VINCE HOLDING CORP.
Form 10-Q
December 12, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 1, 2014

Or

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

Commission File Number: 001-36212

VINCE HOLDING CORP.

(Exact name of registrant as specified in its charter)

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

500 5th Avenue 20th Floor

New York, New York 10110

(Address of principal executive offices) (Zip code)

(212) 515-2600

(Registrant s telephone number, including area code)

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

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

Large Accelerated Filer ¨	Accelerated Filer ¨
Non-Accelerated Filer x	Smaller Reporting Company ¨

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

Common Stock	**Outstanding at December 8, 2014**
Common Stock, $0.01 par value per share	36,748,245 shares

Table of Contents

VINCE HOLDING CORP. AND SUBSIDIARIES

TABLE OF CONTENTS

Table of Contents

DISCLOSURES REGARDING FORWARD-LOOKING STATEMENTS

This 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. Such statements often include words such as may, will, should, believe, expect, seek, anticipate, intend, estimate, plan, target, project, forecast, envis 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 financial results or benefits anticipated. These forward-looking statements are not guarantees of actual results. 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 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; changes in consumer confidence and spending; our ability to maintain projected profit margins; unusual, unpredictable and/or severe weather conditions; the execution and management of our retail store growth, including the availability and cost of acceptable real estate locations for new store openings; 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 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; 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 2013 annual report on Form 10-K filed with the Securities and Exchange Commission on April 4, 2014 (our 2013 Annual Report on Form 10-K) under 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.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

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

	November 1, 2014	February 1, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 34	$ 21,484
Trade receivables, net	38,092	40,198
Inventories, net	52,725	33,956
Prepaid expenses and other current assets	7,292	8,093
Total current assets	98,143	103,731
Property, plant and equipment, net	25,418	13,615
Intangible assets, net	109,794	110,243
Goodwill	63,746	63,746
Deferred income taxes and other assets	107,140	123,007
Total assets	$ 404,241	$ 414,342
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 28,142	$ 23,847
Accrued salaries and employee benefits	5,901	5,425
Other accrued expenses	7,812	9,061
Total current liabilities	41,855	38,333
Long-term debt	122,500	170,000
Deferred income taxes and other	10,307	3,443
Other liabilities	168,924	169,015
Commitments and contingencies (Note 12)		
Stockholders equity:		
Common stock at $0.01 par value (100,000,000 shares authorized, 36,728,969 and 36,723,727 shares issued and outstanding at November 1, 2014 and February 1, 2014, respectively)	367	367
Additional paid-in capital	1,010,457	1,008,549
Accumulated deficit	(950,104)	(975,300)
Accumulated other comprehensive loss	(65)	(65)

Stockholders equity		60,655		33,551
Total liabilities and stockholders equity	$	404,241	$	414,342

See notes to unaudited condensed consolidated financial statements.

Table of Contents

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

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

	Three Months Ended		Nine Months Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net sales	$ 102,947	$ 85,755	$ 245,725	$ 200,412
Cost of products sold	52,299	44,032	124,652	107,538
Gross profit	50,648	41,723	121,073	92,874
Selling, general and administrative expenses	25,818	24,185	71,092	58,451
Income from operations	24,830	17,538	49,981	34,423
Interest expense, net	2,235		7,570	15,883
Other expense, net	72	125	557	637
Income before income taxes	22,523	17,413	41,854	17,903
Provision for income taxes	9,212	945	16,658	2,819
Net income from continuing operations	13,311	16,468	25,196	15,084
Net loss from discontinued operations, net of taxes		(18,827)		(43,086)
Net income (loss)	$ 13,311	$ (2,359)	$ 25,196	$ (28,002)
Basic earnings (loss) per share:				
Basic earnings (loss) per share from continuing operations	$ 0.36	$ 0.63	$ 0.69	$ 0.58
Basic loss per share from discontinued operations		(0.72)		(1.65)
Basic earnings (loss) per share	$ 0.36	$ (0.09)	$ 0.69	$ (1.07)
Diluted earnings (loss) per share:				
Diluted earnings (loss) per share from continuing operations	$ 0.35	$ 0.62	$ 0.66	$ 0.57
Diluted loss per share from discontinued operations		(0.71)		(1.63)
Diluted earnings (loss) per share	$ 0.35	$ (0.09)	$ 0.66	$ (1.06)
Weighted average shares outstanding:				
Basic	36,728,969	26,228,605	36,726,338	26,216,955

Diluted	38,303,603	26,677,773	38,243,368	26,413,307

See notes to unaudited condensed consolidated financial statements.

