increase in orders from our Indirect retailers following the introduction of our Java Blue pattern. Some of our Indirect retailers faced reduced access to credit, which further compounded the effects of softening demand and excess inventory. In fiscal year 2009, during the challenging

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environment presented by the economic recession, we focused our efforts on managing our cost structure and reducing inventories while continuing to invest in our infrastructure to support future growth. As a result, in fiscal year 2009 our operating income decreased to $27.2 million.

In fiscal year 2010, we experienced strong sales growth with net revenues of $288.9 million, an increase of 21.1% over fiscal year 2009, despite the continuing economic recession. This growth was driven by the impact of our strategic initiatives, including our expanding Direct business, the reduction of inventory levels in our Indirect channel that had occurred by the end of fiscal 2009 and increasing demand based on improving consumer confidence. In addition, fiscal year 2010 net revenues in both the Indirect and Direct segments benefited from the increased frequency of releases of our collections, as well as the expansion of our range of patterns. During the same period, operating income increased to $45.7 million, or 68.1%, primarily due to the increase in net revenues combined with operational and supply chain improvements that enhanced our gross margin and operating margin. We expect consumer demand and the financial stability of our Indirect retailers to continue to improve in fiscal year 2011, although it is difficult to predict the magnitude, timing and direction of future economic conditions.

We believe there is a significant opportunity to grow our store base as we believe the market in the U.S. can support at least 300 Vera Bradley full-price stores. In fiscal year 2011, we plan to open nine full-price stores and three outlet stores. We plan to open 14 to 16 new stores over the course of fiscal year 2012 and 14 to 20 new stores annually for the following five fiscal years.

We expect our full-price stores to average approximately 1,800 square feet per store and we expect to invest approximately $0.4 million per new store, consisting of inventory costs, pre-opening costs and build-out costs less tenant allowances. New full-price stores are expected to generate on average between $1.1 million and $1.3 million in net revenues during the first twelve months and the payback on our investment is expected to occur in less than 18 months. Typically, we have found that, as a new store becomes better integrated into its community and brand awareness grows, the store s productivity tends to improve as measured by comparable-store sales, but we cannot assure you that full-price stores opened in the future will generate similar net revenues in the first twelve months or pay back our investment in a similar period.

We believe our business strategy will continue to offer significant opportunity, but it also presents risks and challenges. These risks and challenges include that we may not be able to effectively predict and respond to changing fashion trends and customer preferences, that we may not be able to find desirable locations for new stores and that we may not be able to effectively manage our future growth. Addressing these risks could divert our attention from continuing to build on the strengths that we believe have driven the growth of our business, but we believe our focus on brand identity, customer loyalty, a distinctive shopping experience, product development expertise and company culture will contribute positively to our results.

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. Net revenues reflect revenues from the sale of our merchandise and revenues from distribution, shipping and handling fees, less returns and discounts. Revenues from the Indirect segment reflect revenues from sales to Indirect retailers. Revenues from the Direct segment reflect revenues from sales through our full-price and outlet stores, verabradley.com and our annual outlet sale in Fort Wayne, Indiana.

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 prospectus 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.

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

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

Gross Profit

Gross profit is equal to our net revenues less our cost of sales. Gross margin measures gross profit as a percentage of our net revenues. Cost of sales includes the direct cost of purchased merchandise, 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, and fluctuations in pricing structures within e-commerce and the annual outlet sale. Price changes in the Indirect and Direct channels, excluding e-commerce and the annual outlet sale, have had an immaterial impact as we have not had a standard practice of price increases or decreases. Additionally, because the number of our full-price stores is relatively small compared to the remainder of the business, channel mix has had an immaterial impact on consolidated gross margins.

Prior to calendar year 2006, we sourced the majority of our finished products domestically. Today, the significant majority of our products are sourced internationally. During this same period, we began direct sourcing of our raw materials and brought management of logistics in-house. These sourcing changes, along with better cost management, contributed to improvements in gross margin over this period.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses fall into three categories: (1) selling; (2) advertising, marketing and product development; and (3) administrative. Selling expenses include Direct business expenses such as store expenses, including expenses attributable to new store openings, employee compensation, store occupancy and supply costs, as well as Indirect business expenses primarily consisting 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 compensation costs for corporate functions, corporate headquarters occupancy costs, consulting and software expenses, professional services fees and charitable donations. SG&A expenses increase as the number of stores increases, but not in the same proportion.

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Other Income

We support many of our Indirect retailers marketing efforts by distributing certain catalogs and promotional mailers to current and prospective customers. Our Indirect retailers reimburse us for a portion of the cost to produce these materials. Reimbursement received is recorded as other income. The related cost to design, produce and distribute the catalogs and mailers is recorded as SG&A expense.

Operating Income

Operating income equals gross profit, less SG&A expenses plus other income. Operating income excludes interest income, interest expense and state income taxes. Operating margin measures operating income as a percentage of our net revenues.

State Income Taxes

Historically, we have elected to have our income taxed under Section 1362 of the Internal Revenue Code as an S Corporation. Section 1362 provides that, in lieu of corporate income taxes, the shareholders are taxed on our taxable income for federal tax purposes. Certain state and local taxing jurisdictions recognize the S Corporation status and tax our shareholders instead of us. The income tax provision represents state taxes that have been or will be paid by us related to the state and local taxing jurisdictions which do not recognize the S Corporation status and therefore tax us on our taxable income.

Upon consummation of the reorganization transaction, our S Corporation status automatically terminated and we became subject to corporate-level federal and state income taxes at prevailing corporate rates. Termination of this election will result in us recording a tax benefit and a net deferred income tax asset during the quarter in which this offering is completed. The change in tax status will result in us recording a net deferred tax asset of $2.6 million as of October 2, 2010, the date of our S Corporation status termination.

Basis of Presentation

In January 2008, we changed our fiscal year end from December 31 to the Saturday closest to January 31. Accordingly, references to fiscal years 2011, 2010 and 2009 refer to the fiscal years ended January 29, 2011, January 30, 2010 and January 31, 2009, respectively, and references to calendar year 2007 refer to the year ended December 31, 2007.

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)	Year Ended December 31,	Fiscal Years Ended		Six Months Ended	
	2007	January 31, 2009	January 30, 2010	August 1, 2009 (unaudited)	July 31, 2010 (unaudited)
Statement of Income Data:					
Net revenues	$ 281,085	$ 238,577	$ 288,940	$ 131,087	$ 165,078
Cost of sales	133,522	115,473	137,803	66,850	69,441
Gross profit	147,563	123,104	151,137	64,237	95,637
Selling, general and administrative expenses	101,022	109,195	116,168	54,724	72,585
Other income	7,799	13,282	10,743	4,980	3,912
Operating income	54,340	27,191	45,712	14,493	26,964
Interest expense, net	2,924	2,511	1,604	1,015	644
Income before state income taxes	51,416	24,680	44,108	13,478	26,320
State income taxes	1,185	1,009	889	315	356
Net income	$ 50,231	$ 23,671	$ 43,219	$ 13,163	$ 25,964
Percentage of Net Revenues:					
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	47.5%	48.4%	47.7%	51.0%	42.1%
Gross profit	52.5%	51.6%	52.3%	49.0%	57.9%
Selling, general and administrative expenses	35.9%	45.8%	40.2%	41.7%	44.0%
Other income	2.8%	5.6%	3.7%	3.8%	2.4%
Operating income	19.3%	11.4%	15.8%	11.1%	16.3%
Interest expense, net	1.0%	1.1%	0.6%	0.8%	0.4%
Income before state income taxes	18.3%	10.3%	15.3%	10.3%	15.9%
State income taxes	0.4%	0.4%	0.3%	0.2%	0.2%
Net income	17.9%	9.9%	15.0%	10.0%	15.7%

The following tables present net revenues by operating segment, both in dollars and as a percentage of our net revenues, and full-price store data for the periods indicated.

($ in thousands)	Year Ended December 31, 2007	Fiscal Years Ended		Six Months Ended	
		January 31, 2009	January 30, 2010	August 1,	July 31, 2010

				2009	
				(unaudited)	(unaudited)
Net Revenues by Segment:					
Indirect	$ 243,388	$ 167,454	$ 192,829	$ 87,861	$ 101,532
Direct	37,697	71,123	96,111	43,226	63,546
Total	$ 281,085	$ 238,577	$ 288,940	$ 131,087	$ 165,078

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	Year Ended	Fiscal Years Ended		Six Months Ended	
	December 31, 2007	January 31, 2009	January 30, 2010	August 1, 2009 (unaudited)	July 31, 2010 (unaudited)
Percentage of Net Revenues by Segment:					
Indirect	86.6%	70.2%	66.7%	67.0%	61.5%
Direct	13.4%	29.8%	33.3%	33.0%	38.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

($ in thousands, except as otherwise indicated)	Year Ended	Fiscal Years Ended		Six Months Ended	
	December 31, 2007	January 31, 2009	January 30, 2010	August 1, 2009 (unaudited)	July 31, 2010 (unaudited)
Full-Price Store Data:[(1)]					
Total stores open at end of period	7	21	26	23	31
Comparable-store sales increase[(2)]		8.0%	36.4%	36.1%	26.0%
Total gross square footage at end of period	11,927	39,285	48,285	43,199	56,264
Average net revenues per gross square foot[(3)]		$ 578	$ 615	$ 306	$ 349

(1) Our first full-price store was opened in mid-September 2007. These data exclude our two outlet stores as of July 31, 2010.

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

(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.

Six Months Ended July 31, 2010 Compared to Six Months Ended August 1, 2009

Net Revenues

For the six months ended July 31, 2010, net revenues increased $34.0 million, or 25.9%, to $165.1 million, from $131.1 million in the comparable prior-year period.

Indirect. For the six months ended July 31, 2010, net revenues increased $13.7 million, or 15.6%, to $101.5 million, from $87.8 million in the comparable prior-year period, due primarily to increased sales volume to our Indirect retailers, driven in turn by improved economic conditions resulting in increased consumer spending.

Direct. For the six months ended July 31, 2010, net revenues increased $20.3 million, or 47.0%, to $63.5 million, from $43.2 million in the comparable prior-year period. The increase resulted from an increase in e-commerce revenues from $22.8 million for the six months ended August 1, 2009 to $30.3 million for the six months ended July 31, 2010. This $7.5 million increase is due primarily to greater traffic from marketing initiatives. In addition, the number of our full-price stores grew from 23 at August 1, 2009 to 31 at July 31, 2010. Non-comparable full-price store sales increased by $4.4 million and non-comparable outlet store sales increased by $3.1 million, comparable-store sales increased by $2.9 million, or 26.0%, and our annual outlet sales revenues increased by $2.3 million. The improvement in outlet sale revenues resulted from an increase in the number of shoppers that attended the event due to increased popularity of the brand and higher average product pricing at the sale as a result of new pricing strategies.

Gross Profit

For the six months ended July 31, 2010, gross profit increased $31.4 million, or 48.9%, to $95.6 million, from $64.2 million in the comparable prior-year period. The $31.4 million increase in gross profit was due to greater net revenues,

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increasing gross profit by $16.7 million, and the remaining $14.7 million was due primarily to the improvement in gross margin from 49.0% in the six months ended August 1, 2009 to 57.9% in the six months ended July 31, 2010. The gross margin increase of $14.7 million was due primarily to improved efficiency from vertical integration and increased overseas sourcing as well as higher average product pricing at the annual outlet sale as a result of new pricing strategies, which had a disproportionate effect on the six months ended July 31, 2010 compared to the full fiscal year.

Selling, General and Administrative Expenses

For the six months ended July 31, 2010, SG&A expenses increased $17.9 million, or 32.6%, to $72.6 million, from $54.7 million in the comparable prior-year period. As a percentage of net revenues, SG&A expenses were 44.0% and 41.7% during the six months ended July 31, 2010 and the six months ended August 1, 2009, respectively.

For the six months ended July 31, 2010, selling expenses increased $10.0 million, or 41.9%, to $34.0 million, from $24.0 million in the comparable prior-year period. As a percentage of net revenues, selling expenses were 20.6% and 18.3% during the six months ended July 31, 2010 and the six months ended August 1, 2009, respectively. The increase in selling expenses was due primarily to increased store operational costs attributable to new store openings as well as internet and store marketing initiatives to drive increased traffic. Employee costs increased in the Indirect channel due to an increase in revenue and higher incentive compensation related to improved performance of the Indirect sales team.

