VINCE HOLDING CORP.
Form 10-Q
June 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended May 5, 2018

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-36212

VINCE HOLDING CORP.

(Exact name of registrant as specified in its charter)

Delaware	75-3264870
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 5th Avenue—20th Floor

New York, New York 10110

(Address of principal executive offices) (Zip code)

(212) 515-2600

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Common Stock	Outstanding at May 31, 2018
Common Stock, $0.01 par value per share	11,616,500 shares

VINCE HOLDING CORP. AND SUBSIDIARIES

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INTRODUCTORY NOTE

On November 27, 2013, Vince Holding Corp. (“VHC” or the “Company”), previously known as Apparel Holding Corp., closed an initial public offering (“IPO”) of its common stock and completed a series of restructuring transactions (the “Restructuring Transactions”) through which Kellwood Holding, LLC acquired the non-Vince businesses, which included Kellwood Company, LLC (“Kellwood Company” or “Kellwood”), from the Company. The Company continues to own and operate the Vince business, which includes Vince, LLC.

On November 18, 2016, Kellwood Intermediate Holding, LLC and Kellwood Company, LLC entered into a Unit Purchase Agreement with Sino Acquisition, LLC (the “Kellwood Purchaser”) whereby the Kellwood Purchaser agreed to purchase all of the outstanding equity interests of Kellwood Company, LLC. Prior to the closing, Kellwood Intermediate Holding, LLC and Kellwood Company, LLC conducted a pre-closing reorganization pursuant to which certain assets of Kellwood Company, LLC were distributed to a newly formed subsidiary of Kellwood Intermediate Holding, LLC, St. Louis Transition, LLC. The transaction closed on December 21, 2016 (the “Kellwood Sale”).

DISCLOSURES REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, and any statements incorporated by reference herein, contains forward-looking statements under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are indicated by words or phrases such as “may,” “will,” “should,” “believe,” “expect,” “seek,” “anticipate,” “intend,” “estimate,” “plan,” “targ “forecast,” “envision” and other similar phrases. Although we believe the assumptions and expectations reflected in these forward-looking statements are reasonable, these assumptions and expectations may not prove to be correct and we may not achieve the results or benefits anticipated. These forward-looking statements are not guarantees of actual results, and our actual results may differ materially from those suggested in the forward-looking statements. These forward-looking statements involve a number of risks and uncertainties, some of which are beyond our control, including, without limitation: our ability to continue having the liquidity necessary to service our debt, meet contractual payment obligations, and fund our operations; our ability to comply with the covenants under our credit facilities; our ability to successfully operate the newly implemented systems, processes and functions recently transitioned from Kellwood Company; our ability to remediate the identified material weaknesses in our internal control over financial reporting; further impairment of our goodwill and indefinite-lived intangible assets; our ability to realize the benefits of our recently announced strategic initiatives; the execution and management of our retail store growth plans; our ability to make lease payments when due; our ability to ensure the proper operation of the distribution facility by a third-party logistics provider; our ability to remain competitive in the areas of merchandise quality, price, breadth of selection and customer service; our ability to anticipate and/or react to changes in customer demand and attract new customers, including in connection with making inventory commitments; our ability to manage excess inventory in a way that will promote the long-term health of the brand; changes in consumer confidence and spending; our ability to maintain projected profit margins; the execution and management of our international expansion, including our ability to promote our brand and merchandise outside the U.S. and find suitable partners in certain geographies; our ability to expand our product offerings into new product categories, including the ability to find suitable licensing partners; our ability to successfully implement our marketing initiatives; our ability to protect our trademarks in the U.S. and internationally; our ability to maintain the security of electronic and other confidential information; serious disruptions and catastrophic events; changes in global economies and credit and financial markets; competition; our ability to attract and retain key personnel; commodity, raw material and other cost increases; compliance with domestic and international laws, regulations and orders; changes in laws and regulations; outcomes of litigation and proceedings and the availability of insurance, indemnification and other third-party coverage of any losses suffered in connection therewith; effect of the U.S. federal income tax law reform; other tax matters; and other factors as set forth from time to time in our Securities and Exchange Commission filings, including

those described in this report on Form 10-Q and our 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 25, 2018 (the “2017 Annual Report on Form 10-K”) under the heading “Item 1A—Risk Factors.” We intend these forward-looking statements to speak only as of the time of this report on Form 10-Q and do not undertake to update or revise them as more information becomes available, except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data, unaudited)

	May 5, 2018	February 3, 2018
Assets		
Current assets:		
Cash and cash equivalents	$5,228	$5,372
Trade receivables, net	12,764	20,760
Inventories, net	49,360	48,921
Prepaid expenses and other current assets	7,517	6,521
Total current assets	74,869	81,574
Property and equipment, net	29,966	31,608
Intangible assets, net	76,949	77,099
Goodwill	41,435	41,435
Deferred income taxes	379	379
Other assets	2,359	2,439
Total assets	$225,957	$234,534
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$20,149	$22,556
Accrued salaries and employee benefits	4,003	6,715
Other accrued expenses	9,288	7,906
Current portion of long-term debt	8,000	8,000
Total current liabilities	41,440	45,177
Long-term debt	41,600	40,682
Deferred rent	15,316	15,633
Other liabilities	58,273	58,273
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock at $0.01 par value (100,000,000 shares authorized, 11,616,500 and 11,616,500 shares issued and outstanding at May 5, 2018 and February 3, 2018, respectively)	116	116
Additional paid-in capital	1,113,538	1,113,342
Accumulated deficit	(1,044,261)	(1,038,624)

Accumulated other comprehensive loss	(65)	(65)
Total stockholders' equity	69,328	74,769
Total liabilities and stockholders' equity	$225,957	$234,534

See notes to unaudited condensed consolidated financial statements.

