

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 5, 2018

Or

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

Commission File Number: 001-36212

VINCE HOLDING CORP.

(Exact name of registrant as specified in its charter)

Delaware 75-3264870
(State or other jurisdiction of (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

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(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

Common Stock

Outstanding at May 31, 2018

Common Stock, \$0.01 par value per share 11,616,500 shares

VINCE HOLDING CORP. AND SUBSIDIARIES

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INTRODUCTORY NOTE

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

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

DISCLOSURES REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, and any statements incorporated by reference herein, contains forward-looking statements under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are indicated by words or phrases such as “may,” “will,” “should,” “believe,” “expect,” “seek,” “anticipate,” “intend,” “estimate,” “plan,” “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 recently transitioned from Kellwood Company; our ability to remediate the identified material weaknesses in our internal control over financial reporting; further impairment of our goodwill and indefinite-lived intangible assets; our ability to realize the benefits of our recently announced strategic initiatives; the execution and management of our retail store growth plans; our ability to make lease payments when due; our ability to ensure the proper operation of the distribution facility by a third-party logistics provider; our ability to remain competitive in the areas of merchandise quality, price, breadth of selection and customer service; our ability to anticipate and/or react to changes in customer demand and attract new customers, including in connection with making inventory commitments; our ability to manage excess inventory in a way that will promote the long-term health of the brand; changes in consumer confidence and spending; our ability to maintain projected profit margins; the execution and management of our international expansion, including our ability to promote our brand and merchandise outside the U.S. and find suitable partners in certain geographies; our ability to expand our product offerings into new product categories, including the ability to find suitable licensing partners; our ability to successfully implement our marketing initiatives; our ability to protect our trademarks in the U.S. and internationally; our ability to maintain the security of electronic and other confidential information; serious disruptions and catastrophic events; changes in global economies and credit and financial markets; competition; our ability to attract and retain key personnel; commodity, raw material and other cost increases; compliance with domestic and international laws, regulations and orders; changes in laws and regulations; outcomes of litigation and proceedings and the availability of insurance, indemnification and other third-party coverage of any losses suffered in connection therewith; effect of the U.S. federal income tax law reform; other tax matters; and other factors as set forth from time to time in our Securities and Exchange Commission filings, including

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

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

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

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

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

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Loss

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

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

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands, unaudited)

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

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Notes to the Unaudited Condensed Consolidated Financial Statements

(in thousands except share and per share data)

Note 1. Description of Business and Basis of Presentation

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 2. Goodwill and Intangible Assets

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

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

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

The following tables present a summary of identifiable intangible assets:

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

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

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

Note 3. Fair Value Measurements

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

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

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

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

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

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

Note 4. Long-Term Debt and Financing Arrangements

Long-term debt consisted of the following:

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

Term Loan Facility

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

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

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

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

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

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

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

Revolving Credit Facility

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

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

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

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

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

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

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

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

Bank of Montreal Facility

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

Note 5. Inventory

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

Note 6. Share-Based Compensation

Employee Stock Plans

Vince 2013 Incentive Plan

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

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

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

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

Employee Stock Purchase Plan

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

Stock Options

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

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

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

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

Restricted Stock Units

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

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

Share-Based Compensation Expense

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

Note 7. Earnings Per Share

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

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

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

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

Three Months Ended	
May 5, 2018	April 29, 2017

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

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

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

Note 8. Commitments and Contingencies

Litigation

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

Note 9. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

Recently Issued Accounting Pronouncements

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

Note 10. Segment Financial Information

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

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

- Wholesale segment—consists of the Company’s operations to distribute products to major department stores and specialty stores in the United States and select international markets; and

• Direct-to-consumer segment—consists of the Company’s operations to distribute products directly to the consumer through its branded full-price specialty retail stores, outlet stores, and e-commerce platform.

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

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

(in thousands)	Three Months Ended	
	May 5, 2018	April 29, 2017
Net Sales:		
Wholesale	\$28,495	\$35,407
Direct-to-consumer	26,019	22,638
Total net sales	\$54,514	\$58,045
Income (loss) before income taxes:		
Wholesale	\$6,921	\$8,966
Direct-to-consumer	1,238	(1,302)
Subtotal	8,159	7,664
Unallocated corporate expenses	(12,523)	(15,857)
Interest expense, net	1,289	1,044
Other expense, net	(64)	1
Total income (loss) before income taxes	\$(5,589)	\$(9,238)

(in thousands)	May 5,	February
	2018	3, 2018
Total Assets:		
Wholesale	\$53,443	\$58,733
Direct-to-consumer	39,179	40,751
Unallocated corporate	133,335	135,050
Total assets	\$225,957	\$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 has 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 has 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 is at all times equal to 103.5% of the RT price.

