

Vera Bradley, Inc.  
Form DEF 14A  
April 27, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**VERA BRADLEY, INC.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- .. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
  - (5) Total fee paid:
- .. Fee paid previously with preliminary materials.
- .. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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**2016 PROXY STATEMENT  
AND  
NOTICE OF ANNUAL MEETING  
OF SHAREHOLDERS**

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**Welcome to the Vera Bradley, Inc.**

**Annual Meeting of Shareholders**

Dear Shareholder of Vera Bradley, Inc.:

You are cordially invited to attend the 2016 Annual Meeting of Shareholders of Vera Bradley, Inc., to be held at 11:00 a.m., Eastern Time, on May 26, 2016 at our Design Center located at 12420 Stonebridge Road, Roanoke, Indiana 46783.

The attached Notice of 2016 Annual Meeting of Shareholders and Proxy Statement provide information concerning the matters to be considered and voted on at the Annual Meeting. Please take the time to carefully read each of the proposals.

Regardless of the number of shares you hold or whether you plan to attend the meeting in person, your vote is important. Accordingly, please vote your shares as soon as possible by following the instructions you received on your proxy card. Voting your shares prior to the Annual Meeting will not prevent you from voting your shares in person if you subsequently choose to attend the meeting.

To make it easier for you to vote, Internet and telephone voting are available. The instructions for voting via the Internet and telephone can be found on your proxy card.

Thank you for your continued support of Vera Bradley.

Sincerely,

Robert Wallstrom  
*President and Chief Executive Officer*  
April 27, 2016

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**NOTICE OF 2016 ANNUAL MEETING OF SHAREHOLDERS**

**Date:** May 26, 2016

**Time:** 11:00 a.m., Eastern Time

**Place:** Vera Bradley Design Center

12420 Stonebridge Road

Roanoke, Indiana 46783

**Record Date:** March 28, 2016. You are entitled to vote at the Annual Meeting only if you were a shareholder at the close of business on the record date.

**Items of Business:** To elect four Directors for a three-year term to expire at the 2019 Annual Meeting of Shareholders

To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2017

To transact any other business as may properly come before the meeting or at any adjournments or postponements thereof

**Proxy Voting:** Shareholders of record may vote in person at the Annual Meeting in Fort Wayne, but may also appoint proxies to vote their shares in one of the following ways, by:

**Via Internet** cast your vote at  
www.proxyvote.com 24/7 until 11:59  
p.m., Eastern Time on May 25, 2016

**Via Phone** cast your vote by phone  
at 1-800-690-6903 24/7 until 11:59  
p.m., Eastern Time on May 25, 2016

**Via Mail** Mark, sign and date your  
proxy card and return it in the  
postage-paid envelope provided

Shareholders whose shares are held by a bank, broker or other nominee (in street name ) may instruct such records holders how to vote their shares. Any proxy may be revoked at any time prior to its exercise at the meeting by following the procedures described in the proxy solicitation materials. If you hold your shares in street name and wish to vote your shares in person at the Annual Meeting, you must obtain a legal proxy from your bank, broker or other nominee, giving you the right to vote the shares.

By Order of the Board of Directors,

Anastacia S. Knapper

Secretary

April 27, 2016

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on May 26, 2016: This 2016 Proxy Statement and Notice of Annual Meeting of Shareholders and our Fiscal 2016 Annual Report are available in the Investor Relations section of our website at [www.verabradley.com](http://www.verabradley.com).**

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**PROXY SUMMARY**

This summary highlights information contained elsewhere in this Proxy Statement. This summary does not contain all of the information you should consider, and we encourage you to read the entire Proxy Statement before voting.

**FISCAL 2016 BUSINESS HIGHLIGHTS**

**Strategic Progress**

Fiscal 2016 (beginning February 1, 2015 and running through January 30, 2016) was the second year of our multi-year turnaround, and we made significant progress against key elements of our long-term strategic plan, laid out in March 2014, focusing on the key planks of product, distribution and marketing.

We made progress on our *product* strategies, including:

- v Delivering innovation, newness and diversification through the introduction of several new fabrications, the launch of our Collegiate Collection and partnering with industry experts to launch our fragrance collection and expand our jewelry collection
- v Continuing to segment our offerings by distribution channel
- v Enhancing our gross profit percentage through sourcing efficiencies, higher penetration of our Made for Outlet (or MFO ) product and meaningfully reducing our promotional activity

We made progress on our *distribution* strategies, including:

- v Opening 15 full-line stores, all in our new modern store design
- v Opening 11 factory outlet stores and successfully transitioning to a MFO model
- v Making key enhancements to verabradley.com, including enhanced search, which improved conversion
- v Nearly doubling our department store presence at Macy's, adding distribution at select Belk and Bon-Ton stores and beginning our Amazon partnership

We began to modernize our *marketing* and increase brand and product awareness through:

- v Launching our multi-media national ad campaign
- v Increasing investment in social media, which resulted in a significant increase in the size of our social community as well as coverage by a broader range of fashion and lifestyle bloggers
- v Securing editorial and media attention in such fashion publications as *Elle*, *In Style* and *Teen Vogue*, as well as from online partners such as Pandora, SheKnows, Polyvore and Spotify
- v Introducing our Campus Ambassador program on several college campuses

**Financial Results**

The graphs below provide a snapshot of our performance in fiscal 2016 and the previous four years for continuing operations. Information related to the Company's discontinued operations may be found in Part II, Item 8 of the Company's Annual Report on Form 10-K for the year ended January 30, 2016.

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**PROXY SUMMARY**

**EXECUTIVE COMPENSATION**

Sound program design. We designed our executive officer compensation programs to attract, motivate and retain the key executives who drive our success and industry leadership. Pay that reflects performance and alignment with the interests of long-term shareholders are key principles. We achieve our objectives through compensation that:

- v Provides a competitive total pay opportunity.
- v Links a significant portion of total compensation to performance that we believe will create long-term shareholder value.
- v Enhances retention by subjecting a meaningful portion of total compensation to multi-year vesting.
- v Does not encourage unnecessary and excessive risk taking.

Pay practices. We believe that appropriate corporate governance of our executive compensation program is enhanced by a number of practices, including engagement by the Compensation Committee of its own independent consultant, the absence of tax gross-ups in any of our compensation programs (including no excise tax gross-ups) and the adoption of stock ownership guidelines applicable to directors and officers.

Pay for performance. Our compensation program allows our Compensation Committee to determine pay based on a comprehensive view of quantitative and qualitative factors designed to produce long-term business success. The correlation between our financial results and executive officer compensation awarded, as described in the Executive Compensation Discussion and Analysis which follows in this proxy statement, aligns the interests of our executive officers with those of the Company. Specifically in fiscal 2016:

- v There were no increases in base salaries of our Chief Executive Officer or the other named executive officers.
- v In addition to financial goals, the annual incentive included key strategic objectives tied to our long-term strategic plan and intended to focus the team on making progress in our multi-year turnaround.
- v The annual incentive paid out below target levels based on revenue and operating income results.
- v The first tranche of the performance-based restricted share units granted in fiscal 2016 were earned below target level based on EPS results.

**CORPORATE GOVERNANCE HIGHLIGHTS**

Our governance principles and practices include a number of policies and structures that we believe are best practices in corporate governance, including:

- v Appointment of a Lead Independent Director who participates in the process of preparing meeting agendas and schedules and presides over executive sessions of the Board of Directors.
- v Separation of Chairman of the Board and CEO.
- v Holding executive sessions with only independent directors present at each meeting of the Board.
- v Retention of an independent executive compensation consultant hired by and reporting directly to the Compensation Committee.
- v Adoption of minimum stock ownership guidelines applicable to directors and executive officers.
- v Establishment of holding requirements for equity grants made to directors and executive officers.
- v Adoption of policies prohibiting hedging, pledging and other problematic transactions involving Company securities by executive officers, directors and key employees.
- v Practice of no excise tax gross-ups for directors and executive officers.
- v No implementation of a poison pill.
- v Inclusion of double triggers for accelerated vesting of equity upon a change in control.

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**PROXY SUMMARY**

**SHAREHOLDER ENGAGEMENT**

The Board maintains a process for shareholders and interested parties to communicate with the Board. Shareholders and interested parties may write or call our Board as provided below:

<b><u>Write:</u></b>	<b><u>Internet:</u></b>	<b><u>Email:</u></b>
Secretary & General Counsel		
Vera Bradley, Inc.	<a href="http://investors.verabradley.com/contactBoard.cfm">http://investors.verabradley.com/contactBoard.cfm</a> or	<a href="mailto:jbentley@verabradley.com">jbentley@verabradley.com</a>
12420 Stonebridge Road	<a href="http://investors.verabradley.com/contactus.cfm">http://investors.verabradley.com/contactus.cfm</a>	
Roanoke, Indiana 46783		

We understand the importance of a robust shareholder engagement program. To that end, our executives and management routinely attend in-person shareholder meetings and investor conferences, as well as regular meetings with institutional shareholders. Our meetings and interactions with shareholders are designed to better understand how our shareholders perceive Vera Bradley and to provide our shareholders an opportunity to discuss matters that they believe deserve attention. We believe our engagement has been productive and provides an open exchange of ideas and perspectives for both our shareholders and us.

**BOARD NOMINEES**

Below are the directors nominated for election at the Annual Meeting to serve a three-year term which will expire at the 2019 Annual Meeting of Shareholders. The Board recommends a vote FOR each of the directors. Each director nominee will be elected by a plurality of votes cast.

AGE	DIRECTOR SINCE	OCCUPATION	INDEPEN- DENT (Y/N)	OTHER PUBLIC BOARDS	PRIVATE/ NFP BOARDS	AUDIT	COMMITTEE COMPENSATION	MEMBERSHIP AND NOMI	AND GOV
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lley	77	1982	Co-founder and Chief Creative Officer, Vera Bradley, Inc.	N	-	2	-	-	
m	69	2011	Managing Partner, Consumer Growth Partners	Y	-	2	Member	-	Me
iller	77	1982	Co-founder, Vera Bradley, Inc.	N	-	4	-	-	
ilip	58	2011	Retired Chief Merchandising Officer, L.L. Bean, Inc.	Y	1	6	-	Member	C

### AUDITORS

We ask that our shareholders ratify our appointment of Ernst & Young LLP, or E&Y, as our independent registered public accounting firm for fiscal 2017. Below is summary information about E&Y's fees for services provided for the fiscal year ended January 30, 2016:

#### FEES PAID TO E&Y IN FISCAL 2016

Audit fees	\$ 722,325
Audit related fees	
Tax fees	29,106
All other fees	2,000
<b>Total</b>	<b>\$ 753,431</b>

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**PROXY SUMMARY**

**QUESTIONS AND ANSWERS**

*See Questions and Answers on page 37 for additional information.*

Please see the Questions and Answers section beginning on page 37 for important information about the proxy materials, voting, the Annual Meeting, Vera Bradley documents, communications and the deadlines to submit shareholder proposals for the 2017 Annual Meeting of Shareholders.

**Note about forward-looking statements**

Certain statements in this proxy statement, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results and the assumptions upon which those statements are based, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including without limitation, this Proxy Summary and Executive Compensation Discussion and Analysis. These forward-looking statements generally are identified by the words believe, project, expect, anticipate, estimate, intend, strategy, future, opportunity, should, will, would, will be, will continue, will likely result, and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled Risk Factors of our Forms 10-K and 10-Q. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

**Table of Contents****PROPOSAL NO. 1****ELECTION OF DIRECTORS****VOTE REQUIRED AND BOARD RECOMMENDATION**

Vera Bradley's Board is divided into three classes serving staggered three-year terms. Directors for each class are elected at the annual meeting of shareholders held in the year in which the term for their class expires. Vera Bradley's Bylaws allow the Board to fix the number of directors by resolution, and our Board membership is currently set at eleven directors.

Below are the directors nominated for election by shareholders to an additional three-year term. The Board recommends a vote FOR each of the directors. Each director nominee will be elected by a plurality of votes cast, which means that the nominees receiving the highest number of votes will be elected as directors. Abstentions and broker non-votes will have no effect on the vote.

NAME	AGE	DIRECTOR SINCE	OCCUPATION	INDEPENDENT/ PUBLIC BOARD (Y/N)	OTHER PUBLIC BOARDS	FOR/AUDIT	COMMITTEE MEMBERSHIPS	MEMBERSHIPS	AND GOVERNANCE
Barbara Bradley Baekgaard	77	1982	Co-founder and Chief Creative Officer, Vera Bradley, Inc.	N	-	2	-	-	-
Richard Baum	69	2011	Managing Partner, Consumer Growth Partners	Y	-	2	Member	-	Member
Patricia R. Miller	77	1982	Co-founder, Vera Bradley, Inc.	N	-	4	-	-	-
Frances P. Philip	58	2011	Retired Chief Merchandising Officer, L.L. Bean, Inc.	Y	1	6	-	Member	Chair

Additional information regarding each director nominee, as well as the other members who serve on our board follows below.

The Board of Directors has no reason to believe that any of the nominees will be unable to serve as a director. If, however, any nominee becomes unable to serve as a director prior to the Annual Meeting, the proxies will have discretionary authority to vote for a substitute nominee. Unless authority to do so is withheld, the persons named as



proxies will vote FOR the election of the nominees.

**VERA BRADLEY S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS**

**A VOTE FOR THE ELECTION OF THE ABOVE-LISTED  
CLASS III NOMINEES TO THE BOARD OF DIRECTORS.**

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**THE BOARD OF DIRECTORS**

**DIRECTOR QUALIFICATIONS AND SELECTION PROCESS**

Each year at the Company's annual meeting of shareholders, the Board recommends a slate of director nominees for election by shareholders. In addition, the Board fills vacancies on the Board when necessary or appropriate. The Board's recommendations or determinations are based on the recommendations of, and information supplied by, the Nominating and Corporate Governance Committee as to the suitability of each individual and, where applicable, the slate as a whole to serve as directors, taking into account the criteria described below and other factors, including the requirements for Board committee membership.

The Nominating and Corporate Governance Committee is responsible for, among other things, reviewing on an annual basis the appropriate skills and characteristics required of directors in the context of prevailing business conditions and for making recommendations regarding the size and composition of the Board. The objective is a Board that brings to the Company a variety of perspectives and skills that are derived from high-quality business and professional experience and that are aligned with the Company's strategic objectives.

Nominees for the Board must be committed to enhancing long-term shareholder value and possess a high level of personal and professional ethics, sound business judgment, appropriate experience and achievements, personal

character and integrity. Board members are expected to understand our business and the industry in which we operate, regularly attend Board and committee meetings, participate in meetings and decision making processes in an objective and constructive manner and be available to advise our officers and management. Evaluations of candidates generally involve a review of background materials, internal discussions and interviews with selected candidates, as appropriate. Upon selection of a qualified candidate, the Nominating and Corporate Governance Committee recommends the candidate to the Board.

The Board also seeks members from diverse backgrounds so that the Board consists of members with a broad spectrum of experience and expertise and with a reputation for integrity, however, the Board does not believe the subjective and varying nature of the nomination process lends itself to a formal policy or fixed rules with respect to the diversity of the Board. The Nominating and Corporate Governance Committee may engage consultants or third-party search firms to assist in identifying and evaluating potential nominees.

In recommending nominees, the Committee considers nominees recommended by the Company's shareholders provided any such shareholder follows the procedures set forth in the Company's proxy statement for its most recent annual meeting of shareholders.