5

Table of Contents

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands, unaudited)

	Three Months Ended		Nine Months Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net income (loss)	$ 13,311	$ (2,359)	$ 25,196	$ (28,002)
Foreign currency translation adjustment		43		1
Comprehensive income (loss)	$ 13,311	$ (2,316)	$ 25,196	$ (28,001)

See notes to unaudited condensed consolidated financial statements.

6

Table of Contents

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands, unaudited)

	Nine Months Ended	
	November 1, 2014	**November 2, 2013**
Operating activities		
Net income (loss)	$ 25,196	$ (28,002)
Less: Net loss from discontinued operations		(43,086)
Add (deduct) items not affecting operating cash flows:		
Depreciation	3,111	1,396
Amortization of intangible assets	449	449
Amortization of deferred financing costs	912	
Amortization of deferred rent	2,182	263
Deferred income taxes	15,695	2,795
Share-based compensation expense	1,250	
Capitalized PIK Interest		15,883
Loss on disposal of property, plant and equipment		262
Changes in assets and liabilities:		
Receivable, net	2,106	(6,433)
Inventories, net	(18,769)	(17,331)
Prepaid expenses and other current assets	4,825	(648)
Accounts payable and accrued expenses	3,521	3,289
Other assets and liabilities	958	124
Net cash provided by operating activities continuing operations	41,436	15,133
Net cash used in operating activities discontinued operations		(56,863)
Net cash provided by/(used in) operating activities	41,436	(41,730)
Investing activities		
Payments for capital expenditures	(15,306)	(7,431)
Net cash used in investing activities continuing operations	(15,306)	(7,431)
Net cash provided by investing activities discontinued operations		1,506
Net cash used in investing activities	(15,306)	(5,925)
Financing activities		
Proceeds from borrowings under the Revolving Credit Facility	22,600	
Payments for Revolving Credit Facility	(2,100)	
Payments for Term Loan Facility	(68,000)	
Fees paid for Term Loan Facility and Revolving Credit Facility	(114)	

Stock option exercise	34	32
Net cash (used in)/provided by financing activities continuing operations	(47,580)	32
Net cash provided by financing activities discontinued operations		47,450
Net cash (used in)/provided by financing activities	(47,580)	47,482
Decrease in cash and cash equivalents	(21,450)	(173)
Cash and cash equivalents, beginning of period	21,484	1,881
Cash and cash equivalents, end of period	34	1,708
Less: Cash and cash equivalents of discontinued operations, end of period		(1,404)
Cash and cash equivalents of continuing operations, end of period	$ 34	$ 304

See notes to unaudited condensed consolidated financial statements.

Table of Contents

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands, unaudited)

	Nine Months Ended	
	November 1, 2014	**November 2, 2013**
Supplemental Disclosures of Cash Flow Information, continuing operations		
Cash payments for interest	$ 6,966	$
Cash payments for income taxes, net of refunds	65	31
Supplemental Disclosures of Cash Flow Information, discontinued operations		
Cash payments for interest		20,644
Cash payments for income taxes, net of refunds		536
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Capital expenditures in accounts payable	223	514
Forgiveness of principal and capitalized and accrued interest on related-party debt		(407,527)
Capital contribution from stockholder		407,527

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), previously known as Apparel Holding Corp., closed an initial public offering of its common stock and completed a series of restructuring transactions through which (i) Kellwood Holding, LLC acquired the non-Vince businesses, which include Kellwood Company, LLC, from the Company and (ii) the Company continues to own and operate the Vince business, which includes Vince, LLC.

The historical financial information presented herein as of November 1, 2014 includes only the Vince business and all historical financial information prior to November 27, 2013 includes the Vince business as continuing operations and the non-Vince businesses as a component of discontinued operations.

(A) Description of Business: Vince is a leading contemporary fashion brand best known for effortless style and timeless sophistication with a focus on clean, modern silhouettes and luxe details. Established in 2002, the brand now offers a wide range of women s, men s and children s apparel, women s and men s footwear, and handbags. We reach our customers through a variety of channels, specifically through premier wholesale department stores and specialty stores in the United States (U.S.) and select international markets, as well as through our branded retail locations and our website. We design our products in the U.S. and source the vast majority of our products from contract manufacturers outside the U.S., primarily in Asia and South America. Products are manufactured to meet our 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 (SEC). 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 1, 2014, as set forth in the 2013 Annual Report on Form 10-K.

