

VINCE HOLDING CORP.
Form 10-Q
December 13, 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 November 3, 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 (I.R.S. Employer
incorporation or organization) Identification No.)

500 5th Avenue—20th Floor

New York, New York 10110

(Address of principal executive offices) (Zip code)

(212) 515-2600

Edgar Filing: VINCE HOLDING CORP. - Form 10-Q

(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 every Interactive Data File required to be submitted 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 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

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 November 30, 2018

Common Stock, \$0.01 par value per share 11,621,940 shares

VINCE HOLDING CORP. AND SUBSIDIARIES

TABLE OF CONTENTS

| | Page Number |
|--|----------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| Item 1. <u>Condensed Consolidated Financial Statements:</u> | |
| a) <u>Unaudited Condensed Consolidated Balance Sheets at November 3, 2018 and February 3, 2018</u> | 4 |
| b) <u>Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended November 3, 2018 and October 28, 2017</u> | 5 |
| c) <u>Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended November 3, 2018 and October 28, 2017</u> | 6 |
| d) <u>Notes to Unaudited Condensed Consolidated Financial Statements</u> | 7 |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 19 |
| Item 3. <u>Quantitative and Qualitative Disclosure About Market Risk</u> | 28 |
| Item 4. <u>Controls and Procedures</u> | 29 |
| <u>PART II. OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | 30 |
| Item 1A. <u>Risk Factors</u> | 31 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 31 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 31 |
| Item 4. <u>Mine Safety Disclosures</u> | 31 |
| Item 5. <u>Other Information</u> | 31 |
| Item 6. <u>Exhibits</u> | 31 |

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,” “target,” “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 transitioned from Kellwood Company, LLC; 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 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)

| | November 3, 2018 | February 3, 2018 |
|--|------------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$1,050 | \$5,372 |
| Trade receivables, net | 32,323 | 20,760 |
| Inventories, net | 61,515 | 48,921 |
| Prepaid expenses and other current assets | 6,369 | 6,521 |
| Total current assets | 101,257 | 81,574 |
| Property and equipment, net | 28,158 | 31,608 |
| Intangible assets, net | 76,650 | 77,099 |
| Goodwill | 41,435 | 41,435 |
| Deferred income taxes | 379 | 379 |
| Other assets | 3,043 | 2,439 |
| Total assets | \$250,922 | \$234,534 |
| Liabilities and Stockholders' Equity (Deficit) | | |
| Current liabilities: | | |
| Accounts payable | \$27,053 | \$22,556 |
| Accrued salaries and employee benefits | 6,514 | 6,715 |
| Other accrued expenses | 9,473 | 7,906 |
| Current portion of long-term debt | 2,750 | 8,000 |
| Total current liabilities | 45,790 | 45,177 |
| Long-term debt | 58,730 | 40,682 |
| Deferred rent | 15,111 | 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, 11,621,012 and 11,616,500 shares issued and outstanding at November 3, 2018 and February 3, 2018, respectively) | 116 | 116 |
| Additional paid-in capital | 1,114,285 | 1,113,342 |

Edgar Filing: VINCE HOLDING CORP. - Form 10-Q

| | | |
|--|-------------|-------------|
| Accumulated deficit | (1,041,318) | (1,038,624) |
| Accumulated other comprehensive loss | (65) | (65) |
| Total stockholders' equity | 73,018 | 74,769 |
| Total liabilities and stockholders' equity | \$250,922 | \$234,534 |

See notes to unaudited condensed consolidated financial statements.

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 | | Nine Months Ended | |
|---|--------------------|-------------|-------------------|-------------|
| | November | | November | |
| | 3, | October 28, | 3, | October 28, |
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$83,526 | \$79,067 | \$201,168 | \$197,934 |
| Cost of products sold | 42,709 | 42,400 | 107,096 | 110,120 |
| Gross profit | 40,817 | 36,667 | 94,072 | 87,814 |
| Selling, general and administrative expenses | 31,850 | 31,358 | 91,893 | 99,558 |
| Income (loss) from operations | 8,967 | 5,309 | 2,179 | (11,744) |
| Interest expense, net | 2,154 | 1,693 | 4,740 | 4,013 |
| Other expense, net | 78 | 113 | 87 | 116 |
| Income (loss) before income taxes | 6,735 | 3,503 | (2,648) | (15,873) |
| Provision (benefit) for income taxes | (30) | (6) | 46 | 42 |
| Net Income (loss) and comprehensive income (loss) | \$6,765 | \$3,509 | \$(2,694) | \$(15,915) |
| Earnings (Loss) per share: | | | | |
| Basic earnings (loss) per share | \$0.58 | \$0.41 | \$(0.23) | \$(2.58) |
| Diluted earnings (loss) per share | \$0.57 | \$0.41 | \$(0.23) | \$(2.58) |
| Weighted average shares outstanding: | | | | |
| Basic | 11,621,012 | 8,610,869 | 11,619,059 | 6,166,219 |
| Diluted | 11,847,606 | 8,611,308 | 11,619,059 | 6,166,219 |

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands, unaudited)

| | Nine Months Ended | |
|---|---------------------|---------------------|
| | November 3, 2018 | October 28, 2017 |
| Operating activities | | |
| Net loss | \$(2,694) | \$(15,915) |
| Add (deduct) items not affecting operating cash flows: | | |
| Depreciation and amortization | 6,117 | 7,398 |
| Provision for inventories | 266 | 165 |
| Loss on disposal of property and equipment | 280 | — |
| Deferred rent | (885) | (974) |
| Share-based compensation expense | 945 | 912 |
| Loss on debt extinguishment | 816 | — |
| Other | 517 | 1,003 |
| Changes in assets and liabilities: | | |
| Receivables, net | (11,563) | (20,942) |
| Inventories | (12,860) | (13,014) |
| Prepaid expenses and other current assets | 580 | 780 |
| Accounts payable and accrued expenses | 5,649 | (17,234) |
| Other assets and liabilities | 97 | (810) |
| Net cash used in operating activities | (12,735) | (58,631) |
| Investing activities | | |
| Payments for capital expenditures | (2,303) | (3,017) |
| Net cash used in investing activities | (2,303) | (3,017) |
| Financing activities | | |
| Proceeds from borrowings under the Revolving Credit Facilities | 245,459 | 234,867 |
| Repayment of borrowings under the Revolving Credit Facilities | (226,859) | (207,991) |
| Proceeds from borrowings under the Term Loan Facilities | 27,500 | — |
| Repayment of borrowings under the Term Loan Facilities | (33,000) | (9,000) |
| Proceeds from common stock issuance, net of transaction costs | — | 29,047 |
| Proceeds from stock option exercises and issuance of common stock under employee stock purchase plan | — | 40 |
| Financing fees | (2,447) | (555) |
| Net cash provided by financing activities | 10,653 | 46,408 |
| Decrease in cash, cash equivalents, and restricted cash | (4,385) | (15,240) |
| Cash, cash equivalents, and restricted cash, beginning of period | 5,445 | 21,036 |
| Cash, cash equivalents, and restricted cash, end of period | \$1,060 | \$5,796 |
| Supplemental Disclosures of Cash Flow Information | | |
| Cash payments on Tax Receivable Agreement obligation | 351 | — |
| Cash payments for interest | 3,480 | 3,104 |

Edgar Filing: VINCE HOLDING CORP. - Form 10-Q

| | | | |
|---|-----|---|----|
| Cash payments for income taxes, net of refunds | (1 |) | 78 |
| Supplemental Disclosures of Non-Cash Investing and Financing Activities | | | |
| Capital expenditures in accounts payable and accrued liabilities | 234 | | 89 |

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.

(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 women’s and men’s ready-to-wear and footwear as well as 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 November 3, 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 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 2018 Revolving Credit Facility (as defined below) 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 (as defined below) and capital expenditures for new stores and related leasehold improvements.

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 November 3, 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 November 3, 2018 | | | | |
| Amortizable intangible assets: | | | | |
| Customer relationships | \$ 11,970 | \$ (6,420) | \$ — | \$ 5,550 |
| Indefinite-lived intangible asset: | | | | |
| Tradename | 101,850 | — | (30,750) | 71,100 |
| Total intangible assets | \$ 113,820 | \$ (6,420) | \$ (30,750) | \$ 76,650 |

| (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 \$149 for the three months ended November 3, 2018 and October 28, 2017, respectively and \$449 and \$449 for the nine months ended November 3, 2018 and October 28, 2017. 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 November 3, 2018 or February 3, 2018. At November 3, 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 \$63,000 as of November 3, 2018 are at variable interest rates. The carrying value of the Company's 2018 Revolving Credit Facility (as defined below) approximates fair value as the stated interest rate approximates market rates currently available to the Company, which are considered Level 2 inputs. The fair value of the Company's 2018 Term Loan Facility (as defined below) was approximately \$27,000 as of November 3, 2018 based upon an estimated market value calculation that factors principal, time to maturity, interest rate, and current cost of debt, which is considered a Level 3 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) | November 3, 2018 | February 3, 2018 |
|---|------------------------|------------------------|
| Term Loan Facilities | \$ 27,500 | \$ 33,000 |
| Revolving Credit Facilities | 35,500 | 16,900 |
| Total debt principal | 63,000 | 49,900 |
| Less: current portion of long-term debt | 2,750 | 8,000 |
| Less: deferred financing costs | 1,520 | 1,218 |
| Total long-term debt | \$ 58,730 | \$ 40,682 |

2018 Term Loan Facility

On August 21, 2018, Vince, LLC entered into a \$27,500 senior secured term loan facility (the "2018 Term Loan Facility") pursuant to a credit agreement by and among Vince, LLC, as the borrower, VHC and Vince Intermediate Holdings, LLC, a direct subsidiary of VHC and the direct parent company of Vince, LLC ("Vince Intermediate"), as guarantors, Crystal Financial, LLC, as administrative agent and collateral agent, and the other lenders from time to time party thereto. The 2018 Term Loan Facility is subject to quarterly amortization of principal equal to 2.5% of the original aggregate principal amount of the 2018 Term Loan Facility, with the balance payable at final maturity. Interest is payable on loans under the 2018 Term Loan Facility at a rate equal to the 90-day LIBOR rate (subject to a 0% floor) plus applicable margins subject to a pricing grid based on a minimum Consolidated EBITDA (as defined in

the credit agreement for the 2018 Term Loan Facility) calculation. During the continuance of certain specified events of default, interest will accrue on the outstanding amount of any loan at a rate of 2.0% in excess of the rate otherwise applicable to such amount. The 2018 Term Loan Facility matures on the earlier of August 21, 2023 and the maturity date of the 2018 Revolving Credit Facility (as defined below).

