

VERA BRADLEY, INC.

FORM 10-Q (Quarterly Report)

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Address	12420 STONEBRIDGE ROAD ROANOKE, IN 46783
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended October 29, 2016

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

VERA BRADLEY, INC.

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of
incorporation or organization)

27-2935063

(I.R.S. Employer
Identification No.)

**12420 Stonebridge Road,
Roanoke, Indiana**

(Address of principal executive offices)

46783

(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 36,211,077 shares of its common stock outstanding as of November 30, 2016 .

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

- possible inability to successfully implement our long-term strategic plan;
- possible continued declines in our comparable sales;
- possible inability to maintain and enhance our brand;
- possible failure of our multi-channel distribution model;
- 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 inability to successfully open new stores and/or operate current stores as planned;
- possible loss of key management or design associates or inability to attract and retain the talent required for our business;
- possible ramifications from the payment card incident disclosed in October 2016; and
- possible data security or privacy breaches or disruptions in our computer systems or website.

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 risks and uncertainties that could cause actual results to differ materially from those contained in our forward-looking statements, please refer to “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 30, 2016 .

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	October 29, 2016	January 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 52,864	\$ 97,681
Short-term investments	30,088	—
Accounts receivable, net	37,772	31,294
Inventories	95,746	113,590
Income taxes receivable	2,407	785
Prepaid expenses and other current assets	12,168	10,292
Total current assets	231,045	253,642
Property, plant, and equipment, net	114,269	113,711
Deferred income taxes	10,176	11,363
Other assets	2,413	1,963
Total assets	\$ 357,903	\$ 380,679
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 18,489	\$ 24,606
Accrued employment costs	13,703	14,937
Other accrued liabilities	17,104	16,924
Income taxes payable	—	10,085
Total current liabilities	49,296	66,552
Long-term liabilities	27,895	28,872
Total liabilities	77,191	95,424
Commitments and contingencies		
Shareholders' equity:		
Preferred stock; 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, without par value; 200,000 shares authorized, 40,914 and 40,804 shares issued and 36,296 and 37,701 shares outstanding, respectively	—	—
Additional paid-in-capital	87,900	85,436
Retained earnings	260,316	244,009
Accumulated other comprehensive loss	(48)	(43)
Treasury stock	(67,456)	(44,147)
Total shareholders' equity	280,712	285,255
Total liabilities and shareholders' equity	\$ 357,903	\$ 380,679

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net revenues	\$ 126,662	\$ 126,674	\$ 351,088	\$ 348,502
Cost of sales	53,749	53,376	150,131	156,956
Gross profit	72,913	73,298	200,957	191,546
Selling, general, and administrative expenses	61,831	57,013	178,512	171,976
Other income	320	504	1,117	1,734
Operating income	11,402	16,789	23,562	21,304
Interest expense, net	59	60	170	209
Income before income taxes	11,343	16,729	23,392	21,095
Income tax expense	2,563	6,461	7,085	9,248
Net income	\$ 8,780	\$ 10,268	\$ 16,307	\$ 11,847
Basic weighted-average shares outstanding	36,557	38,057	37,045	39,085
Diluted weighted-average shares outstanding	36,682	38,099	37,173	39,104
Basic net income per share	\$ 0.24	\$ 0.27	\$ 0.44	\$ 0.30
Diluted net income per share	\$ 0.24	\$ 0.27	\$ 0.44	\$ 0.30

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

Vera Bradley, Inc.
Condensed Consolidated Statements of Comprehensive Income
(in thousands)
(unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net income	\$ 8,780	\$ 10,268	\$ 16,307	\$ 11,847
Cumulative translation adjustment	(2)	(5)	(5)	(4)
Comprehensive income	\$ 8,778	\$ 10,263	\$ 16,302	\$ 11,843

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

Vera Bradley, Inc.
Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Thirty-Nine Weeks Ended	
	October 29, 2016	October 31, 2015
Cash flows from operating activities		
Net income	\$ 16,307	\$ 11,847
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant, and equipment	14,542	14,665
Impairment charges	2,214	—
Provision for doubtful accounts	330	430
Loss on disposal of property, plant, and equipment	10	105
Stock-based compensation	3,111	3,750
Deferred income taxes	1,187	616
Gain on short-term investment	(88)	—
Changes in assets and liabilities:		
Accounts receivable	(6,808)	(7,021)
Inventories	17,844	(19,774)
Prepaid expenses and other assets	(2,326)	(2,169)
Accounts payable	(5,381)	(11,166)
Income taxes	(11,707)	5,852
Accrued and other liabilities	(2,741)	2,904
Net cash provided by operating activities	26,494	39
Cash flows from investing activities		
Purchases of property, plant, and equipment	(17,430)	(22,818)
Purchase of short-term investments	(30,000)	—
Proceeds from disposal of property, plant, and equipment	8	—
Net cash used in investing activities	(47,422)	(22,818)
Cash flows from financing activities		
Tax withholdings for equity compensation	(647)	(492)
Repurchase of common stock	(23,210)	(27,159)
Other financing activities, net	(27)	(62)
Net cash used in financing activities	(23,884)	(27,713)
Effect of exchange rate changes on cash and cash equivalents	(5)	(4)
Net decrease in cash and cash equivalents	(44,817)	(50,496)
Cash and cash equivalents, beginning of period	97,681	112,292
Cash and cash equivalents, end of period	\$ 52,864	\$ 61,796
Supplemental disclosure of cash flow information		
Cash paid for income taxes, net	\$ 19,458	\$ 2,267
Supplemental disclosure of non-cash activity		
Non-cash operating, investing, and financing activities		
Repurchase of common stock		
Expenditures incurred but not yet paid as of October 29, 2016 and October 31, 2015	\$ 535	\$ —
Expenditures incurred but not yet paid as of January 30, 2016 and January 31, 2015	\$ 436	\$ 116
Purchases of property, plant, and equipment		
Expenditures incurred but not yet paid as of October 29, 2016 and October 31, 2015	\$ 2,774	\$ 2,313
Expenditures incurred but not yet paid as of January 30, 2016 and January 31, 2015	\$ 2,872	\$ 2,172

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

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

1. Description of the Company and Basis of Presentation

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

Vera Bradley is a leading designer of women’s handbags, luggage and travel items, fashion and home accessories, and unique gifts. Founded in 1982 by friends Barbara Bradley Baekgaard and Patricia R. Miller, the brand’s innovative designs, iconic patterns, and brilliant colors continue to inspire and connect women.

Vera Bradley offers a unique, multi-channel sales model, as well as a focus on service and a high level of customer engagement. The Company sells its products through two reportable segments: Direct and Indirect. The Direct business consists of sales of Vera Bradley products through the Company’s full-line and factory outlet stores in the United States, verabradley.com, direct-to-consumer eBay sales, and the Company’s annual outlet sale in Fort Wayne, Indiana. As of October 29, 2016, the Company operated 114 full-line stores and 45 factory outlet stores. The Indirect business consists of sales of Vera Bradley products to approximately 2,600 specialty retail locations, substantially all of which are located in the United States, as well as department stores, national accounts, third-party e-commerce sites, the Company’s wholesale customer in Japan, and third-party inventory liquidators.

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 condensed or omitted as permitted by such rules and regulations. These interim condensed 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 30, 2016, filed with the SEC.

The interim financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly the results for the interim periods presented. All such adjustments are of a normal, recurring nature. The results of operations for the thirteen and thirty-nine weeks ended October 29, 2016, are not necessarily indicative of the results to be expected for the full fiscal year.

Principles of Consolidation

The condensed 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 October 29, 2016, and October 31, 2015, refer to the thirteen-week periods ended on those dates. References to the fiscal year-to-date periods ended October 29, 2016, and October 31, 2015, refer to the thirty-nine week periods ended on those dates.