For the six months ended July 31, 2010, advertising, marketing and product development expenses increased $0.4 million, or 2.5%, to $15.1 million, from $14.7 million in the comparable prior-year period. As a percentage of net revenues, advertising, marketing and product development expenses were 9.2% and 11.2% during the six months ended July 31, 2010 and the six months ended August 1, 2009, respectively. The increase in expenses was due primarily to product development expenses as we expanded our product design capabilities with the addition of a New York design office in the third quarter of fiscal year 2010. This increase was offset by a decline in the number of catalogs and direct mailers we produced as a result of lower participation by our Indirect retailers in these programs primarily due to changes in the mix of catalogs and mailers offered.

For the six months ended July 31, 2010, administrative expenses increased $7.5 million, or 46.6%, to $23.5 million, from $16.0 million in the comparable prior-year period. As a percentage of net revenues, administrative expenses were 14.2% and 12.2% during the six months ended July 31, 2010 and the six months ended August 1, 2009, respectively. The increase in administrative expenses was due primarily to $6.1 million associated with bonuses payable to recipients of the restricted stock awards to satisfy a portion of the tax obligation associated with these grants, as well as increased professional service fees.

Other Income

For the six months ended July 31, 2010, other income declined $1.1 million, or 21.4%, to $3.9 million, from $5.0 million in the comparable prior-year period. The decrease was due to a decline in the participation by our Indirect retailers in our catalogs and direct mailers, which resulted in decreased reimbursement of our advertising expenses. The decline in participation was due primarily to changes in the mix of catalogs and mailers offered, partially offset by increased company advertising. This change did not have a discernable impact on our Indirect business.

Operating Income

For the six months ended July 31, 2010, operating income increased $12.5 million, or 86.1%, to $27.0 million, from $14.5 million in the comparable prior-year period. As a percentage of net revenues, operating income was 16.3% and 11.1% during the six months ended July 31, 2010 and the six months ended August 1, 2009, respectively.

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Operating income for our Indirect and Direct business segments, less corporate unallocated, is provided below:

($ in millions)	Six Months Ended			
	August 1, 2009	**July 31, 2010**	**$ Change**	**% Change**
Operating Income:				
Indirect	$ 29.8	$ 44.2	$ 14.4	48.4%
Direct	11.4	19.1	7.7	67.6%
	41.2	63.3	22.1	53.7%
Less:				
Corporate Unallocated	(26.7)	(36.3)	(9.6)	36.2%
	$ 14.5	$ 27.0	$ 12.5	86.1%

Indirect. For the six months ended July 31, 2010, operating income increased $14.4 million, or 48.4%, as a result of $11.0 million of improved gross profit due to improved efficiencies from vertical integration and increased overseas sourcing and $6.4 million of increased sales volume due to improved economic conditions resulting in increased consumer spending. These increases were partially offset by $3.0 million of increased SG&A expenses incurred primarily to support the additional sales volume.

Direct. For the six months ended July 31, 2010, operating income increased $7.7 million, or 67.6%, primarily as a result of $14.0 million of improved gross profit due to increased sales volume attributable to ten new stores, improved economic conditions, increased e-commerce sales, increased outlet sale gross profit and increased gross profit from comparable-store sales. The improvement from the outlet sale is due to higher average product pricing at the sale as a result of new pricing strategies and the growth in popularity of the brand, which resulted in an increase in the number of shoppers that attended the event. These increases were partially offset by $6.6 million of increased SG&A expenses primarily related to increased salaries, benefits, building and depreciation expenses related to new store openings.

Corporate Unallocated. For the six months ended July 31, 2010, unallocated expenses increased $9.6 million, or 36.2%, primarily as a result of $6.1 million associated with the previously discussed bonuses payable to recipients of restricted stock awards and $2.7 million of increased professional fees.

Interest Expense, Net

For the six months ended July 31, 2010, interest expense decreased $0.4 million, or 36.6%, to $0.6 million, from $1.0 million in the comparable prior-year period. This decrease was attributable to lower debt levels along with a lower cost of borrowing.

Fiscal Year 2010 Compared to Fiscal Year 2009

Net Revenues

For fiscal year 2010, net revenues increased $50.4 million, or 21.1%, to $288.9 million, from $238.6 million for fiscal year 2009.

Indirect. For fiscal year 2010, net revenues increased $25.4 million, or 15.2%, to $192.8 million, from $167.5 million for fiscal year 2009 due primarily to increased sales volume to our Indirect retailers. The volume increase resulted from improving economic conditions resulting in increased consumer spending.

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Direct. For fiscal year 2010, net revenues increased $25.0 million, or 35.1%, to $96.1 million, from $71.1 million for fiscal year 2009. The increase resulted from a $19.1 million increase in e-commerce revenues due primarily to greater traffic from marketing initiatives. In addition, the number of our stores grew from 21 at the end of fiscal year 2009 to 27 at the end of fiscal year 2010. Non-comparable store sales increased by $8.4 million and comparable-store sales increased by $5.3 million, or 36.4%. These increases were offset by a decrease in annual outlet sale revenues of $7.8 million, as we held two outlet sales in fiscal year 2009 rather than the traditional one outlet sale.

Gross Profit

For fiscal year 2010, gross profit increased $28.0 million, or 22.8%, to $151.1 million, from $123.1 million in the comparable prior-year period. The increase of $28.0 million was due to greater net revenues, increasing gross profit by $25.9 million, and the remaining $2.1 million was due primarily to the improvement in gross margin to 52.3% in fiscal year 2010 from 51.6% in fiscal year 2009. The gross margin improvement of $2.1 million was attributable to better cost management in the Direct business, improved profits from e-commerce related to fulfillment integration and fewer promotional activities.

Selling, General and Administrative Expenses.

For fiscal year 2010, SG&A expenses increased $7.0 million, or 6.4%, to $116.2 million, from $109.2 million for fiscal year 2009. As a percentage of net revenues, SG&A expenses were 40.2% and 45.8% during fiscal year 2010 and fiscal year 2009, respectively. The decrease in SG&A expenses as a percentage of net revenues was due to an increase in net revenues without a comparable increase in SG&A expenses.

For fiscal year 2010, selling expenses increased $3.8 million, or 7.3%, to $55.2 million, from $51.4 million for fiscal year 2009. As a percentage of net revenues, selling expenses were 19.1% and 21.5% during fiscal year 2010 and fiscal year 2009, respectively. The increase in selling expenses was due primarily to increased depreciation related to the long-lived asset impairment for three of our stores and to increased store operating costs related to the opening of six new stores in fiscal year 2010. The asset impairment charge of $1.3 million was based on a variety of factors, including anticipated low levels of traffic and low levels of brand awareness around the store locations. These factors contributed to projected cash flows being less than the carrying amounts for those stores. These three store locations were among the early openings under our Direct channel strategy. We continue to refine our site selection process and unit economics for each new store opening by adjusting the assumptions underlying cash flow projections for each store based on historical store performance. In addition to analyzing store economics, we pay particular attention to the location within the shopping center, the size and shape of the space, and desirable co-tenancies in our site selection process.

For fiscal year 2010, advertising, marketing and product development expenses decreased $4.4 million, or 12.9%, to $29.9 million, from $34.3 million for fiscal year 2009. As a percentage of net revenues, advertising, marketing and product development expenses were 10.3% and 14.4% during fiscal year 2010 and fiscal year 2009, respectively. The decrease was due to a decline in the number of catalogs and direct mailers we produced as a result of lower participation by our Indirect retailers in these programs primarily due to changes in the mix of catalogs and mailers offered and a decrease in other advertising expenses.

For fiscal year 2010, administrative expenses increased $7.6 million, or 32.5%, to $31.1 million, from $23.5 million for fiscal year 2009. As a percentage of net revenues, administrative expenses were 10.8% and 9.8% during fiscal year 2010 and fiscal year 2009, respectively. The increase in administrative expenses was due primarily to increased corporate infrastructure spending on personnel, owners life insurance, and a modest increase in charitable giving.

Other Income

For fiscal year 2010, other income decreased $2.5 million, or 19.1%, to $10.7 million, from $13.3 million for fiscal year 2009. The decrease was due to a decline in the participation by our Indirect retailers in our catalogs and direct mailers, which resulted in decreased reimbursement of our advertising expenses. The decline in participation was due primarily to changes in the mix of catalogs and mailers offered, offset by increased company advertising. This change did not have a discernable impact on our Indirect business.

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Operating Income

For fiscal year 2010, operating income increased $18.5 million, or 68.1%, to $45.7 million, from $27.2 million for fiscal year 2009. As a percentage of net revenues, operating income was 15.8% and 11.4% during fiscal year 2010 and fiscal year 2009, respectively.

Operating income for our Indirect and Direct business segments, less corporate unallocated, is provided below.

($ in millions)	Fiscal Years Ended			
	January 31, 2009	January 30, 2010	$ Change	% Change
Operating Income:				
Indirect	$ 58.1	$ 72.9	$ 14.8	25.5%
Direct	14.9	25.3	10.4	69.4%
	73.0	98.2	25.2	34.4%
Less:				
Corporate Unallocated	(45.8)	(52.5)	(6.7)	14.5%
	$ 27.2	$ 45.7	$ 18.5	68.1%

Indirect. For fiscal year 2010, operating income increased $14.8 million, or 25.5%, as a result of $10.4 million from increased sales volume to our Indirect retailers as well as a $4.4 million decrease in SG&A expenses. The reduction in SG&A expenses was due to a reduction in advertising expenses, offset by increased salaries and benefits expenses and other expenses incurred in the period.

Direct. For fiscal year 2010, operating income increased $10.4 million, or 69.4%, as a result of $12.2 million additional revenues due to new retail stores opened and growth in e-commerce traffic and $5.4 million of improved gross margin due to improved cost management in the Direct business, offset by $7.2 million of increased SG&A expenses. The increased SG&A expenses were due to increased building and depreciation expenses, including the $1.3 million asset impairment of three of our stores, increased salaries and benefits expenses attributable to new store openings, and increased advertising expenses related to e-commerce referral commissions.

Corporate Unallocated. For fiscal year 2010, unallocated expenses increased $6.7 million, or 14.5%, as a result of $2.7 million of increased salaries and benefit expenses, $2.5 million of increased building and depreciation expenses, $2.5 million of reduced other income due to a decline in the participation by our Indirect retailers in our catalogs and mailers causing decreased reimbursement of our advertising expenses and $4.1 million of increased professional fees and other expenses incurred in the period. These expense increases were partially offset by a $5.1 million reduction of advertising expenses, primarily as a result of a reduction in spending in anticipation of a continued soft economic environment, and, to a lesser extent, resulting from decreased costs of catalogs and mailers due to the decline in participation by our Indirect retailers.

Interest Expense, Net

For fiscal year 2010, interest expense decreased $0.9 million, or 36.1%, to $1.6 million, from $2.5 million for fiscal year 2009. This decrease was attributable to lower debt levels along with a lower cost of borrowing, offset by interest income received due to higher average cash balances.

Fiscal Year 2009 Compared to Calendar Year 2007

Net Revenues

For fiscal year 2009, net revenues decreased $42.5 million, or 15.1%, to $238.6 million, from $281.1 million for calendar year 2007.

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Indirect. For fiscal year 2009, net revenues decreased $75.9 million, or 31.2%, to $167.5 million, from $243.4 million for calendar year 2007, reflecting deteriorating economic conditions and corrections in Indirect retailer inventory levels built following strong product releases in 2007.

Direct. For fiscal year 2009, net revenues increased $33.4 million, or 88.7%, to $71.1 million, from $37.7 million for calendar year 2007. The increase was a result of a $20.4 million increase in e-commerce revenues to $39.2 million, from $18.8 million, respectively, due primarily to increased traffic from marketing initiatives. In addition, we increased the number of our stores from seven at the end of calendar year 2007 to 21 at the end of fiscal year 2009. Non-comparable store sales increased by $13.0 million and comparable-store sales increased by $0.1 million, or 8.0%. The increases in Direct net revenues were offset by a decline of $0.1 million in outlet sale net revenues from sales of $17.1 million to $16.9 million, respectively. The decline in net revenues is due to the occurrence of one less outlet sale in fiscal year 2009, as we held two outlet sales in fiscal year 2009 and three in calendar year 2007.

Gross Profit

For fiscal year 2009, gross profit decreased $24.5 million, or 16.6%, to $123.1 million, from $147.6 million for calendar year 2007. The decrease of $24.5 million in gross profit was due to lower net revenues, decreasing gross profit by $22.3 million, and the remaining $2.2 million was due primarily to the decline in gross margin from 52.5% in calendar year 2007 to 51.6% in fiscal year 2009. The $2.2 million decline in gross margin was due primarily to lower efficiencies of fixed costs as net revenues declined.