**DIRECTOR NOMINEES FOR ELECTION AT THE 2016 ANNUAL MEETING**

	<b>Age</b>	<b>Director Since</b>
<p><b>Barbara Bradley Baekgaard    Co-Founder</b></p> <p>Ms. Baekgaard co-founded Vera Bradley in 1982. From 1982 through June 2010, she served as Co-President. In May 2010, she was appointed Chief Creative Officer. She currently serves as a board member of the Indiana University Melvin and Bren Simon Cancer Center Development Board and the Vera Bradley Foundation for Breast Cancer.</p> <p><b>Qualifications:</b> As Co-Founder of Vera Bradley, Ms. Baekgaard serves a key leadership role on our Board of Directors and provides the Board with a broad array of institutional knowledge and historical perspective. Since our founding, Ms. Baekgaard has provided leadership and strategic direction in our brand's development by providing creative vision to areas such as marketing, product design, assortment planning and the design and visual merchandising of our stores.</p>	77	1982
<p><b>Richard Baum</b></p> <p>Mr. Baum is the managing partner of Consumer Growth Partners, a private equity firm with an exclusive investment focus on specialty retail and branded consumer products companies, which he helped to found in 2005. Prior to founding Consumer Growth Partners, Mr. Baum spent more than a decade serving in various equity research roles with investment banking, securities and investment management firms Credit Suisse, Goldman Sachs and Sanford Bernstein.</p>	69	2011

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Mr. Baum serves on the Board of Directors of Harris Originals of NY, Inc., a privately-held jewelry retailer for U.S. military service personnel. He also serves on the Boards of Directors of the Association for Corporate Growth New York, Inc. and the Retail Marketing Society.

**Qualifications:** Mr. Baum brings to the Board of Directors particular knowledge and experience in finance and capital structure, strategic planning, consumer brand strategy, retail merchandising and operations.

**Patricia R. Miller Co-Founder****77****1982**

Ms. Miller co-founded Vera Bradley in 1982. From 1982 through June 2010, she served as Co-President. In June 2010, she was appointed National Spokesperson for the Company where she continued to promote our brand until her retirement in October 2012. Ms. Miller served as the first Secretary of Commerce for the State of Indiana and the Chief Executive Officer of the Indiana Economic Development Corporation from 2005 to 2006. Ms. Miller serves as a director for the Indiana University Foundation and for the Vera Bradley Foundation for Breast Cancer.

**Qualifications:** As Co-Founder of Vera Bradley, Ms. Miller brings to our Board of Directors a broad array of institutional knowledge and historical perspective. Ms. Miller also provides insight and perspective on general strategic and business matters, stemming from her extensive executive and finance experience. Until her retirement from the Company, Ms. Miller provided leadership and strategic direction to the business, guiding the development of our operations and supply chain infrastructure and the growth of our employee base, giving her a unique perspective as a Board member.

**Frances P. Philip****58****2011**

From 1994 to 2011, Ms. Philip held positions of increasing responsibility at L.L. Bean, Inc. a privately-held outdoor apparel and equipment retailer based in Freeport, Maine, including Chief Merchandising Officer from 2002 to 2011. Prior to working at L.L. Bean, Ms. Philip was one of three principals who launched the innovative fresh flower catalog, Calyx & Corolla and she served in a variety of roles with other specialty retailers, including The Nature Company, Williams-Sonoma and The Gap.

Ms. Philip also serves on the boards of Pacific Sunwear of California, Inc., a publicly-traded specialty retailer of branded and proprietary casual apparel, accessories and footwear; Crane & Co., Inc., a privately-held manufacturer of US currency paper and fine cotton papers used for business and personalized stationery (which Ms. Philip will leave in May 2016); Sea Bags, a privately-held manufacturer and retailer of handcrafted tote bags and accessories made from recycled sails; Totes-Isotoner Corporation, a privately-held international umbrella, footwear and cold weather accessory supplier; and Regent Holdings, a privately-held designer, importer and wholesaler of home décor. She also serves on the advisory boards of the privately-held companies Kind Exchange and Lee Auto and on the Board of the Coastal Humane Society, a non-profit organization.

**Qualifications:** Ms. Philip brings to our Board of Directors extensive experience in product design and development, multi-channel merchandising and the retail and consumer products industry.

**DIRECTORS CONTINUING IN OFFICE**

<b>Directors Serving until the 2017 Annual Meeting</b>	<b>Age</b>	<b>Director Since</b>
<b>Mary Lou Kelley</b>	<b>55</b>	<b>2015</b>

Ms. Kelley has served as President, E-Commerce for Best Buy since April 2014. Prior to joining Best Buy, Ms. Kelley served as Senior Vice President, E-Commerce for Chico's FAS Inc. from June 2010 to March 2014. Ms. Kelley formerly held the posts of Vice President of Retail Real Estate and Marketing and Vice President of E-Commerce for L.L. Bean.

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**Qualifications:** Ms. Kelley has deep capabilities in developing the retail omni-channel experience, as well as e-commerce, marketing and strategic planning experience. She provides insight and counsel on a variety of issues as the Company continues to pursue our long-term strategic plan, which includes elevating our marketing efforts and growing our verabradley.com digital flagship.

**John E. Kyees    Lead Independent Director****69****2010**

From February 2014 through May 2014, Mr. Kyees served as the interim Chief Financial Officer of Destination XL Group, Inc., the largest multi-channel specialty retailer of big and tall men's apparel. In 2010, Mr. Kyees retired as the Chief Investor Relations Officer from Urban Outfitters, Inc., a retail chain headquartered in Philadelphia, Pennsylvania, after serving as Chief Financial Officer from 2003 to 2010. Mr. Kyees formerly held the position of Chief Financial Officer and Chief Administrative Officer for bebe stores, Inc., a retail chain headquartered in San Francisco, California, from 2002 to 2003.

Mr. Kyees is currently a director of Destination XL Group, Inc. and a director and member of the audit committee of Rackwise Inc., a publicly-traded provider of data center infrastructure management software. In addition, Mr. Kyees is also a director of Arhaus Furniture, a privately-held retailer, and Applaud, LLC, a privately-held social networking site.

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

**Matthew McEvoy****54****2011**

Mr. McEvoy is Chief of Strategy and New Business Development at Burberry Group plc, a luxury apparel and accessories company based in London. Prior to joining Burberry in 2002, Mr. McEvoy worked for nearly 15 years at Goldman Sachs & Co., a global investment banking, securities and investment management firm, where he held positions of increasing responsibility, including Vice President of the Retail and Apparel Focus Group from 1993 to 2001.

**Qualifications:** Mr. McEvoy brings to the Board of Directors extensive experience in retail operations and strategic planning, years of experience at an international retail public company and a proven track record of driving international growth and expansion.

**Robert Wallstrom    President and Chief Executive Officer****50****2013**

Mr. Wallstrom joined Vera Bradley as its President and Chief Executive Officer in 2013. From 2007 to 2013, Mr. Wallstrom served as President of Saks Fifth Avenue OFF 5TH, the

outlet chain operated by Saks Fifth Avenue. Previously, he was Group Senior Vice President and General Manager of Saks' flagship New York store from 2002 to 2007. Prior to joining Saks, Mr. Wallstrom held a variety of roles at retailer Macy's Inc. from 1987 to 1995. Mr. Wallstrom serves on the Board of Directors of the LIM Fashion Education Foundation.

**Qualifications:** Mr. Wallstrom is a successful retail executive with extensive brand management experience, proven leadership abilities and a strong track record of driving growth. As President of Saks Fifth Avenue OFF 5TH, Mr. Wallstrom developed and implemented a strategic plan that repositioned the division as a growth engine, propelling it to a market-leading position. Mr. Wallstrom is extremely well-regarded in the retail industry and has a proven track record developing and successfully executing strategic growth plans. He has a deep background in brand positioning, product development, store operations and planning and allocation.

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<b>Directors Serving until the 2018 Annual Meeting</b>	<b>Age</b>	<b>Director Since</b>
<p><b>Robert J. Hall Chairman</b></p> <p>Mr. Hall has served as Chairman of the Board since September 2010. Mr. Hall is the President of Green Gables Partners, a private investment firm that he founded in 2010. Prior to founding Green Gables, Mr. Hall started Andesite Holdings, a private equity firm, where he served as principal from 2007 to 2014. Mr. Hall served as an Executive Director for UBS Financial Services from 2000 to 2007.</p>	<b>57</b>	<b>2007</b>
<p>Mr. Hall serves as a director of FlyLow Gear Co., a privately-held manufacturer of outerwear; New World Stoneworks LLC, a privately-held retailer of stone products; and Bill's Khakis, a privately-held clothing retailer. Mr. Hall also serves as the Chairman of the Board of the Mid-Atlantic region of Teach for America; is a member of the Board of the Philadelphia School Partnership; is a member of Philadelphia School Advocacy Partners; and serves as trustee of The Holderness School.</p>		
<p><b>Qualifications:</b> Mr. Hall provides our Board of Directors with insight and perspective on general strategic and financial matters stemming from his extensive experience in investment banking, investment management, financial planning and private placements.</p>		
<p><b>P. Michael Miller</b></p> <p>In 2013, Mr. Miller retired as a senior partner in the law firm of Hunt Suedhoff Kalamaros LLP, where he served as a partner from 1997. From 1990 through June 2010, Mr. Miller served as our Secretary and Treasurer. Mr. Miller also serves on the Board of Directors of the Vera Bradley Foundation for Breast Cancer.</p>	<b>78</b>	<b>1990</b>
<p><b>Qualifications:</b> Mr. Miller has been involved with Vera Bradley since its inception and brings to our Board of Directors a broad array of institutional knowledge and historical perspective. Mr. Miller also provides insight and guidance on legal and business matters, stemming from his years of experience as a practicing attorney prior to his retirement.</p>		
<p><b>Edward M. Schmults</b></p> <p>Since 2009, Mr. Schmults has served as the Chief Executive Officer and a director of Wild Things, LLC, a privately-held company that provides technical apparel, packs and bags to the U.S. military, federal and state law enforcement agencies and the consumer market. From 2005 to 2009, Mr. Schmults served as the Chief Executive Officer of FAO Schwarz, a toy retailer. Prior to joining FAO Schwarz, he was employed at RedEnvelope, Inc., a catalog and internet retailer of affordable luxury goods, where he started as Senior Vice President of Operations in 2004 and was promoted to Chief Operating Officer in 2005.</p>	<b>53</b>	<b>2010</b>



Mr. Schmults currently serves on the advisory board of First Insight, Inc., a privately-held retail consulting company; and is a member of the Board of Directors of Algenesis, a privately-held manufacturer of plant-based plastics and foams.

**Qualifications:** Mr. Schmults brings to our Board of Directors over 20 years of experience in branded consumer products, direct-to-consumer sales, finance, information technology and socially responsible business practices.

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**CORPORATE GOVERNANCE**

We believe corporate governance should promote the long-term interests of our shareholders, as well as maintain internal checks and balances, strengthen management accountability, engender public trust and foster responsible decision making and accountability. We continue to strengthen existing governance practices and develop new policies that make us a better company. To that end, the following policies and practices are used to guide and regulate various actions, in addition to the Company's Articles of Incorporation and Bylaws.

**CORPORATE GOVERNANCE GUIDELINES**

Our Corporate Governance Guidelines set out various rules and principles for self-governance and address such matters as Board composition and structure, duties and responsibilities of directors and the Board and the duties of the Lead Independent Director, among other matters.

**CONFLICT OF INTEREST AND BUSINESS ETHICS POLICY**

We believe that credibility, integrity, trustworthiness and our core values are critical components of the current and future success of our business. Our Conflict of Interest and Business Ethics Policy is intended to help uphold high ethical standards in all of our operations by promoting ethical conduct and compliance with applicable laws, rules, regulations and standards. Our Board recognizes that no code of ethics can replace the thoughtful behavior of an ethical director or employee, but such a Code can provide guidance to help recognize and deal with ethical issues and to foster a culture of accountability.

**CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS**

In addition to being subject to the Conflict of Interest and Business Ethics Policy, our Chief Executive Officer, Chief Financial Officer, Treasurer and Corporate Controller are also subject to our Code of Ethics for Senior Financial Officers. We will disclose on our website ([www.verbradley.com](http://www.verbradley.com)) any amendment to, or waiver from, a provision of the Policy or Code that applies to our Chief Executive Officer, Chief Financial Officer, Treasurer and Corporate Controller or persons performing similar functions and that relates to:

- v Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
- v Full, fair, accurate, timely and understandable disclosure in reports and documents that we file with the SEC and in other public communications we make.
- v Compliance with applicable governmental laws, rules and regulations.
- v The prompt internal reporting of violations of the Code to an appropriate person or persons identified in the code.
- v Accountability for adherence to the Code.

**RISK OVERSIGHT**

Our Board has and exercises ultimate oversight responsibility with respect to enterprise risk assessment and to the management of the strategic, operational, financial and legal risks facing our Company and its operations and financial condition. The Board is involved in setting our business and financial strategies and establishing what constitutes the appropriate level of risk for us and our business segments. Various committees of the Board provide assistance to the Board in its oversight of, among other things, risk assessment and risk management. The Board also monitors the process by which risk assessment and management is developed and implemented by management and reported to the full Board.

Our Audit Committee assists the Board in its oversight of our policies relating to risk assessment and risk management generally, with particular focus on our management of major financial risk exposures.

Our Compensation Committee assists the Board in assessing the nature and degree of risk that may be created by our compensation policies and practices to ensure both their appropriateness in terms of the level of risk-taking and consistency with our business strategies. In conjunction with its assessment, the Committee, with the assistance of Meridian Compensation Consultants, its independent compensation consultant, reviews our compensation policies and practices. That review encompasses each of our incentive plans, eligible participants, performance measurements, parties responsible for certifying performance achievement and sums that could be earned, including caps on the amount of bonus and performance share units that can be earned.

### **STOCK OWNERSHIP GUIDELINES**

Our Board of Directors has adopted stock ownership guidelines for directors, executive officers and other senior executives. These guidelines are a means to motivate directors and executives to perpetuate enduring shareholder value and to ensure that the interests of directors and executives are aligned with those of shareholders.

The stock ownership guidelines require that all non-employee directors own share units (as defined below) of the Company's common stock with a value equal to four times the annual cash retainer, or \$220,000 in fiscal 2016. Until such time as a director has attained the applicable share ownership guideline, he or she is expected to retain 60% of the share units awarded to him or her by the Company. The guideline is automatically revised in the event that the annual retainer is changed.

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The Chief Executive Officer is required to hold share units with a value equal to three times his annual base salary rate, or \$2,250,000 in fiscal 2016. The guideline is automatically revised in the event that Mr. Wallstrom's annual base salary rate changes. Executive Vice Presidents and other key executives as determined by the Compensation Committee are required to hold share units with a value equal to two times their annual base salary rate. Until such time as the Chief Executive Officer or another officer covered by the guidelines has attained the applicable share ownership guideline, they are expected to retain 60% the share units awarded to him or her by the Company.

The guidelines define a "share unit" as each share of Vera Bradley common stock beneficially owned, including shares of restricted stock and restricted stock units (but excluding any stock options). Both vested and unvested shares of restricted stock and restricted stock units are included in calculating share units, except that unvested equity awards subject to performance criteria are not included. All directors and officers subject to the stock ownership guidelines were in compliance with the guidelines as of March 31, 2016.