The 2018 Term Loan Facility contains a requirement that Vince, LLC maintain a Consolidated Fixed Charge Coverage Ratio (as defined in the credit agreement for the 2018 Term Loan Facility) as of the last day of any period of four fiscal quarters not to exceed 0.85:1.00 for the fiscal quarter ending November 3, 2018, 1.00:1.00 for the fiscal quarters ending February 2, 2019, 1.20:1.00 for the fiscal quarter ending May 4, 2019, 1.35:1.00 for the fiscal quarter ending August 3, 2019, 1.50:1.00 for the fiscal quarters ending November 2, 2019 and February 1, 2020 and 1.75:1.00 for the fiscal quarter ending May 2, 2020 and each fiscal quarter thereafter. In addition, the 2018 Term Loan Facility contains customary representations and warranties, other covenants, and events of default, including but not limited to, covenants with respect to limitations on the incurrence of additional indebtedness, liens, burdensome agreements, 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 2018 Term Loan Facility generally permits dividends to the extent that no default or event of default is continuing or would result from a contemplated dividend, so long as (i) after giving pro forma effect to the contemplated dividend and for the following six months Excess Availability will be at least the greater of 20.0% of the Loan Cap (as defined in the credit agreement for the 2018 Term Loan Facility) and \$10,000, (ii) after giving pro forma effect to the contemplated dividend, the Consolidated Fixed Charge Coverage Ratio for the 12 months preceding such dividend will 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 25.0% of the Loan Cap and \$12,500), and (iii) the pro forma Fixed Charge Coverage Ratio after giving effect to such contemplated dividend is no less than the minimum Consolidated Fixed Charge Coverage Ratio for such quarter. In addition, the 2018 Term Loan Facility is subject to a Borrowing Base (as defined in the credit agreement of the 2018 Term Loan Facility) which can, under certain conditions, result in the imposition of a reserve under the 2018 Revolving Credit Facility.

The 2018 Term Loan Facility also contains an Excess Cash Flow (as defined in the credit agreement for the 2018 Term Loan Facility) sweep requirement in which Vince, LLC remits 50% of Excess Cash Flow reduced on a dollar-for-dollar basis by any voluntary prepayments of the 2018 Term Loan Facility or the 2018 Revolving Credit Facility (to the extent accompanied by a permanent reduction in commitments) during such fiscal year or after the fiscal year but prior to the date of the excess cash flow payment, to be applied to the outstanding principal balance commencing 10 business days after the filing of the Company's Annual Report on Form 10-K starting from fiscal year ending February 1, 2020.

Through November 3, 2018, on an inception to date basis, the Company had not made any repayments on the 2018 Term Loan Facility.

2018 Revolving Credit Facility

On August 21, 2018, Vince, LLC entered into an \$80,000 senior secured revolving credit facility (the "2018 Revolving Credit Facility") pursuant to a credit agreement by and among Vince, LLC, as the borrower, VHC and Vince Intermediate, as guarantors, Citizens Bank, N.A. ("Citizens"), as administrative agent and collateral agent, and the other lenders from time to time party thereto. The 2018 Revolving Credit Facility provides for a revolving line of credit of up to \$80,000, subject to a Loan Cap, which is the lesser of (i) the Borrowing Base as defined in the credit agreement for the 2018 Revolving Credit Facility and (ii) the aggregate commitments, as well as a letter of credit sublimit of \$25,000. It also provides for an increase in aggregate commitments of up to \$20,000. The 2018 Revolving Credit Facility matures on the earlier of August 21, 2023 and the maturity date of the 2018 Term Loan Facility. On August 21, 2018, Vince, LLC incurred \$39,555 of borrowings, prior to which \$66,271 was available, given the Loan Cap as of such date.

Interest is payable on the loans under the 2018 Revolving Credit Facility at either the LIBOR or the Base Rate, in each case, with applicable margins 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 Citizens as its prime rate; (ii) the Federal Funds Rate for such day, plus 0.5%; and (iii) the LIBOR Rate for a one month interest period as determined on such day, plus 1.00%. During the continuance of certain specified events of default, at the election of Citizens, interest will accrue at a rate of 2.0% in excess of the applicable non-default rate.

The 2018 Revolving Credit Facility contains a requirement that, at any point when Excess Availability (as defined in the credit agreement for the 2018 Revolving Credit Facility) is less than 10.0% of the loan cap and continuing until Excess Availability exceeds the greater of such amounts for 30 consecutive days, Vince must maintain during that time a Consolidated Fixed Charge Coverage Ratio (as defined in the credit agreement for the 2018 Revolving Credit Facility) equal to or greater than 1.0 to 1.0 measured as of the last day of each fiscal month during such period.

The 2018 Revolving Credit Facility contains representations and warranties, other covenants and events of default that are customary for this type of financing, including covenants with respect to limitations on the incurrence of additional indebtedness, liens, burdensome agreements, 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 2018 Revolving Credit Facility generally permits dividends in the absence of any event of default (including any event of default arising from a contemplated dividend), so long as (i) after giving pro forma effect to the contemplated dividend and for the following six months Excess Availability will be at least the greater of 20.0% of the Loan Cap and \$10 million and (ii) after giving pro forma effect to the contemplated dividend, the Consolidated Fixed Charge Coverage Ratio for the 12 months preceding such dividend will 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 25.0% of the Loan Cap and \$12,500).

As of November 3, 2018, \$37,831 was available under the 2018 Revolving Credit Facility, net of the loan cap, and there were \$35,500 of borrowings outstanding and \$6,669 of letters of credit outstanding under the 2018 Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the 2018 Revolving Credit Facility as of November 3, 2018 was 4.0%.

2013 Term Loan Facility

On November 27, 2013, Vince, LLC and Vince Intermediate entered into a \$175,000 senior secured term loan facility (as amended from time to time, the “2013 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 2013 Term Loan Facility would have matured on November 27, 2019. Vince, LLC and Vince Intermediate were borrowers and VHC was a guarantor under the 2013 Term Loan Facility.

On August 21, 2018, the Company refinanced the 2013 Term Loan Facility by entering into the 2018 Term Loan Facility and the 2018 Revolving Credit Facility. All outstanding amounts under the 2013 Term Loan Facility of \$29,146, including interest, were repaid in full and the 2013 Term Loan Facility was terminated.

2013 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 “2013 Revolving Credit Facility”) with BofA as administrative agent. Vince, LLC was the borrower and VHC and Vince Intermediate were the guarantors under the 2013 Revolving Credit Facility. On June 3, 2015, Vince, LLC entered into a first amendment to the 2013 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 was 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 2013 Term Loan Facility have been paid in full, and extended the maturity date from November 27, 2018 to June 3, 2020.

On August 21, 2018, the Company refinanced the 2013 Revolving Credit Facility by entering into the 2018 Term Loan Facility and the 2018 Revolving Credit Facility. All outstanding amounts under the 2013 Term Loan Facility of \$40,689, including interest, were repaid in full and the 2013 Revolving Credit Facility was terminated.

Note 5. Inventory

Inventories consisted of finished goods. As of November 3, 2018 and February 3, 2018, finished goods, net of reserves were \$61,515 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. In May 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. 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 1,000,000 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 November 3, 2018, there were 478,122 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 ("RSUs") granted vest in equal installments over a three-year period or vest in equal installments over four years, subject to the employees' continued employment, except for RSUs issued under the exchange offer described below.

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 were 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 per unit. 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 interests of our employees and stockholders to maximize stockholder 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 nine months ended November 3, 2018, 928 shares of common stock were subscribed under the ESPP. During the nine months ended October 28, 2017, 4,244 shares of common stock were issued under the ESPP, as adjusted to reflect the Reverse Stock Split. As of November 3, 2018, there were 94,051 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 nine months ended November 3, 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 ¹ | (170,553) | \$ 42.23 | | |
| Outstanding at November 3, 2018 | 204 | \$ 31.71 | 6.9 | \$ — |
| Vested and exercisable at November 3, 2018 | 154 | \$ 38.87 | 6.9 | \$ — |

¹ Includes 149,819 options that were exchanged as part of the Option Exchange.

Of the above outstanding shares, 50 are expected to vest.

