VINCE HOLDING CORP.
Form 10-Q
September 07, 2017

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 July 29, 2017

Or

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

VINCE HOLDING CORP.

(Exact name of registrant as specified in its charter)

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

500 5th Avenue—20th Floor

New York, New York 10110

(Address of principal executive offices) (Zip code)

(212) 515-2600

(Registrant's telephone number, including area code)

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

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

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

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

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

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

Common Stock	Outstanding at August 31, 2017
Common Stock, $0.01 par value per share	49,477,262 shares

VINCE HOLDING CORP. AND SUBSIDIARIES

TABLE OF CONTENTS

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 (“St. Louis, LLC”). The transaction closed on December 21, 2016 (the “Kellwood Sale”). St. Louis, LLC is anticipated to be wound down by or around December 2017.

DISCLOSURES REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, and any statements incorporated by reference herein, contains forward-looking statements under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are indicated by words or phrases such as “may,” “will,” “should,” “believe,” “expect,” “seek,” “anticipate,” “intend,” “estimate,” “plan,” “targ “forecast,” “envision” and other similar phrases. Although we believe the assumptions and expectations reflected in these forward-looking statements are reasonable, these assumptions and expectations may not prove to be correct and we may not achieve the results or benefits anticipated. These forward-looking statements are not guarantees of actual results, and our actual results may differ materially from those suggested in the forward-looking statements. These forward-looking statements involve a number of risks and uncertainties, some of which are beyond our control, including, without limitation: our ability to continue having the liquidity necessary to service our debt, meet contractual payment obligations (including under the Tax Receivable Agreement) and fund our operations; our ability to comply with the covenants under our term loan facility; our ability to continue as a going concern; 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; our ability to regain compliance with the continued listing standards of the New York Stock Exchange; our ability to complete a potential rights offering; our ability to ensure the proper operation of the distribution facility by a third-party logistics provider recently transitioned from Kellwood; 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 control the level of sales in the off-price channels; 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; unusual, unpredictable and/or severe weather conditions; the execution and management of our retail store growth plans, 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 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; 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 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 28, 2017 (our "2016 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)

	July 29, 2017	January 28, 2017
Assets		
Current assets:		
Cash and cash equivalents	$3,803	$20,978
Trade receivables, net	18,939	10,336
Inventories, net	41,842	38,529
Prepaid expenses and other current assets	6,990	4,768
Total current assets	71,574	74,611
Property and equipment, net	40,494	42,945
Intangible assets, net	77,398	77,698
Goodwill	41,435	41,435
Other assets	2,537	2,791
Total assets	$233,438	$239,480
Liabilities and Stockholders' (Deficit) Equity		
Current liabilities:		
Accounts payable	$24,554	$37,022
Accrued salaries and employee benefits	4,642	3,427
Other accrued expenses	10,844	9,992
Total current liabilities	40,040	50,441
Long-term debt	72,040	48,298
Deferred rent	16,418	16,892
Other liabilities	137,830	137,830
Commitments and contingencies (Note 8)		
Stockholders' (deficit) equity:		
Common stock at $0.01 par value (100,000,000 shares authorized, 49,477,262 and 49,427,606 shares issued and outstanding at July 29, 2017 and January 28, 2017, respectively)	494	494
Additional paid-in capital	1,083,326	1,082,727
Accumulated deficit	(1,116,645)	(1,097,137)
Accumulated other comprehensive loss	(65)	(65)
Total stockholders' deficit	(32,890)	(13,981)

Total liabilities and stockholders' (deficit) equity	$233,438	$239,480

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

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

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Net sales	$60,822	$60,702	$118,867	$128,347
Cost of products sold	35,266	33,315	67,720	72,702
Gross profit	25,556	27,387	51,147	55,645
Selling, general and administrative expenses	34,416	31,642	68,200	63,448
Loss from operations	(8,860)	(4,255)	(17,053)	(7,803)
Interest expense, net	1,276	1,005	2,320	1,886
Other expense, net	2	28	3	188
Loss before income taxes	(10,138)	(5,288)	(19,376)	(9,877)
(Benefit) provision for income taxes	(4)	(3,321)	48	(5,986)
Net loss	$(10,134)	$(1,967)	$(19,424)	$(3,891)
Loss per share:				
Basic loss per share	$(0.20)	$(0.04)	$(0.39)	$(0.09)
Diluted loss per share	$(0.20)	$(0.04)	$(0.39)	$(0.09)
Weighted average shares outstanding:				
Basic	49,449,717	48,968,760	49,438,988	43,485,767
Diluted	49,449,717	48,968,760	49,438,988	43,485,767

