

Vera Bradley, Inc.  
Form 10-Q  
June 14, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarterly Period Ended April 30, 2011

OR

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

For the Transition Period From            to

Commission File Number: 001-34918

**VERA BRADLEY, INC.**

(Exact name of registrant as specified in its charter)

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**Indiana**  
(State or other jurisdiction of  
incorporation or organization)

**27-2935063**  
(I.R.S. Employer  
Identification No.)

**2208 Production Road, Fort Wayne, Indiana**  
(Address of principal executive offices)

**46808**  
(Zip Code)

**(877) 708-8372**  
(Registrant's telephone number, including area code)

**None**  
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

The registrant had 40,506,670 shares of its common stock outstanding as of June 10, 2011.

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**FORWARD-LOOKING STATEMENTS**

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

possible adverse changes in general economic conditions and their impact on consumer confidence and consumer spending;

possible inability to predict and respond in a timely manner to changes in consumer demand;

possible loss of key management or design associates or inability to attract and retain the talent required for our business;

possible inability to maintain and enhance our brand;

possible inability to successfully implement our growth strategies or manage our growing business;

possible inability to successfully open and operate new stores as planned;

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

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

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

For a discussion of these risks and other risks and uncertainties that could cause actual results to differ materially from those contained in our forward-looking statements, please refer to **Risk Factors** beginning on page 16 of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

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

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Vera Bradley, Inc.****Consolidated Balance Sheets**

(\$ in thousands)

(unaudited)

	April 30, 2011	January 29, 2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,318	\$ 13,953
Accounts receivable, net	35,467	34,300
Inventories	101,913	96,717
Prepaid expenses and other current assets	6,800	6,754
Deferred income taxes	9,191	8,743
Total current assets	157,689	160,467
Property, plant, and equipment, net of accumulated depreciation and amortization of \$34,918 and \$32,808, respectively	43,554	42,984
Other assets	2,651	2,588
Total assets	\$ 203,894	\$ 206,039
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 29,938	\$ 30,012
Accrued employment costs	8,914	17,892
Other accrued liabilities	11,933	10,551
Income taxes payable	7,408	10,010
Current portion of long-term debt	85	83
Total current liabilities	58,278	68,548
Long-term debt	61,912	66,934
Deferred income taxes	3,615	3,300
Other long-term liabilities	4,247	2,935
Total liabilities	128,052	141,717

Commitments and contingencies (Note 8)

Shareholders' equity:

Preferred stock; April 30, 2011, and January 29, 2011 5,000,000 shares authorized, no shares issued or outstanding

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Common stock, without par value; April 30, 2011, and January 29, 2011 200,000,000 shares authorized, 40,506,670 shares issued and outstanding		
Additional paid-in-capital	72,219	71,923
Retained earnings (accumulated deficit)	3,623	(7,601)
Total shareholders' equity	75,842	64,322
Total liabilities and shareholders' equity	\$ 203,894	\$ 206,039

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

**Table of Contents****Vera Bradley, Inc.****Consolidated Statements of Income**

(\$ in thousands, except per share data)

(unaudited)

	<b>Thirteen Weeks Ended</b>	
	<b>April 30, 2011</b>	<b>May 1, 2010</b>
Net revenues	\$ 101,390	\$ 85,002
Cost of sales	44,946	36,189
Gross profit	56,444	48,813
Selling, general, and administrative expenses	39,989	33,888
Other income	2,605	2,376
Operating income	19,060	17,301
Interest expense, net	316	308
Income before income taxes	18,744	16,993
Income tax expense	7,520	199
Net income	\$ 11,224	\$ 16,794
Basic weighted-average shares outstanding	40,506,670	35,440,547
Diluted weighted-average shares outstanding	40,532,169	35,440,547
Basic net income per share	\$ 0.28	\$ 0.47
Diluted net income per share	0.28	0.47
Basic distributions per share		0.38
Pro forma income information (Note 1):		
Income before income taxes		\$ 16,993
Pro forma income tax expense		6,797
Pro forma net income		\$ 10,196
Pro forma basic weighted-average shares outstanding		35,440,547
Pro forma diluted weighted-average shares outstanding		35,440,547
Pro forma basic net income per share		\$ 0.29
Pro forma diluted net income per share		0.29

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

**Table of Contents****Vera Bradley, Inc.****Consolidated Statements of Cash Flows**

(\$ in thousands)

(unaudited)