### **HEDGING, DERIVATIVES AND PLEDGING**

The Company has adopted an Insider Trading Policy, which, among other things, prohibits directors and employees from:

- v Entering into hedging (making an investment to reduce the risk of adverse price movements or to offset potential losses/gains in a Company security) or other monetization transactions or similar arrangements with respect to the Company's securities.
- v Engaging in transactions in publicly traded options on Company securities (such as puts, calls and other derivative securities).
- v Entering into pledging arrangements with respect to Company securities.

### **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The members of the Compensation Committee as of January 30, 2016 were Mary Lou Kelley, Frances P. Philip and Edward M. Schmults. None of the members of the Compensation Committee are now serving or previously have served as employees or officers of the Company or any subsidiary, nor has any member of the Compensation Committee engaged in any related party transaction with the Company. None of the Company's executive officers serve as directors of, or in any compensation related capacity for, companies with which members of the Compensation Committee are affiliated.

### **POLICY ON RELATED PARTY TRANSACTIONS**

In accordance with the rules of The NASDAQ Stock Market and our Audit Committee Charter, our Audit Committee reviews and, prior to consummation, approves any transaction, arrangement or relationship in which the Company is a participant; the amount involved exceeds \$120,000; and one of our executive officers, directors, director nominees or 5% or greater shareholders (or their immediate family members) (each, a "related party") has a direct or indirect material interest. Based on its consideration of all relevant facts and circumstances, the Audit Committee decides whether or not to approve the particular transaction and will generally approve only those transactions that are on terms no less favorable to us than those that we could obtain from unaffiliated third parties and have terms and conditions that are

reasonable and customary.

#### **RELATED PARTY TRANSACTIONS FOR FISCAL 2016**

Other than the transactions described below, since February 1, 2015, there has not been, and there is not currently proposed, any transaction or series of similar transactions to which we were or will be a party in which the amount involved exceeded or will exceed \$120,000 and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest. We believe all of the transactions set forth below are on terms no less favorable to us than those that we could obtain from unaffiliated third parties and have terms and conditions that are reasonable and customary.

*Certain Employees of the Company.* Joan Reedy, the sister of Barbara Bradley Baekgaard, is employed by us in a sales and public relations role. As the daughter of our namesake, Vera Bradley, she attends retail events to share our history with our customers. In fiscal 2016, she received compensation of \$65,158.79 for her service as a sales consultant in the Indirect channel and brand ambassador.

Doug Wallstrom, the brother of Robert Wallstrom, is employed by us as our Photography Studio Director. In fiscal 2016, he received compensation of \$92,482.30 in connection with his employment, as well as a grant of restricted shares with a grant date fair value of \$8,004.

*Vera Bradley Foundation for Breast Cancer.* The Company routinely makes charitable contributions to the Vera Bradley Foundation for Breast Cancer (the Foundation ) and also provides employees and office space to the Foundation. The Foundation was founded by the co-founders of the Company, Barbara Bradley Baekgaard and Patricia R. Miller. Ms. Baekgaard is an employee and director of the

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Company, Ms. Miller is a director of the Company and each also serves on the board of directors of the Foundation. In addition, P. Michael Miller, a director of the Company, serves on the board of directors of the Foundation. There were no Company contributions made to the Foundation in fiscal 2016.

### **FAMILY RELATIONSHIPS**

Barbara Bradley Baekgaard and Patricia Miller founded the Company in 1982 in Fort Wayne, Indiana. Both Ms. Baekgaard and Ms. Miller continue to serve on our Board of Directors and Ms. Baekgaard serves as our Chief Creative Officer. P. Michael Miller, a director, is the husband

of Ms. Miller. Robert J. Hall, our Chairman, is the son-in-law of Ms. Baekgaard.

### **COPIES OF GOVERNANCE DOCUMENTS**

You may view the following documents at <http://investors.verabradley.com/governance.cfm> (please note that our website is not a part of this proxy statement):

- v Corporate Governance Guidelines
- v Conflicts of Interest and Business Ethics Policy
- v Code of Ethics for Senior Financial Officers
- v Insider Trading Policy
- v Stock Ownership Guidelines
- v Disclosure Policy

### **THE BOARD AND ITS COMMITTEES**

#### **BOARD RESPONSIBILITIES**

Being elected to serve on the Board of Directors is a high honor and privilege, but one that carries with it a serious responsibility to serve the interests of the Company and its shareholders. It is our desire that all Board members conduct themselves and perform their duties in an exemplary fashion, commensurate with the position of leadership that has been bestowed upon them by the shareholders.

Each Board member has the following basic responsibilities:

- v To support the mission and purpose of the Company, and to abide by its Articles of Incorporation, Bylaws and policies.
  - v To be diligent in preparation for, attendance at and participation in Board meetings and related activities on behalf of the Company.
  - v To ensure that the financial and business affairs of the Company are, to the best of the Board member's awareness, managed in a responsible manner.
  - v To act always in good faith and in the best interest of the Company, above any personal interest.
  - v To maintain the confidentiality of sensitive or proprietary information obtained as a result of Board service.
- The primary duties of the Board include maximizing long-term shareholder value, by:

- v Ensuring that the Company operates in a legal, ethical and socially responsible manner.
- v Selecting, evaluating and offering substantive advice and counsel to the CEO and working with the CEO to develop effective measurement systems that will evaluate and determine the Company's degree of success in creating long-term economic value for its shareholders.
- v Reviewing, approving and monitoring fundamental financial and business strategies and major corporate actions.
- v Overseeing the Company's capital structure and financial policies and practices.
- v Assessing major risks facing the Company and reviewing options for their mitigation.
- v Providing counsel and oversight on the selection, evaluation, development and compensation of executive officers and providing critical and candid feedback on their successes and failures.

#### **BOARD INDEPENDENCE**

A majority of our directors are independent of the Company and management. In February 2016, the Board (with the input of the Nominating and Corporate Governance Committee) evaluated all business and charitable relationships between the Company and the Company's non-employee directors and all other relevant facts and circumstances. As a result of the evaluation, the Board determined, as required by the Company's Corporate Governance Guidelines, that the following non-employee directors are independent directors as defined by the standards for director independence established and described below: Richard Baum, Mary Lou Kelley, John E. Kyees, Matthew McEvoy, Frances P. Philip and Edward M. Schmults. Under these same standards, the Board of Directors has determined that Barbara Bradley Baekgaard, Robert J. Hall, Patricia R. Miller, P. Michael Miller and Robert Wallstrom are not independent.

Subject to some exceptions, the standards for independent directors established by The NASDAQ National Market (NASDAQ) and the Securities and Exchange Commission (SEC) generally provide that a non-employee director will not be independent if (a) the director is, or in the past three

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years has been, an employee of the Company; (b) the director or a member of the director's immediate family is, or in the past three years has been, an executive officer of the Company; (c) the director or a member of the director's immediate family has, in the past three years, received more than \$120,000 per year in direct compensation from the Company (other than for service as a director or, for the immediate family member, as a non-executive employee); (d) the director is an employee, or the director or a member of the director's immediate family is employed as a partner, of Ernst & Young LLP, the Company's independent registered public accountants, or the director has an immediate family member who is a current employee of such firm and works in any capacity on the Company's audit, or the director or an immediate family member was within the last three years a partner or employee of such firm and personally worked on the Company's audit within that time; (e) the director or a member of the director's immediate family is, or in the past three years has been, employed as an executive officer of a company where a Vera Bradley executive officer at the same time serves or served on the compensation committee; or (f) the director is an employee, or a member of the director's immediate family is an executive officer, of a company that makes payments to, or receives payments from, Vera Bradley in an amount which, in any twelve-month period during the past three years, exceeds the greater of \$200,000 or two percent of the consolidated gross revenues of the company receiving the payment.

The Company's Corporate Governance Guidelines require that the independent directors meet in executive session at each regular meeting of the Board and, in fiscal 2016, they met four times in executive session. These executive sessions are chaired by the lead independent director, Mr. Kyees.

### **BOARD LEADERSHIP STRUCTURE AND LEAD INDEPENDENT DIRECTOR**

Our Board of Directors believes that one of its most important functions is to protect shareholders' interests through independent oversight of management, including the Chief Executive Officer; however, the Board of Directors does not believe that effective management oversight necessarily mandates a particular management structure, such as a separation of the role and identities of the Chairman of the Board of Directors and Chief Executive Officer. The Board considers it important to retain flexibility to exercise its judgment as to the most appropriate management structure for us, based on the particular circumstances facing us from time to time. Currently, the positions of Chairman of the Board of Directors and Chief Executive Officer are held by separate persons because the Board of Directors has determined that this structure aids in the oversight of management and is in the best interests of the Company and its shareholders at this point in time.

In addition, John E. Kyees, Chairman of the Company's Audit Committee, has served as the Lead Independent

Director since 2011. Pursuant to the Company's Corporate Governance Guidelines, the lead director is an independent director who is elected from time to time, but not less than annually, by the affirmative vote of a majority of the independent directors. The Lead Independent Director, among other things, chairs executive sessions of the independent directors, reviews the meeting agenda with our Chief Executive Officer, leads the discussion with our Chief Executive Officer following the independent directors' executive sessions, ensures that the Board's individual group and committee self-assessments are done annually and leads periodic discussions with other Board members and management concerning the Board's information needs. The Board believes this structure allows all of the independent directors to participate in the full range of the Board's responsibilities with respect to its oversight of the Company's management. The Board of Directors has determined that this leadership structure is appropriate given the size and complexity of the Company, the number of directors overseeing the Company and the Board of Directors



oversight responsibilities. Further, the Board of Directors believes that these responsibilities appropriately and effectively complement our Chairman of the Board and Chief Executive Officer structure.

**STANDING COMMITTEES AND MEETINGS OF THE BOARD**

Our Board of Directors has established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. Only independent directors are members of the Audit, Compensation and Nominating and Corporate Governance Committees.

Our Board of Directors held five meetings during fiscal 2016 and each of our directors attended at least 75% of the total number of meetings of the Board and all of the committees of the Board of which such director was a member held during the period in which such director served. Directors are encouraged to attend our annual meetings of shareholders and all directors serving at that time attended the annual shareholders meeting held on May 28, 2015.

COMMITTEE MEMBERSHIP INDEPENDENT		
COMMITTEE	MEMBERS	CHAIR
Audit	John E. Kyees	.
	Richard Baum	
Compensation	Matthew McEvoy	.
	Edward M. Schmults	.
	Mary Lou Kelley	
Nominating and Corporate Governance	Frances P. Philip	.
	Frances P. Philip	.
	Richard Baum	
	Edward M. Schmults	

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*Audit Committee.* Our Audit Committee reviews and recommends to the Board of Directors internal accounting and financial controls, accounting principles and auditing practices to be employed in the preparation and review of our financial statements. In addition, our Audit Committee has the authority to engage, oversee and dismiss public accountants to audit our annual financial statements and determine the scope of the audit to be undertaken by such accountants. Our Audit Committee also reviews the fairness of related party transactions. The Board of Directors has determined that Mr. John E. Kyees, the Chairman of the Audit Committee, is an audit committee financial expert (as defined by Item 407(d)(5)(ii) of Regulation S-K) and is independent (under the definitions and interpretations of NASDAQ Stock Market), in accordance with the rules of The NASDAQ Stock Market. The Audit Committee met 11 times in fiscal 2016.

*Compensation Committee.* Our Compensation Committee reviews and determines policies, practices and procedures relating to the compensation of executive officers, including the Chief Executive Officer, and the establishment and administration of certain employee benefit plans for executive officers. The Compensation Committee has the authority to administer our 2010 Equity and Incentive Plan and to advise and consult with our officers regarding managerial personnel policies. The Compensation Committee met four times in fiscal 2016.

*Nominating and Corporate Governance Committee.* Our Nominating and Corporate Governance Committee assists the Board of Directors with its responsibilities regarding the identification of individuals qualified to become directors, the selection of the director nominees for the next annual meeting of shareholders and the selection of director candidates to fill any vacancies on the Board of Directors. It also reviews and makes recommendations to the Board regarding the preparation, review of and compliance with corporate governance policies, succession planning for the Chief Executive Officer and tenure and retirement policies for directors. The Nominating and Corporate Governance Committee and management are responsible for director continuing education programs to assist directors in maintaining skills and knowledge necessary or appropriate for the performance of their responsibilities. Continuing education programs for directors may include a combination of internally developed materials and presentations, programs presented by third parties and financial and administrative support for attendance at qualifying academic or other independent programs. The Nominating and Corporate Governance Committee met five times in fiscal 2016.

## **ANNUAL BOARD AND COMMITTEE EVALUATIONS**

Our Board and each of our standing committees annually conduct self-evaluations to identify opportunities to improve Board and committee performance.

## **COMMITTEE CHARTERS**

The charters of the three standing committees of the Board of Directors describe the governance framework for each Committee. The charters, along with the Corporate Governance Guidelines, are intended to ensure our Board has the necessary authority and practices in place to review and evaluate our business operations and to make decisions that are independent of management.

You may view the charters at <http://investors.verabradley.com/governance.cfm>.

## **COMMUNICATIONS WITH DIRECTORS**

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Shareholders may communicate with our directors by transmitting correspondence to our investor relations desk via the internet at

<http://investors.verabradley.com/contactBoard.cfm> or to our Secretary at:

Secretary and General Counsel

c/o Vera Bradley, Inc.

12420 Stonebridge Road

Roanoke, Indiana 46783

The Secretary will, as appropriate, forward communications to the Board of Directors or to any individual director, directors or committee to whom the communication is directed.

**Table of Contents****DIRECTOR COMPENSATION**

In March 2013, our Board of Directors approved a compensation program for non-employee directors, to be reviewed biannually. In doing so, the Board reviewed the recommendations of the Compensation Committee, along with a review by the Compensation Committee's outside compensation consultant, of non-employee director compensation among peer group companies. In reviewing total compensation for our non-employee directors, the consultant evaluated the cash compensation programs and long-term equity incentive programs for non-employee directors of comparable companies. All directors other than Mr. Wallstrom and Ms. Baekgaard participate in our non-employee director compensation program. In February 2015, the Compensation Committee and Board again reviewed the director compensation program and agreed to continue the program as adopted in March 2013.

**CASH COMPENSATION FOR NON-  
EMPLOYEE DIRECTORS**

Under the cash compensation element of the program, we pay each of our non-employee directors a cash retainer of \$55,000 annually. We pay the Chairperson of our Board of Directors an additional \$30,000 retainer and the Lead Independent Director an additional retainer of \$10,000. In addition, we pay the following annual retainers for committee service:

**FISCAL 2016 ANNUAL BOARD RETAINERS**

Audit Committee Chair	\$ 15,000
Audit Committee Members	\$ 10,000
Compensation Committee Chair	\$ 10,000
Compensation Committee Members	\$ 7,000
Nominating and Corporate Governance Committee Chair	\$ 8,750
Nominating and Corporate Governance Committee Members	\$ 6,000

All of our directors are reimbursed for reasonable travel and other expenses incurred in connection with attending meetings of the Board of Directors and its committees.

**RESTRICTED STOCK UNITS FOR NON-  
EMPLOYEE DIRECTORS**

We also provide each of our non-employee directors with an annual equity grant with a grant date value of approximately \$85,000. These restricted stock units vest and settle in our common shares, on a one-for-one basis, on the first anniversary of the grant date. The applicable award agreement also provides that the units shall vest immediately upon the death or disability of the director and upon the occurrence of a change in control of the

Company, as defined in the agreement.