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Loss

(in thousands, unaudited)

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Net loss	$(10,134)	$(1,967)	$(19,424)	$(3,891)
Comprehensive loss	$(10,134)	$(1,967)	$(19,424)	$(3,891)

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands, unaudited)

	For the six months ended	
	July 29, 2017	July 30, 2016
Operating activities		
Net loss	$(19,424)	$(3,891)
Add (deduct) items not affecting operating cash flows:		
Depreciation and amortization	4,891	3,985
Provision for inventories	—	1,238
Deferred rent	(480)	470
Deferred income taxes	—	(6,078)
Share-based compensation expense	483	745
Other	442	296
Changes in assets and liabilities:		
Receivables, net	(8,603)	(11,640)
Inventories	(3,313)	657
Prepaid expenses and other current assets	(2,181)	(1,098)
Accounts payable and accrued expenses	(9,376)	(21,338)
Other assets and liabilities	(231)	59
Net cash used in operating activities	(37,792)	(36,595)
Investing activities		
Payments for capital expenditures	(2,716)	(9,316)
Net cash used in investing activities	(2,716)	(9,316)
Financing activities		
Proceeds from borrowings under the Revolving Credit Facility	149,998	78,270
Repayment of borrowings under the Revolving Credit Facility	(126,682)	(83,247)
Proceeds from common stock issuance, net of transaction costs	—	63,848
Proceeds from stock option exercises and issuance of common stock under employee stock purchase plan	32	2,157
Financing fees	(15)	—
Net cash provided by financing activities	23,333	61,028
(Decrease) increase in cash and cash equivalents	(17,175)	15,117
Cash and cash equivalents, beginning of period	20,978	6,230
Cash and cash equivalents, end of period	$3,803	$21,347
Supplemental Disclosures of Cash Flow Information		
Cash payments on Tax Receivable Agreement obligation	$—	$22,258
Cash payments for interest	1,909	1,469
Cash payments for income taxes, net of refunds	—	249
Supplemental Disclosures of Non-Cash Investing and Financing Activities		

Capital expenditures in accounts payable and accrued liabilities	29	644

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 owns and operates 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 ("St. Louis, LLC"). The transaction closed on December 21, 2016 (the "Kellwood Sale"). St. Louis, LLC is anticipated to be wound down by or around December 2017.

(A) Description of Business: Established in 2002, Vince is a global luxury brand best known for utilizing luxe fabrications and innovative techniques to create a product assortment that combines urban utility and modern effortless style. From its edited core collection of ultra-soft cashmere knits and cotton tees, Vince has evolved into a global lifestyle brand and destination for both women's and men's apparel and accessories. 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 (the "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 January 28, 2017, as set forth in the 2016 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 July 29, 2017. All intercompany accounts and transactions have been eliminated. In the opinion of management, the financial statements contain all adjustments (consisting solely of normal recurring adjustments) and disclosures necessary to make the information stated 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.

(C) 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.

Since fiscal 2015 the Company made significant strategic decisions and investments to reset and support the future growth of the Vince brand. Management believes these significant investments are essential to the commitment to developing a strong foundation from which the Company can drive consistent profitable growth for the long term. In order to enhance the Company’s liquidity position in support of these investments, the Company performed the following actions:

- During the three months ended April 30, 2016, the Company completed a rights offering (the “2016 Rights Offering”) and related Investment Agreement transactions, issuing an aggregate of 11,818,181 shares of its common stock for total gross proceeds of $65,000. The Company used a portion of the net proceeds received from the 2016 Rights Offering and related Investment Agreement to (1) repay the amount owed by the Company under the Tax Receivable Agreement with Sun Cardinal, for itself and as a representative of the other stockholders party thereto, for the tax benefit with respect to the 2014 taxable year including accrued interest, totaling $22,262, and (2) repay all then outstanding indebtedness, totaling $20,000, under the Revolving Credit Facility, allowing full borrowing capacity under this facility at that time.
- To provide the Company with greater flexibility on certain debt covenants while it was executing brand reset strategies, the Company retained approximately $21,000 of proceeds from the 2016 Rights Offering and related Investment Agreement at Vince Holding Corp. to be utilized in the event a Specified Equity Contribution (as defined under the Term Loan Facility) was required under the Term Loan Facility. See Note 4 “Long-Term Debt and Financing Arrangements” for additional details. Any amounts contributed from Vince Holding Corp. as a Specified Equity Contribution could then be utilized for normal operating needs. 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 under the Term Loan Facility as of January 28, 2017 so that the Consolidated Net Total Leverage Ratio would not exceed 3.25 to 1.00. 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 under the Term Loan Facility as of April 29, 2017 so that the Consolidated Net Total Leverage Ratio would not exceed 3.25 to 1.00. As of July 29, 2017, Vince Holding Corp. retained $3,175 of funds from the 2016 Rights Offering.

For the fiscal year ended January 28, 2017 and the quarter ended April 29, 2017, considering the historical sales performance of the Company, actions of lenders and certain vendors, and the difficulties to project the current retail environment, management had concluded 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, and therefore continue as a going concern within one year after the date those financial statements were issued. The Company disclosed in its Annual Report on Form 10-K for the fiscal year ended January 28, 2017 and its Quarterly Report on Form 10-Q for the quarter ended April 29, 2017 a number of potential mitigating actions management was taking which could individually or in the aggregate alleviate the substantial doubt, however none of these actions had been executed at the time the applicable financial statements were issued and therefore could not be considered as mitigating events under the applicable accounting standards. During, and subsequent to the quarter ended July 29, 2017, management has executed the following:

- In June 2017, the Company entered into a Waiver, Consent and First Amendment to the Term Loan Facility (the “Term Loan Amendment”) which, among other things, (i) waives the Consolidated Net Total Leverage Ratio (as defined in the Term Loan Facility) covenant for the test periods from July 2017 through and including April 2019; and (ii) requires, beginning with the payment due on or around January 2018, the Company 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. See Note 4 “Long-Term Debt and Financing Arrangements” for additional details. The Term Loan Amendment becomes effective only upon the completion of the 2017 Rights Offering (as defined below) and the receipt of proceeds by the Company from the Sun Cardinal Investors (as defined below) pursuant to the related Investment Agreement.
- In June 2017, the Company entered into an amendment under the Revolving Credit Facility which included increasing the borrowing base under the Revolving Credit Facility, therefore increasing availability under this Facility. See Note 4 “Long-Term Debt and Financing Arrangements” for additional details.
- The Company began utilizing letters of credit issuable under the Revolving Credit Facility and in July 2017, Vince, LLC (“Vince”), an indirect wholly-owned subsidiary of the Company, entered into an agreement with Rebecca Taylor, Inc. relating to the purchase and resale of certain Vince branded finished goods in order to address recent demands

from certain vendors for accelerated payment terms or prepayments as a condition to delivering finished goods to the Company. See Note 11 “Related Party Transactions” for additional details.

- In August 2017, the Company entered into an Investment Agreement with Sun Cardinal, LLC and SCSF Cardinal, LLC (collectively, the “Sun Cardinal Investors”) and the Company commenced a rights offering (the “2017 Rights Offering”). The 2017 Rights Offering expired on August 30, 2017 and the Company received total subscriptions of

$21,976. The Company expects to receive such proceeds on or about September 8, 2017. Additionally, in accordance with the related Investment Agreement the Company expects to receive $8,024 on or about September 8, 2017. The Company will use a portion of the net proceeds received from the 2017 Rights Offering and related 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. The Company intends to use the remaining net proceeds for general corporate purposes, which may include additional payments on the Company's outstanding indebtedness. See Note 12 "Subsequent Events" for additional details.

Going forward, the Term Loan Amendment requires the Company to pay quarterly amortization payments beginning in January 2018 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. In accordance with the Term Loan Amendment, if the Company is unable to make the full amortization payment 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. Additionally, the Company is prohibited from making any payments on the Tax Receivable Agreement before the first amortization payment is made or if the Company is not current on any of the foregoing amortization payments. 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.