Restricted Stock Units

A summary of restricted stock unit activity for the nine months ended November 3, 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 ² | 543,851 | \$ 8.97 |
| Vested | (4,784) | \$ 34.16 |
| Forfeited | (40,585) | \$ 9.91 |
| Nonvested restricted stock units at November 3, 2018 | 511,718 | \$ 9.18 |

² Includes 267,538 units that were granted as part of the Option Exchange.

Share-Based Compensation Expense

The Company recognized share-based compensation expense of \$352 and \$429, including expense of \$43 and \$296 respectively, related to non-employees, during the three months ended November 3, 2018 and October 28, 2017, respectively. The Company recognized share-based compensation expense of \$945 and \$912, including expense of \$114 and \$709 respectively, related to non-employees, during the nine months ended November 3, 2018 and October 28, 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 November 3, 2018 | | Nine Months Ended November 3, 2018 | |
|--------------------------------------|--|---------------------|---|---------------------|
| | October 28, 2017 | October 28, 2017 | October 28, 2017 | October 28, 2017 |
| Weighted-average shares—basic | 11,621,012 | 8,610,869 | 11,619,059 | 6,166,219 |
| Effect of dilutive equity securities | 226,594 | 439 | — | — |
| Weighted-average shares—diluted | 11,847,606 | 8,611,308 | 11,619,059 | 6,166,219 |

Because the Company incurred a net loss for the nine months ended November 3, 2018 and October 28, 2017, weighted-average basic shares and weighted-average diluted shares outstanding are equal for these periods.

For the three months ended November 3, 2018 and October 28, 2017, 2,466 and 183,566 weighted average shares of share-based compensation, respectively, were excluded from the computation of weighted average shares for diluted earnings per share, as their effect would have been anti-dilutive.

For the nine months ended November 3, 2018 and October 28, 2017, 117,831 and 189,060 weighted average shares of share-based compensation, respectively, were excluded from the computation of weighted average shares for diluted earnings per share, as their effect would have been anti-dilutive.

Note 8. Commitments and Contingencies

Litigation

On September 7, 2018, a complaint was filed in the United States District Court for the Eastern District of New York by certain stockholders, naming the Company as well as Brendan Hoffman, the Company's Chief Executive Officer, David Stefko, the Company's Executive Vice President, Chief Financial Officer, one of the Company's directors, certain of the Company's former officers and directors, and Sun Capital Partners, Inc. and certain of its affiliates, as defendants. The complaint generally alleges that the Company and the named parties made false and/or misleading statements and/or failed to disclose matters relating to the transition of the Company's ERP systems from Kellwood. The complaint brings causes of action for violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 10b-5 promulgated under the Exchange Act against the Company and the named parties and for violations of Section 20(a) of the Exchange Act against the individual parties, Sun Capital Partners, Inc. and its affiliates. The complaint seeks unspecified monetary damages and unspecified costs and fees.

The Company currently believes that the likelihood of an unfavorable judgment arising from this matter is remote based on the information currently available and that the ultimate resolution of this matter will not have a material adverse effect on the Company's

business in a future period. However, given the inherent unpredictability of litigation and the fact that this litigation is still in its very early stages, the Company is unable to predict with certainty the outcome of this litigation or reasonably estimate a possible loss or range of loss, if any, associated with this litigation at this time. In addition, the Company will be required to expend resources to defend this matter.

Additionally, 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.

| | November | February |
|---|----------|----------|
| (in thousands) | 3, | 3, |
| | 2018 | 2018 |
| Cash and cash equivalents | \$ 1,050 | \$ 5,372 |
| Restricted cash | 10 | 73 |
| Total Cash, cash equivalents, and restricted cash | \$ 1,060 | \$ 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 November 3, 2018 and February 3, 2018, contract liability was \$1,253 and \$1,229, respectively. For the three and nine months ended November 3, 2018, the Company recognized \$52 and \$252 of revenue respectively that was previously included in contract liability as of February 3, 2018.

Amounts billed to customers for shipping and handling costs are not significant. 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, 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 summarizes the impacts of adopting Topic 606 on the Company's condensed consolidated balance sheet as of November 3, 2018.

| (in thousands) | Impact of changes in accounting standard | | |
|---|--|-------------|--|
| | As reported | Adjustments | Balances without adoption of Topic 606 |
| Assets | | | |
| Trade receivables, net | 32,323 | (1,397) | 30,926 |
| Prepaid expenses and other current assets | 6,369 | (1,237) | 5,132 |
| Liabilities | | | |
| Other accrued expenses | 9,473 | (2,634) | 6,839 |

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. In July 2018, the FASB issued ASU 2018-11: "Leases (Topic 842): Targeted improvements" which provides companies with an additional transition method to apply the new guidance at the adoption date instead of the earliest period presented in the financial statements. The Company expects to utilize this transition method upon adoption. The Company is currently compiling an inventory of lease arrangements in order to determine the impact the new guidance will have on the consolidated financial statements and disclosures. The Company has selected new lease accounting software in preparation for the standard's additional reporting requirements. The Company continues to evaluate the impact of adopting this guidance on the consolidated financial statements. However, based on the assessment to date, the Company expects that the adoption of the guidance will result in a material increase in lease-related assets and liabilities recognized in the Company's Consolidated Balance Sheets, but the Company is unable to quantify the impact at this time.

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 | | Nine Months Ended | |
|---|------------------------|---------------------|------------------------|---------------------|
| | November 3, 2018 | October 28, 2017 | November 3, 2018 | October 28, 2017 |
| Net Sales: | | | | |
| Wholesale | \$52,986 | \$ 52,990 | \$119,325 | \$ 127,647 |
| Direct-to-consumer | 30,540 | 26,077 | 81,843 | 70,287 |
| Total net sales | \$83,526 | \$ 79,067 | \$201,168 | \$ 197,934 |
| Income (loss) before income taxes: | | | | |
| Wholesale | \$19,031 | \$ 16,454 | \$35,340 | \$ 35,882 |
| Direct-to-consumer | 2,702 | 3,000 | 4,354 | (84) |
| Subtotal | 21,733 | 19,454 | 39,694 | 35,798 |
| Unallocated corporate expenses | (12,766) | (14,145) | (37,515) | (47,542) |
| Interest expense, net | 2,154 | 1,693 | 4,740 | 4,013 |
| Other expense, net | 78 | 113 | 87 | 116 |
| Total income (loss) before income taxes | \$6,735 | \$ 3,503 | \$(2,648) | \$(15,873) |

| (in thousands) | November | February |
|-----------------------|------------|------------|
| | 3, 2018 | 3, 2018 |
| Total Assets: | | |
| Wholesale | \$76,211 | \$58,733 |
| Direct-to-consumer | 47,301 | 40,751 |
| Unallocated corporate | 127,410 | 135,050 |
| Total assets | \$250,922 | \$234,534 |

Note 11. Related Party Transactions

Sourcing Arrangement

On July 13, 2017, Vince, LLC ("Vince"), an indirect wholly-owned subsidiary of the Company, entered into an agreement (the "Sourcing Arrangement") with Rebecca Taylor, Inc. ("RT") relating to the purchase and resale of certain Vince branded finished goods ("Vince Goods"), whereby RT agreed to purchase Vince Goods from approved suppliers pursuant to purchase orders issued to such suppliers (each, a "RT Purchase Order") at a price specified therein (a "RT Price") and Vince agreed to purchase such Vince Goods from RT pursuant to purchase orders issued to RT (each, a "Vince Purchase Order") at a price specified therein (a "Vince Price"). The Vince Price was at all times equal to 103.5% of the RT price.

Upon receipt of the Vince Purchase Order, RT issued the RT Purchase Order and a letter of credit was issued to the applicable supplier in the amount equal to the RT Price, which was subject to availability under RT's credit facility. When the Vince Goods were ready to be delivered, RT invoiced Vince in the amount equal to the Vince Price, which invoice was payable by Vince within two business days of receipt of the invoice, which payment term could have been extended by RT. In the event Vince failed to make timely payment for any Vince Goods, RT had the right to liquidate such goods in a manner and at a price it deemed appropriate in its sole discretion.

The Sourcing Arrangement contained customary indemnification and representations and warranties. The Sourcing Arrangement could have been terminated by either party upon 60 days' prior written notice to the other party.

RT is owned by affiliates of Sun Capital Partners, Inc., whose affiliates owned approximately 73% of the outstanding common stock of the Company as of November 3, 2018. During the three and nine months ended November 3, 2018, the Company has paid \$0 and \$29 respectively for orders placed under the Sourcing Arrangement. During the three and nine months ended October 28, 2017, the Company had paid \$14,163 and \$14,163 respectively for orders placed under the Sourcing Arrangement. No new orders have been placed under the Sourcing Arrangement since September 2017. On May 30, 2018, the Company terminated the Sourcing Arrangement with RT effective as of February 3, 2018. There were no early termination penalties incurred by the Company as a result of the termination.

Tax Receivable Agreement

VHC entered into a Tax Receivable Agreement with the Pre-IPO Stockholders on November 27, 2013. The Company and its former subsidiaries generated certain tax benefits (including NOLs and tax credits) prior to the Restructuring Transactions consummated in connection with the Company's IPO and will generate certain section 197 intangible deductions (the "Pre-IPO Tax Benefits"), which would reduce the actual liability for taxes that the Company might otherwise be required to pay. The Tax Receivable Agreement provides for payments to the Pre-IPO Stockholders in an amount equal to 85% of the aggregate reduction in taxes payable realized by the Company and its subsidiaries from the utilization of the Pre-IPO Tax Benefits (the "Net Tax Benefit").