	<b>Thirteen Weeks Ended</b>	
	<b>April 30,</b>	<b>May 1,</b>
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 11,224	\$ 16,794
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property, plant, and equipment	2,110	2,043
Provision for doubtful accounts	41	149
Stock-based compensation	220	
Deferred income taxes	(133)	
Changes in assets and liabilities:		
Accounts receivable	(1,208)	(6,775)
Inventories	(5,196)	(6,224)
Other assets	(109)	1,703
Accounts payable	(74)	564
Accrued and other liabilities	(8,886)	(4,570)
Net cash provided by (used in) operating activities	(2,011)	3,684
<b>Cash flows from investing activities</b>		
Purchases of property, plant, and equipment	(2,680)	(2,100)
Net cash used in investing activities	(2,680)	(2,100)
<b>Cash flows from financing activities</b>		
Payments on financial-institution debt	(10,000)	(14,550)
Borrowings on financial-institution debt	5,000	19,300
Payments on vendor-financed debt	(20)	(5)
Change in bank overdraft		1,813
Payments of distributions		(13,301)
Other	76	
Net cash used in financing activities	(4,944)	(6,743)
Decrease in cash and cash equivalents	(9,635)	(5,159)
Cash and cash equivalents, beginning of period	13,953	6,509
Cash and cash equivalents, end of period	\$ 4,318	\$ 1,350

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





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**Vera Bradley, Inc.**

**Notes to the Consolidated Financial Statements**

**(unaudited)**

**1. Description of the Company and Basis of Presentation**

Vera Bradley, Inc. was formed as an Indiana corporation on June 23, 2010, 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 Vera Bradley, Inc. in return for shares of Vera Bradley, Inc. Class A Voting Common Stock and Class B Non-Voting Common Stock on a one-for-one basis. In addition, effective October 3, 2010, Vera Bradley Designs, Inc. converted from an S Corporation to a C Corporation for income tax purposes. Further, on October 18, 2010, Vera Bradley, Inc. recapitalized all of its Class A Voting Common Stock and Class B Non-Voting Common Stock into a single class of common stock and effectuated a 35.437-for-1 stock split of all outstanding shares of its common stock. These events collectively are referred to as the Reorganization. As a result of the Reorganization, Vera Bradley Designs, Inc. became a wholly owned subsidiary of Vera Bradley, Inc. Except where context requires or where otherwise indicated, the terms Company and Vera Bradley refer to Vera Bradley Designs, Inc. and its subsidiaries before the Reorganization and to Vera Bradley, Inc. and its subsidiaries, including Vera Bradley Designs, Inc., after the Reorganization. All historical common stock and per share common stock information has been changed to reflect the stock split.

Vera Bradley is a leading designer, producer, marketer, and retailer of stylish, highly functional accessories for women. The Company's products include a wide offering of handbags, accessories, and travel and leisure items. The Company generates net revenues by selling products through two reportable segments: Indirect and Direct. The Indirect business consists of sales of Vera Bradley products to approximately 3,300 independent retailers, substantially all of which are located in the United States, as well as select national retailers and third-party e-commerce sites. The Direct business consists of sales of Vera Bradley products through the Company's full-price, outlet, and Japanese pop-up stores, its websites, verabradley.com and verabradley.co.jp, and its annual outlet sale in Fort Wayne, Indiana. As of April 30, 2011, the Company operated 38 full-price stores and five outlet stores.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been omitted. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2011, filed with the SEC.

The interim financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly the results for the interim periods presented. All such adjustments are of a normal, recurring nature. The results of operations for the thirteen weeks ended April 30, 2011, are not necessarily indicative of the results to be expected for the full fiscal year.

**Principles of Consolidation**

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

**Fiscal Periods**

The Company's fiscal year ends on the Saturday closest to January 31. References to the fiscal quarters ended April 30, 2011, and May 1, 2010, refer to the thirteen-week periods ended on those dates.

**Comprehensive Income**

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The Company has excluded the Statement of Comprehensive Income from these consolidated financial statements because comprehensive income equals net income.

### **Reclassifications**

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

**Table of Contents****Vera Bradley, Inc.****Notes to the Consolidated Financial Statements****(unaudited)****Pro Forma Income Statement Information**

Prior to the Reorganization, the Company was taxed as an S Corporation for purposes of federal and state income taxes. Accordingly, each of the Company's shareholders was required to include his or her portion of the Company's taxable income or loss on his or her federal and state income tax returns. As part of the Reorganization, the Company's S Corporation status automatically terminated and the Company became subject to increased taxes.

The unaudited pro forma income statement information for the thirteen weeks ended May 1, 2010, gives effect to an adjustment for income tax expense as if the Company had been a C Corporation as of the beginning of the fiscal year ended January 29, 2011, at an assumed combined federal, state, and local effective tax rate of 40.0%.

**2. Earnings Per Share**

Net income per share is computed under the provisions of ASC 260, Earnings Per Share. Basic net income per share is computed based on the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed based on the weighted-average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares represent outstanding restricted stock units. The components of basic and diluted net income per share were as follows (\$ in thousands, except per share amounts):

	<b>Thirteen Weeks Ended</b>	
	<b>April 30, 2011</b>	<b>May 1, 2010</b>
<i>Numerator:</i>		
Net income	\$ 11,224	\$ 16,794