During the first and second quarters of 2017, certain vendors demanded accelerated payment terms or prepayments as a condition to delivering finished goods to the Company. In certain instances other vendors have required deposits or reserves. To address these concerns with inventory vendors, management entered into the agreement with Rebecca Taylor, and began utilizing letters of credit under the Revolving Credit Facility. Management continues to have active discussions with the inventory vendors and believes that these actions as well as the proceeds that will be received from the 2017 Rights Offering and related Investment Agreement, could allow the Company to get back to normal terms with its inventory vendors in the near future. The Company may also pursue engaging new alternative vendors with more favorable terms.

The Company has been subject to a commercial finance examination associated with the Revolving Credit Facility agreement. Additionally, beginning with the first quarter of fiscal 2017, certain reserves were placed on the Company's borrowing capacity under the Revolving Credit Facility. While the examination has been completed, the Company is currently finalizing discussions with the lenders regarding the results of the audit, potential future changes to the availability under the Revolving Credit Facility, and the removal of those reserves.

As part of management's plan of mitigating actions, management has engaged various consulting firms to assist with the pursuit of cost reduction initiatives in order to improve the Company's financial performance. Certain initiatives from these efforts are complete, some are in process of being executed, and others are still being fully identified. Additionally, management has entered into limited distribution arrangements with Nordstrom, Inc. and Neiman Marcus Group LTD, which will take effect in fiscal 2018, in order to rationalize its department store distribution strategy which could improve profitability in the Wholesale segment in the future and to enable management to focus on other areas of growth for the brand, particularly in the Direct-to-consumer segment. The Company will also expand its product offerings with the launch of its home capsule collection during the third quarter of fiscal 2017 and the re-launch of its handbag collection during the fourth quarter of fiscal 2017. Management expects that the majority of the benefit from these cost savings and other strategic initiatives will not be fully realized until fiscal 2018.

Management believes that the above actions, once completed, could alleviate the substantial doubt regarding the Company's ability to continue as a going concern one year from the date the financial statements are issued. Management expects to complete substantially all of these actions in the third quarter of 2017. See Part II. Item 1A. "Risk Factors" contained within this Quarterly Report on Form 10-Q for additional information.

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 July 29, 2017	$ 41,435	$ —	$ 41,435
Balance as of January 28, 2017	$ 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 July 29, 2017				
Amortizable intangible assets:				
Customer relationships	$11,970	$ (5,672)	$ —	$6,298
Indefinite-lived intangible asset:				
Tradename	101,850	—	(30,750)	71,100
Total intangible assets	$113,820	$ (5,672)	$ (30,750)	$77,398

(in thousands)	Gross Amount	Accumulated Amortization	Impairment Charge	Net Book Value
Balance as of January 28, 2017				
Amortizable intangible assets:				
Customer relationships	$11,970	$ (5,372)	$ —	$6,598
Indefinite-lived intangible asset:				
Tradename	101,850	—	(30,750)	71,100
Total intangible assets	$113,820	$ (5,372)	$ (30,750)	$77,698

Amortization of identifiable intangible assets was $150 and $149 for the three months ended July 29, 2017 and July 30, 2016, respectively and $300 and $299 for the six months ended July 29, 2017 and July 30, 2016, respectively. The estimated amortization expense for identifiable intangible assets is $598 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 July 29, 2017 or January 28, 2017. At July 29, 2017 and January 28, 2017, 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 and would be measured using Level 1 inputs. The Company's debt obligations with a carrying value of $73,516 as of July 29, 2017 are at variable interest rates and management estimates that the fair value of the Company's outstanding debt obligations was approximately $66,000 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)	July 29, 2017	January 28, 2017
Term Loan Facility	$45,000	$ 45,000
Revolving Credit Facility	28,516	5,200
Total long-term debt principal	73,516	50,200
Less: Deferred financing costs	1,476	1,902
Total long-term debt	$72,040	$ 48,298

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. The Term Loan Amendment will become effective on or about September 8, 2017 when the Company expects to receive $30,000 of gross proceeds in connection with the 2017 Rights Offering and related Investment Agreement (see Note 12 "Subsequent Events" for further details) and will use a portion of such proceeds to prepay $9,000 in principal amount under the Term Loan Facility.