For purposes of the Tax Receivable Agreement, the Net Tax Benefit equals (i) with respect to a taxable year, the excess, if any, of (A) the Company's liability for taxes using the same methods, elections, conventions and similar practices used on the relevant company return assuming there were no Pre-IPO Tax Benefits over (B) the Company's actual liability for taxes for such taxable year (the "Realized Tax Benefit"), plus (ii) for each prior taxable year, the excess, if any, of the Realized Tax Benefit reflected on an amended schedule applicable to such prior taxable year over the Realized Tax Benefit reflected on the original tax benefit schedule for such prior taxable year, minus (iii) for each prior taxable year, the excess, if any, of the Realized Tax Benefit reflected on the original tax benefit schedule for such prior taxable year over the Realized Tax Benefit reflected on the amended schedule for such prior taxable year; provided, however, that to the extent any of the adjustments described in clauses (ii) and (iii) were reflected in the calculation of the tax benefit payment for any subsequent taxable year, such adjustments shall not be taken into account in determining the Net Tax Benefit for any subsequent taxable year. To the extent that the Company is unable to make the payment under the Tax Receivable Agreement when due under the terms of the Tax Receivable Agreement for any reason, such payment would be deferred and would accrue interest at a default rate of LIBOR plus 500 basis points until paid, instead of the agreed rate of LIBOR plus 200 basis points per annum in accordance with the terms of the Tax Receivable Agreement.

As of November 3, 2018, the Company's total obligation under the Tax Receivable Agreement is estimated to be \$58,273, which is included as a component of Other liabilities on the condensed consolidated balance sheet. The tax benefit payment of \$351, including accrued interest, with respect to the 2016 taxable year was paid in the first quarter of fiscal 2018. The Tax Receivable Agreement expires on December 31, 2023. The obligation was originally recorded in connection with the IPO as an adjustment to additional paid-in capital on the Company's condensed consolidated balance sheet.

2017 Investment Agreement and 2017 Rights Offering

On August 10, 2017, the Company entered into an Investment Agreement (the "2017 Investment Agreement") with Sun Cardinal, LLC and SCSF Cardinal, LLC (collectively, the "Sun Cardinal Investors") pursuant to which the Company agreed to issue and sell to the Sun Cardinal Investors, and the Sun Cardinal Investors agreed to purchase, an aggregate number of shares of the Company's common stock equal to (x) \$30,000 minus (y) the aggregate proceeds of the 2017 Rights Offering, at the 2017 Rights Offering subscription price per share (prior to adjustment for the Reverse Stock Split) of \$0.45, subject to the terms and conditions set forth in the 2017 Investment Agreement (the "Backstop Commitment"). The 2017 Investment Agreement superseded the Rights Offering Commitment Letter, dated May 18, 2017, from Sun Capital Partners V, L.P.

On August 15, 2017, the Company commenced the 2017 Rights Offering, whereby the Company distributed, at no charge, to stockholders of record as of August 14, 2017 (the “2017 Rights Offering Record Date”), rights to purchase new shares of the Company’s common stock at \$0.45 per share (prior to adjustment for the Reverse Stock Split). Each stockholder as of the Rights Offering Record Date (“2017 Rights Holders”) received one non-transferrable right to purchase 1.3475 shares for every share of common stock owned on the 2017 Rights Offering Record Date (the “subscription right”). 2017 Rights Holders who fully exercised their subscription rights were entitled to subscribe for additional shares that remained unsubscribed as a result of any unexercised subscription rights (the “over-subscription right”). The over-subscription right allowed a 2017 Rights Holder to subscribe for an additional amount equal to up to an aggregate of 9.99% of the Company’s outstanding shares of common stock after giving effect to the consummation of the transactions contemplated by the 2017 Rights Offering and the 2017 Investment Agreement, subject to certain limitations and pro rata allocations. Subscription rights could only be exercised for whole numbers of shares; no fractional shares of common stock were issued in the 2017 Rights Offering. The 2017 Rights Offering period expired on August 30, 2017 at 5:00 p.m. New York City time and the Company received subscriptions and oversubscriptions from its existing stockholders (including the Sun Cardinal Investors and their affiliates) resulting in aggregate gross proceeds of \$21,976. Additionally, in accordance with the related 2017 Investment Agreement, the Company received \$8,024 of gross proceeds from the Sun Cardinal Investors. In total, the Company received gross proceeds of \$30,000 as a result of the 2017 Rights Offering and related 2017 Investment Agreement transactions and the Company issued 6,666,666 shares of its common stock.

The Company used a portion of the net proceeds received from the 2017 Rights Offering and related 2017 Investment Agreement to (1) repay \$9,000 under the Company’s Term Loan Facility and (2) repay \$15,000 under the Company’s Revolving Credit Facility, without a concurrent commitment reduction. The Company used the remaining net proceeds for general corporate purposes, except for \$1,823 which was retained at VHC.

As of November 3, 2018, affiliates of Sun Capital Partners, Inc., including the Sun Cardinal Investors, collectively beneficially owned approximately 73% of the Company’s outstanding common stock.

Sun Capital Consulting Agreement

On November 27, 2013, the Company entered into an agreement with Sun Capital Management to (i) reimburse Sun Capital Management Corp. (“Sun Capital Management”) or any of its affiliates providing consulting services under the agreement for out-of-pocket expenses incurred in providing consulting services to the Company and (ii) provide Sun Capital Management with customary indemnification for any such services.

During the three months ended November 3, 2018 and October 28, 2017, the Company incurred expenses of \$8 and \$11, respectively, under the Sun Capital Consulting Agreement. During the nine months ended November 3, 2018 and October 28, 2017, the Company incurred expenses of \$31 and \$29, respectively, under this agreement.

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

This discussion summarizes our consolidated operating results, financial condition and liquidity. The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this report on Form 10-Q. All amounts disclosed are in thousands except store counts, countries, share and per share data and percentages. The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives retroactive effect to the Reverse Stock Split for all periods presented, unless otherwise noted. See Note 1 "Description of Business and Basis of Presentation" within the notes to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q for further information.

For purposes of this report on Form 10-Q, "Vince," the "Company," "we," and "our," refer to Vince Holding Corp. ("VHC") and our wholly owned subsidiaries, including Vince Intermediate Holding ("Vince Intermediate"), LLC and Vince, LLC.

This discussion contains forward-looking statements involving risks, uncertainties and assumptions that could cause our results to differ materially from expectations. For a discussion of the risks facing our business see "Item 1A—Risk Factors" of this report on Form 10-Q as well as in our 2017 Annual Report on Form 10-K.

Executive Overview

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 women's and men's ready-to-wear and footwear as well as capsule collection of handbags, and home for a global lifestyle. Vince products are sold in prestige locations worldwide. Additionally, we have entered into limited distribution arrangements with Nordstrom, Inc. and Neiman Marcus Group LTD in order to rationalize our department store distribution strategy which is intended to improve profitability in the Wholesale segment in the future and to enable us to focus on other areas of growth for the brand, particularly in the Direct-to-consumer segment. We continue to capture the sales from exited wholesale doors through our retail and e-commerce businesses while collaborating with the wholesale partners in various areas including merchandising and logistics to build a more profitable and focused wholesale business.

We serve our customers through a variety of channels that reinforce the Vince brand image. Our diversified channel strategy allows us to introduce our products to customers through multiple distribution points that are reported in two segments: Wholesale and Direct-to-consumer.

The following is a summary of highlights during the three months ended November 3, 2018:

- ◆ Our net sales totaled \$83,526, reflecting a 5.6% increase compared to prior year net sales of \$79,067.
- ◆ Our Wholesale net sales were \$52,986, which was flat compared to last year, and our Direct-to-consumer net sales increased 17.1% to \$30,540. Comparable sales, including e-commerce, increased 14.1% compared to last year.
- ◆ Selling, general, and administrative expenses were \$31,850, an increase of \$492 or 1.6% compared to \$31,358 in the prior year.
- ◆ Net income for the quarter was \$6,765, or \$0.57 per share, compared to \$3,509, or \$0.41 per share, in the prior year.
- ◆ We opened two new retail stores and closed one retail store during the quarter.
- ◆ We refinanced our 2013 Term Loan Facility and 2013 Revolving Credit Facility during the quarter by entering into a new \$27,500 senior secured term loan facility ("2018 Term Loan Facility") and a new \$80,000 senior secured revolving credit facility ("2018 Revolving Credit Facility"). As of November 3, 2018, we had \$63,000 of total debt

principal outstanding, comprised of \$27,500 outstanding under our 2018 Term Loan Facility and \$35,500 outstanding on our 2018 Revolving Credit Facility, as well as \$1,050 of cash and cash equivalents.