Selling, General and Administrative Expenses

For fiscal year 2009, SG&A expenses increased $8.2 million, or 8.1%, to $109.2 million, from $101.0 million for calendar year 2007. As a percentage of net revenues, SG&A expenses were 45.8% and 35.9% during fiscal year 2009 and calendar year 2007, respectively. The increase in SG&A expenses as a percentage of net revenues was due to a decrease in net revenues without a comparable decrease in SG&A expenses.

For fiscal year 2009, selling expenses decreased $1.8 million, or 3.4%, to $51.4 million, from $53.2 million for calendar year 2007. As a percentage of net revenues, selling expenses were 21.5% and 18.9% during fiscal year 2009 and calendar year 2007, respectively. The decline in selling expenses was due primarily to a reduction in sales force compensation expense as the Indirect sales force was converted from independent contractors to an in-house sales organization. This decline was offset by costs associated with the opening of our first store in September 2007.

For fiscal year 2009, advertising, marketing and product development expenses increased $9.1 million, or 36.3%, to $34.3 million, from $25.2 million for calendar year 2007. As a percentage of net revenues, advertising, marketing and product development expenses were 14.4% and 9.0% during fiscal year 2009 and calendar year 2007, respectively. The increase in expense was due to an increase in the number of catalogs and direct mailers we produced as a result of greater participation by our Indirect retailers in these programs primarily due to changes in the mix of catalogs and mailers offered, as well as an increase in advertising directed at promoting brand awareness and encouraging consumer traffic to our stores.

For fiscal year 2009, administrative expenses increased $0.9 million, or 3.8%, to $23.5 million, from $22.6 million for calendar year 2007 due to increased employment costs offset by reduced use of professional services and consultants. As a percentage of net revenues, administrative expenses increased to 9.8% in fiscal year 2009 from 8.1% in calendar year 2007 due to the reduction in net revenues that we experienced in fiscal year 2009.

Other Income

For fiscal year 2009, other income increased $5.5 million, or 70.3%, to $13.3 million, from $7.8 million for calendar year 2007. The increase was due to greater participation by our Indirect retailers in our catalogs and direct mailers, which resulted in increased reimbursement of our advertising expenses.

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Operating Income

For fiscal year 2009, operating income decreased $27.1 million, or 50.0%, to $27.2 million, from $54.3 million for calendar year 2007. As a percentage of net revenues, operating income was 11.4% and 19.3% during fiscal year 2009 and calendar year 2007, respectively.

Operating income for our Indirect and Direct business segments, less corporate unallocated, is provided below.

($ in millions)	Year Ended December 31, 2007	Fiscal Year Ended January 31, 2009	$ Change	% Change
Operating Income:				
Indirect	$ 93.3	$ 58.1	$ (35.2)	(37.7)%
Direct	3.1	14.9	11.8	388.1%
	96.4	73.0	(23.4)	(24.2)%
Less:				
Corporate Unallocated	(42.1)	(45.8)	(3.7)	9.1%
	$ 54.3	$ 27.2	$ (27.1)	(50.0)%

Indirect. For fiscal year 2009, operating income decreased $35.2 million, or 37.7%, due to a $46.9 million decrease in gross profit attributable to deteriorating economic conditions in 2009 and corrections in Indirect retailer inventory levels after the build-ups in 2007. This decrease was partially offset by a $11.7 million decrease in SG&A expenses primarily due to a reduction in salaries and benefits expenses attributable to the conversion of our Indirect sales force from independent contractors to an in-house sales organization.

Direct. For fiscal year 2009, operating income increased $11.8 million, or 388.1%, as a result of increased net revenues, which generated $22.4 million of gross profit attributable to increased e-commerce sales, the opening of 14 new stores and growth in previously existing stores. The increase was partially offset by a $10.6 million increase in SG&A expenses, primarily due to the opening of new stores, including increased building and depreciation expenses and increased salaries and benefits expenses.

Corporate Unallocated. For fiscal year 2009, unallocated expenses increased $3.7 million, or 9.1%, as a result of a $5.6 million increase in advertising expenses related to our efforts to improve brand awareness, $3.5 million of increased salaries and benefits expenses, and $3.3 million of increased building and depreciation expenses. These expense increases were partially offset by a $5.5 million increase in other income related to reimbursements of our advertising expenses due to greater participation by our Indirect retailers in our catalogs and direct mailers and $3.2 million of decreased other expenses during the period.

Interest Expense, Net

For fiscal year 2009, interest expense decreased $0.4 million, or 14.1%, to $2.5 million, from $2.9 million for calendar year 2007. Decreased interest expense was due to a lower cost of borrowing.

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January 2008 Compared to January 2007

Net revenues for the month of January 2008 increased $5.1 million, or 14.7%, to $39.6 million from $34.6 million in January 2007.

Indirect. For the month of January 2008, net revenues increased $3.6 million, or 10.6%, compared to the month of January 2007, driven primarily by strong initial sales of the spring 2008 product release.

Direct. For the month of January 2008, net revenues increased $1.5 million, or 244.7%, compared to the month of January 2007 due primarily to an increase in e-commerce revenues and new store openings. During January 2008, we opened one new store, giving us a total of eight stores.

Operating Income

For the month of January 2008, operating income increased $7.4 million, or 110.9%, to $14.1 million, from $6.7 million for the month of January 2007. As a percentage of net revenues, operating income was 35.5% and 19.3% during the month of January 2008 and the month of January 2007, respectively.

Operating income for our Indirect and Direct business segments, less corporate unallocated, is provided below.

($ in millions)	**Months Ended**			
	January 31, 2007	**January 31, 2008**	**$ Change**	**% Change**
Operating Income:				
Indirect	$ 8.3	$ 20.9	$ 12.6	152.2 %
Direct	0.3	(0.2)	(0.5)	(177.5)%
	8.6	20.7	12.1	141.5 %
Less:				
Corporate Unallocated	(1.9)	(6.6)	(4.7)	249.6 %
	$ 6.7	$ 14.1	$ 7.4	110.9 %

Indirect. For the month of January 2008, operating income increased $12.6 million, or 152.2%, due to $6.7 million related to improved sourcing, $1.6 million of increased revenues related to strong initial sales of the spring 2008 product release and a $4.3 million reduction in SG&A expenses attributable to the conversion of our Indirect sales force from independent contractors to an in-house sales organization.

Direct. For the month of January 2008, operating income decreased $0.5 million, or 177.5%, primarily as a result of increased SG&A expenses attributable to the operations of our new stores.

Corporate Unallocated. For the month of January 2008, unallocated expenses increased $4.7 million, or 249.6%, as a result of an increase of $6.3 million in SG&A expenses and other expenses incurred in the period. These increases were partially offset by an increase of $1.6 million of other income related to an increase in reimbursements of our advertising expenses due to greater participation by our Indirect retailers in our catalogs and direct mailers.

Quarterly Operating Results

The following table sets forth selected data from our historical unaudited consolidated statements of income for each of the ten fiscal quarters in the period ended July 31, 2010, expressed in dollars and as a percentage of our annual

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results and net revenues. This unaudited quarterly information has been prepared on the same basis as our annual audited financial statements appearing elsewhere in this prospectus and includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary to fairly present the financial information for the fiscal quarters presented.

The quarterly data should be read in conjunction with our audited and unaudited consolidated financial statements and the related notes appearing elsewhere in this prospectus.

($ in thousands)	Fiscal Year 2009				Fiscal Year 2010				Fiscal Year 2011	
	First Quarter (unaudited)	Second Quarter (unaudited)	Third Quarter (unaudited)	Fourth Quarter (unaudited)	First Quarter (unaudited)	Second Quarter (unaudited)	Third Quarter (unaudited)	Fourth Quarter (unaudited)	First Quarter (unaudited)	Second Quarter (unaudited)
Net revenues	$ 53,256	$ 62,251	$ 58,394	$ 64,676	$ 71,413	$ 59,674	$ 72,752	$ 85,101	$ 85,002	$ 80,076
Indirect	32,805	51,287	41,978	41,384	47,376	40,485	54,466	50,501	54,174	47,358
Direct	20,451	10,964	16,416	23,292	24,037	19,189	18,286	34,600	30,828	32,718
Gross profit	26,937	35,626	24,966	35,575	34,670	29,567	39,878	47,022	48,813	46,823
Operating income	5,124	10,709	231	11,127	8,131	6,361	13,233	17,987	17,301	9,662
Net income (loss)	4,125	9,750	(431)	10,227	7,368	5,794	12,766	17,291	16,794	9,170
Percentage of Annual Results:										
Net revenues	22.3%	26.1%	24.5%	27.1%	24.7%	20.7%	25.2%	29.5%	n/a	n/a
Indirect	13.7%	21.5%	17.6%	17.3%	16.4%	14.0%	18.9%	17.5%	n/a	n/a
Direct	8.6%	4.6%	6.9%	9.8%	8.3%	6.6%	6.3%	12.0%	n/a	n/a
Gross profit	21.9%	28.9%	20.3%	28.9%	22.9%	19.6%	26.4%	31.1%	n/a	n/a
Operating income	18.8%	39.4%	0.9%	40.9%	17.8%	13.9%	28.9%	39.3%	n/a	n/a
Net income (loss)	17.4%	41.2%	(1.8)%	43.2%	17.0%	13.4%	29.5%	40.0%	n/a	n/a
Percentage of Net Revenues:										
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Indirect	61.6%	82.5%	71.9%	64.0%	66.3%	67.8%	74.9%	59.3%	63.7%	59.1%
Direct	38.4%	17.6%	28.1%	36.0%	33.7%	32.2%	25.1%	40.7%	36.3%	40.9%
Gross profit	50.6%	57.2%	42.8%	55.0%	48.5%	49.5%	54.8%	55.3%	57.4%	58.5%
Operating income	9.6%	17.2%	0.4%	17.2%	11.4%	10.7%	18.2%	21.1%	20.4%	12.1%
Net income (loss)	7.7%	15.7%	(0.7)%	15.8%	10.3%	9.7%	17.5%	20.3%	19.8%	11.5%
Store Data:										
Total full-price stores open at end of quarter	13	17	20	21	22	23	25	26	28	31
Total outlet stores open at end of quarter(1)								1	1	2
Total stores open at end of quarter	13	17	20	21	22	23	25	27	29	33
Comparable-store sales(2)			(20.5)%	11.3%	37.0%	35.7%	35.2%	37.1%	22.5%	28.4%

(1) We opened our first outlet store in November 2009 and our second outlet store in June 2010.

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

Liquidity and Capital Resources

General

Our business relies on cash flow from operating activities as our primary source of liquidity. We also have access to additional liquidity, if needed, through borrowings under our $125.0 million amended and restated credit facility. Historically, our primary cash needs have been for merchandise inventories, payroll, store rent, capital expenditures associated with opening new stores, debt repayments, operational equipment, information technology and quarterly shareholder distributions to cover estimated tax payments. The most significant components of our working capital are cash and cash equivalents, merchandise 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 receivables and inventories, or require materially increased borrowings under our amended and restated credit facility, in the near future. We believe that cash flow from operating activities and the availability of borrowings under our amended and restated credit facility 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)	**Year Ended**	**Fiscal Years Ended**		**Six Months Ended**	
	December 31, 2007	**January 31, 2009**	**January 30, 2010**	**August 1, 2009** (unaudited)	**July 31, 2010** (unaudited)
Cash Flows from Operating Activities:					
Net income	$ 50,231	$ 23,671	$ 43,219	$ 13,163	$ 25,964
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	4,657	7,347	10,666	4,494	4,131
Changes in assets and liabilities	(31,968)	18,783	9,801	34,136	(7,347)
Other	1,408	386	2,320	743	303
Net cash provided by operating activities	$ 24,328	$ 50,187	$ 66,006	$ 52,536	$ 23,051
Cash Flows from Investing Activities:					
Purchase of fixed assets	$ (16,641)	$ (14,949)	$ (5,844)	$ (2,398)	$ (4,795)
Deposit of restricted cash		(1,500)			
Net cash used in investing activities	$ (16,641)	$ (16,449)	$ (5,844)	$ (2,398)	$ (4,795)
Cash Flows from Financing Activities:					
Net borrowings (repayments), including bank overdrafts	$ 34,246	$ (7,567)	$ (24,500)	$ (36,500)	$ 3,000
Repayment of vendor and related-party-financed debt	(661)	(304)	(4,325)	(4,331)	(14)
Net borrowings of long-term debt					
Debt restructuring costs		(1,024)			
Payment of distributions	(41,161)	(24,119)	(25,604)	(6,306)	(20,159)
Net cash used in financing activities	$ (7,576)	$ (33,014)	$ (54,429)	$ (47,137)	$ (17,173)
Increase (decrease) in cash and cash equivalents	$ 111	$ 724	$ 5,733	$ 3,001	$ 1,083
Cash and cash equivalents at beginning of period/year		52	776	776	6,509
Cash and cash equivalents at end of period/year	$ 111	$ 776	$ 6,509	$ 3,777	$ 7,592

Net Cash Provided By Operating Activities

Operating activities consist primarily of net income adjusted for non-cash items, including depreciation and amortization, the effect of changes in assets and liabilities, and tenant allowances received from landlords under our store leases.