The condensed consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries as of November 1, 2014. All intercompany accounts and transactions have been eliminated. The amounts and disclosures included in the notes to the condensed consolidated financial statements, unless otherwise indicated, are presented on a continuing operations basis. In the opinion of management, the financial statements contain all adjustments (consisting solely of normal recurring adjustments) and disclosures necessary to make the information presented therein not misleading. 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. As used in this report, unless the context requires otherwise, our, us, we and the Company refer to VHC and its consolidated subsidiaries.

Certain reclassifications have been made to the prior periods financial information in order to conform to the current period s presentation. The reclassifications had no impact on previously reported net income or stockholders equity.

Table of Contents

Note 2. The IPO and Restructuring Transactions

Initial Public Offering

On November 27, 2013, VHC completed an initial public offering (the IPO) of 10,000,000 shares of VHC common stock at a public offering price of $20.00 per share. The selling stockholders in the offering sold an additional 1,500,000 shares of VHC common stock to the underwriters in the initial public offering. Shares of the Company s common stock are listed on the New York Stock Exchange under the ticker symbol VNCE . VHC received net proceeds of $177,000, after deducting underwriting discounts, commissions and estimated offering expenses from its sale of shares in the IPO. The Company retained approximately $5,000 of such proceeds for general corporate purposes and used the remaining net proceeds, together with net borrowings under our new term loan facility to repay a promissory note (the Kellwood Note Receivable) issued to Kellwood Company, LLC in connection with the restructuring transactions which occurred immediately prior to the consummation of the IPO (the Restructuring Transactions). Proceeds from the repayment of the Kellwood Note Receivable were used to repay or discharge certain existing debt of Kellwood Company.

In connection with the IPO noted above and the Restructuring Transactions described below, we separated the Vince and non-Vince businesses on November 27, 2013. Any and all Kellwood debt obligations outstanding at the time of the transactions either remain with Kellwood Intermediate Holding, LLC and its subsidiaries (i.e. the non-Vince businesses) and/or were discharged, repurchased or refinanced. See information below for a summary of the Company s new revolving credit facility and term loan facility.

Stock Split

In connection with the IPO, VHC s board of directors approved the conversion of all non-voting common stock into voting common stock on a one-for-one basis, and a 28.5177-for-one split of its common stock. Accordingly, all references to share and per share information in all periods presented have been adjusted to reflect the stock split. Furthermore, in connection with the Restructuring Transactions, the par value per share of common stock was changed to $0.01 per share.

Restructuring Transactions

The following transactions were consummated as part of the Restructuring Transactions:

- Affiliates of Sun Capital Partners, Inc. (Sun Capital) contributed certain indebtedness under the Sun Term Loan Agreements as a capital contribution to Vince Holding Corp. (the Additional Sun Capital Contribution);

- Vince Holding Corp. contributed such indebtedness to Kellwood Company as a capital contribution, at which time such indebtedness was cancelled;

- Vince Intermediate Holding, LLC was formed and became a direct subsidiary of Vince Holding Corp.;

Kellwood Company, LLC (which was converted from Kellwood Company in connection with the Restructuring Transactions) was contributed to Vince Intermediate Holding, LLC;

Vince Holding Corp. and Vince Intermediate Holding, LLC entered into the transfer agreement with Kellwood Company, LLC;

Kellwood Company, LLC distributed 100% of Vince, LLC s membership interests to Vince Intermediate Holding, LLC, who issued the Kellwood Note Receivable to Kellwood Company, LLC. Proceeds from the repayment of the Kellwood Note Receivable were used to, among other things, repay, discharge or repurchase indebtedness of Kellwood Company, LLC;

Kellwood Holding, LLC was formed by Vince Intermediate Holding, LLC and Vince Intermediate Holding, LLC, through a series of steps, contributed 100% of the membership interests of Kellwood Company, LLC to Kellwood Intermediate Holding, LLC (which was formed as a wholly-owned subsidiary of Kellwood Holding, LLC);

Table of Contents

100% of the membership interests of Kellwood Holding, LLC were distributed to the Pre-IPO Stockholders (as defined below);

Revolving Credit Facility Vince, LLC entered into a new senior secured revolving credit facility (the Revolving Credit Facility). Bank of America, N.A. (BofA) serves as administrative agent under the Revolving Credit Facility. This Revolving Credit Facility provides for a revolving line of credit of up to $50,000;

Term Loan Facility Vince, LLC and Vince Intermediate Holding, LLC entered into a new $175,000 senior secured term loan credit facility with the lenders party thereto, BofA, as administrative agent, J.P. Morgan Chase Bank and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers (Term Loan Facility);