Results of Operations

The following table presents, for the periods indicated, our operating results as a percentage of net sales, as well as earnings per share data:

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---------------------|----------------------|------------------|----------------------|-------------------|----------------------|------------------|----------------------|
| | November 3, 2018 | | October 28, 2017 | | November 3, 2018 | | October 28, 2017 | |
| | Amount | % of Net Sales | Amount | % of Net Sales | Amount | % of Net Sales | Amount | % of Net Sales |
| (in thousands, except per share data, store counts and percentages) | | | | | | | | |
| Statements of Operations: | | | | | | | | |
| Net sales | \$83,526 | 100.0% | \$79,067 | 100.0% | \$201,168 | 100.0% | \$197,934 | 100.0% |
| Cost of products sold | 42,709 | 51.1 % | 42,400 | 53.6 % | 107,096 | 53.2 % | 110,120 | 55.6 % |
| Gross profit | 40,817 | 48.9 % | 36,667 | 46.4 % | 94,072 | 46.8 % | 87,814 | 44.4 % |
| Selling, general and administrative expenses | 31,850 | 38.2 % | 31,358 | 39.7 % | 91,893 | 45.7 % | 99,558 | 50.3 % |
| Income (loss) from operations | 8,967 | 10.7 % | 5,309 | 6.7 % | 2,179 | 1.1 % | (11,744) | (5.9)% |
| Interest expense, net | 2,154 | 2.6 % | 1,693 | 2.1 % | 4,740 | 2.4 % | 4,013 | 2.0 % |
| Other expense, net | 78 | 0.0 % | 113 | 0.2 % | 87 | 0.0 % | 116 | 0.1 % |
| Income (loss) before income taxes | 6,735 | 8.1 % | 3,503 | 4.4 % | (2,648) | (1.3)% | (15,873) | (8.0)% |
| Provision (benefit) for income taxes | (30) | 0.0 % | (6) | 0.0 % | 46 | 0.0 % | 42 | 0.0 % |
| Net Income (loss) and comprehensive income (loss) | \$6,765 | 8.1 % | \$3,509 | 4.4 % | \$(2,694) | (1.3)% | \$(15,915) | (8.0)% |
| Earnings (Loss) per share: | | | | | | | | |
| Basic earnings (loss) per share | \$0.58 | | \$0.41 | | \$(0.23) | | \$(2.58) | |
| Diluted earnings (loss) per share | \$0.57 | | \$0.41 | | \$(0.23) | | \$(2.58) | |
| Other Operating and Financial Data: | | | | | | | | |
| Total stores at end of period | 59 | | 55 | | 59 | | 55 | |
| Comparable sales growth (1) (2) | 14.1 % | | 4.4 % | | 13.6 % | | (0.5)% | |

(1)

Comparable sales include our e-commerce sales in order to align with how we manage our brick-and-mortar retail stores and e-commerce online store as a combined single Direct-to-consumer segment. As a result of our omni-channel sales and inventory strategy, as well as cross-channel customer shopping patterns, there is less distinction between our brick-and-mortar retail stores and our e-commerce online store and we believe the inclusion of e-commerce sales in our comparable sales metric is a more meaningful representation of these results and provides a more comprehensive view of our year over year comparable sales metric.

⁽²⁾A store is included in the comparable sales calculation after it has completed 13 full fiscal months of operations. Non-comparable sales include new stores which have not completed 13 full fiscal months of operations and sales from closed stores. In the event that we relocate or remodel an existing store, we would treat that store as comparable unless the square footage changed by more than 20% in which case we would treat that store as non-comparable sales until it has completed 13 full fiscal months of operations following the square footage adjustment. For 53-week fiscal years, we adjust comparable sales to exclude the additional week. There may be variations in the way in which some of our competitors and other retailers calculate comparable sales.

Three Months Ended November 3, 2018 Compared to Three Months Ended October 28, 2017

Net sales for the three months ended November 3, 2018 were \$83,526, increasing \$4,459, or 5.6%, versus \$79,067 for the three months ended October 28, 2017. Net sales by reportable segment were as follows:

| (in thousands) | Three Months Ended | |
|--------------------|--------------------|------------------|
| | November 3, 2018 | October 28, 2017 |
| Wholesale | \$52,986 | \$ 52,990 |
| Direct-to-consumer | 30,540 | 26,077 |
| Total net sales | \$83,526 | \$ 79,067 |

Net sales from our Wholesale segment decreased to \$52,986 in the three months ended November 3, 2018 from \$52,990 in the three months ended October 28, 2017 due to the decline in shipments related to our planned reduction in full-price wholesale partners offset by lower sales allowances.

Net sales from our Direct-to-consumer segment increased \$4,463, or 17.1%, to \$30,540 in the three months ended November 3, 2018 from \$26,077 in the three months ended October 28, 2017. Comparable sales increased \$3,578, or 14.1%, including e-commerce, primarily due to increase in transactions partially offset by a lower average unit retail related to product mix. Non-comparable sales contributed \$885 of sales growth. Since October 28, 2017, four net new stores have opened, bringing our total retail store count to 59 as of November 3, 2018, compared to 55 as of the end of the prior year period.

Gross profit increased 11.3% to \$40,817 for the three months ended November 3, 2018 from \$36,667 in the prior year third quarter. As a percentage of sales, gross margin was 48.9%, compared with 46.4% in the prior year third quarter. The total gross margin rate increase was primarily driven by the following factors:

- The favorable impact from a decrease in the rate of sales allowances contributed approximately 200 basis points of improvement;
- The favorable impact from lower product and supply chain costs contributed approximately 140 basis points of improvement;
- The favorable impact from non-recurring costs incurred in the third quarter of fiscal 2017 related to the exit of certain wholesale partners contributed approximately 90 basis points of improvement; and
- The unfavorable impact from year-over-year adjustments to inventory reserves contributed negatively by approximately 170 basis points.

Selling, general and administrative (“SG&A”) expenses for the three months ended November 3, 2018 were \$31,850, increasing \$492, or 1.6%, versus \$31,358 for the three months ended October 28, 2017. SG&A expenses as a percentage of sales were 38.2% and 39.7% for the three months ended November 3, 2018 and October 28, 2017, respectively. The change in SG&A expenses compared to the prior fiscal year period was primarily due to:

- \$758 of increased marketing and advertising expenses;
- \$702 of increased compensation and benefits;
- \$326 of increased banking fees; and
- \$212 of increased rent and occupancy due to new store openings.

The above increases were partially offset by:

\$1,138 of costs incurred in the prior year associated with the remediation and optimization of the systems implemented during fiscal 2016 which were not incurred in the current year; and
\$492 decrease in depreciation and amortization expense.

21

Income from operations by segment for the three months ended November 3, 2018 and October 28, 2017 is summarized in the following table:

| (in thousands) | Three Months Ended | |
|--------------------------------|--------------------|------------------|
| | November 3, 2018 | October 28, 2017 |
| Wholesale | \$19,031 | \$16,454 |
| Direct-to-consumer | 2,702 | 3,000 |
| Subtotal | 21,733 | 19,454 |
| Unallocated corporate expenses | (12,766) | (14,145) |
| Total income from operations | \$8,967 | \$5,309 |

Operating income from our Wholesale segment increased \$2,577, or 15.7%, to \$19,031 in the three months ended November 3, 2018 from \$16,454 in the three months ended October 28, 2017 primarily driven by higher gross margin.

Operating income from our Direct-to-consumer segment decreased \$298, or 9.9%, to \$2,702 in the three months ended November 3, 2018 from \$3,000 in the three months ended October 28, 2017 primarily driven by higher SG&A expenses associated with increased occupancy costs and higher digital marketing and advertising expenses.

Unallocated corporate expenses are comprised of SG&A expenses attributable to corporate and administrative activities (such as marketing, design, finance, information technology, legal and human resources departments) and other charges that are not directly attributable to our reportable segments.

Interest expense increased \$461, or 27.2%, to \$2,154 in the three months ended November 3, 2018 from \$1,693 in the three months ended October 28, 2017 primarily due to a \$816 write-off of deferred financing costs related to the 2013 Term Loan Facility and the 2013 Revolving Credit Facility offset by lower deferred financing cost amortization of the 2018 debt facilities compared to the 2013 debt facilities.

Other (income) expense, net decreased \$35 to \$78 in the three months ended November 3, 2018 from \$113 in the three months ended October 28, 2017.

Benefit for income taxes for the three months ended November 3, 2018 was \$30 as compared to a benefit of \$6 for the three months ended October 28, 2017. On December 22, 2017, U.S. tax reform legislation known as the Tax Cuts and Jobs Act ("TCJA") was signed into law. The TCJA makes substantial changes to U.S. tax law, including a reduction in the corporate tax rate from 35% to 21%, a limitation on deductibility of interest expense, a limitation on the use of net operating losses to offset future taxable income, and the allowance of immediate expensing of capital expenditures. Our effective tax rate for the three months ended November 3, 2018 and October 28, 2017 was 0.4% and 0.2%, respectively. The effective tax rate for the three months ended November 3, 2018 differed from the U.S. statutory rate of 21% primarily due to a return to provision adjustment offset by state taxes and reduction in the valuation allowance. The effective tax rate for the three months ended October 28, 2017 differed from the U.S. statutory rate of 35%, primarily due to the impact of the valuation allowance established against our deferred tax assets partly offset by state taxes.

Nine Months Ended November 3, 2018 Compared to Nine Months Ended October 28, 2017

Edgar Filing: VINCE HOLDING CORP. - Form 10-Q

Net sales for the nine months ended November 3, 2018 were \$201,168, increasing \$3,234, or 1.6%, versus \$197,934 for the nine months ended October 28, 2017. Net sales by reportable segment were as follows:

| | Nine Months Ended | |
|--------------------|-------------------|-------------|
| | November | October 28, |
| (in thousands) | 3, | 2017 |
| | 2018 | 2017 |
| Wholesale | \$ 119,325 | \$ 127,647 |
| Direct-to-consumer | 81,843 | 70,287 |
| Total net sales | \$ 201,168 | \$ 197,934 |

Net sales from our Wholesale segment decreased \$8,322, or 6.5%, to \$119,325 in the nine months ended November 3, 2018 from \$127,647 in the nine months ended October 28, 2017, primarily due to the planned reduction in full-price wholesale partners and decrease in off-price sales.

