

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

Registration No. 333-167934

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**Amendment No. 6**

**to**

**Form S-1**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**VERA BRADLEY, INC.**

*(Exact name of registrant as specified in its charter)*

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

**3171**  
*(Primary Standard Industrial  
Classification Code Number)*  
**2208 Production Road**

**27-2935063**  
*(I.R.S. Employer  
Identification Number)*

**Fort Wayne, Indiana 46808**

**Phone: (877) 708-8372**

*(Address, including zip code, and telephone number, including area code,  
of registrant's principal executive offices)*

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**Michael C. Ray**

**Chief Executive Officer**

**Vera Bradley, Inc.**

**2208 Production Road**

**Fort Wayne, Indiana 46808**

**Phone: (877) 708-8372**

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

*including area code, of agent for service)*

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**Approximate date of commencement of proposed sale to the public:**

As soon as practicable after this Registration Statement becomes effective.

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

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

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

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

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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. (Check one):

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

### CALCULATION OF REGISTRATION FEE

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

(1) Includes 1,650,000 that may be sold if the over-allotment option granted to the underwriters is exercised in full.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(a) under the Securities Act of 1933, as amended.

(3) Includes \$12,477.50 previously paid.

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

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

*Subject to Completion, Dated October 13, 2010*

**PROSPECTUS**

**Vera Bradley, Inc.**

**11,000,000 Shares of Common Stock**

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

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

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

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

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

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

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

**Baird**

**Piper Jaffray**

**Wells Fargo Securities**

**KeyBanc Capital Markets**

**Lazard Capital Markets**

, 2010

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

**MARKET AND INDUSTRY DATA AND FORECASTS**

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

**BASIS OF PRESENTATION**

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



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**PROSPECTUS SUMMARY**

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

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

**Our Company**

Vera Bradley is a leading designer, producer, marketer and retailer of stylish and highly-functional accessories for women. Our products include a wide offering of handbags, accessories and travel and leisure items. Over our 28-year history, Vera Bradley has become a true lifestyle brand that appeals to a broad range of consumers. Our brand vision is accessible luxury that inspires a casual, fun and family-oriented lifestyle. We have positioned our brand to highlight the high quality, distinctive and vibrant styling and functional design of our products. Frequent releases of new designs help keep the brand fresh and our customers continually engaged.

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

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

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

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### **Evolution of Our Business**

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

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

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

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

### **Competitive Strengths**

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

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

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

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

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

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

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

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

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

## **Growth Strategies**

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

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

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

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

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

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### **Risk Factors**

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

- i possible adverse changes in general economic conditions and their impact on consumer confidence and consumer spending;
- i possible inability to predict and respond in a timely manner to changes in consumer demand;
- i possible loss of key management or design associates or inability to attract and retain the talent required for our business;
- i possible inability to maintain and enhance our brand;
- i possible inability to successfully implement our growth strategies or manage our growing business;
- i possible inability to successfully open and operate new stores as planned; and
- i possible inability to sustain levels of comparable-store sales.

### **Reorganization Transaction and Stock Split**

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

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

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

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

### **Company Information**

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

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

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

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

(\$ in thousands, except per share data and as otherwise indicated)

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

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

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

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

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

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

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

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

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

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

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

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

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





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**The Offering**

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

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

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**RISK FACTORS**

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

**Risks Related to Our Business**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

i developing high-quality products; and

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

prices at which new investors would be willing to purchase our equity securities may be

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

### ***We face various risks as an e-commerce retailer.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Upon the completion of this offering, assuming the overallotment option is exercised in full, Barbara Bradley Baekgaard, Patricia R. Miller and P. Michael Miller will, directly or indirectly, beneficially own and have the ability to exercise