Shared Services Agreement Vince, LLC entered into a shared services agreement (the Shared Services Agreement) with Kellwood Company, LLC pursuant to which Kellwood Company, LLC provides support services to Vince, LLC in various operational areas including, among other things, distribution, logistics, information technology, accounts payable, credit and collections, and payroll and benefits;

Tax Receivable Agreement The Company entered into a tax receivable agreement (the Tax Receivable Agreement) with its stockholders immediately prior to the consummation of the Restructuring Transactions (the Pre-IPO Stockholders). 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 certain tax benefits (including net operating losses and tax credits generated prior to the IPO and certain section 197 intangible deductions); and

the conversion of all of our issued and outstanding non-voting common stock into common stock on a one-for-one basis and the subsequent stock split of our common stock on a 28.5177-for-one basis, at which time Apparel Holding Corp. became Vince Holding Corp.

As a result of the IPO and Restructuring Transactions, the non-Vince businesses were separated from the Vince business, and 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 Vince Holding Corp..

Immediately after the consummation of the IPO and as described below, Vince Holding Corp. contributed the net proceeds from the IPO to Vince Intermediate Holding, LLC. Vince Intermediate Holding, LLC used such proceeds, less approximately $5,000 retained for general corporate purposes, and approximately $169,500 of net borrowings under its Term Loan Facility to immediately repay the Kellwood Note Receivable. There was no outstanding balance on the Kellwood Note Receivable after giving effect to such repayment. Proceeds from the repayment of the Kellwood Note Receivable were used to (i) repay, discharge or repurchase indebtedness of Kellwood Company, LLC in connection with the closing of the IPO (including approximately $9,100 of accrued and unpaid interest on such indebtedness), and (ii) pay (A) the restructuring fee payable to Sun Capital Management and (B) the debt recovery bonus payable to our Chief Executive Officer, all after giving effect to the Additional Sun Capital Contribution. The Kellwood Note Receivable did not include amounts outstanding under Kellwood s revolving credit facility, which was refinanced in connection with consummation of the IPO. Kellwood Company, LLC refinanced the Wells Fargo Facility in connection with the consummation of the IPO. Neither Vince Holding Corp. nor Vince, LLC guarantee or are a borrower party to the refinanced credit facility.

Kellwood Company, LLC used the proceeds from the repayment of the Kellwood Note Receivable to, after giving effect to the Additional Sun Capital Contribution, (i) repay, at closing, all indebtedness outstanding under (A) the Cerberus Term Loan and (B) the Sun Term Loan Agreements, (ii) redeem at par all of its outstanding 12.875% Second-Priority Senior Secured Payment-In-Kind Notes due 2014 (the 12.875% Notes), pursuant to an unconditional redemption notice issued at the closing of the IPO, plus, with respect to clauses (i) and (ii), fees, expenses and accrued and unpaid interest thereon, (iii) pay a restructuring fee equal to $3,300 to Sun Capital Partners Management pursuant to a management services agreement, and (iv) pay a debt recovery bonus to our Chief Executive Officer.

In addition, Kellwood Company conducted a tender offer for all of its outstanding 7.625% 1997 Debentures due 2017 (the 7.625% Notes), at par plus accrued and unpaid interest thereon, using proceeds from the repayment of the Kellwood Note Receivable. On November 27, 2013, in connection with the closing of the IPO and as an early settlement of the tender offer, Kellwood Company, LLC accepted for purchase (and cancelled) approximately $33,474 in aggregate principal amount of the 7.625% Notes. On December 12, 2013, as part of the final settlement of the tender offer, Kellwood Company, LLC accepted for purchase (and cancelled) an additional $4,670 in aggregate principal amount of the 7.625% Notes. After giving effect to these settlements, approximately $48,808 of the 7.625% Notes remain issued and outstanding; provided, that neither VHC, nor Vince Intermediate Holding, LLC nor Vince, LLC are a guarantor or obligor of such notes.

After completion of these various transactions (including the Additional Sun Capital Contribution) and payments and application of the net proceeds from the repayment of the Kellwood Note Receivable, Vince, LLC s obligations under the Wells Fargo Facility, the Cerberus Term Loan, the Sun Term Loan Agreements and the 12.875% Notes were terminated or discharged. Neither VHC, nor Vince Intermediate Holding, LLC nor Vince, LLC is a guarantor or obligor of the 7.625% Notes or the refinanced Wells Fargo Facility. Thereafter, VHC is not responsible for the obligations described above and the only outstanding obligations of Vince Holding Corp. and its subsidiaries immediately after the consummation of the IPO is $175,000 outstanding under our new Term Loan Facility.