Operating Leases and Tenant-Improvement Allowances

The Company has leases that contain rent holidays and predetermined, fixed escalations of minimum rentals. For each of these leases, the Company recognizes the related rent expense on a straight-line basis commencing on the date of initial possession of the leased property. The Company records the difference between the recognized rent expense and the amount payable under the lease as a deferred rent liability. As of October 29, 2016 and January 30, 2016, deferred rent liability was \$12.6 million and \$11.5 million, respectively, and is included within long-term liabilities on the Condensed Consolidated Balance Sheets.

The Company receives tenant-improvement allowances from some of the landlords of its leased properties. These allowances generally are in the form of cash received by the Company from its landlords as part of the negotiated lease terms. The Company records each tenant-improvement allowance as a deferred credit and amortizes the allowance on a straight-line basis as a reduction to rent expense over the term of the lease, commencing on the possession date. As of October 29, 2016 and January 30, 2016, the deferred lease credit liability was \$16.1 million and \$16.2 million,

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

respectively. Of these amounts, \$2.4 million and \$2.3 million is included within other accrued liabilities as of October 29, 2016 and January 30, 2016, respectively; \$13.7 million and \$13.9 million is included within long-term liabilities as of October 29, 2016 and January 30, 2016, respectively.

Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as the classification of related matters in the statement of cash flows. The standard is effective for public entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted.

The Company early adopted this standard beginning with the quarter ended April 30, 2016. The impact of the adoption of this standard was as follows:

- approximately \$62,000 of excess tax benefits was recorded through income tax expense as a discrete item for the thirty-nine weeks ended October 29, 2016, adopted on a prospective basis;
- excess tax benefits were combined with other income tax cash flows within operating cash flows adopted on a prospective basis; and
- cash paid by the Company when directly withholding shares to satisfy an employee's statutory tax obligations continued to be classified as a financing activity.
- The Company has elected to continue its current policy of estimating forfeitures rather than recognizing forfeitures when they occur.

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This guidance requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard allows for either a full retrospective or a modified retrospective transition method. In August 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 for all entities by one year to annual periods beginning after December 15, 2017, including interim periods within that reporting period, which for the Company is fiscal 2019. Earlier application is permitted as of the original effective date, annual reporting periods beginning after December 2016, including interim periods within that reporting period. The Company is currently evaluating the impact of this standard, including the transition method, on its consolidated results of operations, financial position and cash flows.

In July 2015, the FASB issued ASU 2015-11, *Inventory*, which requires entities to measure inventory at the lower of cost and net realizable value. This guidance is effective for interim and annual periods beginning on or after December 15, 2016. The Company is currently evaluating this guidance and does not expect the application of this standard to have a material impact on the Company's Consolidated Financial Statements upon adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which increases transparency and comparability among organizations by requiring lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases and disclosing key information about leasing arrangements. This guidance is effective for interim and annual periods beginning on or after December 15, 2018. The Company is currently evaluating the impact of the standard on its Consolidated Financial Statements.

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

2. Earnings Per Share

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
<i>Numerator:</i>				
Net income	\$ 8,780	\$ 10,268	\$ 16,307	\$ 11,847
<i>Denominator:</i>				
Weighted-average number of common shares (basic)	36,557	38,057	37,045	39,085
Dilutive effect of stock-based awards	125	42	128	19
Weighted-average number of common shares (diluted)	36,682	38,099	37,173	39,104
<i>Earnings per share:</i>				
Basic	\$ 0.24	\$ 0.27	\$ 0.44	\$ 0.30
Diluted	\$ 0.24	\$ 0.27	\$ 0.44	\$ 0.30

As of October 29, 2016 and October 31, 2015, there were an immaterial number of additional shares issuable upon the vesting of restricted stock units that were excluded from the diluted share calculations because they were anti-dilutive.

3. Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation as of the measurement date:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly;
- Level 3 – Unobservable inputs based on the Company's own assumptions.

The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement.

The carrying amounts reflected on the Condensed Consolidated Balance Sheets for cash and cash equivalents, receivables, other current assets, and payables as of October 29, 2016, and January 30, 2016, approximated their fair values.

Short-term investments consist of a certificate of deposit with an original maturity of one year and a one-time option to accelerate maturity to 31 days without penalty. The initial investment was \$30.0 million, and the Company has the positive intent and ability to hold the certificate of deposit to maturity. The accrued interest on the certificate of deposit is recognized in interest expense, net, in the Company's Condensed Consolidated Financial Statements. Due to the observable inputs, the certificate of deposit approximated its fair value as of October 29, 2016, and is classified within Level 2 of the fair value hierarchy.

The Company has certain assets that are measured on a non-recurring basis under circumstances and events described in Note 10 herein. The categorization of the framework to price these assets are within Level 3 due to the subjective nature of unobservable inputs.

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

4. Inventories

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

	October 29, 2016	January 30, 2016
Raw materials	\$ —	\$ 151
Finished goods	95,746	113,439
Total inventories	<u>\$ 95,746</u>	<u>\$ 113,590</u>

5. Debt

On July 15, 2015, Vera Bradley Designs, Inc. (“VBD”), a wholly-owned subsidiary of the Company, entered into a Second Amended and Restated Credit Agreement among VBD, the lenders from time to time party thereto, JPMorgan Chase Bank, National Association, as administrative agent; Wells Fargo Bank, National Association, as syndication agent; and KeyBank National Association, as documentation agent (the “Credit Agreement”), which amended and restated the Company's prior credit agreement. The Credit Agreement provides for certain credit facilities to VBD in an aggregate principal amount not to initially exceed \$125.0 million, the proceeds of which may be used for general corporate purposes of VBD and its subsidiaries, including but not limited to Vera Bradley International, LLC and Vera Bradley Sales, LLC (collectively, the “Named Subsidiaries”).

Amounts outstanding under the Credit Agreement bear interest, at VBD's option, at a per annum rate equal to either (A) the Alternate Base Rate (“ABR”) plus the Applicable Margin, where the ABR is the highest of (i) the prime rate, (ii) the federal funds rate plus 0.5%, and (iii) Adjusted LIBOR for a one-month interest period plus 1%, and the Applicable Margin is a percentage ranging from 0.00% to 0.70% depending upon the Company's leverage ratio or (B) Adjusted LIBOR plus the Applicable Margin, where Adjusted LIBOR means LIBOR, as adjusted for statutory reserve requirements for eurocurrency liabilities, and Applicable Margin is a percentage ranging from 1.00% to 1.70% depending upon the Company's leverage ratio. Any loans made, or letters of credit issued, pursuant to the Credit Agreement mature on July 15, 2020.

VBD's obligations under the Credit Agreement are guaranteed by the Company and the Named Subsidiaries. The obligations of VBD under the Credit Agreement are secured by first priority security interests in all of the respective assets of VBD, the Company, and the Named Subsidiaries and a pledge of the equity interests of VBD and the Named Subsidiaries.

The Credit Agreement contains various restrictive covenants, including restrictions on the Company's ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to stockholders or repurchase outstanding stock, enter into related party transactions and make capital expenditures, other than upon satisfaction of the conditions set forth in the Credit Agreement. The Company is also required to comply with certain financial and non-financial covenants, including maintaining a maximum leverage ratio, a minimum ratio of EBITDAR to the sum of interest expense plus rentals (as defined in the Credit Agreement), and a limit on capital expenditures. Upon an event of default, which includes certain customary events such as, among other things, a failure to make required payments when due, a failure to comply with covenants, certain bankruptcy and insolvency events, a material adverse change (as defined in the Credit Agreement), defaults under other material indebtedness, and a change in control, the lenders may accelerate amounts outstanding, terminate the agreement and foreclose on all collateral.

As of October 29, 2016 and January 30, 2016, the Company had borrowing availability of \$125.0 million under its Credit Agreement.