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voting control over, in the aggregate, 54.8% of our outstanding shares of common stock. As a result, these shareholders will be able to exercise significant control over all matters requiring shareholder approval, including the election of directors, any amendments to our second amended and restated articles of incorporation and significant corporate transactions. These shareholders may exercise this control even if they are opposed by our other shareholders. Without the consent of these shareholders, we could be delayed or prevented from entering into transactions (including the acquisition of our company by third parties) that may be viewed as beneficial to us or our other shareholders. In addition, this significant concentration of stock ownership may adversely affect the trading price of our common stock should investors perceive disadvantages in owning shares of common stock in a company that has controlling shareholders.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**FORWARD-LOOKING STATEMENTS**

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

- i possible adverse changes in general economic conditions and their impact on consumer confidence and consumer spending;
- i possible inability to predict and respond in a timely manner to changes in consumer demand;
- i possible loss of key management or design associates or inability to attract and retain the talent required for our business;
- i possible inability to maintain and enhance our brand;
- i possible inability to successfully implement our growth strategies or manage our growing business;
- i possible inability to successfully open and operate new stores as planned; and
- i possible inability to sustain levels of comparable-store sales.

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

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

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

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**USE OF PROCEEDS**

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

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

**DIVIDEND POLICY**

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

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

**Table of Contents****CAPITALIZATION**

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

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

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

(\$ in thousands)

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

Total capitalization	\$117,926	\$121,386	\$121,386
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**Table of Contents****DILUTION**

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

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

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

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

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

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

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

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

	Number of Shares Purchased	Total Consideration	Average Price Per Share
Existing shareholders <sup>(1)</sup>	36,506,670	\$ 1,000	\$ 0.00
New investors	4,000,000	60,000,000	15.00

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

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



**Table of Contents****SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA**

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

(\$ in thousands, except per share data and as otherwise indicated)

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

**Net Revenues by Segment:**

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Indirect	\$	115,229	\$	175,397	\$	243,388	\$	167,454	\$	192,829	\$	87,861	\$	101,532
Direct		5,421		13,751		37,697		71,123		96,111		43,226		63,546
Total	\$	120,650	\$	189,148	\$	281,085	\$	238,577	\$	288,940	\$	131,087	\$	165,078

**Full-Price Store Data:<sup>(4)</sup>**

Total stores open at end of period		7		21		26		23		31
Comparable-store sales increase <sup>(5)</sup>				8.0%		36.4%		36.1%		26.0%
Total gross square footage at end of period		11,927		39,285		48,285		43,199		56,264
Average net revenues per gross square foot <sup>(6)</sup>	\$		\$	578	\$	615	\$	306	\$	349

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

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

*(\$ in thousands, except per share data)*

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

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

- i an adjustment for income tax expense as if we had been a C Corporation as of February 1, 2009 at an assumed combined federal, state, and local effective income tax rate of 40%, which approximates the calculated effective tax rate for each period, equal to \$16,754 and \$10,172, respectively; and
- i an adjustment to interest expense as if the borrowings under our amended and restated credit facility and the issuance of the undistributed taxable earnings notes had occurred as of February 1, 2009, which approximates \$850 and \$556, respectively, and a related income tax expense adjustment of \$340 and \$222, respectively.

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

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

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

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- (5) Comparable-store sales are the net revenues of our stores that have been open at least 12 full fiscal months as of the end of the period. Increase or decrease is reported as a percentage of the comparable-store sales for the same period in the prior fiscal year. Remodeled stores are included in comparable-store sales unless the store was closed for a portion of the current or comparable prior period or the remodel resulted in a significant change in square footage.
  
- (6) Dollars not in thousands. Average net revenues per gross square foot are calculated by dividing total net revenues for our stores that have been open at least 12 full fiscal months as of the end of the period by total gross square footage for those stores.

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

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

**Overview**

Vera Bradley is a leading designer, producer, marketer and retailer of stylish and highly-functional accessories for women. Our products include a wide offering of handbags, accessories and travel and leisure items. Over our 28-year history, Vera Bradley has become a true lifestyle brand that appeals to a broad range of consumers. Our brand vision is accessible luxury that inspires a casual, fun and family-oriented lifestyle. We have positioned our brand to highlight the high quality, distinctive and vibrant styling and functional design of our products. Frequent releases of new designs help keep the brand fresh and our customers continually engaged.