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Net cash provided by operating activities was $66.0 million for fiscal year 2010 compared to $50.2 million in fiscal year 2009. In fiscal year 2010, net income increased $19.5 million from fiscal year 2009 while cash provided by changes in assets and liabilities declined $9.0 million.

Net cash provided by operating activities was $50.2 million for fiscal year 2009 compared to $24.3 million in calendar year 2007. In fiscal year 2009, we experienced lower net income, which was offset with cash provided by reductions in accounts receivable and inventories. Net cash provided by operating activities in calendar year 2007 was impacted by a buildup of inventories in late 2007.

Net cash provided by operating activities declined in the six months ended July 31, 2010 to $23.0 million compared to $52.5 million in the six months ended August 1, 2009. The increase in net income in the six months ended July 31, 2010 was offset by a product inventory increase of $37.1 million due to a build up of inventories to meet anticipated strong demand resulting from favorable consumer response to new releases in fiscal year 2011.

Net Cash Used in Investing Activities

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

Net cash used in investing activities was $5.8 million in fiscal year 2010. This was driven by $3.6 million in investments in six new stores along with improvements in e-commerce, $0.4 million in information technology investments and $1.1 million in production and distribution equipment.

Net cash used in investing activities was $16.4 million in fiscal year 2009 driven by $7.2 million in investments in 13 new stores along with improvements in e-commerce, $4.1 million in production and distribution equipment and $1.6 million in information technology investments, with the remaining used for facility and other improvements.

Net cash used in investing activities was $16.6 million in calendar year 2007. This was driven by $5.2 million in investments in seven new stores along with improvements in e-commerce, $3.8 million in information technology investments and $5.6 million in distribution equipment and the completion of a new distribution center for which the majority of the costs were incurred in calendar year 2006.

Net cash used in investing activities was $4.8 million and $2.4 million in the six months ended July 31, 2010 and the six months ended August 1, 2009, respectively. Capital expenditures in the six months ended July 31, 2010 were higher than capital expenditures in the six months ended August 1, 2009 due to investments in new stores, including the opening of six stores during the six months ended July 31, 2010 compared to only two stores during the six months ended August 1, 2009, and more stores under construction during the six months ended July 31, 2010.

Capital expenditures during fiscal year 2011 are expected to be between $12.0 million and $15.0 million, the substantial majority of which will be devoted to the opening of new stores and enhancements to the distribution center.

Net Cash Used in Financing Activities

Financing activities consist primarily of borrowings and repayments related to our term loan and revolving credit facility, as well as distributions to our shareholders and fees and expenses paid in connection with our credit facilities.

Net cash used in financing activities was $54.4 million in fiscal year 2010. This included $24.5 million in net repayments of borrowings under our credit facility, $4.3 million in repayments of vendor and related party debt and $25.6 million in distributions to our shareholders to fund tax liabilities due to our S Corporation status.

Net cash used in financing activities was $33.0 million in fiscal year 2009. This reflected net repayments of $7.6 million on our credit facility, $24.1 million of distributions to our shareholders to fund tax liabilities due to our S Corporation status and $1.0 million in expenses paid in connection with the credit facility.

Net cash used in financing activities was $7.6 million in calendar year 2007. The calendar year 2007 amount decreased due to a higher level of borrowings under our credit facility offset by distributions to shareholders.

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Net cash used in financing activities was $17.2 million in the six months ended July 31, 2010, driven by $3.0 million in net borrowings under our credit facility and $20.2 million of distributions to our shareholders to fund tax liabilities due to our S Corporation status. In the six months ended August 1, 2009, net cash used in financing activities was $47.1 million primarily due to $36.5 million in net repayments of our credit facility, $4.3 million in repayments of vendor and related party debt and $6.3 million of shareholder distributions to fund tax liabilities.

Credit Facility

On November 26, 2008, we entered into a credit agreement, which provided for a revolving credit commitment of $60.0 million, due November 26, 2011, and a term commitment of $15 million, due in quarterly installments of $1.25 million which began on March 31, 2009. All of our borrowings under the credit agreement were collateralized by a first priority security interest in substantially all of our assets, including our intellectual property, and were guaranteed by our domestic subsidiaries.

The agreement required that we comply with quarterly financial covenants related to our consolidated net worth, leverage ratio and fixed charge coverage ratio. We complied with these covenants for all periods presented.

At the end of fiscal year 2010, we had borrowed $20 million as a revolving loan and $10 million as a term loan. Interest rates fluctuated based on LIBOR or Prime plus a spread ranging from 2.5% to 3.5%. The interest rates on our borrowings were 3.0% at January 30, 2010 and 3.5% at January 31, 2009.

On October 4, 2010, Vera Bradley Designs, Inc. (the borrower), our wholly-owned subsidiary, entered into an amended and restated credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, that provides for a revolving credit commitment of $125.0 million. The credit agreement matures on October 3, 2015. All borrowings under the credit agreement are collateralized by a first priority security interest in substantially all personal property assets, including intellectual property, of ours, the borrower, and our domestic subsidiaries. The credit agreement is also guaranteed by us and our domestic subsidiaries. The credit agreement requires that the borrower comply with 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.

Under the credit agreement, interest rates fluctuate based on the LIBO rate, the Prime Rate and the Federal Funds Effective Rate plus 0.5%, in each case plus a spread tied to the borrower s leverage ratio ranging from 0.05% to 2.05%. The interest rate on outstanding borrowings under the amended and restated credit agreement was 2.06% at October 8, 2010.

Approximately $31.8 million was used to repay our prior credit agreement and approximately $1.0 million was used to pay debt issuance costs, leaving $92.2 million available under the amended and restated credit agreement. The credit facility will be used for normal working capital purposes and to support continued expansion of our business. Immediately upon the completion of this offering, we expect to increase our outstanding borrowings by approximately $52.7 million to repay a portion of the notes issued to our existing shareholders in connection with the final S Corporation distribution.

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Contractual Obligations

We enter into long term contractual obligations and commitments in the normal course of business, primarily debt obligations and non-cancellable operating leases. As of January 30, 2010, our contractual cash obligations over the next several periods are set forth below.

($ in thousands)	Payments Due by Period				
	Total	**Less Than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More Than 5 Years**
Debt to financial institutions[1]	$ 30,000	$ 5,000	$ 25,000		
Debt to others[2]	136	22	49	57	8
Operating Leases[3]	48,036	7,090	11,229	10,925	18,792
Purchase Obligations[4]	40,620	40,620			
Total	$ 118,792	$ 52,732	$ 36,278	$ 10,982	$ 18,800

(1) As of January 30, 2010, we had the following principal amounts due under our syndicated credit agreement: $20,000,000 on our revolving loan due November 26, 2011 and $10,000,000 on our term loan due in quarterly installments of $1,250,000 that started on March 31, 2009. An estimated total interest amount of $1,355,833 based upon interest rates in effect on such indebtedness as of January 30, 2010 has been excluded. On October 4, 2010, we entered into an amended and restated credit agreement that provides for a revolving credit commitment of $125 million that matures on October 3, 2015. We incurred under the amended and restated credit facility approximately $32.8 million to repay our prior credit agreement and to pay debt issuance costs. Immediately upon completion of this offering, we expect to increase our outstanding borrowings by approximately $52.7 million to repay our existing shareholders a portion of the notes issued in connection with the final S Corporation distribution, all of which will be outstanding under our amended and restated credit facility that does not expire until October 3, 2015. See Liquidity and Capital Resources Credit Facility.

(2) We entered into agreements with vendors for the financing of equipment at our warehouse facility. The amounts listed represent the outstanding balance to the vendors under these agreements.

(3) Our store leases generally have initial lease terms of 10 years and include renewal options upon substantially the same terms and conditions as the original leases.

(4) Purchase obligations consist primarily of inventory purchase orders.

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 GAAP requires management to make estimates and assumptions that affect the reported amounts of our assets, liabilities, revenues, and expenses, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. We evaluate our accounting policies, estimates and judgments on an on-going basis. We base our estimates and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

We evaluate the development and selection of our critical accounting policies and estimates and believe that the following involve a higher degree of judgment or complexity and are most significant to reporting our results of operations and financial position, and are therefore discussed as critical. The following critical accounting policies reflect the significant estimates and judgments used in the preparation of our consolidated financial statements. With respect to critical accounting policies, even a relatively minor variance between actual and expected experience can potentially have a materially favorable or unfavorable impact on subsequent results of operations. However, our historical results for the periods presented in the consolidated financial

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statements have not been materially impacted by such variances. More information on all of our significant accounting policies can be found in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements.

Revenue Recognition

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

We reserve for projected merchandise returns based on historical experience and various other assumptions that we believe to be reasonable. Merchandise returns are often resalable merchandise and in the Direct business are refunded by issuing the same payment tender of the original purchase and in the Indirect business the customer is issued a credit to its account to apply to outstanding invoices. Merchandise exchanges of the same product and price are not considered merchandise returns and, therefore, are not included in the population when calculating the sales returns reserve. Product returns are often resalable through our annual outlet sale or other channels. Additionally, we reserve for other potential product credits and for customer shipments not yet received. The total reserve for returns, customer shipments not yet received, and general credits was $1.9 million and $1.7 million at January 30, 2010 and January 31, 2009, respectively. This represents a net loss to operating income of $1.3 million and $1.1 million, respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Market is determined based on net realizable value which includes cost to dispose. Appropriate consideration is given to obsolescence, excess quantities, and other factors including the popularity of a pattern or product in evaluating net realizable value. We record adjustments to our inventories, which are reflected in cost of sales, if the cost of specific inventory items on hand exceeds the amount we expect to realize from the ultimate sale or disposal of the inventory. This adjustment calculation requires us to make assumptions and estimates, which are based on factors such as merchandise seasonality, historical trends, and estimated inventory levels, including sell-through of remaining units. Inventory reserves of $7.5 million and $5.3 million were recorded for these matters as of January 30, 2010 and January 31, 2009, respectively. Inventory reserves are primarily for estimated raw materials of discontinued patterns as we have the ability to move discontinued finished goods through a number of channels including the annual outlet sale, our outlet stores, and through liquidators as needed. Annually, at fiscal year end, we conduct a physical inventory as well as periodic cycle counts throughout the year.

Income Taxes

Historically, we have recognized income taxes as an S Corporation for federal income tax purposes. As such, with the exception of a limited number of state and local jurisdictions, we are not subject to income taxes. The shareholders of the company, and not the company itself, are subject to income tax on their distributive share of our earnings. We pay distributions to the shareholders to fund their tax obligations attributable to taxable income of our company. Upon completion of the offering, we will automatically convert to a C Corporation.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Financial Interpretation (FIN) 48, Accounting for Uncertainty in Income Taxes (codified primarily in ASC 740), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, Accounting for Income Taxes (codified primarily in ASC 740). ASC 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more-likely-than-not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of ASC 740 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

We adopted FIN 48 effective February 1, 2009. As a result of the implementation of FIN 48, we did not recognize any change in liability for income taxes.

Valuation of Long-lived Assets

Property and equipment assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In evaluating an asset for recoverability, we estimate the future cash flow expected to result from the use of the asset at the store level, the lowest identifiable level of cash flow, if applicable. If the sum of the estimated undiscounted future cash flows related to the asset is less than the carrying value, we recognize a loss equal to the difference between the carrying value and the fair value, usually determined by the estimated discounted cash flow analysis of the asset. Factors used in the valuation of long-lived assets include, but are not limited to, our plans for future operations, brand initiatives, recent operating results, and projected future cash flows. With respect to our stores, we analyze store economics, location within the shopping center, the size and shape of the space, and desirable co-tenancies in our selection process. Impairment charges are included in SG&A expenses.

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

Stock-Based Compensation

The restricted shares of our common stock granted under the 2010 Restricted Stock Plan were measured at fair value on July 30, 2010, the grant date. In the absence of a public trading market, we considered numerous objective and subjective factors, including information provided by an independent valuation firm, to determine our best estimate of the fair value of the restricted shares of our common stock on the grant date. Our estimate of this stock-based compensation is equivalent to the fair value of our common stock that is ultimately expected to vest. The stock-based compensation will be recognized as compensation expense over the requisite service period or upon an initial public offering event (such as the closing of this offering) if such event occurs prior to the completion of the service period.