6. Income Taxes

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

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

The effective tax rate for the thirteen weeks ended October 29, 2016, was 22.6%, compared to 38.6% for the thirteen weeks ended October 31, 2015. The year-over year decrease is primarily due to the release of approximately \$1.6 million of certain income tax reserves as a result of the conclusion of an Internal Revenue Service ("IRS") audit.

The effective tax rate for the thirty-nine weeks ended October 29, 2016, was 30.3%, compared to 43.8% for the thirty-nine weeks ended October 31, 2015. The year-over year decrease is primarily due to the release of approximately \$1.6 million of certain income tax reserves as a result the conclusion of an IRS audit. The current-year period rate was also positively impacted by a discrete item related to an excess tax benefit from share-based payments as a result of the early adoption of ASU 2016-09, as further described in Note 1 herein.

7. Stock-Based Compensation

The Company recognizes stock-based compensation expense, for its awards of restricted stock units, in an amount equal to the fair market value of the underlying stock on the grant date of the respective award.

The Company reserved 6,076,001 shares of common stock for issuance or transfer under the 2010 Equity and Incentive Plan, which allows for grants of restricted stock units, as well as other equity awards.

Awards of Restricted Stock Units

During the thirteen weeks ended October 29, 2016, the Company granted 11,325 time-based restricted stock units with an aggregate fair value of \$0.2 million to certain employees under the 2010 Equity and Incentive Plan compared to a total of 4,533 time-based restricted stock units with an aggregate fair value of \$0.1 million granted in the same period of the prior year.

During the thirty-nine weeks ended October 29, 2016, the Company granted 413,457 time-based and performance-based restricted stock units with an aggregate fair value of \$7.6 million to certain employees and non-employee directors under the 2010 Equity and Incentive Plan compared to a total of 603,164 time-based and performance-based restricted stock units with an aggregate fair value of \$9.6 million granted in the same period of the prior year. The Company determined the fair value of the awards based on the closing price of the Company's common stock on the grant date.

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

Performance-based restricted stock units vest upon the completion of a three -year period of time (cliff vesting), subject to the employee's continuing employment throughout and the Company's achievement of annual earnings per share targets, or other Company performance targets, during the three-year performance period. The Company recognizes the expense relating to these units, net of estimated forfeitures, based on the probable outcome of achievement of the financial targets, on a straight-line basis over three years.

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

The following table sets forth a summary of restricted stock unit activity for the thirty-nine weeks ended October 29, 2016 (units in thousands):

	Time-based Restricted Stock Units		Performance-based Restricted Stock Units	
	Number of Units	Weighted- Average Grant Date Fair Value (per unit)	Number of Units	Weighted- Average Grant Date Fair Value (per unit)
Nonvested units outstanding at January 30, 2016	463	\$ 18.05	303	\$ 20.95
Granted	234	18.41	180	18.30
Vested	(144)	18.24	—	—
Forfeited	(41)	16.91	(73)	22.56
Nonvested units outstanding at October 29, 2016	512	\$ 18.26	410	\$ 19.51

As of October 29, 2016, there was \$7.5 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested restricted stock units. That cost is expected to be recognized over a weighted-average period of 1.6 years.

8. Commitments and Contingencies

Payment Card Incident

Description of Event

On September 15, 2016, the Company was provided information from law enforcement regarding a potential data security issue related to our retail store network. Findings from the investigation show unauthorized access to the Company's payment processing system and the installation of a program that looked for payment card data. The program was specifically designed to find track data in the magnetic stripe of a payment card that may contain the card number, cardholder name, expiration date, and internal verification code as the data was being routed through the affected payment systems. There is no indication that other customer information was at risk. Payment cards used at Vera Bradley store locations between July 25, 2016 and September 23, 2016 may have been affected. Not all cards used in stores during this time frame were affected. Cards used on verabradley.com were not affected.

The Company has resolved this incident and continues to work with the computer security firm to further strengthen the security of its systems to help prevent this from happening in the future. The Company continues to support law enforcement's investigation and also promptly notified the payment card networks so that the banks that issue payment cards could initiate heightened monitoring on the affected cards.

Expenses Incurred and Amounts Accrued

During the third quarter of fiscal 2017, the Company recorded an immaterial amount of expense relating to the Payment Card Incident. Expenses included costs to investigate the Payment Card Incident and obtain legal and other professional services.

Future Costs

The Company expects to incur additional legal and professional services, as well as expenses and capital investments for remediation activities associated with the Payment Card Incident and will recognize the expenses as incurred. In addition, payment card companies and associations may require the Company to reimburse them for unauthorized card charges and costs to replace cards and may also impose fines or penalties in connection with the Payment Card Incident, and enforcement authorities may also impose fines or other remedies against the Company. At this time, the Company cannot reasonably estimate the potential loss or range of loss related to any fines or penalties that may be assessed, if any. The Payment Card Incident, including customer response and any possible third party claims or assessments from payment card companies, could materially adversely affect the Company's financial condition and operating results. The Company expects its insurance coverage will offset most of the expenses for the investigation.

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and other non-remediation legal and professional services associated with the incident, possible third party claims, as well as fines, penalties, or other expenses, if any, imposed by payment card companies, as discussed above.

Insurance Coverage

The Company maintained \$15.0 million of cyber security insurance coverage above a \$0.1 million deductible.

Other Commitments and Contingencies

The Company is also subject to various claims and contingencies arising in the normal course of business, including those relating to product liability, legal claims, employee benefits, environmental, and other matters. Management believes that at this time it is not probable that any of these claims will have a material adverse effect on the Company's financial condition, results of operations, or cash flows. However, the outcomes of legal proceedings and claims brought against the Company are subject to uncertainty and future developments could cause these actions or claims, individually or in aggregate, to have a material adverse effect on the Company's financial condition, results of operations or cash flows of a particular reporting period.

9. Common Stock

On December 8, 2015, the Company's board of directors approved a share repurchase program (the "2015 Share Repurchase Program") authorizing up to \$50.0 million of repurchases of shares of the Company's common stock. The 2015 Share Repurchase Program expires in December 2017. The prior share repurchase program (the "2014 Share Repurchase Program") was approved by the board of directors on September 9, 2014, and authorized share repurchases up to \$40.0 million. The 2014 Share Repurchase Program was completed in fiscal 2016.

The Company purchased 1,515,002 shares at an average price of \$15.39 per share, excluding commissions, for an aggregate amount of \$23.3 million during the thirty-nine weeks ended October 29, 2016, under the 2015 Share Repurchase Program. As of October 29, 2016, there was \$22.5 million remaining available to repurchase shares of the Company's common stock under the 2015 Share Repurchase Program.

As of October 29, 2016, the Company held as treasury shares 4,617,354 shares of its common stock at an average price of \$14.61 per share, excluding commissions, for an aggregate carrying amount of \$67.5 million. The Company's treasury shares may be issued under the 2010 Equity and Incentive Plan or for other corporate purposes.

10. Property, Plant, and Equipment

Property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The reviews are conducted at the lowest identifiable level of cash flows. If the estimated undiscounted future cash flows related to the property, plant, and equipment are less than the carrying value, the Company recognizes a loss equal to the difference between the carrying value and the fair value, as further defined in Note 2 to the Company's Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016. An impairment charge of \$0.6 million and \$2.2 million was recognized, using level 3 inputs, for the thirteen and thirty-nine weeks ended October 29, 2016, respectively, for assets related to underperforming stores and is included in selling, general, and administrative expenses in the Condensed Consolidated Statements of Income and in impairment charges in the Condensed Consolidated Statements of Cash Flows. The impairment charges are included in the Direct segment. There were no impairment charges recognized in the comparable prior-year periods.

11. Restructuring and Other Charges

Thirty-Nine Weeks Ended October 31, 2015

In the first quarter of fiscal 2016, the Company closed its manufacturing facility located in New Haven, Indiana. The Company incurred restructuring and other charges during the first quarter of fiscal 2016 of approximately \$3.4 million (\$2.1 million after the associated tax benefit), related to the facility closing. These charges included:

- Severance and benefit costs of approximately \$1.7 million ;
- Lease termination costs of approximately \$0.7 million ;
- Inventory-related charges of approximately \$0.6 million ; and

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- Other associated net costs, which include accelerated depreciation related to fixed assets, of approximately \$0.4 million .