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

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

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

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

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

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

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

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

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

### **How We Assess the Performance of Our Business**

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

#### *Net Revenues*

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

*Comparable-Store Sales.* Comparable-store sales are calculated based upon our stores that have been open at least 12 full fiscal months as of the end of the reporting period. Remodeled stores are included in comparable-store sales unless the store was closed for a portion of the current or comparable prior period or the remodel resulted in a significant change in square footage. Some of our competitors and other retailers calculate comparable or same store sales differently than we do. As a result, data in this prospectus regarding our comparable-store sales may not be comparable to similar data made available by other companies. Non-comparable store sales include sales from stores not included in comparable-store sales.

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

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

*Gross Profit*

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

Gross profit can be impacted by changes in volume, operational efficiencies, such as leveraging of fixed costs, promotional activities, such as free shipping, and fluctuations in pricing structures within e-commerce and the annual outlet sale. Price changes in the Indirect and Direct channels, excluding e-commerce and the annual outlet sale, have had an immaterial impact as we have not had a standard practice of price increases or decreases. Additionally, because the number of our full-price stores is relatively small compared to the remainder of the business, channel mix has had an immaterial impact on consolidated gross margins.

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

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

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SG&A expenses fall into three categories: (1) selling; (2) advertising, marketing and product development; and (3) administrative. Selling expenses include Direct business expenses such as store expenses, including expenses attributable to new store openings, employee compensation, store occupancy and supply costs, as well as Indirect business expenses primarily consisting of employee compensation and other expenses associated with sales to Indirect retailers. Advertising, marketing and product development expenses include employee compensation, media costs, creative production expenses, marketing agency fees, new product design costs, public relations expenses and market research expenses. A portion of our advertising expenses may be reimbursed by Indirect retailers and such amount is classified as other income. Administrative expenses include compensation costs for corporate functions, corporate headquarters occupancy costs, consulting and software expenses, professional services fees and charitable donations. SG&A expenses increase as the number of stores increases, but not in the same proportion.



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### *Other Income*

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

### *Operating Income*

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

### *State Income Taxes*

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

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

### **Basis of Presentation**

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

**Table of Contents****Results of Operations**

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

(\$ in thousands)

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

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

(\$ in thousands)

	Year Ended	Fiscal Years Ended		Six Months Ended	
	December 31,	January 31,	January 30,	August	July 31,
	2007	2009	2010	1,	2010

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					<b>2009</b>	
					(unaudited)	(unaudited)
<b>Net Revenues by Segment:</b>						
Indirect	\$	243,388	\$	167,454	\$	192,829
Direct		37,697		71,123		96,111
Total	\$	281,085	\$	238,577	\$	288,940
					\$	131,087
						\$
						165,078

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

(\$ in thousands, except as otherwise indicated)

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

- (1) Our first full-price store was opened in mid-September 2007. These data exclude our two outlet stores as of July 31, 2010.
- (2) Comparable-store sales are the net revenues of our stores that have been open at least 12 full fiscal months as of the end of the period. Increase or decrease is reported as a percentage of the comparable-store sales for the same period in the prior fiscal year. Remodeled stores are included in comparable-store sales unless the store was closed for a portion of the current or comparable prior period or the remodel resulted in a significant change in square footage.
- (3) Dollars not in thousands. Average net revenues per gross square foot are calculated by dividing total net revenues for our stores that have been open at least 12 full fiscal months as of the end of the period by total gross square footage for those stores.