Our estimate of pre-vesting forfeitures, or forfeiture rate, was based on our internal analysis, which included the award recipients positions within the company and the short vesting period of the awards. As such, we estimated the forfeiture rate was zero, which resulted in the gross value of the awards to be recorded as stock-based compensation expense in our consolidated statements of income. We will reassess the forfeiture rate assumption in future periods.

Determination of the Fair Value of Common Stock on Grant Date

We are a private company with no active public market for our common stock. Therefore, we have determined the estimated per share fair value of our common stock as of July 30, 2010 using a contemporaneous valuation consistent with the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held Company Equity Securities Issued as Compensation (the Practice Aid). In conducting this valuation, we considered all objective and subjective factors that we believed to be relevant, including our best estimate of our business condition, prospects and operating performance at July 30, 2010. Within this contemporaneous valuation performed by us, a range of factors, assumptions and methodologies were used. The significant factors included:

- the fact that we are a private retail company with illiquid securities;
- our historical operating results;
- our discounted future cash flows, based on our projected operating results;

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- valuations of comparable public companies; and
- condition of and outlook for the handbag, accessories and luggage industries.

After considering the information presented by our management, our board of directors rendered its final fair value determination.

Common Stock Valuation Methodologies

For the contemporaneous valuation of our common stock, management estimated, as of July 30, 2010, the valuation date, our enterprise value on a continuing operations basis, primarily using the income and market approaches, which are both acceptable valuation methods in accordance with the Practice Aid. The income approach utilized the discounted cash flow (DCF) methodology based on our financial forecasts and projections, as detailed below. The market approach utilized the market multiple methodology based on comparable public companies equity pricing, as detailed below.

For the DCF methodology, we prepared detailed annual projections of future cash flows through 2024, which we refer to as the discrete projection period. The value of the cash flows beyond the discrete projection period was derived by applying a capitalized earnings approach, in which such cash flows are assumed to grow at a constant annual long-term growth rate and in which the terminal-year cash flow is capitalized at a rate equal to the estimated discount rate less the estimated constant annual long-term growth rate. Our projections of future cash flows were based on our estimated net debt-free cash flows and were discounted to the valuation date at an estimate of our weighted average cost of capital.

For the market multiple methodology, we determined, as of the valuation date, a range of trading multiples for a group of comparable public companies, based on trailing 12 months adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) and adjusted earnings before interest and taxes (EBIT) and projected future EBITDA and EBIT. These multiples were then applied to our actual trailing 12 months adjusted EBITDA and EBIT and projected EBITDA and EBIT as of the valuation date. When selecting comparable companies, consideration was given to industry similarity, their specific products offered, financial data availability and capital structure.

We believe that the procedures employed in the DCF and market multiple methodologies are reasonable and consistent with the Practice Aid.

Post-IPO Equity and Incentive Grants

Following the completion of this offering, we anticipate awarding an aggregate of approximately 60,000 restricted stock units to our employees. The restricted stock units will be granted under the 2010 Plan, will vest on the second anniversary of the grant date, and will be subject to forfeiture during the vesting period if an employee is no longer employed by us.

Recently Issued Accounting Pronouncements

In July 2009, the FASB released the authoritative version of the FASB Accounting Standards Codification (FASB ASC) as the single source of authoritative nongovernmental U.S. GAAP. The FASB ASC supersedes all existing accounting standard documents recognized by the FASB. All other accounting literature not included in the FASB ASC is considered non-authoritative. The FASB ASC is effective for fiscal years and interim periods ended after September 15, 2009. The adoption of the FASB ASC had no impact on our consolidated financial position, statements of income or cash flows.

In March 2008, the FASB issued a statement which requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The statement is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We adopted this statement as of February 1, 2009.

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In May 2009, the FASB issued guidance which defines and establishes the period after the balance sheet date during which management of a reporting entity evaluates transactions and events for potential disclosure in the financial statements in addition to disclosing the date through which such events have been evaluated. The guidance was effective for financial statements issued for fiscal years and interim periods ended after June 15, 2009 and was applied prospectively. The adoption of this guidance did not have a material impact on our consolidated financial position, statement of income or cash flows. We have evaluated subsequent events through June 1, 2010, which is the date on which our financial statements for fiscal year 2010 were available to be issued.

Quantitative and Qualitative Disclosure of Market Risks

Interest Rate Risk

We are subject to interest rate risk in connection with borrowings under our credit facilities, which bear interest at variable rates.

From time to time, we utilize interest rate swaps to economically hedge our interest rate risk. These swaps are not designated as hedges for accounting purposes. We entered into two interest rate swap agreements in fiscal year 2010, swapping the variable LIBOR-based interest rate on our existing credit facility with a fixed rate ranging from .79% to 1.20%. We had marked these swaps to market, resulting in a liability of $89,000 at January 30, 2010. We had no open derivative instruments at January 31, 2009. The open interest rate swap agreements cover an aggregate notional amount of $20 million, $10 million of which expires on February 2, 2011 and $10 million of which expired on February 2, 2010. As of January 30, 2010, a 1% change in interest rates would have resulted in an approximate incremental $109,000 gain or loss related to this arrangement.

Impact of Inflation

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

Foreign Exchange Rate Risk

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

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BUSINESS

Our Company

Vera Bradley is a leading designer, producer, marketer and retailer of stylish and highly-functional accessories for women. Our products include a wide offering of handbags, accessories and travel and leisure items. Over our 28-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.

Our recent growth reflects the expanding demographic appeal of our brand and product offerings. Our customers span generations and include young girls, teens, college students, young professionals, mothers and grandmothers. Our broad product offerings enable our customers to express their personal style in all aspects of their lives, whether at the beach, a weekend getaway, school or work.

We generate net revenues by selling products through two reportable segments: Indirect and Direct. As of July 31, 2010, our Indirect business consisted of sales of Vera Bradley products to approximately 3,300 independent retailers, substantially all of which are located in the U.S., as well as select national retailers and third party e-commerce sites. As of July 31, 2010, our Direct business consisted of sales of Vera Bradley products through our 31 full-price stores, our two outlet stores, verabradley.com, and our annual outlet sale in Fort Wayne, Indiana.

Our net revenues have grown from $238.6 million in fiscal year 2009 to $288.9 million in fiscal year 2010, reflecting a growth rate of 21.1%. During fiscal year 2010, net revenues in our Indirect and Direct segments grew 15.2% and 35.1%, respectively. In mid-September 2007, we opened our first full-price Vera Bradley store and have experienced meaningful growth in our Direct business, growing our store base to 31 full-price stores as of July 31, 2010. Our full-price stores produced comparable-store sales increases of 36.4% in fiscal year 2010 compared to fiscal year 2009 and 26.0% in the six months ended July 31, 2010 compared to the six months ended August 1, 2009. In addition, we have experienced strong sales growth in our e-commerce business in recent years.

Reorganization Transaction and Stock Split

Vera Bradley, Inc. is a newly-formed Indiana corporation that has not, prior to the completion of the reorganization transaction, conducted any activities other than those incident to our formation and the preparation of this prospectus. We were formed solely for the purpose of reorganizing the corporate structure of Vera Bradley Designs, Inc.

On October 3, 2010, the shareholders of Vera Bradley Designs, Inc. contributed all of their shares of Class A Voting Common Stock and Class B Non-Voting Common Stock of Vera Bradley Designs, Inc. to us in return for shares of our Class A Voting Common Stock and Class B Non-Voting Common Stock, respectively, on a one-for-one basis. As a result, Vera Bradley Designs, Inc. became our wholly-owned subsidiary. We refer to the foregoing in this prospectus as our reorganization transaction.

The only asset of Vera Bradley, Inc. is its investment in Vera Bradley Designs, Inc., and all of our operations are conducted through Vera Bradley Designs, Inc.

Prior to the effectiveness of the registration statement of which this prospectus is a part, we intend to recapitalize all of our Class A Voting Common Stock and Class B Non-Voting Common Stock into a single class of common stock and authorize and effectuate a 35.437-for-1 stock split of all outstanding shares of our common stock.

We were incorporated in Indiana on June 23, 2010. Our predecessor, Vera Bradley Designs, Inc., was incorporated in Indiana on November 15, 1982.

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Our History

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

1982 Barbara Bradley Baekgaard and Patricia Miller launched Vera Bradley by introducing three products: the

handbag, the sports bag and the duffel bag.

1987 We relocated to our current headquarters in Fort Wayne, Indiana. Ernst & Young honored our Co-Founders

with an Entrepreneur of the Year award.

1991 To accommodate the increasing number of attendees, we relocated our annual outlet sale from a tent in

our parking lot to its present location at the Allen County Memorial Coliseum in Fort Wayne, Indiana.

1998 We founded our primary philanthropy, the Vera Bradley Foundation for Breast Cancer.

1999 Our products were being sold in all 50 states through Indirect retailers.

2005 We launched the Vera Bradley Visual Merchandising Program, providing retailers a framework for

presenting the brand and merchandising our products in a consistent manner. In addition, we launched a series of strategic initiatives to build a foundation for future growth.

2006 We launched our e-commerce business through our website, verabradley.com.

2007 We opened a state-of-the-art warehouse and distribution facility in Fort Wayne, Indiana. In mid-September,

we also opened our first store at the Natick Collection, in greater Boston, and opened six additional stores later in the year.

2008 We transitioned from using an independent sales force to a sales force comprised entirely of in-house, full-

time employees. We opened fourteen additional stores.

2009 We opened five additional stores and, in early November, we opened our first outlet store at Chicago

Premium Outlets in Aurora, Illinois.

2010 We opened a design office in New York City. As of July 31, 2010, we have opened five additional stores

and a second outlet store.

As of July 31, 2010, we sold our products through more than 3,300 Indirect retailers and 33 stores. In addition, we had more than 23 million visits to verabradley.com in fiscal year 2010 and attracted more than 65,000 attendees to our 2010 annual outlet sale.

The passion for design and customer service established by our founders, Barbara Bradley Baekgaard and Patricia R. Miller, has driven our growth over the past 28 years and remains the cornerstone of Vera Bradley today. As Chief Creative Officer, Ms. Bradley Baekgaard continues to play a role in the team responsible for our day-to-day creative functions, including product development and store design. As our National Spokesperson, Ms. Miller continues to play a role representing the brand at events, business and community functions and philanthropic activities.

We place a strong emphasis on social responsibility, developed from the core beliefs of our founders. In 1998, we founded our primary philanthropy, the Vera Bradley Foundation for Breast Cancer, which historically has received support from the sale of certain Vera Bradley pink handbags, luggage and accessories. To date, the Vera Bradley Foundation has contributed $10 million to breast cancer research.

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Evolution of Our Business

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

Merchandising Strategy. To appeal to a broader range of consumers, we developed a mix of pattern and product offerings specifically targeted at different consumer demographics, refined our product release strategy to significantly expand our product portfolio and increased the number of new patterns released as well as the frequency of new product launches. In addition, we substantially enhanced our visual merchandising strategy, focusing on a consistent presentation of Vera Bradley as a lifestyle brand.

Multi-Channel Distribution Capability. In 2006, we initiated a Direct channel strategy that was designed to expand our brand presence and broaden our consumer demographic while complementing the growing Indirect channel of our business. The first step in establishing the Direct channel of our business was selling directly to consumers through verabradley.com beginning in 2006. In mid-September 2007, we opened our first full-price store. In fiscal year 2010, we had more than 23 million visits to verabradley.com, and as of July 31, 2010, we had 31 full-price stores and two outlet stores.

Infrastructure Investment. Beginning in 2005, we made a series of investments to strengthen our supply chain capabilities, information systems and product development processes, resulting in substantial cost savings and a more flexible and scalable operating structure. During this period, we shifted our production from a primarily domestic manufacturing model to a more cost-effective global sourcing platform. In 2007, we opened a state-of-the-art warehouse and distribution facility in Fort Wayne, Indiana.

Our Brand

Over 28 years, we have created, developed and solidified a true lifestyle brand that resonates with a broad range of female consumers. Our brand vision is accessible luxury that inspires a casual, fun and family-oriented lifestyle. Actual employees, family and friends are often depicted throughout our advertising in fun, friendly and family-oriented settings, accentuating our brand image in an authentic manner. Our visual merchandising strategy, particularly in our full-price stores, seeks to create the feeling of home. We believe that our lifestyle brand is well positioned to extend into complementary product categories. The strength of our brand is demonstrated during our annual outlet sale in Fort Wayne, Indiana, a sales event that attracts tens of thousands of highly enthusiastic shoppers from across the country each year.