These charges are reflected in cost of sales in the Company's Condensed Consolidated Financial Statements. Management expects that the facility closure will reduce operating costs by approximately \$12.0 million annually. All production from the facility was absorbed by the Company's third-party manufacturing suppliers. There are no remaining liabilities associated with the facility closure.

Additional charges, incurred in the first quarter of fiscal 2016, affecting comparability of the financial results totaled approximately \$1.8 million (\$1.3 million after the associated tax benefit). These charges included:

- \$1.2 million due to a retail store early lease termination agreement (reflected in selling, general, and administrative expenses) and
- \$0.6 million related to an increase in income tax reserves for uncertain federal and state tax positions related to research and development tax credits (reflected in income tax expense).

12. Short-Term Investments

Short-term investments consist of a certificate of deposit with an original maturity of one year and a one-time option to accelerate maturity to 31 days without penalty. Interest income from the investment is included in interest expense, net, in the Company's Condensed Consolidated Financial Statements. The Company's objective with respect to this investment is to earn a higher rate of return, relative to deposit accounts, on funds that are otherwise not anticipated to be required to meet liquidity needs in the near term while maintaining a low level of investment risk. The Company has the positive intent and ability to hold this investment to maturity. As of October 29, 2016 , the Company held \$30.1 million in short-term investments. The Company did not have short-term investments as of January 30, 2016 .

13. Segment Reporting

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

The Direct segment includes the Company's full-line and factory outlet stores, the Company's website, verabradley.com, direct-to-consumer eBay sales, and the annual outlet sale. Revenues generated through this segment are driven through the sale of Company-branded products from Vera Bradley to end consumers.

The Indirect segment represents revenues generated through the distribution of Company-branded products to specialty retailers representing approximately 2,600 locations, substantially all of which are located in the United States, as well as key accounts, which include department stores, national accounts, third-party e-commerce sites, the Company's wholesale customer in Japan, and third-party inventory liquidators.

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

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Company management evaluates segment operating results based on several indicators. The primary or key performance indicators for each segment are net revenues and operating income. Net revenues and operating income information for the Company's reportable segments during the thirteen and thirty-nine weeks ended October 29, 2016 and October 31, 2015, respectively, consisted of the following (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Segment net revenues:				
Direct	\$ 86,101	\$ 84,137	\$ 246,288	\$ 238,345
Indirect	40,561	42,537	104,800	110,157
Total	<u>\$ 126,662</u>	<u>\$ 126,674</u>	<u>\$ 351,088</u>	<u>\$ 348,502</u>
Segment operating income:				
Direct	\$ 17,104	\$ 19,260	\$ 47,390	\$ 43,844
Indirect	16,920	19,056	41,526	43,748
Total	<u>\$ 34,024</u>	<u>\$ 38,316</u>	<u>\$ 88,916</u>	<u>\$ 87,592</u>
Reconciliation:				
Segment operating income	\$ 34,024	\$ 38,316	\$ 88,916	\$ 87,592
Less:				
Unallocated corporate expenses	(22,622)	(21,527)	(65,354)	(66,288)
Operating income	<u>\$ 11,402</u>	<u>\$ 16,789</u>	<u>\$ 23,562</u>	<u>\$ 21,304</u>

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

The following discussion summarizes the significant factors affecting the condensed consolidated operating results, financial condition, liquidity, and cash flows of the Company as of and for the thirteen and thirty-nine weeks ended October 29, 2016 and October 31, 2015. The following discussion should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended January 30, 2016, and our unaudited condensed consolidated financial statements and the related notes included in Item 1 of this Quarterly Report. The results of operations for the thirteen and thirty-nine weeks ended October 29, 2016, are not necessarily indicative of the results to be expected for the full fiscal year.

Executive Summary

Below is a summary of our strategic progress and financial results for the third quarter of fiscal 2017:

Strategic Progress

- During the third quarter, we opened a full-line store in Honolulu, Hawaii; our first full-line flagship store in New York, New York, in the SoHo neighborhood; and a new factory outlet store in Mebane, North Carolina. Our SoHo flagship features innovative design elements, limited edition items and a unique store experience.
- We began the implementation of our store renovation strategy and completed refreshes of 13 of our higher-volume and traffic full-line stores by adding our new branding, including storefront facade, logo, and interior changes. We also completed facade updates at 15 of our newest full line stores to reflect our new logo.
- We launched our marketing campaign, "It's Good to be a Girl," which is aimed at increasing brand visibility and igniting a social movement. We launched a comprehensive, multi-faceted media plan with a mix of digital, social, experiential and print advertising.
- We are continuing to work with our store teams to drive traffic and sales through enhancing our selling-and-service culture, as well as focusing on customer and community outreach.
- We are continuing to reinvigorate and modernize our product assortment with new materials, patterns, styles, silhouettes, hardware, and functionality. In early August, we launched our Gallatin relaxed leather collection and expanded our Collegiate products from 17 schools to over 70.
- We are continuing to work on the redesign and conversion of verabradley.com to a new platform, creating a dynamic digital flagship which is expected to launch in the first quarter of fiscal 2018. The new site will offer a number of enhancements including, among others, the ability to strategically segment and personalize messaging, express check-out, and "order on-line, pickup in-store."
- We are positioning for additional department store growth by continuing to work to increase the productivity of our existing doors through editing and curating assortments by location and enhancing our brand presentation.

Financial Summary (all comparisons are to the third quarter of fiscal 2016)

- Net revenues were consistent at \$126.7 million.
- Direct segment sales increased 2.3% to \$86.1 million. Comparable sales (including e-commerce) decreased 5.0%.
- Indirect segment sales decreased 4.6% to \$40.6 million.
- Gross profit was \$72.9 million, or 57.6% of net revenue.
- Operating income was \$11.4 million.
- Net income was \$8.8 million, or \$0.24 per diluted share. These results included a tax benefit of \$1.6 million, or \$0.04 per diluted share, further described in Note 6 herein.
- Cash and cash equivalents and short-term investments were \$83.0 million at October 29, 2016.
- Capital expenditures for the thirteen weeks totaled \$ 5.8 million.
- Repurchases of common stock for the thirteen weeks totaled \$7.6 million.

How We Assess the Performance of Our Business

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

Net Revenues

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

Comparable Sales

Comparable sales (including e-commerce) are calculated based upon our stores that have been open for at least 12 full fiscal months and net revenues from our e-commerce operations. Comparable store sales are calculated based solely upon our stores that have been open for at least 12 full fiscal months. Remodeled stores are included in both comparable sales and comparable store sales unless the store was closed for a portion of the current or comparable prior period or the remodel resulted in a significant change in square footage. Some of our competitors and other retailers calculate comparable or “same store” sales differently than we do. As a result, data in this report regarding our comparable sales and comparable store sales may not be comparable to similar data made available by other companies. Non-comparable sales include sales from stores not included in comparable sales or comparable store sales.

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

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

Gross Profit

Gross profit is equal to our net revenues less our cost of sales. Cost of sales includes the direct cost of purchased merchandise, distribution center costs, operations overhead, duty, and all inbound freight costs incurred. The components of our reported cost of sales may not be comparable to those of other retail and wholesale companies.

Gross profit can be impacted by changes in volume; fluctuations in sales price; operational efficiencies, such as leveraging of fixed costs; promotional activities, including free shipping; commodity prices, such as for cotton; and labor costs.