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VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Loss

(in thousands, except share and per share data, unaudited)

	Three Months Ended	
	May 5, 2018	April 29, 2017
Net sales	$54,514	$58,045
Cost of products sold	28,978	32,454
Gross profit	25,536	25,591
Selling, general and administrative expenses	29,900	33,784
Loss from operations	(4,364)	(8,193)
Interest expense, net	1,289	1,044
Other (income) expense, net	(64)	1
Loss before income taxes	(5,589)	(9,238)
Provision for income taxes	48	52
Net loss and comprehensive loss	$(5,637)	$(9,290)
Loss per share:		
Basic loss per share	$(0.49)	$(1.88)
Diluted loss per share	$(0.49)	$(1.88)
Weighted average shares outstanding:		
Basic	11,616,500	4,942,825
Diluted	11,616,500	4,942,825

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands, unaudited)

	Three Months Ended	
	May 5, 2018	April 29, 2017
Operating activities		
Net loss	$(5,637)	$(9,290)
Add (deduct) items not affecting operating cash flows:		
Depreciation and amortization	2,069	2,415
Deferred rent	(319)	(225)
Share-based compensation expense	198	219
Other	294	162
Changes in assets and liabilities:		
Receivables, net	7,996	(9,956)
Inventories	(439)	6,316
Prepaid expenses and other current assets	(997)	1,973
Accounts payable and accrued expenses	(3,767)	(11,352)
Other assets and liabilities	85	18
Net cash used in operating activities	(517)	(19,720)
Investing activities		
Payments for capital expenditures	(250)	(1,785)
Net cash used in investing activities	(250)	(1,785)
Financing activities		
Proceeds from borrowings under the Revolving Credit Facility	44,930	121,083
Repayment of borrowings under the Revolving Credit Facility	(42,218)	(105,147)
Repayment of borrowings under the Term Loan Facility	(2,000)	—
Proceeds from stock option exercises and issuance of common stock under employee stock purchase plan	—	13
Financing fees	(90)	—
Net cash provided by financing activities	622	15,949
Decrease in cash, cash equivalents, and restricted cash	(145)	(5,556)
Cash, cash equivalents, and restricted cash, beginning of period	5,445	21,036
Cash, cash equivalents, and restricted cash, end of period	$5,300	$15,480
Supplemental Disclosures of Cash Flow Information		
Cash payments on Tax Receivable Agreement obligation	351	—
Cash payments for interest	1,411	295
Cash payments for income taxes, net of refunds	—	—
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Capital expenditures in accounts payable and accrued liabilities	50	391

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Notes to the Unaudited Condensed Consolidated Financial Statements

(in thousands except share and per share data)

Note 1. Description of Business and Basis of Presentation

On November 27, 2013, Vince Holding Corp. ("VHC" or the "Company"), previously known as Apparel Holding Corp., closed an initial public offering ("IPO") of its common stock and completed a series of restructuring transactions (the "Restructuring Transactions") through which Kellwood Holding, LLC acquired the non-Vince businesses, which included Kellwood Company, LLC ("Kellwood Company" or Kellwood"), from the Company. The Company continues to own and operate the Vince business, which includes Vince, LLC.

Prior to the IPO and the Restructuring Transactions, VHC was a diversified apparel company operating a broad portfolio of fashion brands, which included the Vince business. As a result of the IPO and Restructuring Transactions, the non-Vince businesses were separated from the Vince business, and the stockholders immediately prior to the consummation of the Restructuring Transactions (the "Pre-IPO Stockholders") (through their ownership of Kellwood Holding, LLC) retained the full ownership and control of the non-Vince businesses. The Vince business is now the sole operating business of VHC.

On November 18, 2016, Kellwood Intermediate Holding, LLC and Kellwood Company, LLC entered into a Unit Purchase Agreement with Sino Acquisition, LLC (the "Kellwood Purchaser") whereby the Kellwood Purchaser agreed to purchase all of the outstanding equity interests of Kellwood Company, LLC. Prior to the closing, Kellwood Intermediate Holding, LLC and Kellwood Company, LLC conducted a pre-closing reorganization pursuant to which certain assets of Kellwood Company, LLC were distributed to a newly formed subsidiary of Kellwood Intermediate Holding, LLC, St. Louis Transition, LLC. The transaction closed on December 21, 2016 (the "Kellwood Sale").

(A) Description of Business: Established in 2002, Vince is a global luxury apparel and accessories brand best known for creating elevated yet understated pieces for every day. The collections are inspired by the brand's California origins and embody a feeling of warm and effortless style. Vince designs uncomplicated yet refined pieces that approach dressing with a sense of ease. Known for its range of luxury products, Vince offers wide array of women's and men's ready-to-wear, shoes, and capsule collection of handbags, and home for a global lifestyle. The Company reaches its customers through a variety of channels, specifically through major wholesale department stores and specialty stores in the United States ("U.S.") and select international markets, as well as through the Company's branded retail locations and the Company's website. The Company designs products in the U.S. and sources the vast majority of products from contract manufacturers outside the U.S., primarily in Asia. Products are manufactured to meet the Company's product specifications and labor standards.

(B) Basis of Presentation: The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the rules and regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. Therefore, these financial statements should be read in conjunction with VHC's audited financial statements for the fiscal year ended February 3, 2018, as set forth in the 2017 Annual Report on Form 10-K.