Upon receipt of the Vince Purchase Order, RT must issue the RT Purchase Order and apply for a letter of credit to be issued to the applicable supplier in the amount equal to the RT Price, subject to availability under RT's credit facility. When the Vince Goods are ready to be delivered, RT must invoice Vince in the amount equal to the Vince Price, which invoice shall be payable by Vince within two business days of receipt of the invoice, which payment term may be extended by RT. In the event Vince fails to make timely payment for any Vince Goods, RT has the right to liquidate such goods in a manner and at a price it deems appropriate in its sole discretion.

The Sourcing Arrangement contains customary indemnification and representations and warranties. The Sourcing Arrangement may be 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 May 5, 2018. During the three months ended May 5, 2018, the Company has paid \$29 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. See Note 12 "Subsequent Events" for additional information.

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 May 5, 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 Consolidate Balance Sheet.

Bank of Montreal Facility

On June 22, 2017, Vince, LLC entered into the BMO LC Line with the Bank of Montreal to issue Specified LCs for the benefit of BofA as credit support for the obligations outstanding under the Revolving Credit Facility with BofA. The BMO LC Line was guaranteed by Sun Capital Fund V, L.P., an affiliate of Sun Capital Partners. The initial BMO LC Line was issued in the amount of \$5,000. The maximum draw amount for all Specified LCs was \$10,000. The Specified LCs were never drawn upon and on October 31, 2017, at the request of the Company and upon the satisfaction of certain release conditions, the BMO LC Line was released.

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 May 5, 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 May 5, 2018 and April 29, 2017, the Company incurred expenses of \$12 and \$6, respectively, under the Sun Capital Consulting Agreement.

Note 12. Subsequent Events

On May 30, 2018, the Company terminated the Sourcing Arrangement with RT relating to the purchase and resale of certain Vince branded goods effective as of February 3, 2018. The Company has not utilized the arrangement under the Agreement with RT since September 2017. There were no early termination penalties incurred by the Company as a result of the termination.

On May 18, 2018, the Company filed a Registration Statement on Form S-8 to register an additional 660,000 shares of common stock available for issuance under the Company's Amended and Restated 2013 Omnibus Incentive Plan (the "Amended Vince 2013 Incentive Plan"). The increase in the number of shares of common stock authorized for issuance under the Amended Vince 2013 Incentive Plan was approved by written consent of the Company's stockholders holding a majority of the Company's issued and outstanding common stock, delivered to the Company on April 13, 2018.

On May 17, 2018, the Company received a letter from the New York Stock Exchange (“NYSE”) notifying that it had regained full compliance with the NYSE’s continued listing standards due to consistent positive performance with respect to the business plan previously accepted by the NYSE and the Company’s achievement of compliance with the NYSE’s minimum market capitalization requirement for two consecutive quarters.

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. References to "Kellwood" refer, as applicable, to Kellwood Holding, LLC and its consolidated subsidiaries (including Kellwood Company, LLC) or the operations of the non-Vince businesses after giving effect to the restructuring transactions (the "Restructuring Transactions") that were completed in connection with our initial public offering (the "IPO") on November 27, 2013 and prior to the Kellwood Sale.

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 wide array of women's and men's ready-to-wear, shoes, and capsule collection of handbags, and home for a global lifestyle. Vince products are sold in prestige locations worldwide. Additionally, we have recently 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 plan 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 May 5, 2018:

- Our net sales totaled \$54,514, reflecting a 6.1% decrease compared to prior year net sales of \$58,045.
- Our Wholesale net sales decreased 19.5% to \$28,495 and our Direct-to-consumer net sales increased 14.9% to \$26,019. Comparable sales, including e-commerce, increased 12.3% compared to last year.
- Selling, general, and administrative expenses were \$29,900, a decrease of \$3,884 or 11.5% compared to \$33,784 in the prior year.
- Net loss for the quarter was \$5,637, or \$0.49 per share, compared to \$9,290, or \$1.88 per share, in the prior year.

•We opened two new retail stores during the quarter.