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

SG&A expenses include selling; advertising, marketing, and product development; and administrative. Selling expenses include Direct business expenses, such as store expenses, employee compensation, and store occupancy and supply costs, as well as Indirect business expenses consisting primarily of employee compensation and other expenses associated with sales to Indirect retailers. Advertising, marketing, and product development expenses include employee compensation, media costs, creative production expenses, marketing agency fees, new product design costs, public relations expenses, and market research expenses. A portion of our advertising expenses may be reimbursed by Indirect retailers, and such amount is classified as other income. Administrative expenses include employee compensation for corporate functions, corporate headquarters occupancy costs, consulting and software expenses, and charitable donations.

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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. Other income also includes proceeds from the sales of tickets to our annual outlet sale.

Operating Income

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

Net Income

Net income is equal to operating income less net interest expense and income taxes.

Results of Operations

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Statement of Income Data:				
Net revenues	\$ 126,662	\$ 126,674	\$ 351,088	\$ 348,502
Cost of sales	53,749	53,376	150,131	156,956
Gross profit	72,913	73,298	200,957	191,546
Selling, general, and administrative expenses	61,831	57,013	178,512	171,976
Other income	320	504	1,117	1,734
Operating income	11,402	16,789	23,562	21,304
Interest expense, net	59	60	170	209
Income before income taxes	11,343	16,729	23,392	21,095
Income tax expense	2,563	6,461	7,085	9,248
Net income	\$ 8,780	\$ 10,268	\$ 16,307	\$ 11,847
Percentage of Net Revenues:				
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of sales	42.4%	42.1%	42.8%	45.0%
Gross profit	57.6%	57.9%	57.2%	55.0%
Selling, general, and administrative expenses	48.8%	45.0%	50.8%	49.3%
Other income	0.3%	0.4%	0.3%	0.5%
Operating income	9.0%	13.3%	6.7%	6.1%
Interest expense, net	—%	—%	—%	0.1%
Income before income taxes	9.0%	13.2%	6.7%	6.1%
Income tax expense	2.0%	5.1%	2.0%	2.7%
Net income	6.9%	8.1%	4.6%	3.4%

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net Revenues by Segment:				
Direct	\$ 86,101	\$ 84,137	\$ 246,288	\$ 238,345
Indirect	40,561	42,537	104,800	110,157
Total	\$ 126,662	\$ 126,674	\$ 351,088	\$ 348,502
Percentage of Net Revenues by Segment:				
Direct	68.0%	66.4%	70.1%	68.4%
Indirect	32.0%	33.6%	29.9%	31.6%
Total	100.0%	100.0%	100.0%	100.0%
Operating Income by Segment:				
Direct	\$ 17,104	\$ 19,260	\$ 47,390	\$ 43,844
Indirect	16,920	19,056	41,526	43,748
Less: Corporate unallocated	(22,622)	(21,527)	(65,354)	(66,288)
Total	\$ 11,402	\$ 16,789	\$ 23,562	\$ 21,304
Operating Income as a Percentage of Net Revenues by Segment:				
Direct	19.9 %	22.9 %	19.2 %	18.4 %
Indirect	41.7 %	44.8 %	39.6 %	39.7 %
Store Data ⁽¹⁾:				
Total stores open at end of period	159	150	159	150
Comparable sales (including e-commerce) decrease ⁽²⁾	(5.0)%	(9.5)%	(5.7)%	(13.6)%
Total gross square footage at end of period (all stores)	367,874	342,362	367,874	342,362
Average net revenues per gross square foot ⁽³⁾	\$ 162	\$ 173	\$ 460	\$ 490

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

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

(3) Dollars not in thousands. Average net revenues per gross square foot are calculated by dividing total net revenues for our stores that have been open at least 12 full fiscal months as of the end of the period by total gross square footage for those stores. Remodeled stores are included in average net revenues per gross square foot unless the store was closed for a portion of the period.

Payment Card Incident

Description of Event

On September 15, 2016, we were provided information from law enforcement regarding a potential data security issue related to our retail store network. Findings from the investigation show unauthorized access to our payment processing system and the installation of a program that looked for payment card data. The program was specifically designed to find track data in the magnetic stripe of a payment card that may contain the card number, cardholder name, expiration date, and internal verification code as the data was being routed through the affected payment systems. There is no indication that other customer information was at risk. Payment cards used at Vera Bradley store locations between July 25, 2016 and September 23, 2016 may have been affected. Not all cards used in stores during this time frame were affected. Cards used on verabradley.com were not affected.

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We have resolved this incident and continue to work with the computer security firm to further strengthen the security of our systems to help prevent this from happening in the future. We continue to support law enforcement's investigation and also promptly notified the payment card networks so that the banks that issue payment cards could initiate heightened monitoring on the affected cards.

Expenses Incurred and Amounts Accrued

During the third quarter of fiscal 2017, we recorded an immaterial amount of expense relating to the Payment Card Incident. Expenses included costs to investigate the Payment Card Incident and obtain legal and other professional services.

Future Costs

We expect to incur additional legal and professional services, as well as expenses and capital investments for remediation activities associated with the Payment Card Incident and will recognize the expenses as incurred. In addition, payment card companies and associations may require us to reimburse them for unauthorized card charges and costs to replace cards and may also impose fines or penalties in connection with the Payment Card Incident, and enforcement authorities may also impose fines or other remedies against us. At this time, we cannot reasonably estimate the potential loss or range of loss related to any fines or penalties that may be assessed, if any. The Payment Card Incident, including customer response and any possible third party claims or assessments from payment card companies, could materially adversely affect our financial condition and operating results. We expect our insurance coverage will offset most of the expenses for the investigation and other non-remediation legal and professional services associated with the incident, possible third party claims, as well as fines, penalties, or other expenses, if any, imposed by payment card companies, as discussed above.

Insurance Coverage

We maintained \$15.0 million of cyber security insurance coverage above a \$0.1 million deductible.

Restructuring and Other Charges Affecting Comparability of the Thirteen and Thirty-Nine Weeks Ended October 29, 2016 , and October 31, 2015

Thirteen and Thirty-Nine Weeks Ended October 29, 2016

In the third quarter of fiscal 2017, we recognized a benefit of \$1.6 million for certain income tax reserve releases as a result of the conclusion of an IRS audit (reflected in income tax expense).

Thirty-Nine Weeks Ended October 31, 2015

In the first quarter of fiscal 2016, we closed our manufacturing facility located in New Haven, Indiana. We incurred restructuring and other charges during the first quarter of fiscal 2016 of approximately \$3.4 million (\$2.1 million after the associated tax benefit), related to the facility closing. These charges included:

- Severance and benefit costs of approximately \$1.7 million ;
- Lease termination costs of approximately \$0.7 million ;
- Inventory-related charges of approximately \$0.6 million ; and
- Other associated net costs, which include accelerated depreciation related to fixed assets, of approximately \$0.4 million .

These charges are reflected in cost of sales in our Condensed Consolidated Financial Statements. We expect that the facility closure will reduce operating costs by approximately \$12.0 million annually. All production from the facility was absorbed by our third-party manufacturing suppliers. There are no remaining liabilities associated with the facility closure.

Additional charges, incurred in the first quarter of fiscal 2016, affecting comparability of the financial results totaled approximately \$1.8 million (\$1.3 million after the associated tax benefit). These charges included:

- \$1.2 million due to a retail store early lease termination agreement (reflected in selling, general, and administrative expenses) and
- \$0.6 million related to an increase in income tax reserves for uncertain federal and state tax positions related to research and development tax credits (reflected in income tax expense).

Thirteen Weeks Ended October 29, 2016 , Compared to Thirteen Weeks Ended October 31, 2015

Net Revenues

For the thirteen weeks ended October 29, 2016 and October 31, 2015 , net revenues were consistent at \$126.7 million .

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Direct . For the thirteen weeks ended October 29, 2016 , net revenues in the Direct segment increased \$2.0 million , or 2.3% , to \$86.1 million , from \$84.1 million in the comparable prior-year period. This change resulted from a \$6.2 million contribution of revenue from our non-comparable stores, including nine additional stores opened in the current fiscal year, which was partially offset by a comparable sales (including e-commerce) decrease of \$4.2 million , or 5.0% . The decrease in comparable sales includes a 4.4% decrease in e-commerce sales and a 5.3% decrease in comparable store sales. The decline in comparable sales was primarily due to year-over-year declines in store traffic.