The condensed consolidated financial statements include the Company's accounts and the accounts of the Company's wholly-owned subsidiaries as of May 5, 2018. All intercompany accounts and transactions have been eliminated. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all

adjustments (consisting solely of normal recurring adjustments) and disclosures necessary for a fair statement. The results of operations for these periods are not necessarily comparable to, or indicative of, results of any other interim period or the fiscal year as a whole.

(C) Reverse Stock Split: At the close of business on October 23, 2017, the Company effected a 1-for-10 reverse stock split (the “Reverse Stock Split”). The Company’s common stock began trading on a split-adjusted basis when the market opened on October 24, 2017. Pursuant to the Reverse Stock Split, every 10 shares of the Company’s issued and outstanding common stock were automatically converted into one share of common stock. No fractional shares were issued if, as a result of the Reverse Stock Split, a stockholder would otherwise have been entitled to a fractional share. Instead, each stockholder was entitled to receive a cash payment based on a pre-split cash in lieu rate of $0.48, which was the average closing price per share on the New York Stock Exchange for the five consecutive trading days immediately preceding October 23, 2017.

The number of authorized shares of common stock has also been reduced from 250,000,000 to 100,000,000. The Company had increased the number of authorized shares from 100,000,000 to 250,000,000 on September 6, 2017 in connection with the closing of the 2017 Rights Offering and related 2017 Investment Agreement (each as defined below) on September 8, 2017.

The accompanying financial statements and notes to the financial statements give retroactive effect to the Reverse Stock Split for all periods presented, unless otherwise noted. The calculation of basic and diluted net earnings (loss) per share, as presented in the condensed consolidated statements of operations, have been determined based on a retroactive adjustment of weighted average shares outstanding for all periods presented. To reflect the reverse stock split on shareholders' equity, the Company reclassified an amount equal to the par value of the reduced shares from the common stock par value account to the additional paid in capital account, resulting in no net impact to shareholders' equity on the condensed consolidated balance sheets.

(D) Sources and Uses of Liquidity: The Company's sources of liquidity are cash and cash equivalents, cash flows from operations, if any, borrowings available under the Revolving Credit Facility and the Company's ability to access capital markets. The Company's primary cash needs are funding working capital requirements, meeting debt service requirements, paying amounts due under the Tax Receivable Agreement and capital expenditures for new stores and related leasehold improvements.

During the last two fiscal years, the Company has experienced a decline in operating profitability and in fiscal 2016 and 2017 used cash flows generated from financing activities to fund a portion of its operating cash needs. Therefore, management had concluded in fiscal 2016 that then existing conditions in the business raised substantial doubt about the Company's ability to meet its financial obligations, specifically to comply with the Consolidated Net Total Leverage Ratio under its Term Loan Facility. During fiscal 2017, the Company fully executed the actions disclosed in its Annual Report on Form 10-K for the fiscal year ended February 3, 2018 in order to address the concerns referenced above and to satisfy the Company's liquidity needs.

The Company believes it will generate sufficient liquidity to fund its working capital and capital expenditure needs, meet its Tax Receivable Agreement obligations, and satisfy its debt maturities and covenants under the Term Loan Facility and Revolving Credit Facility for the next twelve months. While we believe based upon our actions to date that we will have sufficient liquidity for the next twelve months, there can be no assurances in the future that we will be able to generate sufficient cash flow from operations to meet our liquidity needs. The Company's ability to continue to meet its obligations is dependent on its ability to generate positive cash flow from a combination of initiatives and failure to successfully implement these initiatives could have a material adverse effect on the Company's liquidity and operations in which case the Company would need to implement alternative plans, such as attempting to obtain other financing, in an effort to satisfy our liquidity needs.

Note 2. Goodwill and Intangible Assets

Net goodwill balances and changes therein by segment were as follows:

(in thousands)	Wholesale	Direct-to-consumer	Total Net Goodwill
Balance as of May 5, 2018	$ 41,435	$ —	$ 41,435
Balance as of February 3, 2018	$ 41,435	$ —	$ 41,435

The total carrying amount of goodwill for all periods presented was net of accumulated impairments of $69,253.

The following tables present a summary of identifiable intangible assets:

(in thousands)	Gross Amount	Accumulated Amortization	Accumulated Impairments	Net Book Value
Balance as of May 5, 2018				
Amortizable intangible assets:				
Customer relationships	$11,970	$ (6,121)	$ —	$5,849
Indefinite-lived intangible asset:				
Tradename	101,850	—	(30,750)	71,100
Total intangible assets	$113,820	$ (6,121)	$ (30,750)	$76,949

(in thousands)	Gross Amount	Accumulated Amortization	Accumulated Impairments	Net Book Value
Balance as of February 3, 2018				
Amortizable intangible assets:				
Customer relationships	$11,970	$ (5,971)	$ —	$5,999
Indefinite-lived intangible asset:				
Tradename	101,850	—	(30,750)	71,100
Total intangible assets	$113,820	$ (5,971)	$ (30,750)	$77,099

Amortization of identifiable intangible assets was $150 and $150 for the three months ended May 5, 2018 and April 29, 2017, respectively. The estimated amortization expense for identifiable intangible assets is $599 for each fiscal year for the next five fiscal years.