•As of May 5, 2018, we had \$50,612 of total debt principal outstanding, comprised of \$31,000 outstanding under our Term Loan Facility and \$19,612 outstanding on our Revolving Credit Facility, as well as \$5,228 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			
	May 5, 2018		April 29, 2017	
	Amount	% of Net Sales	Amount	% of Net Sales
(in thousands, except per share data, store counts and percentages)				
Statements of Operations:				
Net sales	\$54,514	100.0%	\$58,045	100.0%
Cost of products sold	28,978	53.2 %	32,454	55.9 %
Gross profit	25,536	46.8 %	25,591	44.1 %
Selling, general and administrative expenses	29,900	54.8 %	33,784	58.2 %
Loss from operations	(4,364)	(8.0)%	(8,193)	(14.1)%
Interest expense, net	1,289	2.4 %	1,044	1.8 %
Other (income) expense, net	(64)	(0.1)%	1	0.0 %
Loss before income taxes	(5,589)	(10.3)%	(9,238)	(15.9)%
Provision for income taxes	48	0.0 %	52	0.1 %
Net loss and comprehensive loss	\$(5,637)	(10.3)%	\$(9,290)	(16.0)%
Loss per share:				
Basic loss per share	\$(0.49)		\$(1.88)	
Diluted loss per share	\$(0.49)		\$(1.88)	
Other Operating and Financial Data:				
Total stores at end of period	57		54	
Comparable sales growth ^{(1) (2)}	12.3 %		(5.7)%	

⁽¹⁾ Comparable sales include our e-commerce sales in order to align with how the Company manages its 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.

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Three Months Ended May 5, 2018 Compared to Three Months Ended April 29, 2017

Net sales for the three months ended May 5, 2018 were \$54,514, decreasing \$3,531, or 6.1%, versus \$58,045 for the three months ended April 29, 2017. Net sales by reportable segment are as follows:

(in thousands)	Three Months Ended	
	May 5, 2018	April 29, 2017
Wholesale	\$28,495	\$35,407
Direct-to-consumer	26,019	22,638
Total net sales	\$54,514	\$58,045

Net sales from our Wholesale segment decreased \$6,912, or 19.5%, to \$28,495 in the three months ended May 5, 2018 from \$35,407 in the three months ended April 29, 2017, primarily due to the planned reduction in full-price wholesale partners.

Net sales from our Direct-to-consumer segment increased \$3,381, or 14.9%, to \$26,019 in the three months ended May 5, 2018 from \$22,638 in the three months ended April 29, 2017. Comparable sales increased \$2,780, or 12.3%, including e-commerce, primarily due to an increase in transactions. Non-comparable sales contributed \$601 of sales growth. Since April 29, 2017, three new stores have opened, bringing our total retail store count to 57 as of May 5, 2018, compared to 54 as of the end of the prior year period.

Gross profit decreased 0.2% to \$25,536 for the three months ended May 5, 2018 versus \$25,591 in the prior year first quarter. As a percentage of sales, gross margin was 46.8%, compared with 44.1% in the prior year first 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 250 basis points of improvement;
- The favorable impact in channel mix contributed approximately 250 basis points of improvement; and
- The unfavorable impact from year-over-year adjustments to inventory reserves contributed negatively by approximately 200 basis points.

Selling, general and administrative (“SG&A”) expenses for the three months ended May 5, 2018 were \$29,900, decreasing \$3,884, or 11.5%, versus \$33,784 for the three months ended April 29, 2017. SG&A expenses as a percentage of sales were 54.8% and 58.2% for the three months ended May 5, 2018 and April 29, 2017, respectively. The change in SG&A expenses compared to the prior fiscal year period was primarily due to:

- \$2,012 of decreased product development costs;
- \$1,643 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;
- \$345 of decreased depreciation and amortization expenses; and
- \$308 of decreased freight costs.

The above decreases were partially offset by:

- \$734 of increased compensation and benefits due to an increase in net incentive compensation costs.

Loss from operations by segment for the three months ended May 5, 2018 and April 29, 2017 is summarized in the following table:

(in thousands)	Three Months Ended	
	May 5, 2018	April 29, 2017
Wholesale	\$6,921	\$8,966
Direct-to-consumer	1,238	(1,302)
Subtotal	8,159	7,664
Unallocated corporate expenses	(12,523)	(15,857)
Total loss from operations	\$(4,364)	\$(8,193)

Operating income from our Wholesale segment decreased \$2,045, or 22.8%, to \$6,921 in the three months ended May 5, 2018 from \$8,966 in the three months ended April 29, 2017 primarily driven by the decrease in net sales.