### FISCAL 2016 DIRECTOR COMPENSATION

The following table summarizes compensation that our non-employee directors earned during fiscal 2016 for services as members of our Board of Directors.

<b>FISCAL 2016 DIRECTOR COMPENSATION</b>				
NAME <sup>(1)</sup>	FEES EARNED OR PAID		STOCK AWARDS <sup>(2)</sup>	TOTAL
	IN CASH			
Richard Baum	\$ 71,000		\$ 85,003	\$ 156,003
Robert J. Hall	85,000		85,003	170,003
Karen Kaplan <sup>(3)</sup>	25,833		85,003	110,836
Mary Lou Kelley <sup>(4)</sup>	5,167		-	5,167
John E. Kyees	80,000		85,003	165,003
Matthew McEvoy	65,000		85,003	150,003
Patricia R. Miller	55,000		85,003	140,003
P. Michael Miller	55,000		85,003	140,003
Frances P. Philip	70,750		85,003	155,753
Edward M. Schmults	71,000		85,003	156,003

(1) We did not pay our employee directors, Mr. Wallstrom and Ms. Baekgaard, any compensation for their services on our Board of Directors in fiscal 2016.

(2) Represents the aggregate grant date fair value of restricted stock awarded during the fiscal year computed in accordance with FASB ASC Topic 718. Additional information regarding the calculation of these values is included in Notes 2 and 8 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

(3) Effective May 28, 2015, Ms. Kaplan resigned as a member of the Company's Board of Directors and Compensation Committee.

(4) Ms. Kelley was elected to the Board of Directors effective December 3, 2015.

**Table of Contents****PROPOSAL NO. 2****RATIFICATION OF INDEPENDENT AUDITOR****PROPOSAL**

The Audit Committee has selected Ernst & Young LLP, or E&Y, as our independent registered public accounting firm to audit the consolidated financial statements of Vera Bradley for the fiscal year ending January 28, 2017. The Audit Committee and the Board of Directors seek to have the shareholders ratify the Audit Committee's appointment of E&Y. Representatives of E&Y will be present at the Annual Meeting and will have the opportunity to make a statement, if they desire to do so, and to respond to appropriate questions. E&Y also served as our independent registered public accounting firm for fiscal 2016.

**PRINCIPAL ACCOUNTING FEES AND SERVICES**

The following table sets forth the aggregate fees billed by E&Y to Vera Bradley for the fiscal years ended January 30, 2016 and January 31, 2015:

	<b>FEES PAID TO E&amp;Y</b>	
	<b>FISCAL 2016</b>	<b>FISCAL 2015</b>
Audit Fees <sup>(1)</sup>	\$ 722,325	\$ 556,700
Audit-Related Fees		
Tax Fees <sup>(2)</sup>	29,106	107,889
All Other Fees <sup>(3)</sup>	2,000	2,000
<b>Total</b>	<b>\$ 753,431</b>	<b>\$ 666,589</b>

(1) Audit Fees for fiscal 2016 and fiscal 2015 consist of fees for professional services rendered by E&Y in connection with the integrated audit of the consolidated financial statements and the effectiveness of the Company's controls over financial reporting and reviews of our interim consolidated financial statements.

(2) Tax fees consist primarily of fees associated with tax compliance, advice and planning services.

(3) All Other Fees consist of fees for products and services other than the above-described services. In both years, these fees related primarily to subscriptions to online research databases.

The Audit Committee's written charter requires the Audit Committee to pre-approve, prior to engagement, all audit and permissible non-audit services provided by the independent registered public accounting firm on an individual basis. All of the services described in the table above were pre-approved by the Audit Committee. The Audit Committee considered the services listed above to be compatible with maintaining E&Y's independence.

### **VOTE REQUIRED AND BOARD**

### **RECOMMENDATION**

This proposal will be approved if a quorum is present, in person or by proxy, at the Annual Meeting and the votes properly cast favoring the proposal exceed the votes properly cast opposing the proposal. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum but will not have any effect on the outcome of the proposal.

**VERA BRADLEY'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE **FOR**  
THE RATIFICATION OF THE APPOINTMENT OF E&Y AS OUR INDEPENDENT  
REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL 2017.**

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**AUDIT COMMITTEE REPORT**

Management is responsible for the preparation, presentation and integrity of Vera Bradley's consolidated financial statements and the Company's internal control over financial reporting. The independent registered public accounting firm of Ernst & Young LLP, or E&Y, was responsible in fiscal 2016 for performing an integrated audit of the Company's consolidated financial statements and the effectiveness of the Company's controls over financial reporting. The Audit Committee's responsibility is to monitor and oversee these processes. The Audit Committee is also responsible for selecting and evaluating the independence of the Company's independent registered public accounting firm and for pre-approving the services rendered by that firm.

In this context, the Audit Committee reports as follows:

1. The Audit Committee has reviewed and discussed with management Vera Bradley's audited consolidated financial statements for the fiscal year ended January 30, 2016;
2. The Audit Committee has discussed with representatives of E&Y the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T;
3. The Audit Committee has received and reviewed the written disclosures and the letter from E&Y required by applicable requirements of the Public Company Accounting Oversight Board regarding E&Y's communications with the Audit Committee concerning independence and has discussed with E&Y its independence; and
4. The Audit Committee has considered whether the provision by E&Y of non-audit services to Vera Bradley is compatible with maintaining E&Y's independence.

Based on these procedures and discussions, the Audit Committee recommended to the Board of Directors that the Company's audited consolidated financial statements referred to above be included in Vera Bradley's Annual Report on Form 10-K for the fiscal year ended January 30, 2016, for filing with the Securities and Exchange Commission.

SUBMITTED BY THE AUDIT  
COMMITTEE  
John E. Kyees, Chairman  
Richard Baum  
Matthew McEvoy





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**EXECUTIVE COMPENSATION**

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee of the Board of Directors has reviewed and discussed the following Compensation Discussion and Analysis with management and, based on such review and discussion, has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and in the Company's annual report on Form 10-K for the fiscal year ended January 30, 2016.

SUBMITTED BY THE COMPENSATION COMMITTEE

Edward M. Schmults, Chair

Mary Lou Kelley

Frances P. Philip

**EXECUTIVE COMPENSATION DISCUSSION AND ANALYSIS ( CD&A )**

This CD&A provides a summary of the material elements of our compensation philosophy and practices, with a particular focus on our named executive officers or NEOs. As used in this CD&A, the Committee refers to the Compensation Committee of the Board of Directors.

The following is a list of our NEOs who served for all of fiscal 2016:

NAME	TITLE
Robert Wallstrom	President and Chief Executive Officer
Kevin J. Sierks	Executive Vice President, Chief Financial Officer
Barbara Bradley Baekgaard	Chief Creative Officer
Sue Fuller	Executive Vice President, Chief Merchandising Officer
C. Roddy Mann	Executive Vice President, Strategy and Business Development

This CD&A and our compensation tables also include the following individual who was no longer employed by Vera Bradley at the end of fiscal 2016:

NAME	FORMER TITLE	DEPARTURE DATE
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Angel Ilagan

Chief Marketing Officer

April 17, 2015

To assist in understanding our NEO compensation program, we have included a discussion of our compensation policies and decisions for periods before and after fiscal 2016 where relevant. Our compensation program is designed to provide some common standards throughout the Company. Therefore, much of what is disclosed below applies to executives in general and is not limited to our NEOs.

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**OUR COMPENSATION PHILOSOPHY AND  
OBJECTIVES**

We believe that the Company's compensation philosophy should act as the "blue print" for the total compensation design and targeted value to be delivered to the executive officers. Our compensation philosophy is intended to ensure that the framework for the Company's compensation program supports the strategic needs of the business, that the components of the pay system work in concert to influence executive behavior in support of organization imperatives and that the mechanics of the executive reward structure reinforce the corporate culture and management style of the organization.

Our compensation philosophy includes two identifiable components: compensation objectives and pay goals.

Compensation Objectives. These objectives serve as a set of "guiding principles" that provide an overview of the intended purpose of our compensation program. Our compensation objectives are:

ii To attract and retain key personnel and drive effective results.

ii To encourage our NEOs to focus on:

i Building shareholder value

i Maximizing growth and profitability

i Continuing to maintain our unique company culture

i Building a strong brand

ii To provide our NEOs with a compensation package that is competitive within our industry.

Pay Goals. The Committee has determined that it is beneficial to establish ranges of compensation, both in total and with respect to each of the Company's main compensation components around the 50<sup>th</sup> percentile of peer group compensation. A primary focus of the Committee in setting executive compensation is to target total compensation within the established ranges noted below, although competitiveness of the other pay components is also strongly considered. For the Chief Executive Officer and the other named executive officers, the Compensation Committee considers the following ranges when assessing the competitiveness of each pay component:

<b>COMPENSATION</b>	<b>PAY GOAL RELATIVE TO PEER GROUP</b>
<b>ELEMENT</b>	
Annual base salary rate:	50th percentile, +/-10%
Target annual incentive:	50th percentile, +/-10%
Target long-term incentive:	50th percentile, +/-15%
Target total compensation:	50th percentile, +/- 15%

### **COMPENSATION MIX AND PAY FOR**

#### **PERFORMANCE**

Annually, the Compensation Committee considers the total compensation opportunities for each named executive officer and determines how total potential compensation should be allocated across the different elements of compensation. The Compensation Committee does not follow a definitive policy when determining the mix of and structure for total compensation. Instead, it considers factors such as achievement of corporate and individual goals, level of experience, responsibilities, demonstrated performance, time with the corporation, risk associated with any payout and retention considerations.

Generally, the Compensation Committee considers market practices as reflected in the peer group data provided by its compensation consultant to obtain a baseline of total potential compensation for each named executive officer. Using this analysis as a starting point, the Compensation Committee engages in discussions with the objective of ensuring that a material portion of each named executive officer's total compensation is at-risk and dependent on the Company's financial performance. Care is taken to balance incentives to drive performance in the short-term versus the long-term. In this way, we encourage named executive officers to vigorously pursue financial performance while discouraging incentives to take excessive risks that may be beneficial in the short term, but harmful in the long run. We believe that these practices align the interests of the named executive officers with those of the shareholders year-over-year, as well as over the long term.

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The Compensation Committee seeks to ensure that a substantial portion of the total compensation awarded to the named executive officers is performance-based and is comprised of both annual and long-term incentives. The fiscal 2016 mix of compensation for the Chief Executive Officer and other NEOs is set forth below:

**PAY POLICIES**

We believe that appropriate corporate governance of our executive compensation program is enhanced by a number of policies and practices, including: engagement by the Compensation Committee of its own independent consultant, the absence of tax gross-ups contained in any of our compensation programs (including no excise tax gross-ups) and the adoption of stock ownership guidelines applicable to directors and executive officers.

**HOW WE MAKE EXECUTIVE COMPENSATION**

**DECISIONS**

Role of the Compensation Committee. The Compensation Committee is responsible to the Board for overseeing the development and administration of our compensation programs. The Compensation Committee is composed of three independent directors and is responsible for the review and approval of all aspects of executive compensation, including the approval of compensation packages of newly-hired executive officers. The Committee is supported in its work by the Chief Executive Officer, the Vice President of Human Resources, her staff and an independent executive compensation consultant, as described below.

Role of Management. Our Compensation Committee generally seeks input from our Chief Executive Officer when discussing the performance and compensation levels of the other named executive officers. The Compensation Committee also works with our Chief Executive Officer, our Chief Financial Officer and the Vice President of Human Resources in evaluating the financial, accounting, tax and retention implications of our various compensation programs. Neither Mr. Wallstrom nor any of our other executives participates in deliberations relating directly to his or her own compensation.

Role of the Compensation Consultant. The Compensation Committee has retained Meridian Compensation Partners, LLC ( Meridian ) as its executive compensation consultant. Meridian is retained by and reports directly to the Compensation Committee and the Committee may replace Meridian or hire additional consultants at any time. A Meridian representative attends Compensation Committee meetings, as requested, and communicates with the chair of the Compensation Committee between meetings. Our Compensation Committee, however, makes all decisions regarding the compensation of our named executive officers.



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In fiscal 2016, Meridian was not given a narrow list of instructions, but rather was engaged to provide the Committee with information and advice that might assist the Committee in performing its duties. During fiscal 2016, Meridian's services included the following:

- v Updating the Committee on regulatory changes impacting compensation plans.
- v Providing information on market trends, practices and other data.
- v Reviewing the Company's compensation peer group and conducting a competitive analysis of compensation for executives and outside directors.
- v Assisting in reviewing and designing various compensation program elements.
- v Updating and providing guidance and advice related to the overall executive compensation structure.

**Role of Shareholders: Response to Advisory Vote on Executive Compensation.** At the 2015 Annual Meeting of Shareholders, we were pleased that approximately 99% of the votes cast on the advisory vote on our executive compensation program were in support of the compensation paid to the named executive officers. In view of the overwhelming support from shareholders, the Compensation Committee determined that the results of the vote did not call for any major changes to our executive

compensation plans. In setting fiscal 2016 compensation, the Committee materially maintained the compensation program structure in place since fiscal 2013.

**Peer Group and Benchmarking.** At least annually, the Compensation Committee, with the assistance of Meridian, conducts a review of a peer group used for executive compensation comparisons to ensure all peer companies remain an appropriate basis for comparison. In selecting peer companies, the Compensation Committee aims to identify companies with similar characteristics to our Company. Specifically, we look for peer group companies that are in the retail industry or another related industry, have a strong consumer brand, are profitable and growing and are of a comparable size (based principally on revenue and market capitalization).

As a result of an extensive review conducted in August 2014, seven (7) companies were removed from the fiscal 2016 compensation peer group including: bebe stores, Inc.; Body Central Corp.; Cache, Inc.; Maidenform Brands, Inc.; rue21, Inc.; Under Armour, Inc.; and The Wet Seal, Inc. These companies were removed for various reasons, including acquisition, management buyout, revenue size and other entity-level disruptors. In addition, the following seven (7) companies were added to the fiscal 2016 compensation peer group based on the criteria described above: Perry Ellis International, Inc.; Tumi Holdings, Inc.; Christopher & Banks Corporation; Quicksilver, Inc.; Vince Holding Corp.; Francesca's Holdings Corporation; and Kate Spade & Company.



**FISCAL 2016 COMPENSATION PEER GROUP**

The Buckle, Inc.	Christopher & Banks Corporation	Crocs, Inc.
Destination Maternity Corporation	The Finish Line, Inc.	Francesca s Holdings Corp
G-III Apparel Group, Ltd.	Kate Spade & Company	lululemon athletica Inc.
Movado Group, Inc.	Oxford Industries, Inc.	Perry Ellis International, Inc.
Quicksilver	Steve Madden, Ltd.	Tumi Holdings, Inc.
Vince Holding Corp.	Zumiez Inc.	

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**ELEMENTS OF OUR EXECUTIVE COMPENSATION PROGRAM IN FISCAL 2016**

**HIGHLIGHTS**

Recent highlights of our executive compensation program include:

- v There were no increases in base salaries of our Chief Executive Officer or the other named executive officers for fiscal 2016.
- v In addition to financial goals, the annual incentive for fiscal 2016 included key strategic objectives tied to our long-term strategic plan and intended to focus the team on making progress in our multi-year turnaround.
- v The annual incentive paid out for fiscal 2016 results was below target levels based on revenue and operating income results.
- v Performance share units for fiscal 2016 results paid out below target level based on earnings per share results.
- v We modified the weighting of the long-term incentive to be 50% restricted stock units and 50% performance-based restricted stock units to enhance retention during the multi-year turnaround process.