We have positioned our brand to highlight the high quality, distinctive and vibrant styling and functional design of our products. At the same time, our frequent releases of new patterns and styles keep the brand fresh, inspire our customers to express their individuality and sense of style in a colorful way and encourage multiple purchases. We also provide consumers a consistently fresh set of patterns, styles and products to choose from that fit with different ages, wardrobes, seasons and personalities.

We also offer a broad assortment of products that meet our customers different functional needs, including: handbags such as purses, totes and specialty bags; accessories such as wallets, ID cases and eyewear; and travel and leisure items such as weekend bags, duffel bags and garment bags. We believe this combination of patterns, styles and products allows us to appeal to teens, young women, mothers and grandmothers. Although our customers draw from a broad range of demographic segments, our market research has shown that they generally have a common attitude toward the brand: Vera Bradley is a colorful way of allowing them to express their individuality and sense of style.

Industry Overview

Mintel, a provider of research in the apparel and accessories industry, published a report in May 2009 discussing the U.S. handbag industry. Mintel defines handbags as any type of bag or satchel that is capable of being carried either by

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hand or over the shoulder. According to the Mintel study, the industry has grown at a compound annual growth rate of approximately 4.2% since 2004 and is expected to generate over $6.7 billion in sales during 2010.

The Mintel study found that female consumers view handbags as essential accessories and many purchase handbags to fit different outfits or occasions in their lives. Due to the consumer s continually evolving collection of handbags, the average number of handbags owned by a survey sample of 1,020 women over 18 years of age was 9.8 as of February 2009. Young adults (18-24 year old) are a growing consumer segment in the handbag industry and purchase, on average, 2.3 handbags on an annual basis, more than any other age bracket. The 25-34 year old sub-segment of this population is expected to grow 13.3% between 2009 and 2014, which should further drive increased demand in the industry. The 35-44 year old category reported the second highest frequency of purchases with, on average, 2.1 handbags purchased per year.

Brick-and-mortar stores currently account for a significant portion of the distribution in the handbag market. However, the online marketplace is becoming an increasingly popular venue for handbag sales. It has become more important to women to research product specifications and pricing in advance. There is also a growing trend of consumers using social networking sites to share product knowledge and recommendations of different brands. Nonetheless, we believe consumers continue to frequent retail stores to see and touch the product and because they find shopping for handbags in retail stores an entertaining activity.

Both the fashion accessories and luggage markets are large and highly fragmented. Packaged Facts, a leading publisher of market research in the consumer products industry, published a report in January 2009 estimating the market for fashion accessories to be approximately $16.3 billion in 2008. The accessories market is particularly broad, encompassing products such as belts, scarves, leather goods and gloves. IBISWorld, a provider of market research, estimated in a January 2010 report that the current luggage market is approximately $1.7 billion.

We have a small but growing assortment of products in the fashion accessories and luggage markets and believe there is an opportunity for Vera Bradley to capture additional market share as we leverage our strong brand appeal to expand into additional product categories.

Competitive Strengths

We believe the following competitive strengths differentiate us within the marketplace and provide a strong foundation for our future growth:

Strong Brand Identity and Positioning. We believe the Vera Bradley brand is highly recognized for its distinctive and vibrant style. Vera Bradley is positioned in the market as a lifestyle brand that inspires consumers to express their individuality and sense of style. We have also positioned our brand to highlight the high quality and functional attributes of our products. The Vera Bradley brand is more price accessible than many competing brands, which allows us to attract a wide range of consumers and inspire repeat purchases.

Exceptional Customer Loyalty. We believe that, as consumers become familiar with the Vera Bradley brand and begin using our products, they become loyal and enthusiastic brand advocates. We believe enthusiasm for our brand inspires repeat purchases and helps us expand our customer base. Our customers often purchase our products as gifts for family and friends, who, in turn, become loyal customers.

Product Development Expertise. Our product development team combines an understanding of consumer preferences with a knowledge of color, fashion and style trends to design our products. Our highly creative design associates utilize a disciplined product design process that seeks to maximize the productivity of our product releases and drive consumer demand.

Dynamic Multi-Channel Distribution Model. We offer our products through a diverse choice of shopping options across channels that are intimate, highly shop-able, fun and characteristic of our brand. Whether at a Vera Bradley store, an independent specialty retail store or verabradley.com, we believe consumers have an opportunity to find the brand in places

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that match their unique shopping interests. Our multi-channel distribution model enables us to maximize brand exposure and customer access to our products.

Established Network of Indirect Retailers. Our Indirect business consists of an established and diverse network of over 3,300 independent retailers. This channel of gift, apparel and accessories, travel and specialty retailers, located throughout the U.S., provides a strong foundation for our growth. Our Indirect retailers include some of the brand s strongest advocates and their passion has been instrumental in the development of our brand.

Distinctive Retail Stores. Our stores provide a shopping experience that is uniquely Vera Bradley. We bring the Vera Bradley brand to life in our stores through visual presentation of our wide range of product offerings, the stylish, inviting décor of our stores and personalized service from our friendly and knowledgeable sales associates. We believe the distinctive shopping experience and personalized service encourage repeat visits and multiple purchases.

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

Experienced Management Team. Our senior management team led by Michael C. Ray, our Chief Executive Officer, has extensive experience across a diverse range of disciplines in product design, merchandising, marketing, store development, supply chain management and finance. The current management team has been instrumental in the development and execution of our long-term strategies.

Growth Strategies

We believe there are significant opportunities to expand our business and increase our net revenues and net income through the execution of the following growth strategies:

Grow in Underpenetrated U.S. Markets. Our historic growth focused primarily on the eastern U.S., and accordingly the Vera Bradley brand is most recognized in that region. In recent years, we have successfully expanded our Indirect and Direct channels in key developing markets in the midwest and southwest. We believe the success of our expansion efforts is a testament to the strength and portability of our brand and the power of our multi-channel distribution capabilities. We intend to rely on these strengths to further penetrate our existing markets and successfully expand both Direct and Indirect channels of our business into relatively underpenetrated markets in the midwest, southwest and west.

Expand Our U.S. Store Base. We plan to expand our retail presence in the U.S. by opening new stores. We believe that the market in the U.S. can support at least 300 Vera Bradley full-price stores. We plan to open nine full-price stores and three outlet stores over the course of fiscal year 2011. We plan to open 14 to 16 new stores over the course of fiscal year 2012 and 14 to 20 new stores annually for the following five fiscal years. We believe that expansion of our store base complements our Indirect segment by increasing brand awareness and reinforcing our brand image.

Drive Comparable-Store Sales and Our E-Commerce Business. We have several ongoing initiatives to drive comparable-store sales growth, including focusing on store-level merchandising programs and enhancing in-store customer service and selling capabilities. As a key element of our Direct channel strategy, we will continue to grow our e-commerce business through focused marketing efforts, online merchandising initiatives and social networking sites such as Facebook and Twitter. We believe our retail and e-commerce businesses are complementary and facilitate frequent contact with our customers.

Expand Our Product Offerings. We design products to accessorize a woman s life and believe this core competence serves as a platform for growth within and beyond our current product lines. We have expanded our product

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offerings to include new line extensions, such as our Vera Vera microfiber collection, and brand extensions, such as our recently launched paper and stationery collection. We believe that opportunities exist to accessorize a woman s life through complementary product collections that fit within our positioning as a lifestyle brand.

Our Product Release Strategy

We introduce new patterns seasonally, four times per year. Within each season, we generally introduce three to five patterns. These patterns are incorporated into the designs of a wide range of products, including handbags, accessories and travel and leisure items, that are part of the core seasonal release. These products, which constitute our Signature Collection each season, can be classic styles, updates to older designs or new product introductions.

After each seasonal launch, we release additional new collections, typically once per month throughout the season. These collections often utilize or are inspired by that season s patterns (e.g., the paper and gift collection in a new pattern), but a few of our releases are separate from the Signature Collection (e.g., the Vera Vera collection in solid colors).

We have increased the number of patterns per Signature release as well as the frequency of subsequent releases over time and believe that the assortment, breadth and cadence allow us to reach a broader range of consumer demographics and needs. We believe this keeps consumers continually engaged with our brand and repeatedly shopping at our points of distribution. In addition, we believe this approach allows us to minimize the risk associated with a single pattern not performing to our expectations. In order to keep our assortment current and fresh and to focus our inventory investments on our best performers, we discontinue patterns from time to time. We sell our remaining inventory of discontinued products at our annual outlet sale and through our outlet stores.

Our Products

The chart below presents net revenues generated by each of our three product categories and other revenues during the periods indicated as a percentage of our net revenues.

	Year Ended December 31, 2007[1]	**Fiscal Years Ended**		**Six Months Ended**
		January 30, 2009	**January 31, 2010**	**July 31, 2010**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Handbags	50.6%	54.3%	52.4%	51.9%
Accessories	29.3%	32.0%	31.7%	31.8%
Travel and Leisure Items	8.6%	9.9%	11.1%	10.2%
Other[2]	11.5%	3.8%	4.8%	6.1%
Total[3]	100.0%	100.0%	100.0%	100.0%

(1) In January 2008, we changed our fiscal year end from December 31 to the Saturday closest to January 31.
(2) Primarily includes merchandising, freight, promotional products and licensing revenues.
(3) Excludes net revenues generated by our annual outlet sale.

Handbags. Handbags are a core part of our product offerings and are the primary component of every Signature collection. The category consists of classic and new styles developed by our product development team to meet consumer demand and drive repeat purchases. Our handbag product category extends beyond handbags to include totes and specialty bags such as baby bags, backpacks and laptop portfolios. Handbags play a prominent role in our visual merchandising and we focus on showcasing the different patterns, colors and features of each bag. Our handbags are generally priced between $25 and $125.

Accessories. Accessories, our second largest revenues category, includes fashion accessories such as wallets, ID cases, eyeglass cases, cosmetics, paper and gift products and eyewear. Accessories are attractively priced, generally between $10 and $35, and allow the consumer to include some color in her wardrobe, even if tucked into another bag. Our product development team is consistently updating the accessories assortment based on consumer demand and fashion trends.

Travel and Leisure Items. Our travel and leisure product category includes duffel bags, garment bags and travel accessories, such as travel cosmetic cases. The first Vera Bradley product offering included duffel bags, which have consistently been a strong performer. We believe their popularity, as well as the appeal of our other travel and leisure items, results from our vibrant designs, functional styles and lightweight fabrications. Our travel and leisure prices generally range from $15 travel accessories to $130 soft luggage.

Product Development

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

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

Our product development team works to ensure that new collections contain an assortment of products and styles that are in line with both fashion trends and customer needs and regularly updates classic styles to enhance functionality. In addition, we actively pursue opportunities to expand our product offerings through new line and brand extensions. Our product development team monitors fashion trends and customer needs by attending major trend shows in Europe and the U.S., subscribing to trend monitoring services and engaging in comparison shopping.

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

Marketing

We believe that the growth of our brand and our business is influenced by our ability to introduce and sell our merchandise in a way that clearly conveys the Vera Bradley lifestyle. We use marketing and advertising as critical tools in our efforts to promote our brand. As of July 31, 2010, we employed 26 in-house marketing personnel and contracted for additional outside support.

Catalogs and Collateral. The seasonal Vera Bradley catalog is a key vehicle for the brand and our product portfolio. Each season s catalog is sent to a targeted customer mailing list. In addition to the catalog, we produce a number of other marketing pieces, or collateral, including postcards, gift guides, in-store signage and release-focused mailers. Catalogs and collateral provide consumers with a powerful visual representation of both the products and lifestyle images embodied by the Vera Bradley brand. We believe that Vera Bradley s catalogs and other mailed collateral generate excitement and awareness about the brand and seasonal introductions and allow us to reach both new and loyal customers in their homes.

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

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

Social Media and Online Marketing. In recent years, we have greatly increased traffic to verabradley.com and have increased awareness of our brand through online marketing and social networking sites. We have captured more than 900,000 customer email addresses in our online customer file, with many of these customers providing age, occupation and location data. This captured information provides us with deeper insight into the products and categories that are in the highest demand and allows us to better target our customers with appropriate messages. As of July 31, 2010, we had over 250,000 Facebook fans and a growing number of Twitter followers. We believe these media not only connect us with our fans, but also allow us to target them through cross-channel marketing.

Channels of Distribution

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

Indirect Channel. As of July 31, 2010, we had approximately 3,300 Indirect retailers, the majority of which are independent retailers with whom we have long-standing relationships. In calendar year 2007, fiscal year 2009 and fiscal year 2010, our Indirect channel generated net revenues of $243.4 million, $167.5 million and $192.8 million, respectively, or, as a percentage of net revenues, 86.6%, 70.2% and 66.7%, respectively. Indirect retailers are primarily gift, apparel and accessories, travel or other specialty retailers. No single account represented more than 2.0% of total Indirect net revenues in fiscal year 2010, with the top ten accounts representing less than 10.0% of total net revenues. The majority of our Indirect retailers have been customers for over five years.