Operating income from our Direct-to-consumer segment increased \$2,540, or 195.1%, to \$1,238 in the three months ended May 5, 2018 from a loss of \$1,302 in the three months ended April 29, 2017 primarily driven by the sales increase discussed above and lower SG&A expenses as a result of labor and other cost savings initiatives and lower depreciation 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 \$245, or 23.5%, to \$1,289 in the three months ended May 5, 2018 from \$1,044 in the three months ended April 29, 2017 primarily due to increased financing fees as a result of the amendments to the Term Loan Facility and Revolving Credit Facility.

Other (income) expense, net decreased \$65 to \$(64) in the three months ended May 5, 2018 from \$1 in the three months ended April 29, 2017.

Provision for income taxes for the three months ended May 5, 2018 was \$48 as compared to \$52 for the three months ended April 29, 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 May 5, 2018 and April 29, 2017 was 0.9% and 0.6%, respectively. The effective tax rate for the three months ended May 5, 2018 and April 29, 2017 differed from the U.S. statutory rate of 21% and 35%, respectively 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 the Revolving Credit Facility and our ability to access 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 the actions taken by management as described in Note 1 “Description of Business and Basis of Presentation — (D) Sources and Uses of Liquidity” will generate sufficient liquidity needs during the next twelve months from the date the financial statements are issued. See Note 1 “Description of Business and Basis of Presentation — (D) Sources and Uses of Liquidity” within the notes to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for additional details.

Operating Activities

(in thousands)	Three Months	
	Ended May 5, 2018	April 29, 2017
Operating activities		
Net loss	\$(5,637)	\$(9,290)
Add (deduct) items not affecting operating cash flows:		
Depreciation and amortization	2,069	2,415
Deferred rent	(319)	(225)
Share-based compensation expense	198	219
Other	294	162
Changes in assets and liabilities:		
Receivables, net	7,996	(9,956)
Inventories	(439)	6,316
Prepaid expenses and other current assets	(997)	1,973

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Accounts payable and accrued expenses	(3,767)	(11,352)
Other assets and liabilities	85	18
Net cash used in operating activities	\$(517)	\$(19,720)

Net cash used in operating activities during the three months ended May 5, 2018 was \$517, which consisted of a net loss of \$5,637, impacted by non-cash items of \$2,242 and cash used in working capital of \$2,878. Net cash provided by working capital primarily resulted from a cash inflow of \$7,996 in receivables, net primarily driven by the timing of collections, a cash outflow in accounts payable and accrued expenses of \$3,767 due to the timing of payments to vendors and a cash outflow of \$997 in prepaid expenses and other current assets.

Net cash used in operating activities during the three months ended April 29, 2017 was \$19,720, which consisted of a net loss of \$9,290, impacted by non-cash items of \$2,571 and cash used in working capital of \$13,001. Net cash used in working capital primarily resulted from a cash outflow in accounts payable and accrued expenses of \$11,352 due to the timing of payments to vendors and a cash outflow of \$9,956 in receivables, net primarily driven by the timing of collections.

Investing Activities

(in thousands)	Three Months Ended	
	May 5, 2018	April 29, 2017
Investing activities		
Payments for capital expenditures	\$(250)	\$(1,785)
Net cash used in investing activities	\$(250)	\$(1,785)

Net cash used in investing activities of \$250 during the three months ended May 5, 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 \$1,785 during the three months ended April 29, 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)	Three Months Ended	
	May 5, 2018	April 29, 2017
Financing activities		
Proceeds from borrowings under the Revolving Credit Facility	\$ 44,930	\$ 121,083
Repayment of borrowings under the Revolving Credit Facility	(42,218)	(105,147)
Repayment of borrowings under the Term Loan Facility	(2,000)	—
Proceeds from stock option	—	13

exercises and issuance of common stock			
under employee stock purchase plan			
Financing fees	(90)	—
Net cash provided by financing activities	\$ 622		\$ 15,949

Net cash provided by financing activities was \$622 during the three months ended May 5, 2018, primarily consisting of \$2,712 of net proceeds from borrowings under our Revolving Credit Facility, partly offset by \$2,000 of payments under the Term Loan Facility.

Net cash provided by financing activities was \$15,949 during the three months ended April 29, 2017, primarily consisting of \$15,936 of net proceeds from borrowings under our Revolving Credit Facility.