**BASE SALARY**

Purposes of Base Salary. We utilize base salary as the primary means of providing compensation for performing the essential elements of an executive's job. Base salaries are intended to provide a certain level of fixed compensation commensurate with an executive's position, responsibilities, tenure, historical compensation, retention risk and current and expected future contributions to the Company. In particular, we set base salaries keeping in mind that we are often recruiting from a fashion and retail marketplace that is not typically found in the Company's hometown of Fort Wayne, Indiana. With these principles in mind, base salaries are reviewed at least annually by our Compensation Committee and may be adjusted from time to time based on the results of this review. Meridian prepares a report for the Compensation Committee annually that contains an assessment of the executive officers' compensation, including base salary, annual cash incentives and equity-based incentives, relative to comparable positions at the peer group companies. In addition, the Compensation Committee reviews the merit scores of each named executive officer's annual performance review which

is performed by the Chief Executive Officer. The only exceptions are the Chief Executive Officer, whose annual review is conducted by the Board of Directors, and Ms. Baekgaard, who does not typically receive any annual base salary rate increase.

Setting Base Salary Levels. Our objective is generally to be within a competitive range of the peer group median, on average, for base salaries of our executive officers, including our named executive officers. We consider a range of +/-10% around the market median (50<sup>th</sup> percentile) to be competitive but still capable of recognizing differences among executives. In setting base salaries for NEOs, the Committee typically begins with the Company's overall budget for base salary increases, which was a target merit increase of a 2.5% in fiscal 2016, which is then adjusted up or down based upon an employee's performance, any changes in his or her role or responsibility and the median peer group base salary information.

Setting Fiscal 2016 Base Salary. In fiscal 2016, the Compensation Committee elected not to increase the base salary rate for any of our NEOs. In making this decision, the Committee primarily considered changes that were being made in both the annual incentive and long-term incentive opportunities for NEOs, as well as budgetary considerations for the year. It was ultimately determined that, while it was important to incentivize the NEOs to achieve financial and strategic targets through incentive compensation, increases to base salary were not appropriate given the financial challenges the Company has recently faced in achieving growth.

As a founder of the Company, Ms. Baekgaard is not considered for increases to her annual base salary, which was initially set in fiscal 2010.

The following table shows annual base salary rates for each of our named executive officers for fiscal 2016 and fiscal 2015. Amounts represent a base rate of pay; actual earnings during a fiscal year may vary based upon a variety of factors, including the number of weeks in the fiscal year.

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<b>FISCAL 2016 BASE SALARY CHANGES</b>			
	<b>FISCAL 2015 BASE SALARY</b>	<b>FISCAL 2016 BASE SALARY</b>	<b>PERCENTAGE INCREASE</b>
	<b>RATE</b>	<b>RATE</b>	<b>YEAR OVER YEAR</b>
Robert Wallstrom	\$750,000	\$750,000	0.0%
Kevin J. Sierks	400,000	400,000	0.0%
Barbara Bradley			
Baekgaard	465,764	465,764	0.0%
Sue Fuller	500,000	500,000	0.0%
C. Roddy			
Mann	385,230	385,230	0.0%
Angel Illagan	400,010	400,010	0.0%

**ANNUAL INCENTIVE COMPENSATION**

**Purposes of Annual Incentive.** Our annual incentive compensation, in the form of an annual cash bonus, is intended to compensate our named executive officers for meeting our short-term corporate financial and strategic objectives and to incentivize our named executive officers to meet these objectives. Our financial and strategic objectives are intended to build shareholder value, maximize growth and profitability and build a strong brand and execute against the annual milestones of the long-range strategic plan.

**Setting Annual Incentive Compensation Levels.** Our objective is generally to be within the competitive range of the peer group median, on average, for annual incentive opportunities of our executive officers, including our named executive officers. We consider a range of +/-10% around the market median (50<sup>th</sup> percentile) to be competitive but still capable of recognizing differences among executives.

**Fiscal 2016 Annual Incentive Performance Metrics.** For fiscal 2016, the Compensation Committee made modifications to the annual incentive design from recent years, including changes to: performance metrics, weighting and incentive opportunity for NEOs. The changes for FY2016 include:

- v Increasing the weighting of Strategic Objectives to be 50% of the target annual incentive opportunity; and
- v Including a new metric of Personal Objectives along with the Corporate Strategic Objectives, both of which now makes up the Strategic Objectives category.

v

Capping total payout to 175% for NEOs (other than Mr. Wallstrom), which is down from a total possible payout of 187.5% in fiscal 2015.

Selecting the Financial Metrics. Consistent with fiscal 2015, revenue and operating income were the financial metrics used for fiscal 2016. The Compensation Committee selected net revenue because we believe, as a company still in the early stages of growth as a public company, top line growth is important to our shareholders and to the ultimate performance of the Company. Top line growth, however, must be accompanied by improvement to the bottom line; so the Compensation Committee selected operating income as a second performance metric. In the future, as the Company grows and circumstances change, the Compensation Committee will review the application of other financial performance measures. The Compensation Committee typically sets a target level of performance at which the full target bonus can be earned. The Compensation Committee also sets a threshold level of performance below which no bonus is earned and a maximum level of performance that results in a maximum bonus.

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<b>ANNUAL INCENTIVE PLAN STRUCTURE</b>											
<b>PRIOR FISCAL YEAR</b>					<b>CURRENT FISCAL YEAR</b>						
<b>FINANCIAL METRICS</b>	<b>Weight</b>	<b>Payout by Performance Level as a Percentage of Target Incentive</b>			<b>FINANCIAL METRICS</b>	<b>Weight</b>	<b>Payout by Performance Level as a Percentage of Target Incentive</b>				
		<b>Threshold<sup>(3)</sup></b>	<b>Target</b>	<b>Maximum</b>			<b>Threshold<sup>(3)</sup></b>	<b>Target</b>	<b>Maximum</b>	<b>Significant Exceed</b>	
Operating	40%	25%	100%	200%	Operating	25%	25%	100%	200%		
Income					Income						
Net Revenue	35%	25%	100%	200%	Net Revenue	25%	25%	100%	200%		
Total	75%	25%	100%	200%	Total	50%	25%	100%	200%		
<b>STRATEGIC METRICS</b>	<b>Weight</b>	<b>Payout by Performance Level as a Percentage of Target Incentive</b>				<b>STRATEGIC METRICS</b>	<b>Weight</b>	<b>Payout by Performance Level as a Percentage of Target Incentive</b>			
		<b>Met</b>	<b>Exceed</b>	<b>Met</b>	<b>Significantly Exceed</b>			<b>Met</b>	<b>Met</b>	<b>Exceed</b>	<b>Significant Exceed</b>
Corporate	25%	75%	100%	125%	150%	Corporate	25%	75%	100%	125%	150%
Strategic Objectives <sup>(1)</sup>						Strategic Objectives <sup>(1)</sup>					
						Personal Objectives	25%	75%	100%	125%	150%
Total	25%	75%	100%	125%	150%	Total	50%	75%	100%	125%	150%
<b>TOTAL</b>				<b>187.5%<sup>(2)</sup></b>		<b>TOTAL</b>				<b>175%<sup>(2)</sup></b>	

(1) The payout for strategic objectives is capped at 100% in the event that either or both of the operating income or net revenue metrics are not achieved at the threshold performance level or higher.

(2) Mr. Wallstrom's total annual incentive payout is capped at 200% of his base salary.

(3) Payouts for performance below the threshold level for financial metrics and below the met most level for strategic metrics are zero.

**Selecting the Strategic Metrics.** In fiscal 2016, the Committee once again included corporate-level strategic objectives as a component of the annual incentive compensation program. The Committee believes that this metric is appropriate

to incentivize the management team to meet significant strategic objectives key to achieving the Company's long-range strategic plan.

In fiscal 2016 these corporate strategic goals were to:

- v Increase the effectiveness of marketing by increasing aided brand awareness and meeting targets for adding new customers to the Company's database.
- v Drive product innovation by increasing leather sales, launching jewelry and luggage, building assortments for specific brand extensions and increasing innovation in the cotton assortment.
- v Grow department store distribution.
- v Meet targets for made-for-outlet product as a percentage of factory store sales.
- v Deliver upgrades to verabradley.com and the Systems, Applications and Products (or SAP) system on time and within budget.
- v Meet expense savings targets.

In addition to these corporate-level strategic goals, the Committee also included a metric for the measurement of personal objectives for each of the NEOs other than Mr. Wallstrom and Ms. Baekgaard. The Committee felt this was an important change due to the importance of

execution against the strategic plan at the level of each major business function and in order to ensure that the management team focused equally on execution in this important strategic year as on meeting financial targets. The personal objectives were as follows (Mr. Ilagan did not have these goals in light of his April 2015 departure):

**FISCAL 2016 PERSONAL OBJECTIVES**

Kevin J. Sierks	Treasury management
	Capital budget management
	Inventory management and promotions
	Managing costs
Sue Fuller	Restructuring and expense reduction
	Drive Product Innovation
	Expense savings in supply chain
C. Roddy Mann	MFO at 40% of Factory Volume for F16
	Begin to stabilize Specialty channel
	Build a stable foundation for growth in Japan
	Grow key accounts channel to plan
	Total store comparable sales at plan

Support marketing activities during chief marketing officer absence and transition once on board

For Mr. Wallstrom, the Committee felt that the corporate strategic objectives should also serve as his personal objectives given his entity level responsibility. As founder of the Company, Ms. Baekgaard was not given personal objectives.

In the future, the Compensation Committee will continue to evaluate both payout levels and performance levels in accordance with business conditions and prevailing market practices.



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**Fiscal 2016 Annual Incentive Payout Opportunity and Payout.** In fiscal 2016, the Company achieved adjusted operating income of \$56.5 million, which was above the threshold performance level of \$52.3 million and below the target performance level of \$59.4 million, resulting in a 69% payout for this metric. GAAP fiscal 2016 operating income of \$46.7 million was adjusted, in accordance with the requirements of the annual incentive plan, by \$5.9 million for restructuring and other charges, \$2.8 million for impairment charges and by \$1.1 million for severance charges.

Net revenue was \$502.6 million in fiscal 2016, above the threshold performance level of \$471.9 million and below the target performance level of \$536.3 million, resulting in a 61% payout for the net revenue metric.

For financial performance metrics, payout levels are determined using linear interpolation for results falling between the three performance levels.

The corporate strategic objectives were met in all cases, and exceeded in others, resulting in a 125% payout for the corporate strategic objectives metric.

For the NEOs other than Mr. Wallstrom and Ms. Baekgaard, the payout for personal objectives was determined based upon achievement of these goals as rated by Mr. Wallstrom in each NEO's annual review. Mr. Wallstrom determined that each of Mr. Sierks, Ms. Fuller and Mr. Mann generally performed at or above expectations with respect to their personal objectives, resulting in payouts for their personal objectives of 125%, 125% and 100%, respectively. As founder of the Company, Ms. Baekgaard did not have established personal objectives and was paid at the target level for the personal objectives element based upon Mr. Wallstrom's assessment of overall performance.

The following table sets forth the payout opportunities at each performance level, as well as actual bonus earned as a percentage of base salary:

	FISCAL 2016 ANNUAL INCENTIVE PAYOUT AS A PERCENTAGE OF BASE SALARY OPPORTUNITY			ACTUAL
	Threshold	Target	Max	
Robert Wallstrom	50%	100%	200%	95%
Kevin J. Sierks	25%	50%	87.5%	47.5%
Barbara Bradley Baekgaard	25%	50%	87.5%	44.4%
Sue Fuller	25%	50%	87.5%	47.5%
C. Roddy Mann	25%	50%	87.5%	44.4%
Angel Ilagan	25%	50%	87.5%	0.0%

**Other Cash Bonuses.** In connection with being retained as Executive Vice President, Chief Merchandising Officer, Ms. Fuller was given a retention bonus of \$375,000. This retention bonus is being paid in three equal annual installments of \$125,000. The first installment was paid on August 1, 2015. The second installment was paid on May 22, 2015, and August 14, 2015 for \$93,750 and \$31,250, respectively. The final installment will be paid on

July 29, 2016. In the event that Ms. Fuller is terminated by the Company without cause prior to the final installment date, the Company will pay Ms. Fuller the unpaid installment of the retention bonus. In establishing this retention bonus, the Compensation Committee considered Ms. Fuller's total compensation package in comparison to both the peer group benchmarks, as well as Ms. Fuller's compensation package at her former employer, including any unpaid bonus which was forfeited upon her termination of employment.

Mr. Ilagan received a hiring bonus of \$300,000 in connection with his position as Executive Vice President, Chief Marketing Officer, which was paid in March 2015. In establishing this hiring bonus, the Compensation Committee considered Mr. Ilagan's total compensation package in comparison to both the peer group benchmarks, as well as Mr. Ilagan's compensation package at his former employer, including any unpaid bonus which was forfeited upon his termination of employment.

## **LONG-TERM INCENTIVE COMPENSATION**

Purposes of Long-Term Incentive Compensation. We grant long-term equity awards under our executive compensation program in order to compete for executive talent and align the interests of our employees, including our named executive officers, with those of the Company's shareholders. These awards are intended to motivate executives by tying a portion of their incentive compensation to the performance of our common stock over the long term and, in turn, also motivate employees to remain with the Company as the value of these awards is intended to increase over time. We believe these awards also serve as motivation to executives to continue to improve the long-term performance of the Company.

Setting Long-Term Incentive Compensation Award Size. Our objective is generally to be within the competitive range of the peer group median, on average, for long-term incentive compensation of our executive officers, including our named executive officers. We consider a range of +/-15% around the market median (50<sup>th</sup> percentile) to be competitive but still capable of recognizing differences among executives based on experience, performance, level of responsibility and internal parity.

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**Fiscal 2016 Long-Term Incentive Vehicles, Mix and Grant Size.** The fiscal 2016 grant to each NEO was made up of 50% performance-based restricted stock units and 50% time-based restricted stock units. In fiscal 2015, long-term incentive compensation was made up of 60% performance-based restricted stock units and 40% time-based restricted stock units. The Committee determined that in a turn-around year with an uncertain financial outlook, it was appropriate to compensate the team more evenly between performance and retention than in prior years. In all other respects, the terms of the fiscal 2016 long-term incentive grants were similar to those of the fiscal 2014 and fiscal 2015 grants.

The total long-term incentive grant value for each NEO was based primarily on a combination of factors, including competitive market data, internal pay equity and other considerations as noted above. The Committee also considered each executive's performance and the potential impact to shareholder dilution. Based on its assessment, the Committee approved the following grant values for the NEOs.

<b>FISCAL 2016 LONG-TERM INCENTIVE GRANTS</b>				
	TARGET GRANT VALUE	AS A % OF BASE SALARY RATE	% OF GRANT PERFORMANCE-BASED	% OF GRANT TIME-BASED
Robert Wallstrom	\$1,000,000	133%	50%	50%
Kevin J. Sierks	\$375,000	94%	50%	50%
Barbara Bradley Baekgaard	\$275,000	59%	50%	50%
Sue Fuller	\$400,000	80%	50%	50%
C. Roddy Mann	\$150,000	39%	50%	50%
Angel Ilagan	\$150,000	37%	50%	50%

**Terms of the Fiscal 2016 Time-Based RSU Grant.** The time-based restricted stock units vest in our common shares, on a one-for-one basis in three equal annual installments on the first, second and third anniversaries of the date of grant. The applicable award agreement provides that the units

vest immediately upon the NEO's disability (as defined in the Incentive Plan) or death or, provided the NEO remains employed through the effective date, upon a change in control (which is more specifically defined in the award agreement). The units will also vest upon the NEO's retirement (as defined in the Incentive Plan) on a prorated basis based on service through the retirement date.