Net sales from our Direct-to-consumer segment increased \$11,556, or 16.4%, to \$81,843 in the nine months ended November 3, 2018 from \$70,287 in the nine months ended October 28, 2017. Comparable sales increased \$9,366, or 13.6%, including e-commerce, primarily due to an increase in transactions. Non-comparable sales contributed \$2,190 of sales growth. Since October 28, 2017, four net new stores have opened, bringing our total retail store count to 59 as of November 3, 2018, compared to 55 as of the end of the prior year period.

Gross profit increased 7.1% to \$94,072 for the nine months ended November 3, 2018 from \$87,814 in the same prior year period. As a percentage of sales, gross margin was 46.8%, compared with 44.4% in the same prior year period. The total gross margin rate increase was primarily driven by the following factors:

- The favorable impact of lower product and supply chain costs contributed approximately 220 basis points of improvement;
- The favorable impact from a decrease in the rate of sales allowances contributed 120 basis points of improvement;
- The favorable impact of channel mix contributed approximately 100 basis points of improvement; and
- The unfavorable impact from year-over-year adjustments to inventory reserves contributed negatively by approximately 220 basis points.

Selling, general and administrative (“SG&A”) expenses for the nine months ended November 3, 2018 were \$91,893, decreasing \$7,665, or 7.7%, versus \$99,558 for the nine months ended October 28, 2017. SG&A expenses as a percentage of sales were 45.7% and 50.3% for the nine months ended November 3, 2018 and October 28, 2017, respectively. The change in SG&A expenses compared to the prior fiscal year period was primarily due to:

- \$4,100 of costs incurred in the prior year associated with the remediation and optimization of the systems implemented during fiscal 2016 which were not incurred in the current year;
- \$3,133 of decreased product development costs;
- \$1,278 of decreased depreciation and amortization expense;
- \$1,258 of decreased severance costs; and
- \$1,151 of one-time investments in the prior year primarily associated with our efforts to reduce costs and improve profitability which were not incurred in the current year.

The above decreases were partially offset by:

- \$1,645 of increased compensation and benefits;
- \$1,273 of increased marketing and advertising expenses; and
- \$427 of increased rent and occupancy due to net new store openings.

Income (loss) from operations by segment for the nine months ended November 3, 2018 and October 28, 2017 is summarized in the following table:

| (in thousands) | Nine Months Ended | |
|-------------------------------------|-------------------|------------------|
| | November 3, 2018 | October 28, 2017 |
| Wholesale | \$35,340 | \$ 35,882 |
| Direct-to-consumer | 4,354 | (84) |
| Subtotal | 39,694 | 35,798 |
| Unallocated corporate expenses | (37,515) | (47,542) |
| Total income (loss) from operations | \$2,179 | \$ (11,744) |

Operating income from our Wholesale segment decreased \$542, or 1.5%, to \$35,340 in the nine months ended November 3, 2018 from \$35,882 in the nine months ended October 28, 2017 primarily driven by lower sales offset by higher gross margin.

Operating income from our Direct-to-consumer segment increased \$4,438, or 5283.3%, to \$4,354 in the nine months ended November 3, 2018 from a loss of \$84 in the nine months ended October 28, 2017 primarily driven by the sales increase discussed above.

Unallocated corporate expenses are comprised of SG&A expenses attributable to corporate and administrative activities (such as marketing, design, finance, information technology, legal and human resources departments) and other charges that are not directly attributable to our reportable segments.

Interest expense increased \$727, or 18.1%, to \$4,740 in the nine months ended November 3, 2018 from \$4,013 in the nine months ended October 28, 2017 primarily due to a \$816 write-off of deferred financing cost related to the 2013 Term Loan and the 2013 Revolving Credit Facility and higher interest expense due to higher overall debt balances.

Other (income) expense, net decreased \$29, or 25.0% to \$87 in the nine months ended November 3, 2018 from \$116 in the nine months ended October 28, 2017.

Provision for income taxes for the nine months ended November 3, 2018 was \$46 as compared to \$42 for the nine months ended October 28, 2017. On December 22, 2017, U.S. tax reform legislation known as the Tax Cuts and Jobs Act (“TCJA”) was signed into law. The TCJA makes substantial changes to U.S. tax law, including a reduction in the corporate tax rate from 35% to 21%, a limitation on deductibility of interest expense, a limitation on the use of net operating losses to offset future taxable income, and the allowance of immediate expensing of capital expenditures. Our effective tax rate for the nine months ended November 3, 2018 and October 28, 2017 was 1.7% and 0.3%, respectively. The effective tax rate for the nine months ended November 3, 2018 differed from the U.S. statutory rate of 21 % primarily due to the impact of a return to provision adjustment offset by state taxes and the impact of the valuation allowance established against our deferred tax asset. The effective tax rate for nine months ended October 28, 2017 differed from the U.S. statutory rate of 35% primarily due to the impact of the valuation allowance established against our deferred tax assets partly offset by state taxes.

Liquidity and Capital Resources

Our sources of liquidity are cash and cash equivalents, cash flows from operations, if any, borrowings available under our revolving credit facility and our ability to access the capital markets. Our primary cash needs are funding working capital requirements, meeting our debt service requirements, paying amounts due under the Tax Receivable Agreement and capital expenditures for new stores and related leasehold improvements. The most significant components of our working capital are cash and cash equivalents, accounts receivable, inventories, accounts payable and other current liabilities. We believe that our sources of liquidity will generate sufficient cash flows to meet our obligations during the next twelve months from the date the financial statements are issued.

Operating Activities

| (in thousands) | Nine Months Ended | |
|--|-------------------|------------------|
| | November 3, 2018 | October 28, 2017 |
| Operating activities | | |
| Net loss | \$(2,694) | \$(15,915) |
| Add (deduct) items not affecting operating cash flows: | | |
| Depreciation and amortization | 6,117 | 7,398 |
| Provision for inventories | 266 | 165 |
| Loss on disposal of property and equipment | 280 | — |
| Deferred rent | (885) | (974) |
| Share-based compensation expense | 945 | 912 |
| Loss on debt extinguishment | 816 | — |

Edgar Filing: VINCE HOLDING CORP. - Form 10-Q

| | | |
|---|------------|-------------|
| Other | 517 | 1,003 |
| Changes in assets and liabilities: | | |
| Receivables, net | (11,563) | (20,942) |
| Inventories | (12,860) | (13,014) |
| Prepaid expenses and other current assets | 580 | 780 |
| Accounts payable and accrued expenses | 5,649 | (17,234) |
| Other assets and liabilities | 97 | (810) |
| Net cash used in operating activities | \$(12,735) | \$(58,631) |

Net cash used in operating activities during the nine months ended November 3, 2018 was \$12,735, which consisted of a net loss of \$2,694, impacted by non-cash items of \$8,056 and cash used in working capital of \$18,097. Net cash used in working capital

primarily resulted from a cash outflow of \$12,860 in inventories primarily due to the planned product returns from exited wholesale partners and reinstatement of replenishment program, and cash outflow of \$11,563 in receivables, net primarily driven by timing of collections, offset by a cash inflow in accounts payable and accrued expenses of \$5,649 primarily due to the timing of payments to vendors.

Net cash used in operating activities during the nine months ended October 28, 2017 was \$58,631, which consisted of a net loss of \$15,915, impacted by non-cash items of \$8,504 and cash used in working capital of \$51,220. Net cash used in working capital primarily resulted from a cash outflow of \$20,942 in receivables, net primarily driven by timing of collections, a cash outflow in accounts payable and accrued expenses of \$17,234 due to the timing of payments to vendors and a cash outflow of \$13,014 in inventories.

Investing Activities

| (in thousands) | Nine Months Ended | |
|--|-------------------|--------------------|
| | November 3, 2018 | October 28, 2017 |
| Investing activities | | |
| Payments for capital expenditures | \$(2,303) | \$ (3,017) |
| Net cash used in investing activities | \$(2,303) | \$ (3,017) |

Net cash used in investing activities of \$2,303 during the nine months ended November 3, 2018 represents capital expenditures primarily related to the investment in our retail store build-outs, including leasehold improvements and store fixtures.

Net cash used in investing activities of \$3,017 during the nine months ended October 28, 2017 represents capital expenditures primarily related to the investment in our retail store build-outs, including leasehold improvements and store fixtures and our new systems.

Financing Activities

| (in thousands) | Nine Months Ended | |
|--|-------------------|------------------|
| | November 3, 2018 | October 28, 2017 |
| Financing activities | | |
| Proceeds from borrowings under the Revolving Credit Facilities | \$ 245,459 | \$ 234,867 |
| Repayment of borrowings under the Revolving Credit Facilities | (226,859) | (207,991) |
| Proceeds from borrowings under | 27,500 | — |

| | | |
|---|-----------|-----------|
| the Term Loan Facilities | | |
| Repayment of borrowings under the Term Loan Facilities | (33,000) | (9,000) |
| Proceeds from common stock issuance, net of transaction costs | — | 29,047 |
| Proceeds from stock option exercises and issuance of common stock under employee stock purchase plan | — | 40 |
| Financing fees | (2,447) | (555) |
| Net cash provided by financing activities | \$ 10,653 | \$ 46,408 |

Net cash provided by financing activities was \$10,653 during the nine months ended November 3, 2018, primarily consisting of \$35,500 net proceeds from borrowings under our 2018 Revolving Credit Facility and \$27,500 of borrowings under the 2018 Term Loan Facility, partly offset by \$16,900 of net repayments under the 2013 Revolving Credit Facility and \$33,000 of repayments under the 2013 Term Loan Facility. \$2,447 of financing fees were paid as part of the refinancing of our 2013 Revolving Credit Facility and 2013 Term Loan Facility.