Indirect . For the thirteen weeks ended October 29, 2016 , net revenues in the Indirect segment decreased \$1.9 million , or 4.6% , to \$40.6 million , from \$42.5 million in the comparable prior-year period. This change was primarily due to a decline in orders from the Company's specialty retail accounts, partially offset by incremental sales to certain department stores and non-department store key accounts.

Gross Profit

For the thirteen weeks ended October 29, 2016 , gross profit decreased \$0.4 million , or 0.5% , to \$72.9 million , from \$73.3 million in the comparable prior-year period. As a percentage of net revenues, gross profit decreased to 57.6% for the thirteen weeks ended October 29, 2016 , from 57.9% in the comparable prior-year period. The decrease as a percentage of net revenues was primarily due to increased promotional activity at our factory outlet stores.

Selling, General, and Administrative Expenses

For the thirteen weeks ended October 29, 2016 , SG&A expenses increased \$4.8 million , or 8.5% , to \$61.8 million , from \$57.0 million in the comparable prior-year period. As a percentage of net revenues, SG&A expenses increased to 48.8% for the thirteen weeks ended October 29, 2016 , from 45.0% in the comparable prior-year period. The increase in SG&A expenses for the thirteen weeks ended October 29, 2016 was primarily due to new store expenses in the current-year period, marketing and advertising spending relating to our "It's Good to be a Girl" marketing campaign and SoHo flagship store, and \$0.6 million in store impairment charges, partially offset by a reduction in incentive compensation as a result of Company performance. SG&A expenses as a percentage of net revenues increased primarily due to the aforementioned items, as well as due to the spread of fixed expenses over lower comparable sales and deleveraging of store operating expenses as a result of lower comparable store sales.

Other Income

For the thirteen weeks ended October 29, 2016 , other income decreased \$0.2 million , or 36.5% , to \$0.3 million , from \$0.5 million in the comparable prior-year period, primarily due to a decrease in participation in the co-op mailer program.

Operating Income

For the thirteen weeks ended October 29, 2016 , operating income decreased \$5.4 million , or 32.1% , to \$11.4 million in the current-year period, from \$16.8 million in the comparable prior-year period. As a percentage of net revenues, operating income was 9.0% and 13.3% for the thirteen weeks ended October 29, 2016 and October 31, 2015 , respectively. The decrease in operating income was due to the factors described above.

Direct . For the thirteen weeks ended October 29, 2016 , operating income in the Direct segment decreased \$2.2 million , or 11.2% , to \$17.1 million from \$19.3 million in the comparable prior-year period. As a percentage of Direct segment net revenues, operating income in the Direct segment was 19.9% and 22.9% for the thirteen weeks ended October 29, 2016 and October 31, 2015 , respectively. The decrease in operating income as a percentage of Direct segment net revenues was primarily due to investments in new stores, increased promotional activity primarily at our factory outlet stores, \$0.6 million in store impairment charges, and deleveraging of store operating expenses as a result of lower comparable store sales.

Indirect . For the thirteen weeks ended October 29, 2016 , operating income in the Indirect segment decreased \$2.2 million , or 11.2% , to \$16.9 million from \$19.1 million in the comparable prior-year period. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 41.7% and 44.8% for the thirteen weeks ended October 29, 2016 and October 31, 2015 , respectively. The decrease in operating income as a percentage of Indirect segment net revenues was primarily due to lower sales.

Corporate Unallocated . For the thirteen weeks ended October 29, 2016 , unallocated expenses increased \$1.1 million , or 5.1% , to \$22.6 million from \$21.5 million in the comparable prior-year period. The increase in unallocated expenses was primarily due to marketing and advertising spending related to our "It's Good to be a Girl" marketing campaign and SoHo flagship store, partially offset by a reduction in incentive compensation as a result of Company performance.

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Income Tax Expense

The effective tax rate for the thirteen weeks ended October 29, 2016 , was 22.6% , compared to 38.6% for the thirteen weeks ended October 31, 2015 . The year-over year decrease is primarily due to the release of approximately \$1.6 million of certain income tax reserves as a result of the conclusion of an IRS audit.

Net Income

For the thirteen weeks ended October 29, 2016 , net income decreased \$1.5 million , or 14.5% , to \$8.8 million from \$10.3 million in the comparable prior-year period. The decrease in net income was due to the factors described above.

Thirty-Nine Weeks Ended October 29, 2016 , Compared to Thirty-Nine Weeks Ended October 31, 2015

Net Revenues

For the thirty-nine weeks ended October 29, 2016 , net revenues increased \$2.6 million , or 0.7% , to \$351.1 million , from \$348.5 million in the comparable prior-year period.

Direct . For the thirty-nine weeks ended October 29, 2016 , net revenues in the Direct segment increased \$8.0 million , or 3.3% , to \$246.3 million , from \$238.3 million in the comparable prior-year period. This change resulted from a \$21.5 million contribution of revenue from our non-comparable stores, including nine additional stores opened in the current fiscal year, which was partially offset by a comparable sales (including e-commerce) decrease of \$13.0 million , or 5.7% . The decrease in comparable sales includes a 6.8% decrease in e-commerce sales and a 5.2% decrease in comparable store sales. The decline in comparable sales was primarily due to year-over-year declines in store and e-commerce traffic, as well as lower levels of promotional activity in the first quarter.

Indirect . For the thirty-nine weeks ended October 29, 2016 , net revenues in the Indirect segment decreased \$5.4 million , or 4.9% , to \$104.8 million , from \$110.2 million in the comparable prior-year period. This change was primarily due to a decline in orders from the Company's specialty retail accounts, partially offset by incremental sales to certain department stores and non-department store key accounts.

Gross Profit

For the thirty-nine weeks ended October 29, 2016 , gross profit increased \$9.5 million , or 4.9% , to \$201.0 million , from \$191.5 million in the comparable prior-year period. As a percentage of net revenues, gross profit increased to 57.2% for the thirty-nine weeks ended October 29, 2016 , from 55.0% in the comparable prior-year period. The increase as a percentage of net revenues was primarily due to sourcing efficiencies (reduced overhead costs resulting from the closing of our domestic manufacturing facility), operational efficiencies, and increased penetration of made-for-outlet products, partially offset by fabrication and product mix and increased promotional activity primarily at our factory outlet stores in the second and third quarters. In addition, gross profit in the first quarter of the comparable prior-year period was impacted by restructuring charges of \$3.4 million related to the closure of our manufacturing facility in the first quarter of fiscal 2016, as discussed in more detail in Note 11 to the Notes to the Condensed Consolidated Financial Statements herein.

Selling, General, and Administrative Expenses

For the thirty-nine weeks ended October 29, 2016 , SG&A expenses increased \$6.5 million , or 3.8% , to \$178.5 million , from \$172.0 million in the comparable prior-year period. As a percentage of net revenues, SG&A expenses increased to 50.8% for the thirty-nine weeks ended October 29, 2016 , from 49.3% in the comparable prior-year period. The increase in SG&A expenses for the thirty-nine weeks ended October 29, 2016 was primarily due to new store expenses in the current-year period and \$2.2 million in store impairment charges, partially offset by a reduction in incentive compensation due to Company performance. In addition, the first quarter of the prior-year period included \$1.2 million in expense related to a retail store early termination agreement which did not recur in the current-year period. SG&A expenses as a percentage of net revenues increased primarily due to the aforementioned items and fixed expenses being spread over lower comparable sales and deleveraging of store operating expenses as a result of lower comparable store sales.