Note 3. Secondary Offering of Common Stock

In July 2014, certain selling stockholders of VHC, including affiliates of Sun Capital (the Selling Stockholders), sold 4,975,254 shares of VHC s common stock at a public offering price of $34.50 per share in a secondary public offering (the Secondary Offering). The total shares sold include 648,946 shares sold by the Selling Stockholders pursuant to the exercise by the underwriters of their option to purchase additional shares. The Company did not receive any proceeds from the Secondary Offering. Immediately following the Secondary Offering, affiliates of Sun Capital beneficially owned 54.6% of VHC s issued and outstanding common stock. The Company incurred approximately $571 of expenses in connection with the Secondary Offering during the nine months ended November 1, 2014.

Note 4. Discontinued Operations

On November 27, 2013, in connection with the IPO and Restructuring Transactions, we separated the Vince and non-Vince businesses whereby the non-Vince business is now owned by Kellwood Holding, LLC, which is controlled by affiliates of Sun Capital. In connection with the Restructuring Transactions, the Company issued the Kellwood Note Receivable to Kellwood Company, LLC, in the amount of $341,500, which was immediately repaid with proceeds from the IPO and new Term Loan Facility. There was no remaining balance on the Kellwood Note Receivable after such repayment. Proceeds from the repayment of the Kellwood Note Receivable were used by Kellwood to (i) repay, discharge or repurchase indebtedness of Kellwood Company, LLC (including approximately $9,100 of accrued and unpaid interest on such indebtedness), and (ii) pay (A) the restructuring fee payable to Sun Capital Management and (B) the debt recovery bonus payable to our Chief Executive Officer.

As the Company and Kellwood Holding, LLC were under the common control of affiliates of Sun Capital, this separation transaction resulted in a $73,081 adjustment to additional paid-in capital on our condensed consolidated balance sheet at February 1, 2014.

As a result of the separation with the non-Vince businesses, the financial results of the non-Vince businesses through the separation date of November 27, 2013, are now included in results from discontinued operations, including the three and nine months ended November 2, 2013. The non-Vince businesses continue to operate as a stand-alone company. Due to differences in the basis of presentation for discontinued operations and the basis of presentation as a stand-alone company, the financial results of the non-Vince businesses included within discontinued operations of the Company may not be indicative of actual financial results of the non-Vince businesses as a stand-alone company.

On November 27, 2013, we entered into a Shared Services Agreement with Kellwood pursuant to which Kellwood provides support services in various operational areas as further discussed in Note 15. Other than the payments for services provided under this agreement, we do not expect any future cash flows related to the non-Vince business.

Table of Contents

The separation of the non-Vince businesses was completed on November 27, 2013. Accordingly, there are no results from discontinued operations reflected on the condensed consolidated statement of operations for the three and nine months ended November 1, 2014. The results of the non-Vince businesses included in discontinued operations for the three and nine months ended November 2, 2013 are summarized in the following table (in thousands).

	Three Months Ended November 2, 2013	Nine Months Ended November 2, 2013
Net sales	$ 128,254	$ 378,660
Cost of products sold	101,411	295,693
Gross profit	26,843	82,967
Selling, general and administrative expenses	29,313	91,349
Restructuring, environmental and other charges	124	1,459
Impairment of long-lived assets (excluding goodwill)	933	1,367
Change in fair value of contingent consideration		(54)
Interest expense, net	14,760	42,550
Other expense, net	469	420
Loss before income taxes	(18,756)	(54,124)
Income taxes	71	(11,038)
Net loss from discontinued operations, net of taxes	$ (18,827)	$ (43,086)
Effective tax rate	0.4%	20.4%

The effective tax rate for the three months ended November 2, 2013 differs from the U.S. statutory rate of 35% primarily due to additional valuation allowance. The effective tax rate for the nine months ended November 2, 2013 differs from the U.S. statutory rate of 35% primarily due to a release of valuation allowance. The release in valuation allowance is primarily due to the allocation of the disallowed tax loss on the sale of the Baby Phat trademark to intangible assets with indefinite lives resulting in fewer deferred tax liabilities that cannot be offset against deferred tax assets for valuation allowance purposes.

At November 1, 2014 and February 1, 2014, there are no remaining assets or liabilities of the non-Vince businesses reflected in the condensed consolidated balance sheet.