Note 3. Fair Value Measurements

Accounting Standards Codification ("ASC") Subtopic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This guidance outlines a valuation framework, creates a fair value hierarchy to increase the consistency and comparability of fair value measurements, and details the disclosures that are required for items measured at fair value. Financial assets and liabilities are to be measured using inputs from three levels of the fair value hierarchy as follows:

Level 1—quoted market prices in active markets for identical assets or liabilities

Level 2—observable market-based inputs (quoted prices for similar assets and liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active) or inputs that are corroborated by observable market data

Level 3—significant unobservable inputs that reflect the Company's assumptions and are not substantially supported by market data

The Company did not have any non-financial assets or non-financial liabilities recognized at fair value on a recurring basis at May 5, 2018 or February 3, 2018. At May 5, 2018 and February 3, 2018, the Company believes that the carrying value of cash and cash equivalents, receivables and accounts payable approximates fair value, due to the short-term maturity of these instruments. The Company's debt obligations with a carrying value of $50,612 as of May 5, 2018 are at variable interest rates and management estimates that the fair value of the Company's outstanding debt obligations was approximately $45,000 based upon quoted prices in markets that are not active, which is considered a Level 2 input.

The Company's non-financial assets, which primarily consist of goodwill, intangible assets, and property and equipment, are not required to be measured at fair value on a recurring basis and are reported at their carrying values. However, on a periodic basis whenever events or changes in circumstances indicate that their carrying value may not be fully recoverable (and at least annually for goodwill and intangible assets), non-financial assets are assessed for impairment and, if applicable, written down to (and recorded at) fair value.

Note 4. Long-Term Debt and Financing Arrangements

Long-term debt consisted of the following:

(in thousands)	May 5, 2018	February 3, 2018
Term Loan Facility	$31,000	$33,000
Revolving Credit Facility	19,612	16,900
Total debt principal	50,612	49,900
Less: current portion of long-term debt	8,000	8,000
Less: deferred financing costs	1,012	1,218
Total long-term debt	$41,600	$40,682

Term Loan Facility

On November 27, 2013, in connection with the closing of the IPO and Restructuring Transactions, Vince, LLC and Vince Intermediate Holding, LLC, a direct subsidiary of VHC and the direct parent company of Vince, LLC ("Vince Intermediate"), entered into a $175,000 senior secured term loan facility (as amended from time to time, the "Term Loan Facility") with the lenders party thereto, Bank of America, N.A. ("BofA"), as administrative agent, JP Morgan Chase Bank and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers, and Cantor Fitzgerald as documentation agent. The Term Loan Facility will mature on November 27, 2019. Vince, LLC and Vince Intermediate are borrowers (together, the "Borrowers") and VHC is a guarantor under the Term Loan Facility.

On June 30, 2017, the Borrowers entered into a Waiver, Consent and First Amendment (the "Term Loan Amendment") which, among other things, (i) waives the Consolidated Net Total Leverage Ratio (as defined in the Term Loan Facility) covenant (as described below) for the test periods from July 2017 through and including April 2019; (ii) requires the Borrowers, beginning with the payment due on or around January 2018, to pay a quarterly amortization payment of $3,000 for such fiscal quarter and $2,000 for each fiscal quarter thereafter, provided that there is not less than $15,000 of "availability" under the Revolving Credit Facility on a pro forma basis immediately before and after giving effect to such amortization payment; (iii) prohibits the Company from making any payments on the Tax Receivable Agreement (see Note 11 "Related Party Transactions" for further information) before the first amortization payment referenced above is made or if the Borrowers are not current on any of the foregoing amortization payments; (iv) increases the applicable margin by 2.0% per annum on all term loan borrowings; (v) requires the Borrowers to pay a fee to consenting term lenders equal to 0.5% of the outstanding principal amount of such lender's term loans as of the effective date of the Term Loan Amendment; (vi) eliminates the Borrower's ability to designate subsidiaries as unrestricted and to make certain payments, restricted payments and investments with certain funds considered "available excess amount" (as defined in the Term Loan Facility); (vii) eliminates the uncommitted incremental facility; and (viii) limits certain intercompany transactions between a loan party and a non-loan party subsidiary. If the Company is unable to make the full amortization payment specified in (ii) above on any of the scheduled amortization payment dates, the Company may defer such payment for up to two fiscal quarters after such payment was due. Any subsequent payments made will first be applied to any previously outstanding amounts. If the Company is unable to make the amortization payment after the permitted two fiscal quarter deferral, it may obtain a note from a third-party to repay such amount. The note must meet certain terms and conditions as set forth in the Term Loan Amendment. The Term Loan Amendment became effective on September 8, 2017 when the Company received $30,000 of gross proceeds in connection with the 2017 Rights Offering and related 2017 Investment Agreement (see Note 11 "Related Party Transactions" for further details) and used a portion of such proceeds to repay $9,000 in principal amount under the Term Loan Facility.

Effective with the Term Loan Amendment, interest is payable on loans under the Term Loan Facility at a rate of either (i) the Eurodollar rate (subject to a 1.00% floor) plus an applicable margin of 7.00% or (ii) the base rate applicable margin of 6.00%. During the continuance of a payment or bankruptcy event of default, interest will accrue (i) on the overdue principal amount of any loan at a rate of 2% in excess of the rate otherwise applicable to such loan and (ii) on any overdue interest or any other outstanding overdue amount at a rate of 2% in excess of the non-default interest rate then applicable to base rate loans. The Term Loan Facility requires Vince, LLC and Vince Intermediate to make mandatory prepayments upon the occurrence of certain events, including additional debt issuances, common and preferred stock issuances, certain asset sales, and annual payments of 50% of excess cash flow, subject to reductions to 25% and 0% if Vince, LLC and Vince Intermediate maintain a Consolidated Net Total Leverage Ratio of 2.50 to 1.00 and 2.00 to 1.00, respectively, and subject to reductions for voluntary prepayments made during such fiscal year.