Other Income

For the thirty-nine weeks ended October 29, 2016 , other income decreased \$0.6 million , or 35.6% , to \$1.1 million , from \$1.7 million in the comparable prior-year period, primarily due to a decrease in participation in the co-op mailer program.

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Operating Income

For the thirty-nine weeks ended October 29, 2016 , operating income increased \$2.3 million , or 10.6% , to \$23.6 million in the current-year period, from \$21.3 million in the comparable prior-year period. As a percentage of net revenues, operating income was 6.7% and 6.1% for the thirty-nine weeks ended October 29, 2016 and October 31, 2015 , respectively. Operating income increased due to the factors described above.

Direct . For the thirty-nine weeks ended October 29, 2016 , operating income in the Direct segment increased \$3.6 million , or 8.1% , to \$47.4 million from \$43.8 million in the comparable prior-year period. As a percentage of Direct segment net revenues, operating income in the Direct segment was 19.2% and 18.4% for the thirty-nine weeks ended October 29, 2016 and October 31, 2015 , respectively. The increase in operating income as a percentage of Direct segment net revenues was primarily due to \$3.5 million in restructuring and other charges related to the closure of our manufacturing facility and a retail store early termination agreement in the comparable prior-year period, as well as an increase in gross profit as a percentage of net revenues, as described above, partially offset by investments in new stores, \$2.2 million in store impairment charges, and deleveraging of store operating expenses as a result of lower comparable store sales.

Indirect . For the thirty-nine weeks ended October 29, 2016 , operating income in the Indirect segment decreased \$2.2 million , or 5.1% , to \$41.5 million from \$43.7 million in the comparable prior-year period. As a percentage of Indirect segment net revenues, operating income in the Indirect segment was 39.6% and 39.7% for the thirty-nine weeks ended October 29, 2016 and October 31, 2015 , respectively. The decrease in operating income as a percentage of Indirect segment net revenues was primarily due to lower sales, partially offset by an increase in gross profit as a percentage of net revenues, as described above, as well as \$1.1 million in restructuring charges related to the closure of our manufacturing facility in the comparable prior-year period.

Corporate Unallocated . For the thirty-nine weeks ended October 29, 2016 , unallocated expenses decreased \$0.9 million , or 1.4% , to \$65.4 million from \$66.3 million in the comparable prior-year period. The decrease in unallocated expenses was primarily due to a decrease in incentive compensation as a result of Company performance.

Income Tax Expense

The effective tax rate for the thirty-nine weeks ended October 29, 2016 , was 30.3% , compared to 43.8% for the thirty-nine weeks ended October 31, 2015 . The year-over year decrease is primarily due to the release of approximately \$1.6 million of certain income tax reserves as a result the conclusion of an IRS audit. The current-year period rate was also positively impacted by a discrete item related to an excess tax benefit from share-based payments as a result of the early adoption of ASU 2016-09, as further described in Note 1 herein.

Net Income

For the thirty-nine weeks ended October 29, 2016 , net income increased \$4.5 million , or 37.6% , to \$16.3 million from \$11.8 million in the comparable prior-year period. The current-year period included \$2.2 million (\$1.4 million after the associated tax benefit) in store impairment charges, partially offset by a \$1.6 million tax benefit, as described in Note 6 to the Notes to the Condensed Consolidated Financial Statements herein. The comparable prior-year period included restructuring and other charges of \$5.2 million (\$3.4 million after the associated tax benefit), as described in Note 11 herein.

Liquidity and Capital Resources

General

Our primary sources of liquidity are cash on hand and cash equivalents, cash flow from operations, and short-term investments. We also have access to additional liquidity, if needed, through borrowings under our \$125.0 million second amended and restated credit agreement. There were no borrowings under this agreement during the thirty-nine weeks ended October 29, 2016 . There was no debt outstanding as of October 29, 2016 . Historically, our primary cash needs have been for merchandise inventories; payroll; store rent; capital expenditures associated with operational equipment, buildings, information technology, and opening new stores; share repurchases; and debt repayments. The most significant components of our working capital are cash and cash equivalents, short-term investments, merchandise inventories, accounts receivable, accounts payable, and other current liabilities.

We believe that cash on hand and cash equivalents, cash flows from operating activities, short-term investments, and the availability of borrowings under our second amended and restated credit agreement or other financing arrangements will be sufficient to meet working capital requirements, anticipated capital expenditures, share repurchases, and debt payments for the foreseeable future.

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Short-Term Investments

Short-term investments consist of a certificate of deposit with an original maturity of one year and a one-time option to accelerate maturity to 31 days without penalty. Interest income from the investment is included in interest expense, net, in our Condensed Consolidated Financial Statements. Our objective with respect to this investment is to earn a higher rate of return, relative to deposit accounts, on funds that are otherwise not anticipated to be required to meet liquidity needs in the near term while maintaining a low level of investment risk. We have the intent and ability to hold this investment to maturity.

Cash Flow Analysis

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

	Thirty-Nine Weeks Ended	
	October 29, 2016	October 31, 2015
Net cash provided by operating activities	\$ 26,494	\$ 39
Net cash used in investing activities	(47,422)	(22,818)
Net cash used in financing activities	(23,884)	(27,713)

Net Cash Provided by Operating Activities

Net cash provided by operating activities consists primarily of net income adjusted for non-cash items, including depreciation, amortization, deferred taxes, and stock-based compensation, the effect of changes in assets and liabilities, and tenant-improvement allowances received from landlords under our store leases.

Net cash provided by operating activities for the thirty-nine weeks ended October 29, 2016, was \$26.5 million, compared to net cash provided by operating activities of \$39.0 thousand for the thirty-nine weeks ended October 31, 2015. The increase in cash provided by operating activities was primarily a result of the timing of inventory receipts in the current-year period, which resulted in a source of cash for the current-year period of \$17.8 million, as compared to an inventory build in the comparable prior-year period for made-for-outlet product, which resulted in a use of cash of \$19.8 million in the comparable prior-year period, as well as an increase in net income of \$4.5 million. This was partially offset by a change in income taxes which resulted in a use of cash of \$11.7 million in the current-year period as compared to a source of cash of \$5.9 million in the comparable prior-year period. The income tax change was primarily a result of the timing of an \$11.5 million federal income tax payment in the current-year period, as well as incremental payments as a result of increased income in the current year.

In the comparable prior-year period, net income included cash payments of approximately \$2.6 million for restructuring activities related to the closure of our domestic manufacturing facility which did not recur in the current period. These payments consisted of \$1.7 million for severance and benefits, \$0.7 million for a lease termination and \$0.2 million in other associated costs.

Net Cash Used in Investing Activities

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

Net cash used in investing activities was \$47.4 million and \$22.8 million for the thirty-nine weeks ended October 29, 2016 and October 31, 2015, respectively. The increase in cash used in investing activities was due to a \$30.0 million short-term investment in a certificate of deposit made in the first quarter of fiscal 2017, partially offset by a decrease in property, plant, and equipment spending in the current-year period. The decrease in property, plant, and equipment spending was primarily a result of nine new stores opened in the current-year period as compared to 26 stores in the comparable prior-year period, as well as spending for the campus consolidation in the prior-year period which did not recur in the current-year period, partially offset by an increase in information technology investments, including spending for our e-commerce platform upgrade.

Capital expenditures for fiscal 2017 are expected to be approximately \$20.0 million.

Net Cash Used in Financing Activities

Net cash used in financing activities was \$23.9 million and \$27.7 million for the thirty-nine weeks ended October 29, 2016 and October 31, 2015, respectively. The decrease in cash used in financing activities was primarily due to a lower amount of purchases of shares of our common stock as compared to the prior-year period.