Revolving Credit Facility

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

On June 22, 2017, Vince, LLC entered into a second amendment to the Revolving Credit Facility, which among other things, increased availability under the borrowing base by (i) including in the borrowing base up to \$5,000 of cash at Vince Holding Corp. so long as such cash is in a deposit account subject to “control” by the agent, (ii) temporarily increasing the concentration limit for accounts due from a specified wholesale partner through July 31, 2017 and (iii) pursuant to a side letter, dated June 22, 2017, entered

into between Vince LLC and BofA (the “LC Side Letter”), including in the borrowing base certain letters of credit (the “Specified LCs” as described under “Bank of Montreal Facility” below), issued for the benefit of BofA as credit support for the obligations outstanding under the Revolving Credit Facility. The LC Side Letter terminated when the Specified LCs were released, as described below. In addition, the second amendment changed the financial maintenance covenant in the Revolving Credit Facility from a springing minimum EBITDA covenant to a minimum excess availability covenant that must be satisfied at all times. The new financial maintenance covenant requires the loan parties to have excess availability of not less than the greater of 12.5% of the adjusted loan cap then in effect and \$5,000. The second amendment also (x) increased the applicable margin on all borrowings of revolving loans by 0.5% per annum and (y) temporarily lowered the thresholds for what constituted a trigger event through August 15, 2017, such that a trigger event meant the greater of 12.5% of the adjusted loan cap then in effect and \$5,000. Following August 15, 2017, the trigger event means the greater of 15% of the adjusted loan cap then in effect and \$6,000. The second amendment also changed the maturity date to the earlier of (a) June 3, 2020 (or a later date as applicable if the lender participates in any extension series) and (b) 120 days prior to the then scheduled maturity date of the Term Loan Facility to the extent that there are outstanding obligations under the Term Loan Facility on such date.

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

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

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

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

As of April 29, 2017, the availability under the Revolving Credit Facility was \$15,134 net of the amended loan cap and there were \$21,136 of borrowings outstanding and \$7,474 of letters of credit outstanding under the Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the Revolving Credit Facility as of April 29, 2017 was 2.6%.

Bank of Montreal Facility

On June 22, 2017, Vince, LLC entered into a credit facility agreement with the Bank of Montreal to issue the Specified LCs (the “BMO LC Line”), as discussed under the Revolving Credit Facility above. The BMO LC Line was guaranteed by Sun Capital Fund V, L.P., an affiliate of Sun Capital Partners, Inc. The initial BMO LC Line was issued in the amount of \$5,000. The maximum draw amount for all Specified LCs was \$10,000. The BMO LC Line was unsecured but may have been secured subject to the terms of an intercreditor agreement between BofA and Bank of Montreal. BofA was permitted to draw on the Specified LCs upon the

occurrence of certain events specified therein. In the event BofA drew on the Specified LCs upon the occurrence of a draw event, the loan would have been subject to certain customary terms and conditions pursuant to the applicable loan authorization document. The BMO LC Line also could have been released upon request by Vince, LLC so long as the Company had received at least \$30,000 of cash proceeds from the 2017 Rights Offering, \$15,000 of which must have been used to repay the principal amount of the outstanding loans under the Revolving Credit Facility (without permanent reduction of commitments) or the Excess Availability would have been greater than \$10,000 after giving pro forma effect to the 2017 Rights Offering proceeds. The undrawn portion of the face amount of the Specified LCs was subject to a standard 3% annual fee. On October 31, 2017, at the request of the Company, the BMO LC Line was released upon satisfaction of the above release conditions.

Term Loan Facility

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

On June 30, 2017, the Borrowers entered into a Waiver, Consent and First Amendment (the “Term Loan Amendment”) which, among other things, (i) waives the Consolidated Net Total Leverage Ratio (as defined in the Term Loan Facility) covenant (as described below) for the test periods from July 2017 through and including April 2019; (ii) requires the Borrowers, beginning with the payment due on or around January 2018, to pay a quarterly amortization payment of \$3,000 for such fiscal quarter and \$2,000 for each fiscal quarter thereafter, provided that there is not less than \$15,000 of “availability” under the Revolving Credit Facility on a pro forma basis immediately before and after giving effect to such amortization payment; (iii) prohibits the Company from making any payments on the Tax Receivable Agreement (see Note 11 “Related Party Transactions” within the notes to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for further information) before the first amortization payment referenced above is made or if the Borrowers are not current on any of the foregoing amortization payments; (iv) increases the applicable margin by 2.0% per annum on all term loan borrowings; (v) requires the Borrowers to pay a fee to consenting term lenders equal to 0.5% of the outstanding principal amount of such lender’s term loans as of the effective date of the Term Loan Amendment; (vi) eliminates the Borrower’s ability to designate subsidiaries as unrestricted and to make certain payments, restricted payments and investments with certain funds considered “available excess amount” (as defined in the Term Loan Facility); (vii) eliminates the uncommitted incremental facility; and (viii) limits certain intercompany transactions between a loan party and a non-loan party subsidiary. If the Company is unable to make the full amortization payment specified in (ii) above on any of the scheduled amortization payment dates, the Company may defer such payment for up to two fiscal quarters after such payment was due. Any subsequent payments made will first be applied to any previously outstanding amounts. If the Company is unable to make the amortization payment after the permitted two fiscal quarter deferral, it may obtain a note from a third-party to repay such amount. The note must meet certain terms and conditions as set forth in the Term Loan Amendment. The Term Loan Amendment became effective on September 8, 2017 when the Company received \$30,000 of gross proceeds in connection with the 2017 Rights Offering and related 2017 Investment Agreement (see Note 11 “Related Party Transactions” within the notes to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for further details) and used a portion of such proceeds to repay \$9,000 in principal amount under the Term Loan Facility.