The Term Loan Facility contains a requirement that Vince, LLC and Vince Intermediate maintain a "Consolidated Net Total Leverage Ratio" as of the last day of any period of four fiscal quarters not to exceed 3.25 to 1.00. The Term Loan Facility permits Vince Holding Corp. to make a Specified Equity Contribution, as defined under the Agreement, to the Borrowers in order to increase, dollar for dollar, Consolidated EBITDA for such fiscal quarter for the purposes of determining compliance with this covenant at the end of such fiscal quarter and applicable subsequent periods provided that (a) in each four fiscal quarter period there shall be at least two fiscal quarters in which no Specified Equity Contribution is made; (b) no more than five Specified Equity Contributions shall be made in the aggregate during the term of the Agreement; and (c) the amount of any Specified Equity Contribution shall be no greater than the amount required to cause the Company to be in compliance with this covenant. During April 2017, the Company utilized $6,241 of the funds held by Vince Holding Corp. to make a Specified Equity Contribution in connection with the calculation of the Consolidated Net Total Leverage Ratio as of January 28, 2017. In addition, during May and June 2017, the Company utilized $11,831 of the funds held by Vince Holding Corp. to make Specified Equity Contributions in connection with the calculation of the Consolidated Net Total Leverage Ratio as of April 29, 2017.

As discussed above, the Term Loan Amendment waives the Consolidated Net Total Leverage Ratio covenant for the test periods from July 2017 through and including April 2019.

In addition, the Term Loan Facility contains customary representations and warranties, other covenants, and events of default, including but not limited to, limitations on the incurrence of additional indebtedness, liens, negative pledges, guarantees, investments, loans, asset sales, mergers, acquisitions, prepayment of other debt, the repurchase of capital stock, transactions with affiliates, and the ability to change the nature of the Company's business or its fiscal year, and distributions and dividends. The Term Loan Facility generally permits dividends to the extent that no default or event of default is continuing or would result from the contemplated dividend and the pro forma Consolidated Net Total Leverage Ratio after giving effect to such contemplated dividend is at least 0.25 lower than the maximum Consolidated Net Total Leverage Ratio for such quarter in an amount not to exceed the excess available amount, as defined in the loan agreement. All obligations under the Term Loan Facility are guaranteed by VHC and any future material domestic restricted subsidiaries of Vince, LLC and secured by a lien on substantially all of the assets of VHC, Vince, LLC and Vince Intermediate and any future material domestic restricted subsidiaries. As of May 5, 2018, after giving effect to the waiver described above, the Company was in compliance with applicable covenants.

Through May 5, 2018, on an inception to date basis, the Company has made repayments totaling $144,000 in the aggregate on the original $175,000 Term Loan Facility entered into on November 27, 2013 with $2,000 of such repayments made during the three months ended May 5, 2018. As of May 5, 2018, the Company had $31,000 of debt outstanding under the Term Loan Facility.

Revolving Credit Facility

On November 27, 2013, Vince, LLC entered into a $50,000 senior secured revolving credit facility (as amended from time to time, the “Revolving Credit Facility”) with BofA as administrative agent. Vince, LLC is the borrower and VHC and Vince Intermediate are the guarantors under the Revolving Credit Facility. On June 3, 2015, Vince, LLC entered into a first amendment to the Revolving Credit Facility, that among other things, increased the aggregate commitments under the facility from $50,000 to $80,000, subject to a loan cap which is the lesser of (i) the Borrowing Base, as defined in the loan agreement, (ii) the aggregate commitments, or (iii) $70,000 until debt obligations under the Company’s Term Loan Facility have been paid in full, and extended the maturity date from November 27, 2018 to June 3, 2020.

On June 22, 2017, Vince, LLC entered into a second amendment to the Revolving Credit Facility, which among other things, increased availability under the borrowing base by (i) including in the borrowing base up to $5,000 of cash at Vince Holding Corp. so long as such cash is in a deposit account subject to “control” by the agent, (ii) temporarily increasing the concentration limit for accounts due from a specified wholesale partner through July 31, 2017 and (iii) pursuant to a side letter, dated June 22, 2017, entered into between Vince LLC and BofA (the “LC Side Letter”), including in the borrowing base certain letters of credit (the “Specified LCs” as described under “Bank of Montreal Facility” below), issued for the benefit of BofA as credit support for the obligations outstanding under the Revolving Credit Facility. The LC Side Letter terminated when the Specified LCs were released, as described below. In addition, the second amendment changed the financial maintenance covenant in the Revolving Credit Facility from a springing minimum EBITDA covenant to a minimum excess availability covenant that must be satisfied at all times. The new financial maintenance covenant requires the loan parties to have excess availability of not less than the greater of 12.5% of the adjusted loan cap then in effect and $5,000. The second amendment also (x) increased the applicable margin on all borrowings of revolving loans by 0.5% per annum and (y) temporarily lowered the thresholds for what constituted a trigger event through August 15, 2017, such that a trigger event meant the greater of 12.5% of the adjusted loan cap then in effect and $5,000. Following August 15, 2017, the trigger event means the greater of 15% of the adjusted loan cap then in effect and $6,000. The second amendment also changed the maturity date to the earlier of (a) June 3, 2020 (or a later date as applicable if the lender participates in any extension series) and (b) 120 days prior to the then scheduled maturity date of the Term Loan Facility to the extent that there are outstanding obligations under the Term Loan Facility on such date.

The Revolving Credit Facility also provides for a letter of credit sublimit of $25,000 (plus any increase in aggregate commitments) and an accordion option that allows for an increase in aggregate commitments up to $20,000. Effective with the second amendment, interest is payable on the loans under the Revolving Credit Facility at either the LIBOR or the Base Rate, in each case, plus an applicable margin of 1.75% to 2.25% for LIBOR loans or 0.75% to 1.75% for Base Rate loans, and in each case subject to a pricing grid based on an average daily excess availability calculation. The “Base Rate” means, for any day, a fluctuating rate per annum equal to the highest of (i) the rate of interest in effect for such day as publicly announced from time to time by BofA as its prime rate; (ii) the Federal Funds Rate for such day, plus 0.50%; and (iii) the LIBOR Rate for a one month interest period as determined on such day, plus 1.0%. During the continuance of an event of default and at the election of the required lender, interest will accrue at a rate of 2% in excess of the applicable non-default rate.