Direct Channel

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

E-Commerce. In 2006, we began selling our products through the verabradley.com website. The objective of verabradley.com is to provide both a mechanism for marketing directly to consumers and a storefront where consumers can find the entire Vera Bradley collection. In fiscal year 2010, we invested in upgrades to our website, which enables us to provide customized shopping experiences tailored to each online shopper and allows better integration with third-party sites such as Facebook.com. We believe the enhanced functionality allows us to provide a superior experience to our e-commerce customers. In fiscal year 2010, we had over 23 million visits to verabradley.com.

Outlet Stores. As of July 31, 2010, we operated two outlet stores, located in Aurora, Illinois and Wrentham, Massachusetts. Our outlet stores are a vehicle for selling discontinued merchandise at discounted prices while maintaining

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brand identity. No products are designed specifically for the outlet stores. We believe our outlet stores are an integral part of our distribution strategy as this format provides an additional channel of distribution for our products and enables us to better target value-oriented customers.

Annual Outlet Sale. For the last ten years, our annual outlet sale has been held in the Memorial Coliseum Exposition Center in Fort Wayne, Indiana. The annual outlet sale is an important tradition for Vera Bradley, has many loyal followers and is an opportunity for us to sell our discontinued merchandise at discounted prices in a brand-right fashion. We attracted more than 65,000 attendees to our 2010 annual outlet sale.

Indirect Sales Consultants

Historically, we worked with independent sales consultants who were not our employees, but most of whom worked exclusively for us. In October 2007, we began transitioning our sales force in-house. We believe that having an in-house sales force results in more consistent brand presentation and messaging, enhanced support for our Indirect retailers and a more predictable, scalable and cost-efficient model. As of July 31, 2010, our sales team consisted of 87 in-house, full-time sales consultants. The compensation structure for our sales consultants consists of a combination of fixed pay and sales-based incentives.

In addition to acquiring new and growing existing accounts, our sales consultants serve as a support center for our Indirect retailers by assisting and educating them in areas such as merchandising and visual presentation, marketing of the brand, product selection and inventory management. Our sales consultants also participate in our semi-annual product introduction and education event for our Indirect retailers. Our visual merchandising program provides our sales consultants with a framework to guide our Indirect retailers regarding optimal product placement and display that is intended to reinforce the message that our brand is distinct from those of our competitors.

Our Stores

As of July 31, 2010, we operated 31 full-price stores in 21 states throughout the U.S. We believe there is a significant opportunity to grow our store base as we believe the market in the U.S. can support at least 300 Vera Bradley full-price stores.

Based on the success of our first outlet store opened in fiscal year 2010, the number of attractive outlet centers in the U.S. and the growing popularity of outlet shopping among consumers, we believe the U.S. has capacity to support additional Vera Bradley outlet stores. In future years, we will assess the feasibility and attractiveness of designing products and lines exclusively for the outlet channel.

We plan to open nine full-price stores and three outlet stores over the course of fiscal year 2011. We plan to open 14 to 16 new stores over the course of fiscal year 2012 and 14 to 20 new stores annually for the following five fiscal years.

Store Location Selection Strategy

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

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Store Locations

Our full-price stores are located primarily in high-traffic regional malls, lifestyle centers and mixed-use shopping centers across the U.S. The following table shows the number of full-price stores we operated in each state as of July 31, 2010:

State	Total Number of Stores	State	Total Number of Stores
Alabama	1	Michigan	1
California	4	New Jersey	2
Colorado	1	New York	1
Florida	2	Ohio	1
Georgia	1	Rhode Island	1
Hawaii	1	Tennessee	1
Illinois	2	Texas	3
Indiana	1	Virginia	1
Kansas	1	Washington	1
Maryland	1	Wisconsin	1
Massachusetts	3		

In addition, as of July 31, 2010, we had one outlet store located in Illinois and another in Massachusetts.

Store Operations

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

Store Economics

We believe that our innovative retail concept and distinctive retail experience contribute to the success of our stores, most of which generate strong productivity and returns. We expect our full-price stores to average approximately 1,800 square feet per store and we expect to invest approximately $0.4 million per new store, consisting of inventory costs, pre-opening costs and build-out costs less tenant allowances. New full-price stores generate on average between $1.1 million and $1.3 million in net revenues during the first twelve months and the payback on our investment is expected to occur in less than 18 months. Typically, we have found that, as a new store becomes better integrated into its community and brand awareness grows, the store s productivity tends to improve as measured by comparable-store sales, but we cannot assure you that full-price stores opened in the future will generate similar net revenues in the first twelve months or pay back our investment in a similar period.

Manufacturing and Supply Chain Model

Our manufacturing and supply chain model is designed to maximize flexibility in order to meet shifting demands in the market. Our model utilizes offshore suppliers and a blend of offshore and domestic manufacturers. We place a strong emphasis on continuous improvement of the model and have employed lean manufacturing concepts. Our broad-based multi-country manufacturing and supply chain model is designed to achieve efficient, timely and accurate order fulfillment while maintaining appropriate levels of inventory.

Our sourcing strategy is part of the larger cross-functional product development process. The overall objective for our sourcing team is to build and sustain collaborative partnerships throughout our supply chain. The sourcing team leverages their expertise in negotiation, relationship management and change management to maintain a strong global supply chain.

The majority of our products are cotton-based. Our other products are made from specialty fabrics (including nylon and microfiber) and paper. We source our materials from various suppliers in Asia, with the majority coming from China and South Korea. Our global supply chain and purchasing teams work together to select suppliers that enable us to optimize the mix of cost, lead time, quality and reliability within our global supply network. All of our suppliers must comply with our quality standards, and we only use a limited number of pre-approved suppliers who have demonstrated a commitment to delivering the highest quality products. In December 2008, we opened an office in Dongguan, China, which enables us to increase our control over the manufacturing and supply chain process and monitor compliance with our quality standards.

A significant majority of our finished goods products are manufactured externally overseas. These products are made by a variety of global manufacturers located primarily in China. We are not dependent upon any single manufacturer for our products. When determining the size of orders placed with our manufacturers, we take into account forward-looking demand, lead times for specific products, current inventory levels and minimum order quantity requirements. Overseas production has resulted in substantial cost savings and reduction of capital investment. With the oversight of our office in China and our independent contractors, we believe these financial benefits have been realized without sacrificing the level of quality inherent in our products or service to our customers.

The remainder of our products are manufactured in the U.S. to provide flexibility in our supply chain. This production, almost all of which is internal to Vera Bradley, enables us to manufacture a finished product in as quickly as two weeks. This allows us to rapidly manufacture appropriate quantities of finished product to respond quickly to shifts in marketplace demand and changes in consumer preferences. In fiscal year 2010, approximately 10% of our units were produced in our domestic manufacturing facility.

Distribution Center

In 2007, we consolidated our warehousing and shipping functions into one 200,000 square foot distribution center, located in Roanoke, Indiana. This highly automated, computerized facility allows Vera Bradley employees to receive information directly from the order collection center and quickly identify the products and quantity necessary for a particular order. In addition, we employ a warehouse control system that controls the flow of our products through 5,000 feet of automated conveyer. The facility s advanced technology enables us to more accurately process and pack orders, as well as track shipments and inventory. We believe that our systems for the processing and shipment of orders from our distribution center have enabled us to improve our overall customer service through enhanced order accuracy and reduced turnaround time.

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

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

Management Information Systems

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

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Competition

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

The market for handbags, in particular, is highly competitive. Our competitors include established companies who are expanding their production and marketing of handbags as well as from frequent new entrants to the market. We directly compete with wholesalers and direct sellers of branded handbags and accessories, such as Coach, Nine West, Liz Claiborne and Dooney & Bourke.

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

Copyrights and Trademarks

The development of each new pattern includes the design of an overall print, a complementary fabric backing and three sizes of coordinating trim materials. Once developed, we copyright each pattern, including the print, fabric backing and coordinating trim. We currently have in excess of 300 copyrights.

We also own all of the material trademark rights used in connection with the production, marketing and distribution of all of our products, both in the U.S. and in the other countries in which our products are principally sold. Our trademarks include Vera Bradley. We aggressively police our trademarks and copyrights and pursue infringers both domestically and internationally. We also pursue counterfeiters domestically and internationally through leads generated internally, as well as through external sources monitoring use in the market. Our trademarks will remain in existence for as long as we continue to use and renew them on their expiration date. We have no material patents.

Employees

As of July 31, 2010, we had 1,213 employees. Of the total, 428 were engaged in retail selling and retail administration positions, 246 were engaged in manufacturing functions, 25 were engaged in product design and 357 were engaged in corporate support and administrative functions. The remaining employees were engaged in other aspects of our business. None of our employees is represented by a union. We believe that our relations with our employees are good, and we have never encountered a strike or significant work stoppage.

Government Regulation

Many of our imported products are subject to existing or potential duties, tariffs or quotas that may limit the quantity of products that we may import into the U.S. and other countries or impact the cost of such products. To date, we have not been

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restricted by quotas in the operation of our business, and customs duties have not comprised a material portion of the total cost of a majority of our products. In addition, we are subject to foreign governmental regulation and trade restrictions, including U.S. retaliation against prohibited foreign practices, with respect to our product sourcing and international sales operations.

Legal Proceedings

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

Properties

The following table sets forth the location, use and size of our manufacturing, distribution and corporate facilities as of July 31, 2010. The leases on the leased properties expire at various times through 2015, subject to renewal options.

Location	Primary Use	Square Footage	Leased /Owned
2208 Production Road, Fort Wayne, Indiana	Corporate headquarters	27,287	Leased*
11222 Stonebridge Road, Roanoke, Indiana	Warehouse and distribution	217,320	Owned
5620 Industrial Road, Fort Wayne, Indiana	Support staff	66,866	Leased
2808 Adams Center Road, Fort Wayne, Indiana	Sewing and quilting	125,356	Leased
750 5th Avenue, 16th Floor, New York, New York	Product design and showroom	2,968	Leased
Huaki Plaza, Room 1301 Huaki Building, Shenghe Road, Nancheng District, Dongguan City	China office	886	Leased
240 Peachtree Street NW, Atlanta, Georgia	Showroom	5,172	Leased

* This property is owned by Milburn, LLC, a leasing company in which Barbara Bradley Baekgaard owns a 50% interest and Patricia R. Miller and P. Michael Miller each own a 25% interest. See Certain Relationships and Related Party Transactions.

As of July 31, 2010, we also leased 33 store locations in the U.S. We consider these properties to be in good condition generally and believe that our facilities are adequate for our operations and provide sufficient capacity to meet our anticipated requirements.

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Management

Executive Officers and Directors

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

Name	Age	Position(s)
Robert J. Hall	51	Chairman of the Board
Michael C. Ray	49	Chief Executive Officer and Director
Barbara Bradley Baekgaard	71	Co-Founder, Chief Creative Officer and Director
Patricia R. Miller	72	Co-Founder, National Spokesperson and Director
Jeffrey A. Blade	49	Executive Vice President Chief Financial and Administrative Officer and Secretary
Kimberly F. Colby	48	Executive Vice President Design
C. Roddy Mann	41	Executive Vice President Strategy & Business Development
Jill A. Nichols	49	Executive Vice President Philanthropy and Community Relations
Matthew C. Wojewuczki	40	Executive Vice President Operations
David O. Thompson	46	Vice President Direct Sales
P. Michael Miller	72	Director
John E. Kyees	63	Director
Edward M. Schmults	48	Director

Robert J. Hall has served as a director since 2007 and as Chairman of the board since September 2010. Mr. Hall currently is the principal of Andesite Holdings, a private investment firm which he founded in 2007. Prior to founding Andesite Holdings, Mr. Hall served as an Executive Director for UBS Financial Services from 2000 to 2007. From 1995 to 2000, he served as a Senior Vice President for Paine Webber in Philadelphia, Pennsylvania. Mr. Hall serves as a director of Thomas Raymond & Co., a manufacturer of men s handcrafted footwear, New World Stoneworks LLC, a retailer of stone products, and KodaBow Inc., a manufacturer and retailer of sporting goods. Mr. Hall also serves as the Chairman of the Board of the Mid-Atlantic region of Teach for America.

Mr. Hall provides our board of directors with insight and perspective on general strategic and financial matters, stemming from his extensive experience in investment banking, investment management, financial planning and private placements.