**Terms of the Fiscal 2016 Performance-Based RSU Grant.** The performance-based restricted stock unit grant is structured to be earned over three annual performance periods (fiscal 2016, fiscal 2017 and fiscal 2018) and for any

earned units to vest in our common shares, on a one-for-one basis in a single tranche on the third anniversary of the date of grant.

The performance-based restricted stock units granted in fiscal 2016 are divided into three equal tranches of one-third each of the total award and allocated to each of the three fiscal years of the Company ending with fiscal 2018, with each such fiscal year being considered a performance year. Each tranche of performance-based restricted stock units must be both earned and vested before it will be settled in the form of shares of the Company's common stock. Each tranche of performance-based restricted stock units will be deemed earned only if the earnings per share threshold is met in the applicable fiscal year, and each will be deemed vested only if the executive is continuously employed with the Company through the third anniversary of the grant date. For fiscal 2016, threshold and maximum performance levels for the performance-based restricted stock units were set at 88% and 112%, respectively, of target earnings per share performance and payout levels range from 25% for threshold performance up to 200% for maximum performance.

**FISCAL 2016 PERFORMANCE-BASED RSU GRANT  
TRANCHE ONE PERFORMANCE MEASURES**

PERFORMANCE LEVEL	EPS GOAL FOR FISCAL 2016	SHARES VESTING AS A PERCENTAGE OF TARGET GRANT
Threshold	\$0.81 per share	25%
Target	\$0.92 per share	100%
Maximum	\$1.03 per share	200%

For the second and third tranches of the performance-based restricted stock unit grant, target earnings per share goals will be based on a pre-determined percentage increase in earnings per share over the prior year, and threshold and maximum performance levels will again be set at 88% and 112%, respectively, of target earnings per share. In each year, shares vesting as a percentage of the NEO's target

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grant will be as set forth in the table above. The Compensation Committee will continue to evaluate both payout levels and performance levels in accordance with business conditions and prevailing market practices.

**Results of Fiscal 2014 through Fiscal 2016 Performance-Based RSU Cycle.** Performance-based restricted stock units granted on March 29, 2013 were subject to a three-year performance period established by the Compensation Committee that ended on January 30, 2016, which represents performance periods covered by fiscal 2014, fiscal 2015 and fiscal 2016. The only current NEOs that received a performance-based restricted stock unit grant for this period were Ms. Baekgaard, Mr. Mann and Mr. Sierks who received target grants of 7,096, 5,754 and 3,106 performance-based restricted stock units, respectively. The target number of performance-based restricted stock units was equally divided into three tranches with the first tranche earned based on fiscal 2014 performance ( FY14 Tranche ), the second tranche earned based on fiscal 2015 performance ( FY15 Tranche ) and the third tranche earned based on fiscal 2016 performance ( FY16 Tranche ).

In order to earn shares under the FY14 Tranche, the Compensation Committee set a net income target of \$80.6 million, with maximum performance at \$90.3 million and threshold performance of \$70.9 million. Actual fiscal 2014 net income was \$58.8 million, resulting in a FY14 Tranche payout of 0% of target.

At the time of grant, it was determined that target performance for the FY15 Tranche was 117% of actual fiscal 2014 net income and for the FY16 Tranche was 115% of actual fiscal 2015 net income. Net income in both fiscal 2015 and fiscal 2016 fell below the threshold level of performance for each year resulting in a 0% payout for the FY15 Tranche and the FY16 Tranche. Therefore, Ms. Baekgaard, Mr. Mann and Mr. Sierks earned no shares from this grant.

**Retention Grants.** In addition to the annual grants set forth above, the Committee also elected to award Mr. Sierks, Ms. Fuller and Mr. Mann an additional grant of time-based restricted stock units with the purpose of increasing the retentive value of each officer s total equity holdings. Mr. Sierks and Ms. Fuller s retention grants vest in two installments of two-thirds on the second anniversary of the date of grant and one-third on the third anniversary of the date of grant. Mr. Mann s retention grant vests in three equal annual installments on the first, second and third anniversaries of the grant date.

<b>FISCAL 2016 RETENTION GRANTS</b>	
	<b>TARGET GRANT VALUE</b>
Kevin J. Sierks	\$600,000
Sue Fuller	\$500,000
C. Roddy Mann	\$250,000

The applicable award agreement provides that the units vest immediately upon the NEO s disability (as defined in the Incentive Plan) or death or, provided the NEO remains employed through the effective date, upon a change in control (which is more specifically defined in the award agreement). The units will also vest upon the NEO s retirement (as defined in the Incentive Plan) on a prorated basis based on service through the retirement date.

For a description of the treatment of the fiscal 2016 long-term incentive awards and these retention grants upon a change of control or in the event of an NEO s death, disability or retirement, please see Potential payments upon Termination or Change in Control Grants under the Long-Term Plan.

**BENEFITS**

The named executive officers are eligible for the same level and offering of benefits available to other employees. Our benefits, such as our basic health benefits, 401(k) plan, life insurance, paid time off, matching charitable gifts program, and discounts on certain company products, are intended to provide a stable array of support to our employees and their families throughout various stages of their careers, and these core benefits are provided to all full-time employees. The 401(k) plan allows participants to defer amounts of their annual compensation before taxes, up to the cap set by the Internal Revenue Code, which was \$18,000 per person for calendar year 2015 (or \$24,000 for employees over age 50). Employees' elective deferrals are immediately vested and non-forfeitable upon contribution to the 401(k) plan. We currently provide matching contributions equal to 100% for the first 4% of an employee's individual contribution and 50% for the next 2% of individual contributions, subject to certain limits, including vesting requirements.

#### **AGREEMENTS WITH NAMED EXECUTIVE OFFICERS**

The material terms of our agreements with Mr. Wallstrom, Ms. Fuller and Mr. Ilagan are described below.

Mr. Wallstrom's Employment Agreement. Mr. Wallstrom's employment agreement with the Company was effective November 11, 2013 (the "Employment Agreement") and will continue until the end of the Company's fiscal year ending on or about January 31, 2017. The Employment Agreement

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will renew automatically for successive one-year periods unless either the Company or Mr. Wallstrom gives notice to the other of its or his intention not to renew.

Under the Employment Agreement, Mr. Wallstrom's initial annual base salary rate is \$750,000. Mr. Wallstrom has a target annual fiscal bonus of 100% of his annual base salary rate, with a maximum annual cash bonus of up to 200% of his annual base salary rate and he is also eligible for long-term incentive grants. In connection with being retained as President and Chief Executive Officer, Mr. Wallstrom received a one-time grant of 49,080 restricted stock units, equal to approximately \$1,200,000. Sixty percent of these restricted stock units will vest based on performance and forty percent vested and will vest in equal amounts on each of November 3, 2015 and 2016. The Company also agreed to reimburse Mr. Wallstrom for the expenses of relocating his residence to the Fort Wayne, Indiana area.

Mr. Wallstrom's Employment Agreement contains non-compete restrictions. During the period of his employment and for a period of two years following his termination, Mr. Wallstrom may not engage in, manage, join or work for (as an employee, consultant or independent contractor) or permit the use of his name by, or provide financial or other assistance to, any competitor that engages in the design, production, marketing and retailing of (i) handbags and other bags and related accessories or (ii) accessories such as jewelry, travel and leisure items, and baby clothes and accessories. In order to be treated as a competitor pursuant to Mr. Wallstrom's Employment Agreement, an enterprise would have to have received in the prior fiscal year at least 25% of its revenues from the design, production, marketing and/or retailing of handbags, other bags and related accessories or more than 50% of its revenues from the combination of the design, production, marketing and/or retailing of handbags, other bags and related accessories, accessories such as jewelry, travel and leisure items and baby clothes and accessories. Mr. Wallstrom's Employment Agreement also contains customary confidentiality provisions.

For a description of severance benefits that Mr. Wallstrom would be entitled to receive under certain circumstances, please see Potential Payments Upon Termination or Change in Control - Chief Executive Officer.

Ms. Fuller's Offer Letter. Ms. Fuller executed her offer letter with the Company on January 1, 2014. The offer letter provides for an annual base salary rate of \$500,000 and for participation in the Company's annual bonus plan with a target bonus of 50% of her annual base salary. Ms. Fuller is also eligible to participate in the Company's long term incentive plan with annual target awards set at 60% of her annual base salary rate. In connection with being retained

as Executive Vice President, Chief Merchandising Officer, Ms. Fuller received a one-time grant of 24,793 restricted stock units, equal to approximately \$600,000. In addition, the offer letter entitled Ms. Fuller to a retention bonus of \$375,000, to be paid in three equal annual installments. The first installment was paid on August 1, 2015. The second installment was paid on May 22, 2015, and August 14, 2015 for \$93,750 and \$31,250, respectively. The final installment will be paid on July 29, 2016. The Company also agreed to reimburse Ms. Fuller for the expense of relocating her residence to the Fort Wayne, Indiana area. As a condition of her employment, Ms. Fuller agreed not to compete with the Company during her tenure and for one year thereafter and to customary confidentiality and non-disparagement restrictions.

Mr. Ilagan's Offer Letter. Mr. Ilagan executed an offer letter with the Company on May 21, 2014. The offer letter provided for an annual base salary rate of \$400,010 and for eligibility to participate in the Company's annual incentive plan. Mr. Ilagan was also eligible to participate in the Company's long-term incentive plan. Mr. Ilagan received a one-time grant of 30,000 restricted stock units, equal to approximately \$591,300 on the date of grant, the vesting of

which accelerated upon his separation from the Company in April 2015. In addition, the offer letter entitled Mr. Ilagan to a hiring bonus of \$300,000 that was paid on March 31, 2015. The Company also agreed to reimburse Mr. Ilagan for the expense of relocating his residence to the Fort Wayne, Indiana area. Mr. Ilagan's employment with the Company terminated April 17, 2015

### **COMPENSATION AND RISK**

The Compensation Committee has evaluated the risk profile of our compensation policies and practices and concluded that they do not motivate imprudent risk taking. In our evaluation, we reviewed our employee compensation structures and noted numerous factors and design elements that manage and mitigate risk without diminishing the incentive nature of the compensation, including a unique and strong corporate culture that attracts passionate and motivated employees who are excited about our products and our brand (as opposed to being motivated by purely financial considerations); a balanced mix between cash and equity and annual and longer-term incentives under our executive compensation program; ownership of our shares by senior management, which aligns their interests with the long-term interests of the Company and our shareholders; reasonable limits on annual incentive awards (as determined by a review of our current business plan); with respect to annual incentive awards, a balanced mix of performance measures, linear payouts between target levels and maximum payouts capped in fiscal 2016 at 200% of



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target for the Chief Executive Officer and 175% of target for the other named executive officers; and subjective considerations (including a review of individual performance) and discretion in compensation decisions, which limit the influence of formulae or objective factors on excessive risk taking.

We also reviewed our compensation programs for certain design features that may have the potential to encourage excessive risk-taking, including over-weighting towards annual incentives, highly-leveraged payout curves, unreasonable thresholds and steep payout cliffs at certain performance levels that may encourage short-term business decisions to meet payout thresholds. We concluded that our compensation programs do not include such elements. In addition, we analyzed our overall enterprise risks and how compensation programs may impact individual behavior in a manner that could exacerbate these enterprise risks. In view of these analyses, we concluded that we have a balanced pay and performance program that does not encourage excessive risk-taking that is reasonably likely to have a material adverse effect on the Company.

**EFFECT OF ACCOUNTING AND TAX TREATMENT ON COMPENSATION DECISIONS**

In the review and establishment of our compensation programs, we consider, among other factors, the anticipated accounting and tax implications to us and our executives. Section 162(m) of the Internal Revenue Code may impose a limit on the amount of compensation that we may deduct in any one year with respect to our Chief Executive Officer and each of our next three most highly compensated executive officers (other than the Chief Financial Officer), unless specific and detailed criteria are satisfied. Performance-based compensation, as defined in the Internal

Revenue Code, is fully deductible if the programs are approved by shareholders and meet other requirements. We will seek to maintain flexibility in compensating our executives in a manner designed to promote our corporate goals and therefore we have not adopted a policy requiring all compensation to be deductible. Our Compensation Committee will assess the impact of Section 162(m) on our compensation practices and determine what further action, if any, is appropriate. The Incentive Plan allows us to provide compensation that meets the deductibility requirements of Section 162(m). In addition, the Incentive Plan requires that, to the extent necessary to comply with Section 162(m), the maximum aggregate dollar amount that may be paid to any one executive during any calendar year under any type of performance award (including restricted stock units and annual incentive) is \$5,000,000.

In addition, for Mr. Wallstrom and Ms. Fuller, starting in fiscal 2016, the Committee has approved a 162M Annual Incentive Compensation Umbrella Plan to ensure that annual incentive compensation paid to each of them meets the deductibility requirements of Section 162(m). The Umbrella Plan establishes a cap for the maximum annual cash award that can be provided to Mr. Wallstrom and Ms. Fuller in the applicable performance period based upon operating income performance. Once the maximum awards have been established under the Umbrella Plan, the Compensation Committee will then apply the metrics established under the applicable annual incentive compensation plan to arrive at the final payout. In no event can the Compensation Committee award an annual incentive amount to Mr. Wallstrom or Ms. Fuller in any given year greater than the cap established by the Umbrella Plan. The Umbrella Plan gives the Committee discretion to adjust annual incentive plan awards downward, but not to increase those awards.



Table of Contents**COMPENSATION TABLES****Summary Compensation Table**

The table below shows information concerning the annual compensation for services to the Company in all capacities of the Company's named executive officers during the last three completed fiscal years. Information regarding fiscal 2015 and fiscal 2014 compensation for Mr. Mann, and fiscal 2014 compensation for Mr. Ilagan is omitted, because these individuals were not named executive officers during the relevant year.

NAME AND PRINCIPAL POSITION	FISCAL YEAR	SALARY	BONUS	STOCK AWARDS <sup>(1)</sup>	NON-	ALL OTHER COMPEN- SATION	TOTAL COMPEN- SATION
					EQUITY INCENTI- VE PLAN COMPEN- SATION <sup>(2)</sup>		
Robert Wallstrom President and Chief Executive Officer	2016	\$750,022		\$999,994	\$712,521	\$18,144 <sup>(3)</sup>	\$2,480,681
	2015	750,022		800,017	750,000	82,730 <sup>(4)</sup>	2,382,769
	2014	173,082		1,200,000		101,923 <sup>(5)</sup>	1,475,005
Kevin J. Sierks Executive Vice President, Chief Financial Officer	2016	400,000		974,990	190,000	17,192 <sup>(3)</sup>	1,582,182
	2015	355,289		194,994	63,685	15,719 <sup>(3)</sup>	629,687
	2014	244,216	100,000	122,333	27,474	10,202 <sup>(6)</sup>	504,225
Barbara Bradley Baekgaard Chief Creative Officer	2016	465,764		275,010	206,683	29,123 <sup>(7)</sup>	976,580
	2015	465,764		279,461	83,488	33,520 <sup>(8)</sup>	862,233
	2014	465,937		279,472		34,579 <sup>(9)</sup>	779,988
Sue Fuller Executive Vice President, Chief Merchandising Officer	2016	500,006	125,000	899,994	237,503	14,423 <sup>(3)</sup>	1,776,926
	2015	500,006	125,000	299,993	250,003	93,821 <sup>(5)</sup>	1,268,823
	2014	38,462		599,991		80,604 <sup>(5)</sup>	719,057
C. Roddy Mann Executive Vice President, Strategy and Business Development	2016	385,230		399,984	170,946	15,396 <sup>(3)</sup>	971,556
Angel Ilagan Former Executive Vice President, Chief Marketing Officer	2016	123,080	300,000	149,991		900,023 <sup>(10)</sup>	1,473,094
	2015	215,390		831,309	200,005	13,854 <sup>(5)</sup>	1,260,558

(1) Represents the aggregate grant date fair value of restricted stock units awarded during the fiscal year computed in accordance with FASB ASC Topic 718. The grant date fair value of each individual award of restricted stock units is set forth in the Fiscal 2016 Grants of Plan-Based Awards table below. Additional information regarding

the calculation of these values is included in Notes 2 and 8 to our consolidated financial statements.