The Revolving Credit Facility also contains representations and warranties, other covenants and events of default that are customary for this type of financing, including limitations on the incurrence of additional indebtedness, liens,

negative pledges, guarantees, investments, loans, asset sales, mergers, acquisitions, prepayment of other debt, the repurchase of capital stock, transactions with affiliates, and the ability to change the nature of the Company's business or its fiscal year. The Revolving Credit Facility generally permits dividends in the absence of any event of default (including any event of default arising from the contemplated dividend), so long as (i) after giving pro forma effect to the contemplated dividend, for the following six months Excess Availability will be at least the greater of 20% of the adjusted loan cap and $10,000 and (ii) after giving pro forma effect to the contemplated dividend, the "Consolidated Fixed Charge Coverage Ratio" for the 12 months preceding such dividend shall be greater than or equal to 1.0 to 1.0 (provided that the Consolidated Fixed Charge Coverage Ratio may be less than 1.0 to 1.0 if, after giving pro forma effect to the contemplated dividend, Excess Availability for the six fiscal months following the dividend is at least the greater of 35% of the adjusted loan cap and $15,000). As of May 5, 2018, the Company was in compliance with applicable financial covenants. The second amendment replaced and superseded all side letters previously entered into between Vince, LLC and BofA.

On March 28, 2018, Vince, LLC entered into a third amendment to the Revolving Credit Facility. In support of the Company's previously announced wholesale distribution strategy, the third amendment modified the definition of "Eligible Trade Receivables" such that the applicable Concentration Limit for Accounts due from: (i) Nordstrom is 70% so long as Nordstrom's credit rating is investment grade BBB- or higher by Standard & Poor's Financial Services, LLC or Baa3 or higher by Moody's Analytics, Inc and 50% at all other times (ii) Neiman Marcus is 30% and (iii) all other individual account debtors is 20%.

As of May 5, 2018, $32,058 was available under the Revolving Credit Facility, net of the amended loan cap, and there were $19,612 of borrowings outstanding and $8,040 of letters of credit outstanding under the Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the Revolving Credit Facility as of May 5, 2018 was 3.7%.

As of February 3, 2018, $38,560 was available under the Revolving Credit Facility, net of the amended loan cap, and there were $16,900 of borrowings outstanding and $8,260 of letters of credit outstanding under the Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the Revolving Credit Facility as of February 3, 2018 was 3.7%.

Bank of Montreal Facility

On June 22, 2017, Vince, LLC entered into a credit facility agreement with the Bank of Montreal to issue the Specified LCs (the "BMO LC Line"), as discussed under the Revolving Credit Facility above. The BMO LC Line was guaranteed by Sun Capital Fund V, L.P., an affiliate of Sun Capital Partners, Inc. The initial BMO LC Line was issued in the amount of $5,000. The maximum draw amount for all Specified LCs was $10,000. The BMO LC Line was unsecured but may have been secured subject to the terms of an intercreditor agreement between BofA and Bank of Montreal. BofA was permitted to draw on the Specified LCs upon the occurrence of certain events specified therein. In the event BofA drew on the Specified LCs upon the occurrence of a draw event, the loan would have been subject to certain customary terms and conditions pursuant to the applicable loan authorization document. The BMO LC Line also could have been released upon request by Vince, LLC so long as the Company had received at least $30,000 of cash proceeds from the 2017 Rights Offering, $15,000 of which must have been used to repay the principal amount of the outstanding loans under the Revolving Credit Facility (without permanent reduction of commitments) or the Excess Availability would have been greater than $10,000 after giving pro forma effect to the 2017 Rights Offering proceeds. The undrawn portion of the face amount of the Specified LCs was subject to a standard 3% annual fee. On October 31, 2017, at the request of the Company, the BMO LC Line was released upon satisfaction of the above release conditions.

Note 5. Inventory

Inventories consisted of finished goods. As of May 5, 2018 and February 3, 2018, finished goods, net of reserves were $49,360 and $48,921, respectively.

Note 6. Share-Based Compensation

Employee Stock Plans

Vince 2013 Incentive Plan

In connection with the IPO, the Company adopted the Vince 2013 Incentive Plan, which provides for grants of stock options, stock appreciation rights, restricted stock and other stock-based awards. The aggregate number of shares of common stock which may be issued or used for reference purposes under the Vince 2013 Incentive Plan or with respect to which awards may be granted may not exceed 340,000 shares, as adjusted to reflect the Reverse Stock Split. The shares available for issuance under the Vince 2013 Incentive Plan may be, in whole or in part, either authorized and unissued shares of the Company's common stock or shares of common stock held in or acquired for the Company's treasury. In general, if awards under the Vince 2013 Incentive Plan are cancelled for any reason, or expire or terminate unexercised, the shares covered by such award may again be available for the grant of awards under the Vince 2013 Incentive Plan. As of May 5, 2018, there were 4,443 shares under the Vince 2013 Incentive Plan available for future grants. Options granted pursuant to the Vince 2013 Incentive Plan typically vest in equal installments over four years, subject to the employees' continued employment and expire on the earlier of the tenth anniversary of the grant date or upon termination as outlined in the Vince 2013 Incentive Plan. Restricted stock units granted vest in equal installments over a three-year period or vest in equal installments over four years, subject to the employees' continued employment.