Effective with the Term Loan Amendment, interest is payable on loans under the Term Loan Facility at a rate of either (i) the Eurodollar rate (subject to a 1.00% floor) plus an applicable margin of 7.00% or (ii) the base rate applicable margin of 6.00%. During the continuance of a payment or bankruptcy event of default, interest will accrue (i) on the

overdue principal amount of any loan at a rate of 2% in excess of the rate otherwise applicable to such loan and (ii) on any overdue interest or any other outstanding overdue amount at a rate of 2% in excess of the non-default interest rate then applicable to base rate loans. The Term Loan Facility requires Vince, LLC and Vince Intermediate to make mandatory prepayments upon the occurrence of certain events, including additional debt issuances, common and preferred stock issuances, certain asset sales, and annual payments of 50% of excess cash flow, subject to reductions to 25% and 0% if Vince, LLC and Vince Intermediate maintain a Consolidated Net Total Leverage Ratio of 2.50 to 1.00 and 2.00 to 1.00, respectively, and subject to reductions for voluntary prepayments made during such fiscal year.

The Term Loan Facility contains a requirement that Vince, LLC and Vince Intermediate maintain a “Consolidated Net Total Leverage Ratio” as of the last day of any period of four fiscal quarters not to exceed 3.25 to 1.00. The Term Loan Facility permits Vince Holding Corp. to make a Specified Equity Contribution, as defined under the Agreement, to the Borrowers in order to increase, dollar for dollar, Consolidated EBITDA for such fiscal quarter for the purposes of determining compliance with this covenant at the end of such fiscal quarter and applicable subsequent periods provided that (a) in each four fiscal quarter period there shall be at least two fiscal quarters in which no Specified Equity Contribution is made; (b) no more than five Specified Equity Contributions shall be

made in the aggregate during the term of the Agreement; and (c) the amount of any Specified Equity Contribution shall be no greater than the amount required to cause the Company to be in compliance with this covenant. Approximately \$18,072 has been contributed by Vince Holding Corp. to Vince, LLC as Specified Equity Contributions. As discussed above, the Term Loan Amendment waives the Consolidated Net Total Leverage Ratio covenant for the test periods from July 2017 through and including April 2019.

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

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

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 May 5, 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 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 consists of borrowings under the Term Loan Facility and Revolving Credit Facility. Our current interest rate on the Term Loan Facility is based on (i) the Eurodollar rate (subject to a 1.00% floor) plus an applicable margin of 7.00% or (ii) the base rate applicable margin of 6.00%. Our interest rate on the Revolving Credit Facility is based on the LIBOR or the Base Rate (as defined in the Revolving Credit Facility) with applicable margins subject to a pricing grid based on an average daily excess availability calculation. As of May 5, 2018, a one percentage point increase in the interest rate on our variable rate debt would result in additional interest expense of approximately \$506 for the \$50,612 of borrowings outstanding under the Term Loan Facility and 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 May 5, 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 implemented segregation of duties and internal controls related to the payroll system; and
- The Company modified system access rights of all retail store personnel, the largest group of systems users, with segregation of duties commensurate to the job responsibilities.

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 controls 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

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. Although the outcome of such items cannot be determined with certainty, we believe that the ultimate outcome of these items, individually and in the aggregate, will not have a material adverse impact on our financial position, results of operations or cash flows.

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 Third Amendment to the Revolving Credit Facility, dated March 28, 2018 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the Securities Exchange Commission on March 29, 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

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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	June 14, 2018
	(as duly authorized officer and principal financial officer)	
David Stefko		