Michael C. Ray has served as our Chief Executive Officer since 2007 and as a director since June 2010. From 2004 to 2007, Mr. Ray served as our Executive Vice President of Sales and Marketing. From 1999 to 2004, he served as our National Sales Director. Mr. Ray joined Vera Bradley in 1998 as Director of Finance and served us in that capacity until being promoted to National Sales Director in 1999. He is a board member of the Riley Children s Foundation in Indianapolis, Indiana.

Mr. Ray has been instrumental in our growth and the development and execution of our long-term strategic plans. He provides our board of directors with an in-depth knowledge of our products, industry, challenges and opportunities, and he communicates management s perspective on important matters.

Barbara Bradley Baekgaard co-founded Vera Bradley in 1982 and has served as a director since then. From 1982 through June 2010, she also served as Co-President. From the outset, Ms. Bradley Baekgaard has provided leadership and strategic direction in our brand s development by providing creative vision to areas such as marketing, product design, assortment planning and the design and visual merchandising of our stores. In May 2010, she was appointed Chief Creative Officer. She currently serves as a board member of the Indiana University Cancer Center Development and the Vera Bradley Foundation for Breast Cancer. Ms. Bradley Baekgaard s most recent personal awards include 2007 Country Living Entrepreneur Award and 2006 Gifts and Decorative Accessories Industry Achievement Award.

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

Patricia R. Miller co-founded Vera Bradley in 1982 and has served as a director since then. From 1982 through June 2010, she also served as Co-President. From the outset, Ms. Miller has provided leadership and strategic direction to

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the business, guiding the development of our operations and supply chain infrastructure and the growth of our employee base. Ms. Miller has also regularly provided a face for Vera Bradley. In June 2010, she was appointed National Spokesperson for the company where she will continue to promote our brand. Ms. Miller served as the first Secretary of Commerce for the State of Indiana and the Chief Executive Officer of the Indiana Economic Development Corporation from 2005 to 2006. Her most recent personal awards include the Ball State University Indiana Women of Achievement Award for Entrepreneurship in 2006 and the Indiana Historical Society Indiana Living Legend Award in 2008. Ms. Miller serves as a director for the Indiana University Foundation and for the Vera Bradley Foundation for Breast Cancer.

As Co-Founder of Vera Bradley, Ms. Miller brings to our board of directors a broad array of institutional knowledge and historical perspective. Ms. Miller also provides insight and perspective on general strategic and business matters, stemming from her executive and finance experience as Secretary of Commerce for the State of Indiana and as Chief Executive Officer of the Indiana Economic Development Corporation.

Jeffrey A. Blade has served as our Executive Vice President Chief Financial and Administrative Officer since May 2010 and our Secretary since June 2010. Prior to joining Vera Bradley, from 2009 to January 2010 Mr. Blade served as Senior Vice President Chief Financial Officer and Secretary of Central Garden and Pet Company, a publicly-traded consumer goods retailer. Mr. Blade previously served in various roles at Steak n Shake from 2004 to 2008, including Interim President, Executive Vice President Chief Financial and Administrative Officer, and Senior Vice President and Chief Financial Officer. From 1999 to 2004, Mr. Blade was Vice President of Finance for the U.S. operations of Cott Corporation. He served in various financial roles for Kraft Foods Corporation from 1988 to 1999.

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

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

Jill A. Nichols has served as our Executive Vice President Philanthropy and Community Relations since April 2010. From 1997 to April 2010, Ms. Nichols served as our Executive Vice President and Chief Operating Officer. From 1992 to 1997, she served as our Director of Operations and, from 1989 to 1992, she served as our Controller and Operations Manager. Prior to joining Vera Bradley, Ms. Nichols held finance positions with the YWCA and Coopers & Lybrand (which later merged with Price Waterhouse to become PricewaterhouseCoopers). She became a Certified Public Accountant in 1986. Ms. Nichols serves as the treasurer and a director of the Vera Bradley Foundation for Breast Cancer.

Matthew C. Wojewuczki has served as our Executive Vice President Operations since April 2010. From 2003 to April 2010, Mr. Wojewuczki served as our Vice President Operations. Prior to joining Vera Bradley, he served as Vice President of Manufacturing and Supply Chain Management of Wabash Alloys, a secondary aluminum producer, from 2000 to 2003. From 1997 to 2000, he served as a principal consultant in the Management Consulting Services Group of PricewaterhouseCoopers. In addition, Mr. Wojewuczki is a Commissioned Officer in the U.S. Air Force Reserves, where he holds the rank of Major.

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

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P. Michael Miller has served as a director since 1990. From 1990 through June 2010, he also served as our Secretary and Treasurer. Mr. Miller is a senior partner in the law firm of Hunt Suedhoff Kalamaros LLP. He has been a partner with the firm since 1997. Mr. Miller also serves as a director of the Vera Bradley Foundation for Breast Cancer.

Mr. Miller has been involved with Vera Bradley since its inception and brings to our board of directors a broad array of institutional knowledge and historical perspective. Mr. Miller also provides insight and guidance on legal and business matters, stemming from his experience as a practicing attorney.

John E. Kyees has served as a director since April 2010. Mr. Kyees served as the Chief Investor Relations Officer of Urban Outfitters, Inc. from 2009 to 2010 and served that company as Chief Financial Officer from 2003 to 2009. Mr. Kyees formerly held the position of Chief Financial Officer and Chief Administrative Officer for bebe stores, Inc., a retail chain headquartered in San Francisco, California, from 2002 to 2003. Prior to joining bebe, Mr. Kyees served as Chief Financial Officer for Skinmarket, a startup teenage cosmetic retailer, from 2000 to 2002. Mr. Kyees was also Chief Financial Officer for HC Holdings from 1997 to 2000. HC Holdings filed a bankruptcy petition under Chapter 11 of the U.S. Bankruptcy Code in 2000. From May 1997 to December 1997, he was Chief Financial Officer for Ashley Stewart and from 1984 to 1997 Mr. Kyees was Chief Financial Officer for Express, which was a division of The Limited Brands, Inc. Mr. Kyees is currently a director and member of the audit committee of Casual Male Retail Group, Inc., a publicly-traded specialty retailer of men s clothing.

Mr. Kyees brings to our board of directors over 40 years of experience in the consumer products retail and manufacturing industries. He has over 30 years of experience as a chief financial officer and nine years serving in that role for a public company. Institutional Investor magazine selected Mr. Kyees as a top specialty retail chief financial officer on five separate occasions, evidencing his strong skills in corporate finance, strategic and accounting matters.

Edward M. Schmults has served as a director since September 2010. Mr. Schmults currently serves as the Chief Executive Officer of Wild Things, LLC, a private company that provides cold weather clothing to the U.S. military and federal and state law enforcement agencies. Mr. Schmults has served as the Chief Executive Officer of Wild Things, LLC since 2009. From 2005 to 2009, Mr. Schmults served as the Chief Executive Officer of FAO Schwarz, a toy retailer. Prior to joining FAO Schwarz, he was employed at RedEnvelope, Inc., a catalog and internet retailer of affordable luxury goods, where he started as Senior Vice President of Operations in 2004 and was promoted to Chief Operating Officer in 2005. Mr. Schmults was a consultant in the Entrepreneur-in-Residence program at Benchmark Capital in London in 2003. From 2000 to 2003, he served as President of Global Sales for Freeborders, an enterprise software company. From 1997 to 2000, he served as President of Moonstone Mountain Equipment, an outdoor equipment company. Prior to joining Moonstone Mountain Equipment, Mr. Schmults held various positions at Patagonia, Inc., a high-end outdoor clothing company, from 1990 to 1997. Mr. Schmults previously served on the board of directors of Recreational Equipment, Inc. (REI), a retailer of outdoor clothing and equipment, from 2007 to 2010. He currently serves on the Board of Trustees of the National Outdoor Leadership School and is a member of the National Council of the American Prairie Foundation.

Mr. Schmults brings to our board of directors over 20 years of experience in branded consumer products, direct-to-consumer sales, finance, information technology and socially responsible business practices.

Family Relationships

Several members of our board of directors and executive officers are related to one another. See Certain Relationships and Related Party Transactions Relationships Among Members of our Board of Directors and Management on page 79 of this prospectus.

Board of Directors and Board Committees

We believe that our board of directors as a whole should encompass a range of talent, skill, diversity, and expertise enabling it to provide sound guidance with respect to our operations and interests. In addition to considering a candidate s background and accomplishments, candidates are reviewed in the context of the current composition of our board of directors and the evolving needs of our businesses. Our board of directors identifies candidates for election to the board and reviews their skills, characteristics and experience.

Our board of directors seeks directors with strong reputations and experience in areas relevant to the strategy and operations of our businesses, particularly industries and growth segments that we serve. We believe each of our current directors has operating experience that meets this objective. We believe that our board collectively has experience in core management skills, such as strategic and financial planning, public company financial reporting, corporate governance, risk management and leadership development.

Our board of directors also believes that each of our current directors has other key attributes that are important to an effective board: integrity and demonstrated high ethical standards; sound judgment; analytical skills; the ability to engage management and each other in a constructive and collaborative fashion; diversity of origin, background, experience and thought; and the commitment to devote significant time and energy to service on our board.

Our board of directors currently consists of Barbara Bradley Baekgaard, Robert J. Hall, John E. Kyees, Patricia R. Miller, P. Michael Miller, Michael C. Ray and Edward M. Schmults. Our board has determined that Barbara Bradley Baekgaard, Patricia R. Miller, P. Michael Miller, Robert J. Hall and Michael C. Ray are not independent under the listing standards of The Nasdaq Stock Market. See Certain Relationships and Related Party Transactions for a description of such relationships. Our board has also affirmatively determined that John E. Kyees and Edward M. Schmults satisfy the independence requirements of The Nasdaq Stock Market standards for service on our board and each of its committees.

Although The Nasdaq Stock Market standards require that a majority of our directors be independent, under special phase-in rules applicable to initial public offerings we have twelve months from the date of listing to comply with this requirement. We plan to achieve compliance with this requirement by adding independent directors to our board of directors before the expiration of the phase-in period.

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. Although The Nasdaq Stock Market standards require that all members of our board committees be independent, under special phase-in rules applicable to initial public offerings we have twelve months from the date of listing to comply with this requirement. We believe that the composition of our board committees will meet the criteria for independence under the rules of The Nasdaq Stock Market before the expiration of the phase-in period. Additionally, we believe that the functioning of these committees will comply with the Sarbanes-Oxley Act of 2002, the rules of The Nasdaq Stock Market and SEC rules and regulations.

Audit Committee. Our audit committee reviews and recommends to the board of directors internal accounting and financial controls and accounting principles and auditing practices to be employed in the preparation and review of our financial statements. In addition, our audit committee has the authority to engage public accountants to audit our annual financial statements and determine the scope of the audit to be undertaken by such accountants. Our audit committee consists of John E. Kyees, Edward M. Schmults and P. Michael Miller, with John E. Kyees serving as chairman. As determined by our board, John E. Kyees is an audit committee financial expert under SEC rules implementing the Sarbanes-Oxley Act of 2002.

Compensation Committee. Our compensation committee reviews and recommends to our Chief Executive Officer and the board of directors policies, practices and procedures relating to the compensation of managerial employees and the establishment and administration of certain employee benefit plans for managerial employees. The compensation committee has the authority to administer our 2010 Plan and advise and consult with our officers regarding managerial personnel policies. Our compensation committee consists of John E. Kyees, Edward M. Schmults and Robert J. Hall, with John E. Kyees serving as chairman.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee assists the board of directors with its responsibilities regarding the identification of individuals qualified to become directors, the

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selection of the director nominees for the next annual meeting of shareholders and the selection of director candidates to fill any vacancies on the board of directors. Our nominating and corporate governance committee consists of John E. Kyees, Edward M. Schmults and Patricia R. Miller, with Edward M. Schmults serving as chairman.

Compensation Committee Interlocks and Insider Participation

Historically, compensation decisions for our executive officers were made by our board of directors as a whole and certain officers and employees not on our board of directors at the time such decisions were made, including Michael C. Ray, Jeffrey A. Blade, David R. Traylor and Julie North. Following the closing of this offering, our compensation committee is expected to be comprised exclusively of directors who have not, at any time, served as an officer or employee of us or any of our subsidiaries. None of our executive officers has served as a member of the compensation committee, or other committee serving an equivalent function, of any other entity, one of whose executive officers served as a member of our compensation committee.

Limitation of Liability and Indemnification of Directors and Officers

Our second amended and restated articles of incorporation will provide for indemnification, to the fullest extent permitted by the IBCL, of our directors and officers against liability and reasonable expenses that may be incurred by them in connection with proceedings to which the directors or officers are made a party by reason of their relationship to the company. Our second amended and restated articles of incorporation and amended and restated bylaws will also provide for indemnification of our directors and officers where they have acted in good faith and in a