On May 18, 2018, the Company filed Registration Statement on Form S-8 to register an additional 660,000 shares of common stock available for issuance under the Vince 2013 Incentive Plan. See Note 12 "Subsequent Events" for additional information.

The consultancy agreements with the non-employee consultants ended in February 2017 and as a result, 17,659 shares were forfeited. In May 2017, the remaining 29,432 previously vested shares expired.

On April 26, 2018, the Company commenced a tender offer to exchange certain options to purchase shares of its common stock, whether vested or unvested, from eligible employees and executive officers for replacement restricted stock units ("Replacement RSUs") granted under the Vince 2013 Incentive Plan (the "Option Exchange"). Employees and executive officers of the Company on the date of offer commencement and those who remained an employee or executive officer of the Company through the expiration date of the offer and held at least one option as of the commencement of the offer that was granted under the Vince 2013 Incentive Plan was eligible to participate. The exchange ratio of this offer was a 1-to-1.7857 basis (one stock option exchanged for every 1.7857 Replacement RSUs). This tender offer expired on 11:59 p.m. Eastern Time on May 24, 2018 (the "Offer Expiration Date"). The Replacement RSUs were granted on the business day immediately following the Offer Expiration Date. As a result of the Option Exchange, 149,819 stock options were cancelled and 267,538 Replacement RSUs were granted with a grant date fair value of $9.15. All Replacement RSUs vest pursuant to the following schedule: 10% on April 19, 2019; 20% on April 17, 2020; 25% on April 16, 2021; and 45% on April 15, 2022, subject to the holder's remaining continuously employed with the Company through each such applicable vesting date. Replacement RSUs have the new vesting schedule regardless of whether the surrendered eligible options were partially vested at the time it was exchanged. The purpose of this exchange was to foster retention, motivate our key contributors, and better align the interest of our employees and shareholders to maximize shareholder value.

Employee Stock Purchase Plan

The Company maintains an employee stock purchase plan ("ESPP") for its employees. Under the ESPP, all eligible employees may contribute up to 10% of their base compensation, up to a maximum contribution of $10 per year. The purchase price of the stock is 90% of the fair market value, with purchases executed on a quarterly basis. The plan is defined as compensatory, and accordingly, a charge for compensation expense is recorded to selling, general and administrative expense for the difference between the fair market value and the discounted purchase price of the Company's Stock. During the three months ended May 5, 2018, no shares of common stock were issued under the ESPP. During the three months ended April 29, 2017, 450 shares of common stock were issued under the ESPP, as adjusted to reflect the Reverse Stock Split. As of May 5, 2018, there were 94,979 shares available for future issuance under the ESPP, as adjusted to reflect the Reverse Stock Split.

Stock Options

A summary of stock option activity for both employees and non-employees for the three months ended May 5, 2018 is as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at February 3, 2018	170,757	$ 42.23	8.1	$ 32
Granted	—	$ —		
Exercised	—	$ —		
Forfeited or expired	(19,368)	$ 43.80		

Outstanding at May 5, 2018	151,389	$ 42.02	7.8	$	51
Vested and exercisable at May 5, 2018	61,901	$ 45.49	7.6	$	1

Of the above outstanding shares, 204 are expected to vest.

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Restricted Stock Units

A summary of restricted stock unit activity for the three months ended May 5, 2018 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Nonvested restricted stock units at February 3, 2018	13,236	$ 29.19
Granted	165,488	$ 8.60
Vested	—	$ —
Forfeited	—	$ —
Nonvested restricted stock units at May 5, 2018	178,724	$ 10.12

Share-Based Compensation Expense

The Company recognized share-based compensation expense of $198 and $219, including expense of $36 and income of $117 respectively, related to non-employees, during the three months ended May 5, 2018 and April 29, 2017, respectively.

Note 7. Earnings Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Except when the effect would be anti-dilutive, diluted earnings (loss) per share is calculated based on the weighted average number of shares of common stock outstanding plus the dilutive effect of share-based awards calculated under the treasury stock method.

At the close of business on October 23, 2017, the Company effected a 1-for-10 reverse stock split of its common stock. The calculation of basic and diluted net earnings (loss) per share, as presented in the condensed consolidated statements of operations, have been determined based on a retroactive adjustment of weighted average shares outstanding for all periods presented.

On September 8, 2017, in connection with the 2017 Rights Offering and related 2017 Investment Agreement, the Company issued an aggregate of 6,666,666 shares of its common stock as adjusted for the Reverse Stock Split. See Note 11 “Related Party Transactions” for additional information.

The following is a reconciliation of weighted average basic shares to weighted average diluted shares outstanding:

	Three Months Ended	
	May 5, 2018	April 29, 2017

Weighted-average shares—basic	11,616,500	4,942,825
Effect of dilutive equity securities	—	—
Weighted-average shares—diluted	11,616,500	4,942,825

Because the Company incurred a net loss for the three months ended May 5, 2018 and April 29, 2017, weighted-average basic shares and weighted-average diluted shares outstanding are equal for these periods.

For the three months ended May 5, 2018 and April 29, 2017, 142,281 and 221,540 options to purchase shares of the Company's common stock, respectively, were excluded from the computation of weighted average shares for diluted earnings per share since the related exercise prices exceeded the average market price of the Company's common stock and such inclusion would be anti-dilutive.

Note 8. Commitments and Contingencies

Litigation

The Company is a party to other legal proceedings, compliance matters, environmental, as well as wage and hour and other labor claims that arise in the ordinary course of business. Although the outcome of such items cannot be determined with certainty, management believes that the ultimate outcome of these items, individually and in the aggregate, will not have a material adverse impact on the Company's financial position, results of operations or cash flows.