Note 5. Goodwill and Intangible Assets

Goodwill balances and changes therein subsequent to the February 1, 2014 condensed consolidated balance sheet are as follows (in thousands):

	Gross Goodwill	Accumulated Impairment	Net Goodwill
Balance as of February 1, 2014	$ 110,688	$ (46,942)	$ 63,746
Balance as of November 1, 2014	$ 110,688	$ (46,942)	$ 63,746

Identifiable intangible assets summary (in thousands):

	Gross Amount	Accumulated Amortization	Net Book Value
Balance as of February 1, 2014:			
Amortizable intangible assets:			
Customer relationships	$ 11,970	$ (3,577)	$ 8,393
Indefinite-lived intangible assets:			
Trademarks	101,850		101,850
Total intangible assets	$ 113,820	$ (3,577)	$ 110,243

Table of Contents

	Gross Amount	Accumulated Amortization	Net Book Value
Balance as of November 1, 2014			
Amortizable intangible assets:			
Customer relationships	$ 11,970	$ (4,026)	$ 7,944
Indefinite-lived intangible assets:			
Trademarks	101,850		101,850
Total intangible assets	$ 113,820	$ (4,026)	$ 109,794

Amortization of identifiable intangible assets for continuing operations was $150 and $149 for the three months ended November 1, 2014 and the three months ended November 2, 2013, respectively, and $449 in both the nine months ended November 1, 2014 and the nine months ended November 2, 2013. The estimated amortization expense for identifiable intangible assets is expected to be $598 for each fiscal year for the next five fiscal years.

Note 6. Fair Value

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 our assumptions and are not substantially supported by market data

The Company did not have any non-financial assets or non-financial liabilities recognized at fair value on a recurring basis at November 1, 2014 or February 1, 2014. At November 1, 2014 and February 1, 2014, the Company believes that the carrying value of cash and cash equivalents, receivables and accounts payable approximates fair value, due to the short maturity of these items. As the Company s debt obligations as of November 1, 2014 are at variable rates, there is no significant difference between the fair value and carrying value of the Company s outstanding debt.

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 value. 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 7. Financing Arrangements

Revolving Credit Facility

On November 27, 2013, Vince, LLC entered into the Revolving Credit Facility in connection with the closing of the IPO and Restructuring Transactions. BofA serves as administrative agent for this facility. The Revolving Credit Facility provides for a revolving line of credit of up to $50,000 and matures on November 27, 2018. The Revolving Credit Facility also provides for a letter of credit sublimit of $25,000 (plus any increase in aggregate commitments) and for an increase in aggregate commitments of up to $20,000. Vince, LLC is the borrower and VHC and Vince Intermediate Holding, LLC (Vince Intermediate) are the guarantors under the new Revolving Credit Facility. Interest is payable on the loans under the Revolving Credit Facility, at either the LIBOR or the Base Rate, in each case, with applicable margins subject to a pricing grid based on an 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 contains a requirement that, at any point when Excess Availability is less than the greater of (i) 15% percent of the loan cap or (ii) $7,500, and continuing until Excess Availability exceeds the greater of such amounts for 30 consecutive days, during which time, Vince must maintain a consolidated EBITDA (as defined in the Revolving Credit Facility) equal to or greater than $20,000. We have not been subject to this maintenance requirement since Excess Availability has been greater than the required minimum.

The Revolving Credit Facility 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 its 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 aggregate lending commitments and $7,500 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 1.1 to 1.0 (provided that the Consolidated Fixed Charge Coverage Ratio may be less than 1.1 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 aggregate lending commitments and $10,000).

As of November 1, 2014, the availability under the $50,000 Revolving Credit Facility was $21,853. As of November 1, 2014, there was $20,500 of borrowings outstanding and $7,647 of letters of credit outstanding under the Revolving Credit Facility.

Note 8. Long-Term Debt

Long-term debt consisted of the following as of November 1, 2014 and February 1, 2014 (in thousands).

	November 1, 2014	February 1, 2014
Term Loan Facility	$ 102,000	$ 170,000
Revolving Credit Facility	20,500	
Total long-term debt	$ 122,500	$ 170,000

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 the $175,000 Term Loan Facility with the lenders party thereto, BofA, as administrative agent, JPMorgan 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.

On November 27, 2013, net proceeds from the Term Loan Facility were used, at closing, to repay the Kellwood Note Receivable.