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

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

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

*Direct.* For the six months ended July 31, 2010, net revenues increased \$20.3 million, or 47.0%, to \$63.5 million, from \$43.2 million in the comparable prior-year period. The increase resulted from an increase in e-commerce revenues from \$22.8 million for the six months ended August 1, 2009 to \$30.3 million for the six months ended July 31, 2010. This \$7.5 million increase is due primarily to greater traffic from marketing initiatives. In addition, the number of our full-price stores grew from 23 at August 1, 2009 to 31 at July 31, 2010. Non-comparable full-price store sales increased by \$4.4 million and non-comparable outlet store sales increased by \$3.1 million, comparable-store sales increased

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by \$2.9 million, or 26.0%, and our annual outlet sales revenues increased by \$2.3 million. The improvement in outlet sale revenues resulted from an increase in the number of shoppers that attended the event due to increased popularity of the brand and higher average product pricing at the sale as a result of new pricing strategies.

### *Gross Profit*

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

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

*Selling, General and Administrative Expenses*

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

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

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

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

*Other Income*

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

*Operating Income*

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

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

(\$ in millions)

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

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

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

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

*Interest Expense, Net*

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

**Fiscal Year 2010 Compared to Fiscal Year 2009***Net Revenues*

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

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

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

### *Gross Profit*

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

### *Selling, General and Administrative Expenses.*

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

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

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

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

### *Other Income*

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



**Table of Contents***Operating Income*

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

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

(\$ in millions)

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

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

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

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

*Interest Expense, Net*

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

**Fiscal Year 2009 Compared to Calendar Year 2007***Net Revenues*

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

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

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

*Gross Profit*

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

*Selling, General and Administrative Expenses*

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

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

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

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

*Other Income*

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

**Table of Contents***Operating Income*

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

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

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

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

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

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

*Interest Expense, Net*

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

**Table of Contents****January 2008 Compared to January 2007**

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

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

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

*Operating Income*

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

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

(\$ in millions)

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

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

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

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

**Quarterly Operating Results**

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

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

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

(\$ in thousands)

	Fiscal Year 2009				Fiscal Year 2010				Fiscal Year 2011	
	First Quarter (unaudited)	Second Quarter (unaudited)	Third Quarter (unaudited)	Fourth Quarter (unaudited)	First Quarter (unaudited)	Second Quarter (unaudited)	Third Quarter (unaudited)	Fourth Quarter (unaudited)	First Quarter (unaudited)	Second Quarter (unaudited)
Net revenues	\$ 53,256	\$ 62,251	\$ 58,394	\$ 64,676	\$ 71,413	\$ 59,674	\$ 72,752	\$ 85,101	\$ 85,002	\$ 80,076
Indirect	32,805	51,287	41,978	41,384	47,376	40,485	54,466	50,501	54,174	47,358
Direct	20,451	10,964	16,416	23,292	24,037	19,189	18,286	34,600	30,828	32,718
Gross profit	26,937	35,626	24,966	35,575	34,670	29,567	39,878	47,022	48,813	46,823
Operating income	5,124	10,709	231	11,127	8,131	6,361	13,233	17,987	17,301	9,662
Net income (loss)	4,125	9,750	(431)	10,227	7,368	5,794	12,766	17,291	16,794	9,170

**Percentage of Annual Results:**

Net revenues	22.3%	26.1%	24.5%	27.1%	24.7%	20.7%	25.2%	29.5%	n/a	n/a
Indirect	13.7%	21.5%	17.6%	17.3%	16.4%	14.0%	18.9%	17.5%	n/a	n/a
Direct	8.6%	4.6%	6.9%	9.8%	8.3%	6.6%	6.3%	12.0%	n/a	n/a
Gross profit	21.9%	28.9%	20.3%	28.9%	22.9%	19.6%	26.4%	31.1%	n/a	n/a
Operating income	18.8%	39.4%	0.9%	40.9%	17.8%	13.9%	28.9%	39.3%	n/a	n/a
Net income (loss)	17.4%	41.2%	(1.8)%	43.2%	17.0%	13.4%	29.5%	40.0%	n/a	n/a

**Percentage of Net Revenues:**

Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Indirect	61.6%	82.5%	71.9%	64.0%	66.3%	67.8%	74.9%	59.3%	63.7%	59.1%
Direct	38.4%	17.6%	28.1%	36.0%	33.7%	32.2%	25.1%	40.7%	36.3%	