Note 9. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-18, "Statement of cash flows (Topic 230): Restricted cash". This guidance requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this guidance in the first quarter of fiscal 2018 using the retrospective transition method to each period presented. The Company's restricted cash is reserved for payments for claims for its insurance program, which is included in prepaid expenses and other current assets on the Company's condensed consolidated balance sheets. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets to the condensed consolidated statement of cash flows.

(in thousands)	May 5, 2018	February 3, 2018
Cash and cash equivalents	$5,228	$ 5,372
Restricted cash	72	73
Total Cash, cash equivalents, and restricted cash	$5,300	$ 5,445

Adoption of Accounting Standard Codification Topic 606, "Revenue from Contracts with Customers"

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers". This guidance on revenue recognition accounting requires entities to recognize revenue when promised goods or services are transferred to customers and in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Since its issuance, the FASB has amended several aspects of the new guidance. The Company adopted this guidance in the first quarter of fiscal 2018 using the modified retrospective cumulative effect transition method. Therefore, the comparative information has not been adjusted and continues to be reported under Topic 605. The impact to the financial statements of this adoption are primarily related to balance sheet reclassification, including

amounts associated with the change in balance sheet classification of the sales returns reserves, with no material impact to the statement of operations and comprehensive loss as the Company's existing revenue recognition policies are in line with the new guidance.

The Company recognizes revenue when performance obligations identified under the terms of contracts with its customers are satisfied, which generally occurs upon the transfer of control in accordance with the contractual terms and conditions of the sale. Sales are recognized when the control of the goods are transferred to the customer for the Company's wholesale business, upon receipt by the customer for the Company's e-commerce business, and at the time of sale to the consumer for the Company's retail business. See Note 10 "Segment Information" for disaggregated revenue amounts by segment.

Revenue associated with gift cards is recognized upon redemption and unredeemed balances are considered contract liability and recorded within other accrued expenses, which are subject to escheatment within the jurisdictions in which it operates. As of May 5, 2018 and February 3, 2018, contract liability was $1,220 and $1,229, respectively. For the three months ended May 5, 2018, the Company recognized $132 of revenue that was previously included in contract liability as of February 3, 2018.

For the Company's wholesale business, amounts billed to customers for shipping and handling costs are not material. Such shipping and handling costs are accounted for as a fulfillment cost and are included in cost of products sold. Sales taxes that are collected by the Company from a customer are excluded from revenue.

Sales are measured as the amount of consideration the Company expects to receive in exchange for transferring goods, which includes estimates for variable consideration. Variable consideration mainly includes discounts, chargebacks, markdown allowances, cooperative advertising programs, and sales returns. Estimated amounts of discounts, chargebacks, markdown allowances, cooperative advertising programs, and sales returns are accounted for as reductions of sales when the associated sale occurs. These estimated amounts are adjusted periodically based on changes in facts and circumstances when the changes become known. On the Company's condensed consolidated balance sheet, reserves for sales returns are included within other accrued liabilities, rather than an offset to accounts receivable, net, and the value of inventory associated with reserves for sales returns are included in prepaid expenses and other current assets. The Company continues to estimate the amount of sales returns based on known trends and historical return rates.

The following table summarize the impacts of adopting Topic 606 on the Company's condensed consolidated balance sheet for the three months ended May 5, 2018.

	Impact of changes in accounting standard		
(in thousands)	As reported	Adjustments	Balances without adoption of Topic 606
Assets			
Trade receivables, net	12,764	(1,099)	11,665
Prepaid expenses and other current assets	7,517	(1,009)	6,508
Liabilities			
Other accrued expenses	9,288	(2,108)	7,180

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02: "Leases (Topic 842)", a new lease accounting standard. The guidance requires lessees to recognize right-of-use lease assets and lease liabilities on the balance sheet for those leases currently classified as operating leases. The guidance is required to be adopted using modified retrospective transition approach by restating all comparative periods presented in the Company's financial statements and not revising the accounting for leases that expired prior to date of initial application. The guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of adopting this guidance on the consolidated financial statements.

Note 10. Segment Financial Information

The Company operates and manages its business by distribution channel and has identified two reportable segments, as further described below. Management considered both similar and dissimilar economic characteristics, internal

reporting and management structures, as well as products, customers, and supply chain logistics to identify the following reportable segments:

- Wholesale segment—consists of the Company's operations to distribute products to major department stores and specialty stores in the United States and select international markets; and
- Direct-to-consumer segment—consists of the Company's operations to distribute products directly to the consumer through its branded full-price specialty retail stores, outlet stores, and e-commerce platform.

The accounting policies of the Company's reportable segments are consistent with those described in Note 1 to the audited Consolidated Financial Statements of VHC for the fiscal year ended February 3, 2018 included in the 2017 Annual Report on Form 10-K. Unallocated corporate expenses are comprised of selling, general, and administrative expenses attributable to corporate and administrative activities (such as marketing, design, finance, information technology, legal and human resource departments), and other charges that are not directly attributable to the Company's reportable segments. Unallocated corporate assets are comprised of the carrying values of the Company's goodwill and tradename, deferred tax assets, and other assets that will be utilized to generate revenue for both of the Company's reportable segments.

Summary information for the Company's reportable segments is presented below.

(in thousands)	Three Months Ended May 5, 2018	April 29, 2017
Net Sales:		
Wholesale	$28,495	$35,407
Direct-to-consumer	26,019	22,638
Total net sales	$54,514	$58,045
Income (loss) before income taxes:	&	