- (2) Represents annual incentive compensation paid under the Company's Annual Incentive Bonus Program.
- (3) Represents 401(k) matching contributions made by the Company.
- (4) Represents reimbursement of \$81,173 in relocation expenses and other taxable fringe benefits with a total value less than \$10,000.
- (5) Represents reimbursement of relocation expenses.
- (6) Represents 401(k) matching contributions made by the Company of \$10,152 and other taxable fringe benefits with a total value less than \$10,000.
- (7) Represents 401(k) matching contributions made by the Company of \$18,784, payments for Company use of NetJets membership of \$9,550 and other taxable fringe benefits with a total value less than \$10,000.
- (8) Represents 401(k) matching contributions made by the Company of \$18,959, lease payment for automobile of \$10,651 and other taxable fringe benefits with a total value less than \$10,000.
- (9) Represents 401(k) matching contributions made by the Company of \$12,310, lease payment for automobile of \$10,651, housing provisions of \$10,150 and other taxable fringe benefits with a total value less than \$10,000.
- (10) Represents cash payment for severance.

**Table of Contents****Fiscal 2016 Grants of Plan-Based Awards**

The following table sets forth information regarding grants of plan-based awards in fiscal 2016. In this table TRSU stands for time based restricted stock unit and PRSU stands for performance-based restricted stock unit.

NAME	TYPE OF AWARD	GRANT DATE	ESTIMATED POSSIBLE PAYOUTS UNDER NON-EQUITY INCENTIVE PLAN AWARDS <sup>(1)</sup>			ESTIMATED FUTURE PAYOUTS UNDER EQUITY INCENTIVE PLAN AWARDS <sup>(2)</sup>			ALL OTHER STOCK AWARDS	GRAND TOTAL FAIR VALUE OF STOCK AWARDS
			THRESHOLD	TARGET	MAXIMUM	THRESHOLD	TARGET	MAXIMUM		
Tom	Annual Incentive TRSUs	March 27, 2015	\$375,000	\$750,000	\$1,500,000				31,075	\$49,000
	PRSUs	March 27, 2015				7,769	31,075	62,150		49,000
T.	Annual Incentive TRSUs	March 27, 2015	100,000	200,000	350,000				48,943	78,000
	PRSUs	March 27, 2015				2,913	11,653	23,306		18,000
a y ard	Annual Incentive TRSUs	March 27, 2015	116,441	232,882	407,544				8,546	13,000
	PRSUs	March 27, 2015				2,137	8,546	17,092		13,000
ller	Annual Incentive TRSUs	March 27, 2015	\$125,002	\$250,003	\$437,505				43,505	69,000
	PRSUs	March 27, 2015				3,108	12,430	24,860		19,000
dy	Annual Incentive TRSUs	March 27, 2015	96,308	192,615	337,076				4,661	7,000
	TRSUs	May 4, 2015							17,409	24,000
	PRSUs	March 27, 2015				1,165	4,661	9,322		7,000
	Annual		100,003	200,005	350,009					

Incentive

TRSUs	March 27, 2015				4,661	7
PRSUs	March 27, 2015	1,165	4,661	9,322		7

- (1) Awards available under the Company's fiscal 2016 Annual Incentive Bonus Program. For all named executive officers other than Mr. Wallstrom and Mr. Ilagan, amounts shown above are based upon fiscal 2016 eligible earnings. Mr. Wallstrom's target payout is based on his fiscal 2016 base salary rate. Mr. Ilagan's target possible payout is based on fiscal 2016 eligible earnings had he not left the Company.
- (2) Awards made under the Incentive Plan to certain employees and directors, including our named executive officers. TRSUs vest in three equal annual installments on the first, second and third anniversaries of the grant date. PRSUs have a three-year cliff-vesting schedule based on continued employment and performance. The performance feature is based on earnings per share growth over the three-year performance period. Vesting would be accelerated in the event of death, disability, retirement or a change in control. See Potential Payments on Termination or Change in Control. If the Company were to declare any cash dividend on its common shares, an equivalent amount per RSU would be credited to an account for each holder and paid to the holder in cash (or forfeited) at the time the shares underlying the RSU are delivered to the holder (or forfeited). Amounts in this account would bear interest at the prime rate reported in the Midwest Edition of The Wall Street Journal from the date of deposit until paid to the holder or forfeited in accordance with the Incentive Plan.
- (3) Represents the grant date fair value of each award computed in accordance with FASB Topic 718.

Table of Contents**Outstanding Equity Awards at 2016 Fiscal Year-End**

The following table sets forth information regarding outstanding equity awards as of January 30, 2016.

	<b>STOCK AWARDS</b>			
	TIME-BASED AWARDS		PERFORMANCE-BASED AWARDS	
	NUMBER OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED (#)	MARKET VALUE OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED <sup>(1)</sup>	NUMBER OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED (#)	MARKET VALUE OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED <sup>(1)</sup>
Robert Wallstrom	8,180 <sup>(2)</sup>	\$ 120,900	32,720 <sup>(3)</sup>	\$ 483,602
	7,835 <sup>(4)</sup>	115,801	5,876 <sup>(5)</sup>	86,847
	31,075 <sup>(7)</sup>	459,289	28,278 <sup>(8)</sup>	417,949
Kevin J. Sierks	691 <sup>(6)</sup>	10,213		
	1,910 <sup>(4)</sup>	28,230	1,433 <sup>(5)</sup>	21,180
	48,943 <sup>(7)</sup>	723,378	10,604 <sup>(8)</sup>	156,727
Barbara Bradley Baekgaard	1,577 <sup>(6)</sup>	23,308		
	2,737 <sup>(4)</sup>	40,453	2,053 <sup>(5)</sup>	30,343
	8,546 <sup>(7)</sup>	126,310	7,777 <sup>(8)</sup>	114,944
Sue Fuller	8,265 <sup>(9)</sup>	122,157		
	2,938 <sup>(4)</sup>	43,424	2,204 <sup>(5)</sup>	32,575
	43,505 <sup>(7)</sup>	643,004	11,311 <sup>(8)</sup>	167,177
C. Roddy Mann	1,279 <sup>(6)</sup>	18,904		
	2,264 <sup>(4)</sup>	33,462	1,698 <sup>(5)</sup>	25,096
	4,661 <sup>(7)</sup>	68,890	4,242 <sup>(8)</sup>	62,697
	17,409 <sup>(10)</sup>	257,305		
Angel Ilagan				

- (1) Based on the closing price of \$14.78 of the Company's common shares on January 29, 2016 (the last trading day prior to the end of the fiscal year) as reported by The NASDAQ Stock Market.
- (2) Represents a grant of time-based restricted stock units made on November 11, 2013 under the Incentive Plan. These restricted stock units vest in two equal annual installments. The first installment vested on November 3, 2015. The second installment will vest on November 3, 2016. In addition, vesting would be accelerated in the event of death, disability, termination of employment by the Company without cause or by Mr. Wallstrom with good reason or termination of employment in connection with a change in control. See Potential Payments on Termination or Change in Control.
- (3) Represents a grant of performance-based restricted stock units made on November 11, 2013 under the Incentive Plan. These restricted stock units have a three-year cliff-vesting schedule based on continued employment and performance. The performance feature is based on stock price growth over the three-year performance period. In addition, vesting would be accelerated in the event of death, disability, termination of employment by the Company without cause or by Mr. Wallstrom with good reason or termination of employment in connection with a change in control. See Potential Payments on Termination or Change in Control.
- (4) Represents grants of time-based restricted stock units made on March 28, 2014 under the Incentive Plan. These restricted stock units vest in three equal annual installments on the first, second and third anniversaries of the grant date, of which the first and second installments vested on March 28, 2015 and March 28, 2016, respectively. In addition, vesting would be accelerated in the event of death, disability, retirement or upon a change in control. See Potential Payments on Termination or Change in Control.
- (5) Represents grants of performance-based restricted stock units made on March 28, 2014 under the Incentive Plan. These restricted stock units have a three-year cliff-vesting schedule based on continued employment and performance. The performance feature is based on earnings per share growth over the three-year performance period. For completed performance years, the shares above reflect earned shares based on actual performance to goal. For incomplete



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performance years, the shares above are reflected at target. In addition, vesting would be accelerated in the event of death, disability, retirement or upon a change in control. See Potential Payments on Termination or Change in Control.

- (6) Represents grants of time-based restricted stock units made on March 29, 2013 under the Incentive Plan. These restricted stock units vest in three equal annual installments on the first, second and third anniversaries of the grant date. The installments vested on March 29, 2014 and March 29, 2015 and March 29, 2016, respectively. In addition, vesting would be accelerated in the event of death, disability, retirement or upon a change in control. See Potential Payments on Termination or Change in Control.
- (7) Represents grants of time-based restricted stock units made on March 27, 2015 under the Incentive Plan. These restricted stock units vest in three equal annual installments on the first, second and third anniversaries of the grant date, of which the first installment vested on March 27, 2016. In addition, vesting would be accelerated in the event of death, disability, retirement or upon a change in control. See Potential Payments on Termination or Change in Control.
- (8) Represents grants of performance-based restricted stock units made on March 27, 2015 under the Incentive Plan. These restricted stock units have a three-year cliff-vesting schedule based on continued employment and performance. The performance feature is based on earnings per share growth over the three-year performance period. For completed performance years, the shares above reflect earned shares based on actual performance to goal. For incomplete performance years, the shares above are reflected at target. In addition, vesting would be accelerated in the event of death, disability, retirement or upon a change in control. See Potential Payments on Termination or Change in Control.
- (9) Represents a grant of time-based restricted stock units made on January 6, 2014 under the Incentive Plan. These restricted stock units vest in three equal annual installments on the first, second and third anniversaries of the grant date, of which the first and second installments vested on January 6, 2015 and January 6, 2016, respectively. In addition, vesting would be accelerated in the event of death, disability, retirement or upon a change in control. See Potential Payments on Termination or Change in Control.
- (10) Represents a grant of time-based restricted stock units made on May 4, 2015 under the Incentive Plan. These restricted stock units vest in three equal annual installments on the first, second and third anniversaries of the grant date. In addition, vesting would be accelerated in the event of death, disability, retirement or upon a change in control. See Potential Payments on Termination or Change in Control.

**Table of Contents****Option Exercises and Shares Vested**

We have no outstanding stock options.

The following table shows the number of restricted stock units which vested for each named executive officer in fiscal 2016:

	NUMBER OF SHARES OR UNITS ACQUIRED ON VESTING	NET VALUE REALIZED ON VESTING <sup>(1)</sup>
	(#)	
Robert Wallstrom	12,097	\$164,620
Kevin J. Sierks	2,658	42,747
Barbara Bradley Baekgaard	5,335	85,792
Sue Fuller	9,733	157,513
C. Roddy Mann	4,292	69,021
Angel Ilagan	30,000 <sup>(2)</sup>	450,600

- (1) Computed by multiplying the number of shares vested by the Company's closing stock price the day prior to the scheduled vesting date(s).
- (2) Vesting of these restricted stock units was accelerated upon Mr. Ilagan's involuntary separation from the Company in April 2015.

**Pension Benefits**

Aside from our 401(k) plan, we do not maintain any pension plan or arrangement under which our named executive officers are entitled to participate or receive post-retirement benefits.

**Nonqualified Deferred Compensation**

We do not maintain any nonqualified deferred compensation plan or arrangements under which our named executive officers are entitled to participate.

**Table of Contents****Potential Payments upon Termination or Change in Control**

*Severance Benefits.* The following table shows the value of cash severance benefits that would have been payable to each of our named executive officers under arrangements or contracts described below, as well as the value of equity awards that would vest, assuming a termination of employment as of January 30, 2016, except that for Mr. Ilagan the table reflects actual severance and equity benefits received based on his separation from the Company in April of 2015. In this table TRSU stands for time based restricted stock unit and PRSU stands for performance-based restricted stock unit.

	<b>TERMINATION BY COMPANY WITHOUT CAUSE/ BY EXECUTIVE FOR GOOD REASON</b>	<b>TERMINATION BY COMPANY FOR CAUSE/ BY EXECUTIVE WITHOUT GOOD REASON</b>	<b>CHANGE IN CONTROL TERMINATION</b>	<b>TERMINATION FOLLOWING DEATH OR DISABILITY</b>
<b>Robert Wallstrom</b>				
Cash	\$3,712,521 <sup>(1)</sup>	-	\$5,212,521 <sup>(2)</sup>	\$712,521 <sup>(3)</sup>
COBRA <sup>(4)</sup>	24,127	-	24,127	24,127
Value of unvested shares that				
would be accelerated <sup>(5)</sup>				
- TRSU	120,900 <sup>(6)</sup>	-	695,990 <sup>(6)(7)</sup>	695,990 <sup>(6)(7)</sup>
- PRSU	483,602 <sup>(8)</sup>	-	988,398 <sup>(8)(9)</sup>	595,358 <sup>(8)(9)</sup>
Other <sup>(13)</sup>	57,694	57,694	107,694	57,694
<b>Kevin J. Sierks</b>				
Cash	1,090,000 <sup>(10)</sup>	-	1,400,000 <sup>(11)</sup>	190,000 <sup>(12)</sup>
COBRA <sup>(4)</sup>	10,322	-	10,322	10,322
Value of unvested shares that would be accelerated <sup>(5)</sup>				
- TRSU	-	-	761,820 <sup>(7)</sup>	761,820 <sup>(7)</sup>
- PRSU	-	-	177,907 <sup>(9)</sup>	41,906 <sup>(9)</sup>
Other <sup>(13)</sup>	30,769	30,769	60,769	30,769
<b>Barbara Bradley Baekgaard</b>				
Cash	1,254,652 <sup>(10)</sup>	-	1,630,174 <sup>(11)</sup>	206,683 <sup>(12)</sup>
COBRA <sup>(4)</sup>	5,441	-	5,441	5,441
Value of unvested shares that would be accelerated <sup>(5)</sup>				
- TRSU	-	-	190,071 <sup>(7)</sup>	190,071 <sup>(7)</sup>