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Second Amended and Restated Credit Agreement

On July 15, 2015, Vera Bradley Designs, Inc. (“VBD”), a wholly-owned subsidiary of the Company, entered into a Second Amended and Restated Credit Agreement among VBD, the lenders from time to time party thereto, JPMorgan Chase Bank, National Association, as administrative agent; Wells Fargo Bank, National Association, as syndication agent; and KeyBank National Association, as documentation agent (the “Credit Agreement”), which amended and restated our prior credit agreement. The Credit Agreement provides for certain credit facilities to VBD in an aggregate principal amount not to initially exceed \$125.0 million, the proceeds of which may be used for general corporate purposes of VBD and its subsidiaries, including but not limited to Vera Bradley International, LLC and Vera Bradley Sales, LLC (collectively, the “Named Subsidiaries”).

Amounts outstanding under the Credit Agreement bear interest, at VBD's option, at a per annum rate equal to either (A) the Alternate Base Rate (“ABR”) plus the Applicable Margin, where the ABR is the highest of (i) the prime rate, (ii) the federal funds rate plus 0.5%, and (iii) Adjusted LIBOR for a one-month interest period plus 1%, and the Applicable Margin is a percentage ranging from 0.00% to 0.70% depending upon the Company's leverage ratio or (B) Adjusted LIBOR plus the Applicable Margin, where Adjusted LIBOR means LIBOR, as adjusted for statutory reserve requirements for eurocurrency liabilities, and Applicable Margin is a percentage ranging from 1.00% to 1.70% depending upon the Company's leverage ratio. Any loans made, or letters of credit issued, pursuant to the Credit Agreement mature on July 15, 2020. As of October 29, 2016, the Company had borrowing availability of \$125.0 million under the agreement.

VBD's obligations under the Credit Agreement are guaranteed by the Company and the Named Subsidiaries. The obligations of VBD under the Credit Agreement are secured by first priority security interests in all of the respective assets of VBD, the Company, and the Named Subsidiaries and a pledge of the equity interests of VBD and the Named Subsidiaries.

The Credit Agreement contains various restrictive covenants, including restrictions on the Company's ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to stockholders or repurchase outstanding stock, enter into related party transactions and make capital expenditures, other than upon satisfaction of the conditions set forth in the Credit Agreement. The Company is also required to comply with certain financial and non-financial covenants, including maintaining a maximum leverage ratio, a minimum ratio of EBITDAR to the sum of interest expense plus rentals (as defined in the Credit Agreement), and a limit on capital expenditures. Upon an event of default, which includes certain customary events such as, among other things, a failure to make required payments when due, a failure to comply with covenants, certain bankruptcy and insolvency events, a material adverse change (as defined in the Credit Agreement), defaults under other material indebtedness, and a change in control, the lenders may accelerate amounts outstanding, terminate the agreement and foreclose on all collateral. The Company was in compliance with these covenants as of October 29, 2016.

Off-Balance-Sheet Arrangements

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

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the related disclosures of contingent assets and liabilities at the date of the financial statements. A summary of the Company's significant accounting policies is included in Note 2 to the Company's consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

Certain accounting policies and estimates of the Company are considered critical, as these policies and estimates are the most important to the depiction of the Company's consolidated financial statements and require significant, difficult, or complex judgments, often about the effect of matters that are inherently uncertain. Such policies are summarized in the “Management's Discussion and Analysis of Financial Condition and Results of Operations” in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016. As of October 29, 2016, there was no significant change to any of the critical accounting policies and estimates described in the Annual Report.

Recently Issued Accounting Pronouncements

Refer to Note 1 *Description of the Company and Basis of Presentation* of this Quarterly Report on Form 10-Q for a discussion of recently issued accounting pronouncements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of October 29, 2016 , there was no material change in the market risks described in “Quantitative and Qualitative Disclosures About Market Risks” in the Company’s Annual Report on Form 10-K for the fiscal year ended January 30, 2016 .

ITEM 4. CONTROLS AND PROCEDURES

At the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company’s Disclosure Committee and management, including the Chief Executive Officer and the Chief Financial Officer of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of October 29, 2016 .

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

PART II. OTHER INFORMATION**ITEM 1A. RISK FACTORS**

There has been no material change to our risk factors as previously set forth in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016. Although there has been no material change to the risk factors disclosed in our Form 10-K for the fiscal year ended January 30, 2016, certain of such risks may be heightened as a result of the November 2016 U.S. elections.

The results of the November 2016 U.S. elections have introduced greater uncertainty with respect to tax and trade policies, tariffs and government regulations affecting trade between the U.S. and other countries. The majority of our finished goods products, not sourced through licenses or strategic partners, are manufactured overseas by a variety of global manufacturers located primarily in China. Major developments in tax policy or trade relations, such as the disallowance of tax deductions for imported merchandise or the imposition of unilateral tariffs on imported products, could have a material adverse effect on our business, results of operations and liquidity.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On December 8, 2015, the Company's board of directors approved a share repurchase program (the "2015 Share Repurchase Program") authorizing up to \$50.0 million of repurchases of shares of the Company's common stock. The 2015 Share Repurchase Program expires in December 2017. During the thirteen weeks ended October 29, 2016, the Company repurchased 522,871 shares of the Company's common stock at an average price of \$14.58 per share, excluding commissions.

Details on the shares repurchased under the program during the thirteen weeks ended October 29, 2016 are as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Program
July 31, 2016 - August 27, 2016	199,387	\$ 14.55	199,387	\$ 27,266,818
August 28, 2016 - October 1, 2016	125,097	15.62	125,097	25,312,487
October 2, 2016 - October 29, 2016	198,387	13.96	198,387	22,543,942
	<u>522,871</u>	<u>\$ 14.58</u>	<u>522,871</u>	

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ITEM 6. EXHIBITS

a. Exhibits

Exhibit No.	Description
31.1	CEO Section 302 Certification
31.2	CFO Section 302 Certification
32.1	Section 906 Certifications*
101	The following materials from Vera Bradley, Inc.'s Quarterly Report on Form 10-Q for the quarter ended October 29, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Income for the Thirteen and Thirty-Nine Weeks ended October 29, 2016 and October 31, 2015; (ii) Condensed Consolidated Statements of Comprehensive Income for the Thirteen and Thirty-Nine Weeks ended October 29, 2016 and October 31, 2015; (iii) Condensed Consolidated Balance Sheets as of October 29, 2016 and January 30, 2016; (iv) Condensed Consolidated Statements of Cash Flows for the Thirty-Nine Weeks ended October 29, 2016 and October 31, 2015, and (v) Notes to Condensed Consolidated Financial Statements. **

* Furnished, not filed.

** Pursuant to Rule 406T of SEC Regulation S-T, the Interactive Data Files included as Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these Sections.

SIGNATURE

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

Vera Bradley, Inc.
(Registrant)

Date: December 7, 2016

/s/ Kevin J. Sierks

Kevin J. Sierks

Executive Vice President – Chief Financial Officer

EXHIBIT INDEX

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* Furnished, not filed.

** Pursuant to Rule 406T of SEC Regulation S-T, the Interactive Data Files included as Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these Sections.

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert Wallstrom, certify that:

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

Date: December 7, 2016

/s/ Robert Wallstrom

Robert Wallstrom

Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Kevin J. Sierks, certify that:

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

Date: December 7, 2016

/s/ Kevin J. Sierks

Kevin J. Sierks

Executive Vice President - Chief Financial Officer

**CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert Wallstrom, the Chief Executive Officer of Vera Bradley, Inc., certify that (i) the quarterly report on Form 10-Q for the fiscal quarter ended October 29, 2016 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Vera Bradley, Inc. as of the dates and for the periods set forth therein.

/s/ Robert Wallstrom

Robert Wallstrom

Chief Executive Officer

December 7, 2016

Date

I, Kevin J. Sierks, the Executive Vice President – Chief Financial Officer of Vera Bradley, Inc., certify that (i) the quarterly report on Form 10-Q for the fiscal quarter ended October 29, 2016 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Vera Bradley, Inc. as of the dates and for the periods set forth therein.

/s/ Kevin J. Sierks

Kevin J. Sierks

Executive Vice President - Chief Financial Officer

December 7, 2016

Date