The Term Loan Facility also provides for an incremental facility of up to the greater of $50,000 and an amount that would result in the consolidated net total secured leverage ratio not exceeding 3.00 to 1.00, in addition to certain other rights to refinance or repurchase portions of the term loan. The Term Loan Facility is subject to quarterly amortization of principal equal to 0.25% of the original aggregate principal amount of the Term Loan Facility, with the balance payable at final maturity. 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 4.75% to 5.00% based on a leverage ratio or (ii) the base rate applicable margin of 3.75% to 4.00% based on a leverage ratio. 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 nondefault interest rate then applicable to base rate loans.

Table of Contents

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 3.75 to 1.00 for the fiscal quarters ending February 1, 2014 through November 1, 2014, 3.50 to 1.00 for the fiscal quarters ending January 31, 2015 through October 31, 2015, and 3.25 to 1.00 for the fiscal quarter ending January 30, 2016 and each fiscal quarter thereafter. 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 its 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. 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. We are in compliance with applicable financial covenants.

Through November 1, 2014, the Company has made voluntary prepayments totaling $73,000 in the aggregate on the original $175,000 Term Loan Facility entered into on November 27, 2013. These voluntary prepayments of $5,000, $20,000, $33,000 and $15,000 were made during the three months ended February 1, 2014, the three months ended May 3, 2014, the three months ended August 2, 2014, and the three months ended November 1, 2014, respectively. The voluntary prepayments made during the current fiscal year were partially funded by $20,500 of net borrowings under the Revolving Credit Facility. As of November 1, 2014 the Company had $102,000 of debt outstanding under the Term Loan Facility.

Note 9. Inventory

Inventories of continuing operations consist of the following:

	November 1, 2014	February 1, 2014
Finished goods	$ 52,596	$ 32,946
Work in process		98
Raw materials	129	912
Total inventories, net	$ 52,725	$ 33,956

Note 10. Share-Based Compensation

Vince Holding Corp.

Prior to November 27, 2013, Vince Holding Corp. did not have convertible equity or convertible debt securities, any of which could result in share-based compensation expense. In connection with the IPO, which closed on November 27, 2013, and the separation of the Vince and non-Vince businesses, VHC assumed Kellwood Company s remaining obligations under the 2010 Stock Option Plan of Kellwood Company (the 2010 Option Plan) and all Kellwood Company stock options previously issued to Vince employees under such plan became options to acquire shares of VHC common stock. Additionally, VHC assumed Kellwood Company s obligations with respect to the vested Kellwood Company stock options previously issued to Kellwood Company employees, which options were cancelled in exchange for shares of VHC common stock. Accordingly, option information presented below for previously issued Kellwood Company stock options under the 2010 Option Plan has been adjusted to account for the split of the Company s common stock and applicable conversion to options to acquire shares of Vince Holding Corp. common stock.

Employee Stock Plans

2010 Option Plan

Kellwood Company had convertible equity securities that result in recognition of share-based compensation expense. On June 30, 2010, the board of directors approved the 2010 Option Plan. On November 21, 2013 and as discussed above, VHC assumed Kellwood Company s remaining obligations under the 2010 Option Plan; provided, that none of the issued and outstanding options (after giving effect to such assumption and the stock split effected as part of the Restructuring Transactions) were exercisable until the consummation of the IPO. Additionally, prior to the consummation of the IPO and after giving effect to the assumption described in this paragraph, VHC and the Vince employees to whom options had been previously granted under the 2010 Option Plan, amended the related grant agreements to eliminate, effective as of the consummation of the IPO, restrictions on the exercisability of the subject employees vested options.

Prior to the IPO, the 2010 Option Plan, as amended, provided for the grant of options to acquire up to 2,752,155 shares of Kellwood Company common stock. We will not grant any future awards under the 2010 Option Plan. Future awards shall be granted under the Vince 2013 Incentive Plan.

Vince 2013 Incentive Plan

In connection with the IPO, the Company adopted the Vince 2013 Incentive Plan (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 3,400,000 shares. The shares available for issuance under the Vince 2013 Incentive Plan may be, in whole or in part, either authorized and unissued shares of our common stock or shares of common stock held in or acquired for our treasury. In general, if awards under the Vince 2013 Incentive Plan are for any reason cancelled, or expire or terminate unexercised, the shares covered by such award may again be available for the grant of awards under the Vince 2013 Incentive Plan. As of November 1, 2014, there were 2,996,556 shares under the Vince 2013 Incentive Plan available for future grants.