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- PRSU	-	-	145,287 <sup>(9)</sup>	30,728 <sup>(9)</sup>
Other <sup>(13)</sup>	35,828	35,828	65,828	35,828
<b>Sue Fuller</b>				
Cash	1,737,509 <sup>(10)(15)</sup>	-	1,750,009 <sup>(11)</sup>	237,503 <sup>(12)</sup>
Accelerated retention bonus <sup>(14)</sup>	125,000	-	125,000	125,000
COBRA <sup>(4)</sup>	4,953	-	4,953	4,953
Value of unvested shares that would be accelerated <sup>(5)</sup>				
- TRSU	-	-	808,584 <sup>(7)</sup>	808,584 <sup>(7)</sup>
- PRSU	-	-	199,752 <sup>(9)</sup>	44,700 <sup>(9)</sup>
Other <sup>(13)</sup>	48,078	48,078	78,078	48,078
<b>C. Roddy Mann</b>				
Cash	1,037,714 <sup>(10)</sup>	-	1,348,305 <sup>(11)</sup>	170,946 <sup>(12)</sup>
COBRA <sup>(4)</sup>	16,085	-	16,085	16,085
Value of unvested shares that would be accelerated <sup>(5)</sup>				
- TRSU	-	-	378,560 <sup>(7)</sup>	378,560 <sup>(7)</sup>
- PRSU	-	-	87,793 <sup>(9)</sup>	16,761 <sup>(9)</sup>
Other <sup>(13)</sup>	29,633	29,633	59,633	29,633
<b>Angel Ilagan<sup>(16)</sup></b>				
Cash	900,023 <sup>(16)</sup>	-	-	-
COBRA	16,560 <sup>(16)</sup>	-	-	-
Value of unvested shares that were accelerated				
- TRSU	450,600 <sup>(16)</sup>	-	-	-
- PRSU	-	-	-	-
Other	38,463 <sup>(16)</sup>	-	-	-

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- (1) Pursuant to his employment agreement, upon a termination by the Company without cause or by Mr. Wallstrom for good reason, he is entitled to a cash payment equal to any bonus for the prior fiscal year which has been earned but is unpaid, and a lump sum payment equal to two times the sum of his annual base salary rate plus his target bonus in the year of termination. For purposes of this table, the prior year bonus has been assumed at the actual fiscal 2016 bonus payout.
- (2) Pursuant to his employment agreement, upon a termination in anticipation of, upon or within 24 months following a change in control, Mr. Wallstrom is entitled to a cash payment equal to any bonus for the current fiscal year which has been earned but is unpaid, and a lump sum payment equal to three times the sum of his annual base salary rate plus his target bonus in the year of termination. For purposes of this table, the current year bonus has been assumed at the actual fiscal 2016 bonus payout.
- (3) Pursuant to his employment agreement, upon a termination for death or disability, Mr. Wallstrom is entitled to a cash payment equal to any bonus for the current fiscal year which has been earned but is unpaid. For purposes of this table, the current year bonus has been assumed at the actual fiscal 2016 bonus payout.
- (4) COBRA continuation coverage reflects monthly payments made by the Company for a period of 18 months in the case of Mr. Wallstrom and 12 months in the case of the other named executive officers, and is based upon coverage elections in place as of January 30, 2016. This amount assumes the named executive officer elects COBRA coverage and is eligible to participate in COBRA for the payment period.
- (5) Based on the closing price of \$14.78 of the Company's common shares on January 29, 2016 (the last trading day prior to the end of the fiscal year) as reported by The NASDAQ Stock Market.
- (6) Figure includes a sign-on grant of TRSUs. Vesting of these TRSUs would be accelerated in the event of death, disability, termination of employment by the Company without cause or by Mr. Wallstrom with good reason or termination of employment in connection with a change in control.
- (7) Figure includes grants of TRSUs which would vest in the event of death, disability, retirement or upon a change in control. In the event of retirement, TRSUs would be prorated based on the number of full fiscal months in which the executive provides service.
- (8) Figure includes a sign-on grant of PRSUs. Vesting of these PRSUs would be accelerated in the event of death, disability, termination of employment by the Company without cause or by Mr. Wallstrom with good reason or termination of employment in connection with a change in control. For completed performance years, the number of shares reflects earned shares based on actual performance to goal. For incomplete performance years, the shares above are reflected at target.
- (9) Figure includes grants of PRSUs which would vest in the event of death, disability, retirement or upon a change in control. For completed performance years, the number of shares reflects earned shares based on actual performance to goal. For incomplete performance years, the shares above are reflected at target. For death, disability or retirement, reflects PRSUs earned to the extent of actual performance in the fiscal year.
- (10) Pursuant to the Severance Plan (as described below), upon a termination by the Company without cause or by the executive for good reason, he or she is entitled to a cash payment equal to a pro rata portion of the amount of bonus that he or she would have received for the year in which his or her employment terminated, and a lump sum payment equal to one and one half times the sum of his or her annual base salary rate plus target bonus in the year of termination. For purposes of this table, the current year bonus has been assumed at the actual fiscal 2016 bonus payout.
- (11) Pursuant to the severance plan, upon a termination in anticipation of, upon or within 24 months following a change in control, the executive is entitled to a cash payment equal to any bonus for the current fiscal year which has been earned but is unpaid, and a lump sum payment equal to two times the sum of his or her annual base salary rate plus target bonus in the year of termination. For purposes of this table, the current year bonus has been

assumed at the actual fiscal 2016 bonus payout.

- (12) Pursuant to the severance plan, upon a termination for death or disability, the executive or his or her is entitled to a cash payment equal to a pro rata portion of the amount of bonus that he or she would have received for the year in which his or her employment terminated. For purposes of this table, the current year bonus has been assumed at the actual fiscal 2016 bonus payout.
- (13) Figure includes accrued vacation of 160 hours for Mr. Wallstrom, Mr. Sierks, Ms. Baekgaard, and Mr. Mann and 200 hours for Ms. Fuller. In the event of a change in control, this amount also includes a maximum of \$50,000 of outplacement services for Mr. Wallstrom and \$30,000 for all other named executive officers.
- (14) Pursuant to Ms. Fuller's offer letter, her retention bonus is \$375,000. The first installment of \$125,000 was paid on August 1, 2015. The second installment was paid on May 22, 2015, and August 14, 2015 for \$93,750 and \$31,250, respectively. The final installment of \$125,000 will be paid on July 29, 2016 and would be accelerated and paid out upon termination for any reason other than a termination for cause by the Company or by Ms. Fuller without good reason.

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- (15) Pursuant to Ms. Fuller's Supplemental Severance Agreement the Supplement executed on November 23, 2015, in addition to any payments owed under the severance plan, in the event the Company terminates Ms. Fuller's employment without cause, other than in anticipation of, upon or during the 24 months following a change in control, then, subject to the terms of the severance plan and the Supplement, Ms. Fuller would be entitled to a lump sum payment equal to one-half of the sum of Ms. Fuller's base salary and her target annual bonus for the fiscal year of termination.
- (16) Mr. Ilagan's employment with the Company was terminated as of April 17, 2015 and the figures presented represent actual benefits received. His cash severance payment was \$900,023, his special one-time equity grant of 30,000 shares was accelerated and had a value of \$15.02 on the vest date, and his accrued vacation payment was \$38,463. The value of Mr. Ilagan's COBRA benefit was \$16,560 for 12 months, although no specific payments have been made on his behalf.

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**Table of Contents****SEVERANCE AGREEMENTS AND ARRANGEMENTS**

*Chief Executive Officer.* Under his Employment Agreement, if the Company terminates Mr. Wallstrom's employment without cause or Mr. Wallstrom terminates his employment for good reason (each as defined in the Employment Agreement), Mr. Wallstrom will be entitled to (i) any bonus earned in the fiscal year prior to the employment termination that has not yet been paid, (ii) a pro rata portion of the amount of bonus, if any, that he would have received for the year in which his employment terminated; (iii) a lump sum payment equal to two times the sum of his (a) annual base salary rate and (b) target bonus for the fiscal year of termination; (iv) immediate accelerated full vesting of the time-based restricted stock units under the sign-on award and immediate accelerated vesting of the time-based vesting provisions of the portion of the restricted stock units under the sign-on award that are performance-based which will remain outstanding pending the satisfaction (or not) of the performance-based vesting criteria; and (v) monthly cash reimbursement of COBRA premiums for a period of eighteen months. If the Company terminates Mr. Wallstrom's employment without cause or Mr. Wallstrom terminates his employment for good reason and such termination is within 24 months after a change in control of the Company, Mr. Wallstrom will receive, in addition to the payments and benefit described in the preceding sentence, an additional lump sum payment equal to the sum of his (a) annual base salary rate and (b) target bonus for the fiscal year of termination, in exchange for his continued compliance with the restrictive covenants set forth in the Employment Agreement after the change in control and reimbursement for outplacement assistance up to a maximum amount of \$50,000. If the payments and benefits to Mr. Wallstrom under the Employment Agreement, together with all other amounts payable to him following a change in control (the "Total Payments"), would be subject to an excise tax under the provisions of Code Section 4999 (the "Excise Tax"), then Mr. Wallstrom will receive either (i) the Total Payments or (ii) the Total Payments as reduced so that the amount of the Total Payments (after reduction) is \$1.00 less than the amount that would cause the payments to be subject to the Excise Tax; whichever of the two would provide him with a greater after-tax value of amounts received.

If Mr. Wallstrom's employment is terminated by death or disability, Mr. Wallstrom or his estate will be entitled to: (i) any bonus that has been earned but not paid; (ii) a pro-rated bonus, if any, Mr. Wallstrom would have received for the year in which his employment terminated; (iii) full vesting of the time-based restricted stock units included in his sign-on award; (iv) full vesting of the performance-based restricted stock units included in his sign-on award at the target performance level; and (v) in the case of termination due to disability, reimbursements of COBRA premiums.

*Severance Plan.* On May 21, 2014, the Compensation Committee adopted the Vera Bradley, Inc. 2014 Executive Severance Plan (the "Severance Plan"). With the exception of Mr. Wallstrom, all named executive officers are participants in the Severance Plan, in addition to other executive vice presidents and senior vice presidents of the Company.

Under the Severance Plan, if the Company terminates a participant's employment without cause or the participant terminates his or her employment for good reason (each as defined in the Severance Plan), the participant will be entitled to (i) any bonus earned in the fiscal year prior to the employment termination that has not yet been paid; (ii) a pro rata portion of the amount of bonus (as defined in the Severance Plan), if any, that he or she would have received for the year in which his or her employment terminated; (iii) for executive vice president participants only, a lump sum payment equal to one and one-half times the sum of his or her (a) annual base salary rate (as defined in the Plan)



and (b) target bonus for the fiscal year of termination; (iv) for senior vice president participants only, a lump sum payment equal to one and one-quarter times the sum of his or her (a) annual base salary rate and (b) target bonus for the fiscal year of termination; and (v) monthly cash reimbursement of COBRA premiums for a period of twelve months.

If the Company terminates a participant's employment without cause or a participant terminates his or her employment for good reason and such termination is within 24 months after a change in control (as defined in the Severance Plan) of the Company, the participant will receive, (i) any bonus earned in the fiscal year prior to the employment termination that has not yet been paid; (ii) a pro rata portion of the amount of bonus (as defined in the Severance Plan), if any, that he or she would have received for the year in which his or her employment terminated; (iii) for executive vice president participants only, a lump sum payment equal to two times the sum of his or her (a) annual base salary rate (as defined in the Severance Plan) and (b) target bonus for the fiscal year of termination; (iv) for senior vice president participants only, a lump sum payment equal to one and three-quarter times the sum of his or her (a) annual base salary rate and (b) target bonus for the fiscal year of termination; and (v) monthly cash reimbursement of COBRA premiums for a period of twelve months.

If a participant's employment is terminated by death or disability, the participant or his or her estate will be entitled to receive (i) any bonus earned in the fiscal year prior to the employment termination that has not yet been paid; (ii) a pro rata portion of the amount of bonus (as defined in

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the Severance Plan), if any, that he or she would have received for the year in which his or her employment terminated; and (iii) in the case of termination due to disability, monthly cash reimbursement of COBRA premiums for a period of twelve months.

The Severance Plan contains customary non-competition and confidentiality provisions. During the period of each participant's employment and for a period of one year following termination of employment for any reason, the participants may not associate, directly or indirectly, as an employee, officer, director, agent, partner, owner, stockholder, representative, consultant or vendor with, for or on behalf of any competitor (as defined below), unless the Compensation Committee has approved such an association. For purposes of the Severance Plan, the term "competitor" means any entity, company, enterprise or group added to a list which the Compensation Committee reviews biannually. In addition, participants may not solicit or accept if offered the services of any person who is a then-current employee of the Company (or was an employee of the Company during the year preceding such solicitation) to terminate employment or an engagement with the Company, not including any general, non-targeted advertising or agree to hire any then-current employee (or an individual who was an employee of the Company during the year preceding such hire) of the Company into employment with the participant or any company, individual or other entity

### *Treatment of Equity Awards*

#### Sign-on Grants

Mr. Wallstrom received a sign-on grant of both time-based and performance-based restricted stock units and the treatment of these awards is discussed above.

Mr. Ilagan received a sign-on grant of 30,000 time-based restricted stock units. Mr. Ilagan's employment with the Company was terminated by the Company without cause in April of 2015 and all unvested restricted stock units as of the date of the termination became immediately and fully vested.

#### Grants under the Long-Term Incentive Plan

Generally. Except in the case of a change in control or the executive's death, disability or retirement, upon an executive's termination in service from the Company all unearned and unvested grants of both time-based and performance-based restricted stock units will be forfeit.

Change in Control. Under the terms of the grant agreements, all unvested performance-based restricted stock units will vest in the event of a change in control. With

respect to performance years that have been completed at the time of a change in control, unvested performance-based restricted stock units will be earned and vested to the extent of actual performance for such performance year. With respect to performance years that have not been completed at the time of a change in control, performance-based restricted stock units will be deemed to be earned at the target level, with any such earned units becoming fully vested.

With respect to time-based restricted stock units, upon a change in control that portion of any outstanding award that is not yet vested as of the date of the change in control will become immediately and fully vested and paid

immediately prior to the change in control.

The Incentive Plan defines a change in control to mean the occurrence of any one or more of the following: (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Exchange Act and the rules of the Securities and Exchange Commission as in effect on the date of the award), other than: (i) Barbara Baekgaard, Patricia Miller, Michael Ray and Kim Colby and their respective heirs and descendants and any trust established for their benefit; (ii) the Company or a corporation owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company; or (iii) any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its affiliates, of securities of the Company representing more than twenty-five percent (25%) of the combined voting power of the Company's then outstanding securities; (b) the occupation of a majority of the seats (other than vacant seats) on the board of directors by persons who were neither (i) nominated by the board nor (ii) appointed by directors so nominated; or (c) the consummation of (i) an agreement for the sale or disposition of all or substantially all of the Company's assets or (ii) a merger, consolidation or reorganization of the Company with or involving any other corporation, other than a merger, consolidation or reorganization that results in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger, consolidation or reorganization.

Death or Disability. Under the terms of the grant agreements, all unvested performance-based restricted stock units will vest in the event that an executive's service with the Company terminates as a result of death or disability during the performance period, (i) with respect to

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performance years that have been completed at the time of death or disability, each tranche will be earned only to the extent of actual performance in the performance year; and (ii) with respect to performance years that have not been completed at the time of death or disability, each tranche will be deemed to be earned based on the target level of performance for such performance year, but prorated based on the number of full fiscal months in which the executive provided service during the performance period.

With respect to time-based restricted stock units, in the event of the executive's death or disability, any portion of any outstanding award that is not yet vested as of the date of death or disability shall become immediately and fully vested.

The Incentive Plan states that disability may be de