Net cash provided by financing activities was \$46,408 during the nine months ended October 28, 2017, primarily consisting of \$29,047 of net proceeds received from the 2017 Rights Offering and \$26,876 of net proceeds from borrowings under our 2013 Revolving Credit Facility, partly offset by \$9,000 of repayments under the 2013 Term Loan Facility.

2018 Term Loan Facility

On August 21, 2018, Vince, LLC entered into a \$27,500 senior secured term loan facility (the “2018 Term Loan Facility”) pursuant to a credit agreement by and among Vince, LLC, as the borrower, VHC and Vince Intermediate Holdings, LLC, a direct subsidiary of VHC and the direct parent company of Vince, LLC (“Vince Intermediate”), as guarantors, Crystal Financial, LLC, as administrative agent and collateral agent, and the other lenders from time to time party thereto. The 2018 Term Loan Facility is subject to quarterly amortization of principal equal to 2.5% of the original aggregate principal amount of the 2018 Term Loan Facility, with the balance payable at final maturity. Interest is payable on loans under the 2018 Term Loan Facility at a rate equal to the 90-day LIBOR rate (subject to a 0% floor) plus applicable margins subject to a pricing grid based on a minimum Consolidated EBITDA (as defined in the credit agreement for the 2018 Term Loan Facility) calculation. During the continuance of certain specified events of default, interest will accrue on the outstanding amount of any loan at a rate of 2.0% in excess of the rate otherwise applicable to such amount. The 2018 Term Loan Facility matures on the earlier of August 21, 2023 and the maturity date of the 2018 Revolving Credit Facility (as defined below).

The 2018 Term Loan Facility contains a requirement that Vince, LLC maintain a Consolidated Fixed Charge Coverage Ratio (as defined in the credit agreement for the 2018 Term Loan Facility) as of the last day of any period of four fiscal quarters not to exceed 0.85:1.00 for the fiscal quarter ending November 3, 2018, 1.00:1.00 for the fiscal quarters ending February 2, 2019, 1.20:1.00 for the fiscal quarter ending May 4, 2019, 1.35:1.00 for the fiscal quarter ending August 3, 2019, 1.50:1.00 for the fiscal quarters ending November 2, 2019 and February 1, 2020 and 1.75:1.00 for the fiscal quarter ending May 2, 2020 and each fiscal quarter thereafter. In addition, the 2018 Term Loan Facility contains customary representations and warranties, other covenants, and events of default, including but not limited to, covenants with respect to limitations on the incurrence of additional indebtedness, liens, burdensome agreements, 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 2018 Term Loan Facility generally permits dividends to the extent that no default or event of default is continuing or would result from a contemplated dividend, so long as (i) after giving pro forma effect to the contemplated dividend and for the following six months Excess Availability will be at least the greater of 20.0% of the Loan Cap (as defined in the credit agreement for the 2018 Term Loan Facility) and \$10,000, (ii) after giving pro forma effect to the contemplated dividend, the Consolidated Fixed Charge Coverage Ratio for the 12 months preceding such dividend will 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 25.0% of the Loan Cap and \$12,500), and (iii) the pro forma Fixed Charge Coverage Ratio after giving effect to such contemplated dividend is no less than the minimum Consolidated Fixed Charge Coverage Ratio for such quarter. In addition, the 2018 Term Loan Facility is subject to a Borrowing Base (as defined in the credit agreement of the 2018 Term Loan Facility) which can, under certain conditions, result in the imposition of a reserve under the 2018 Revolving Credit Facility.

The 2018 Term Loan Facility also contains an Excess Cash Flow (as defined in the credit agreement for the 2018 Term Loan Facility) sweep requirement in which Vince, LLC remits 50% of Excess Cash Flow reduced on a dollar-for-dollar basis by any voluntary prepayments of the 2018 Term Loan Facility or the 2018 Revolving Credit Facility (to the extent accompanied by a permanent reduction in commitments) during such fiscal year or after the fiscal year but prior to the date of the excess cash flow payment, to be applied to the outstanding principal balance

commencing 10 business days after the filing of the Company's Annual Report on Form 10-K starting from fiscal year ending February 1, 2020.

Through November 3, 2018, on an inception to date basis, the Company had not made any repayments on the 2018 Term Loan Facility.

2018 Revolving Credit Facility

On August 21, 2018, Vince, LLC entered into an \$80,000 senior secured revolving credit facility (the "2018 Revolving Credit Facility") pursuant to a credit agreement by and among Vince, LLC, as the borrower, VHC and Vince Intermediate, as guarantors, Citizens Bank, N.A. ("Citizens") as administrative agent and collateral agent, and the other lenders from time to time party thereto. The 2018 Revolving Credit Facility provides for a revolving line of credit of up to \$80,000, subject to a Loan Cap, which is the lesser of (i) the Borrowing Base as defined in the credit agreement for the 2018 Revolving Credit Facility and (ii) the aggregate commitments, as well as a letter of credit sublimit of \$25,000. It also provides for an increase in aggregate commitments of up to \$20,000. The 2018 Revolving Credit Facility matures on the earlier of August 21, 2023 and the maturity date of the 2018 Term Loan Facility. On August 21, 2018, Vince, LLC incurred \$39,555 of borrowings, prior to which \$66,271 was available, given the Loan Cap as of such date.

Interest is payable on the loans under the 2018 Revolving Credit Facility at either the LIBOR or the Base Rate, in each case, with applicable margins 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 Citizens as its prime rate; (ii) the Federal Funds Rate for such day, plus 0.5%; and (iii) the LIBOR Rate for a one month interest period as determined on such day, plus 1.00%. During the continuance of certain specified events of default, at the election of Citizens, interest will accrue at a rate of 2.0% in excess of the applicable non-default rate.

The 2018 Revolving Credit Facility contains a requirement that, at any point when Excess Availability (as defined in the credit agreement for the 2018 Revolving Credit Facility) is less than 10.0% of the loan cap and continuing until Excess Availability exceeds the greater of such amounts for 30 consecutive days, Vince must maintain during that time a Consolidated Fixed Charge Coverage Ratio (as defined in the credit agreement for the 2018 Revolving Credit Facility) equal to or greater than 1.0 to 1.0 measured as of the last day of each fiscal month during such period.

The 2018 Revolving Credit Facility contains representations and warranties, other covenants and events of default that are customary for this type of financing, including covenants with respect to limitations on the incurrence of additional indebtedness, liens, burdensome agreements, 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 2018 Revolving Credit Facility generally permits dividends in the absence of any event of default (including any event of default arising from a contemplated dividend), so long as (i) after giving pro forma effect to the contemplated dividend and for the following six months Excess Availability will be at least the greater of 20.0% of the Loan Cap and \$10 million and (ii) after giving pro forma effect to the contemplated dividend, the Consolidated Fixed Charge Coverage Ratio for the 12 months preceding such dividend will 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 25.0% of the Loan Cap and \$12,500).

As of November 3, 2018, \$37,831 was available under the 2018 Revolving Credit Facility, net of the loan cap, and there were \$35,500 of borrowings outstanding and \$6,669 of letters of credit outstanding under the 2018 Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the 2018 Revolving Credit Facility as of November 3, 2018 was 4.0%.

2013 Term Loan Facility

On November 27, 2013, Vince, LLC and Vince Intermediate entered into a \$175,000 senior secured term loan facility (as amended from time to time, the “2013 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 2013 Term Loan Facility would have matured on November 27, 2019. Vince, LLC and Vince Intermediate were borrowers and VHC was a guarantor under the 2013 Term Loan Facility.

On August 21, 2018, the Company refinanced the 2013 Term Loan Facility by entering into the 2018 Term Loan Facility and the 2018 Revolving Credit Facility. All outstanding amounts under the 2013 Term Loan Facility of \$29,146, including interest, were repaid in full and the 2013 Term Loan Facility was terminated.

2013 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 “2013 Revolving Credit Facility”) with BofA as administrative agent. Vince, LLC was the borrower and VHC and Vince Intermediate were the guarantors under the 2013 Revolving Credit Facility. On June 3, 2015, Vince, LLC entered into a first amendment to the 2013 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 was 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 2013 Term Loan Facility have been paid in full, and extended the maturity date from November 27, 2018 to June 3, 2020.

On August 21, 2018, the Company refinanced the 2013 Revolving Credit Facility by entering into the 2018 Term Loan Facility and the 2018 Revolving Credit Facility. All outstanding amounts under the 2013 Term Loan Facility of \$40,689, including interest, were repaid in full and the 2013 Revolving Credit Facility was terminated.

Off Balance Sheet Arrangements

We did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes during the periods presented herein.

Seasonality

The apparel and fashion industry in which we operate is cyclical and, consequently, our revenues are affected by general economic conditions and the seasonal trends characteristic to the apparel and fashion industry. Purchases of apparel are sensitive to a number of factors that influence the level of consumer spending, including economic conditions and the level of disposable consumer income, consumer debt, interest rates and consumer confidence as well as the impact of adverse weather conditions. In addition, fluctuations in the amount of sales in any fiscal quarter are affected by the timing of seasonal wholesale shipments and other events affecting direct-to-consumer sales; as such, the financial results for any particular quarter may not be indicative of results for the fiscal year. We expect such seasonality to continue.