A summary of stock option activity under our plans is as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding at February 1, 2014	2,289,530	$ 8.26
Granted	69,227	$ 35.08
Exercised	(5,242)	$ 6.64
Forfeited or expired	(45,811)	$ 17.03
Outstanding at November 1, 2014	2,307,704	$ 8.89
Vested or expected to vest at November 1, 2014	2,307,704	$ 8.89
Exercisable at November 1, 2014	609,405	$ 5.96

The Company has also issued restricted stock units to its non-employee directors and directors not affiliated with Sun Capital under the Vince 2013 Incentive Plan. During the nine months ended November 1, 2014, the Company granted 2,966 restricted stock units, resulting in 10,466 nonvested restricted stock units outstanding at November 1, 2014.

Share-based compensation expense which is reflected in selling, general and administrative expenses was $458 and $1,250 for the three and nine months ended November 1, 2014, respectively.

Note 11. Earnings Per Share

All share information presented below and herein has been adjusted to reflect the stock split approved by VHC s board of directors as of November 27, 2013. The nine months ended November 1, 2014 includes the impact of 10,000,000 shares issued by the Company on November 27, 2013 in the IPO.

The following is a reconciliation of basic shares to diluted shares:

	Three Months Ended		Nine Months Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Weighted-average shares basic	36,728,969	26,228,605	36,726,338	26,216,955
Effect of dilutive equity securities	1,574,634	449,168	1,517,030	196,352
Weighted-average shares diluted	38,303,603	26,677,773	38,243,368	26,413,307

For the three and nine months ended November 1, 2014, 65,561 and 34,216 options to purchase 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 12. Commitments and Contingencies

We are currently party to various legal proceedings. While management currently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse impact on our financial position or results of operations or cash flows, litigation is subject to inherent uncertainties.

Note 13. Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-15, Presentation of Financial Statements Going Concern, which states management should evaluate whether there are conditions or events, considered in the aggregate, that raise a substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued. Management s evaluation should be based on relevant conditions and events that are known and likely to occur at the date that the financial statements are issued. The standard update will be effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter, however, early application is permitted. The Company does not expect the adoption of this new standard to have an impact on its financial position and results of operations.

In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. The Company is evaluating the new standard and its impact on the Company s financial position and results of operations.

Note 14. Segment Financial Information

We operate and manage our business by distribution channel and have identified two reportable segments, as further described below. We 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 our operations to distribute products to premier department stores and specialty stores in the United States and select international markets; and

Direct-to-consumer segment consists of our operations to distribute products directly to the consumer through our branded full-price specialty retail stores, outlet stores, and e-commerce platform.

The accounting policies of our segments are consistent with those described in Note 1 to the audited Consolidated Financial Statements of Vince Holding Corp. for the fiscal year ended February 1, 2014 included in the 2013 Annual Report on Form 10-K filed with the SEC on April 4, 2014. Unallocated corporate expenses are comprised of selling, general, and administrative expenses attributable to corporate and administrative activities, and other charges that are not directly attributable to our operating segments. Unallocated corporate assets are comprised of capitalized deferred financing costs, the carrying values of our goodwill and unamortized trademark, debt and deferred tax assets, and other assets that will be utilized to generate revenue for both of our reportable segments.

Our wholesale segment sells apparel to our direct-to-consumer segment at cost. The wholesale intercompany sales of $9,077 and $6,014 have been excluded from the net sales totals presented below for the three months ended November 1, 2014 and November 2, 2013, respectively. The wholesale intercompany sales of $16,978 and $11,986 have been excluded from the net sales totals presented below for the nine months ended November 1, 2014 and November 2, 2013, respectively. Furthermore, as intercompany sales are sold at cost, no intercompany profit is reflected in operating income presented below.

Table of Contents

Summary information for our operating segments is presented below (in thousands).

	Three Months Ended		Nine Months Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net Sales:				
Wholesale	$ 78,898	$ 67,281	$ 190,564	$ 159,832
Direct-to-consumer	24,049	18,474	55,161	40,580
Total net sales	$ 102,947	$ 85,755	$ 245,725	$ 200,412
Operating Income:				
Wholesale	$ 30,577	$ 25,003	$ 74,204	$ 56,314
Direct-to-consumer	6,042	5,229	9,855	7,740
Subtotal	36,619	30,232	84,059	64,054
Unallocated expenses	(11,789)	(12,694)	(34,078)	(29,631)
Total operating income	$ 24,830	$ 17,538	$ 49,981	$ 34,423
Capital Expenditures:				
Wholesale	$ 673	$ 623	$ 1,238	$ 1,244
Direct-to-consumer	3,072	3,402	6,158	6,187
Unallocated corporate	4,210		7,910	
Total capital expenditure	$ 7,955	$ 4,025	$ 15,306	$ 7,431