Inflation

While inflation may impact our sales, cost of goods sold and expenses, we believe the effects of inflation on our results of operations and financial condition are not significant. While it is difficult to accurately measure the impact of inflation, management believes it has not been significant and cannot provide any assurances that our results of operations and financial condition will not be materially impacted by inflation in the future.

Critical Accounting Policies and Estimates

Our discussion of financial condition and results of operations relies on our condensed consolidated financial statements, as set forth in Item 1 of this report on Form 10-Q, which are prepared based on certain critical accounting policies that require management to make judgments and estimates that are subject to varying degrees of uncertainty. While we believe that these accounting policies are based on reasonable measurement criteria, actual future events can and often do result in outcomes materially different from these estimates.

A summary of our critical accounting policies is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2017 Annual Report on Form 10-K. As of November 3, 2018, there have been no material changes to the critical accounting policies contained therein except for the adoption of ASC Topic 606, "Revenue from Contracts with Customers". See Note 9 "Recent Accounting Pronouncements" to the condensed consolidated financial statements in this report on Form 10-Q for additional information.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our principal market risk relates to interest rate sensitivity, which is the risk that changes in interest rates will reduce our net income or net assets. Our variable rate debt currently consists of borrowings under the 2018 Term Loan Facility and 2018 Revolving Credit Facility. The interest rate on the 2018 Term Loan Facility is based on a rate equal to the 90-day LIBOR rate (subject to a 0% floor) plus applicable margins subject to a pricing grid based on a minimum Consolidated EBITDA calculation (as defined in the 2018 Term Loan Facility). The interest rate on the 2018 Revolving Credit Facility is based on the LIBOR or the Base Rate with applicable margins subject to a pricing grid based on an average daily excess availability calculation (as defined in the 2018 Revolving Credit Facility). As of November 3, 2018, a one percentage point increase in the interest rate on the variable rate debt would have resulted in additional interest expense of approximately \$630 for the \$63,000 of borrowings outstanding under the 2018 Term Loan Facility and 2018 Revolving Credit Facility as of such date, calculated on an annual basis.

We do not expect that foreign currency risk, commodity price or inflation risks to be material to our business or our consolidated financial position, results of operations or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Attached as exhibits to this Quarterly Report on Form 10-Q are certifications of our Chief Executive Officer and Chief Financial Officer. Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), requires that we include these certifications with this report. This Controls and Procedures section includes information concerning the disclosure controls and procedures referred to in the certifications. You should read this section in conjunction with the certifications.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act) as of November 3, 2018.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective due to material weaknesses in our internal control over financial reporting as described below.

As a result of the material weaknesses identified, we performed additional analysis, substantive testing and other post-closing procedures intended to ensure that our condensed consolidated financial statements were prepared in accordance with U.S. GAAP. Accordingly, management believes that the condensed consolidated financial statements and related notes thereto included in this Quarterly Report on Form 10-Q fairly present, in all material respects, the Company’s financial condition, results of operations and cash flows for the periods presented.

Material Weaknesses in Internal Control over Financial Reporting

As described in Management’s Annual Report On Internal Control Over Financial Reporting in Item 9A of our Annual Report on Form 10-K for the year ended February 3, 2018, we did not design and implement effective control over risk assessment with regard to our processes and procedures commensurate with our financial reporting requirements, which deficiency was identified as a material weakness. Specifically, we did not maintain appropriate corporate governance and oversight, change management and system implementation controls intended to address the risks associated with the implementation of our ERP and payroll systems and to timely identify and appropriately mitigate such risk prior to transitioning to the new systems.

The risk assessment material weakness contributed to a second material weakness related to the design and maintenance of information technology (“IT”) general controls for information systems that are relevant to the preparation of financial statements. Specifically, the Company did not (i) maintain program change management controls to ensure that information technology program and data changes affecting financial IT applications and underlying accounting records were tested, approved and implemented appropriately; and (ii) maintain adequate user access controls to ensure appropriate segregation of duties and to adequately restrict access to financial applications and data.

These material weaknesses could impact the effectiveness of IT-dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports).

The material weaknesses above, which were initially identified during fiscal 2016, contributed to a third material weakness during fiscal 2017 where we did not maintain an effective control environment over the internal control activities to ensure the processing and reporting of transactions are complete, accurate, and timely. Specifically, we

have not designed and implemented a sufficient level of formal financial reporting and operating policies and procedures that define how transactions across the business cycles should be initiated, recorded, processed, authorized, monitored, approved and appropriately reported, including presentation and disclosure within the financial statements.

Furthermore, we did not maintain effective controls over the valuation of our tradename indefinite-lived intangible asset. Specifically, we did not design and maintain controls that operate at a sufficient level of precision to determine the completeness and accuracy of the inputs into the valuation model used for the annual impairment assessment of the tradename indefinite-lived intangible asset.

The material weaknesses identified above could result in a misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Remediation Plan

Management has initiated a remediation plan to address the control deficiencies that led to the material weaknesses. The remediation plan includes, but is not limited to:

- The enhancement of our risk assessment and governance controls related to managing information technology development and related organizational change. This includes establishment of an IT Steering Committee, which will adopt comprehensive information technology governance policies and procedures, perform a robust IT risk assessment and implement an improved IT organizational structure;
- The development of information technology processes and procedures to appropriately monitor data processing and system interfaces;
- The implementation of (i) controls to ensure that only appropriate system access rights are granted to system users; and (ii) controls related to routine reviews of user system access;
- The implementation of appropriate segregation of duties in all systems that impact internal control over financial reporting;
- The enhancement of our financial reporting and operating policies and procedures which will streamline our business processes, including initiation, processing, authorization, and recording of transactions to ensure such transactions are complete, accurate, and recorded in a timely manner; and
- The refinement in precision of our process level management review controls involving review of the inputs into the valuation model used for the annual impairment assessment of the tradename indefinite-lived intangible asset.

To date, the following changes in our internal control over financial reporting have been implemented:

- The Company established an IT Steering Committee which adopted comprehensive information technology governance policies and procedures;
 - The Company substantially implemented appropriate segregation of duties for systems that impact internal control over financial reporting; and
 - The Company strengthened automation around business processes, improving accountability through actively defining organizational structure, and implemented governance policies and procedures to govern such processes.
- We continue to make progress on our remediation and our goal is to implement the remaining control improvements and to fully remediate these material weaknesses during fiscal 2018, subject to there being sufficient opportunities to conclude, through testing, that the implemented controls are operating effectively. Until the control deficiencies are remediated, we will continue to perform additional analysis, substantive testing and other post-closing procedures to ensure that our consolidated financial statements are prepared in accordance with U.S. GAAP.

Limitations on the Effectiveness of Disclosure Controls and Procedures

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure system are met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 7, 2018, a complaint was filed in the United States District Court for the Eastern District of New York by certain stockholders, naming us as well as Brendan Hoffman, our Chief Executive Officer, David Stefko, our Executive Vice President, Chief Financial Officer, one of our directors, certain of our former officers and directors, and Sun Capital Partners, Inc. and certain of its affiliates, as defendants. The complaint generally alleges that we and the named parties made false and/or misleading statements and/or failed to disclose matters relating to the transition of our ERP systems from Kellwood. The complaint brings causes of action for violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Rule 10b-5 promulgated under the Exchange Act against us and the named parties and for violations of Section 20(a) of the Exchange Act against the

individual parties, Sun Capital Partners, Inc. and its affiliates. The complaint seeks unspecified monetary damages and unspecified costs and fees.

We currently believe that the likelihood of an unfavorable judgment arising from this matter is remote based on the information currently available and that the ultimate resolution of this matter will not have a material adverse effect on the Company's business in a future period. However, given the inherent unpredictability of litigation and the fact that this litigation is still in its very early stages, the Company is unable to predict with certainty the outcome of this litigation or reasonably estimate a possible loss or range of loss, if any, associated with this litigation at this time. In addition, the Company will be required to expend resources to defend this matter.

Additionally, we are 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 our business. Except as disclosed above and in our 2017 Annual Report on Form 10-K, we are not currently a party to any legal proceedings, compliance investigation or environmental claims that we believe would, individually or in the aggregate, have a material adverse effect on our financial position, results of operations, or cash flows, although these proceedings and claims are subject to inherent uncertainties.

ITEM 1A. RISK FACTORS

The risk factors disclosed in the Company's 2017 Annual Report on Form 10-K, in addition to the other information set forth in this report on Form 10-Q, could materially affect the Company's business, financial condition or results. The Company's risk factors have not changed materially from those disclosed in its 2017 Annual Report on Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 10.1 Credit Agreement, dated as of August 21, 2018, by and among Vince, as borrower, the guarantors named therein, Citizens Bank, N.A., as administrative agent and collateral agent, and the other lenders from time to time party thereto (Revolving Credit Facility) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities Exchange Commission on August 22, 2018)

- 10.2 Credit Agreement, dated as of August 21, 2018, by and among Vince, as borrower, the guarantors named therein, Crystal Financial, LLC, as administrative agent and collateral agent, and the other lenders from time to time party thereto (Term Loan Credit Facility) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities Exchange Commission on August 22, 2018)
- 31.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.1 Financial Statements in XBRL Format

SIGNATURE

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

| Signature | Title | Date |
|------------------|--|-------------------|
| /s/ David Stefko | Executive Vice President, Chief Financial Officer | December 13, 2018 |
| | (as duly authorized officer and principal financial officer) | |
| David Stefko | | |