As of July 29, 2017, interest was 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 consolidated net total leverage ratio or (ii) the base rate applicable margin of 3.75% to 4.00% based on a consolidated net total leverage ratio. 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 a Specified Equity Contribution. 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. Since the Term Loan Amendment will not become effective until on or about September 8, 2017, concurrently with the execution and delivery of the Term Loan Amendment, the Borrowers entered into a side letter waiver with certain lenders under the Term Loan Facility and BofA, as agent, to waive the Consolidated Net Total Leverage Ratio covenant for the July 2017 testing period.

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 July 29, 2017, after giving effect to the waiver described above, the Company was in compliance with applicable covenants.

Through July 29, 2017, on an inception to date basis, the Company has made voluntary prepayments totaling $130,000 in the aggregate on the original $175,000 Term Loan Facility entered into on November 27, 2013 with no such prepayments made during the six months ended July 29, 2017. As of July 29, 2017, the Company had $45,000 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 terminates when the obligations under the Revolving Credit Facility are no longer outstanding or when the Specified LCs are released, as described below, whichever is earlier. 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 July 29, 2017, 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.

As of July 29, 2017, $18,091 was available under the Revolving Credit Facility, net of the amended loan cap, and there were $28,516 of borrowings outstanding and $8,378 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 July 29, 2017 was 3.8%.

As of January 28, 2017, $27,157 was available under the Revolving Credit Facility, net of the amended loan cap, and there were $5,200 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 January 28, 2017 was 4.3%.

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 is 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 is $10,000. The BMO LC Line is currently unsecured but may be secured subject to the terms of an intercreditor agreement between BofA and Bank of Montreal. BofA will be permitted to draw on the Specified LCs upon the occurrence of certain events specified therein. The Specified LCs under the BMO LC Line were undrawn as of July 29, 2017. In the event BofA draws on the Specified LCs upon the occurrence of a draw event, the loan will be subject to certain customary terms and conditions pursuant to the applicable loan authorization document. The BMO LC Line also may be released upon request by Vince, LLC so long as the Company has received at least $30,000 of cash proceeds from the 2017 Rights Offering, $15,000 of which must be used to repay the principal amount of the outstanding loans under the Revolving Credit Facility (without permanent reduction of commitments) or the Excess Availability is 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 is subject to a standard 3% annual fee.

Note 5. Inventory

Inventories consisted of the following:

(in thousands)	July 29, 2017	January 28, 2017
Finished goods	$44,065	$ 40,771
Less: reserves	(2,223)	(2,242)
Total inventories, net	$41,842	$ 38,529

14

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 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 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 July 29, 2017, there were 1,491,590 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.

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 six months ended July 29, 2017, 26,601 shares of common stock were issued under the ESPP. During the six months ended July 30, 2016, the activity under the ESPP was not significant. As of July 29, 2017 there were 965,516 shares available for future issuance under the ESPP.

Stock Options

A summary of stock option activity for both employees and non-employees for the six months ended July 29, 2017 is as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 28, 2017	2,258,787	$ 4.53	8.9	$ —
Granted	153,500	$ 1.09		
Exercised	—	$ —		
Forfeited or expired	(696,532)	$ 4.27		
Outstanding at July 29, 2017	1,715,755	$ 4.32	8.5	$ 4

Vested and exercisable at July 29, 2017	369,950	$ 4.62	8.4	$ —

Of the above outstanding shares, 1,345,805 are expected to vest.

As permitted by new accounting guidance that became effective for the Company on January 29, 2017, the Company has elected to account for forfeitures as they occur, which resulted in an increase of $84 to accumulated deficit within the Condensed Consolidated Balance Sheet.

Restricted Stock Units

A summary of restricted stock unit activity for the six months ended July 29, 2017 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Nonvested restricted stock units at January 28, 2017	107,812	$ 6.56
Granted	75,000	$ 0.60
Vested	(27,480)	$ 7.11
Forfeited	(8,825)	$ 5.98
Nonvested restricted stock units at July 29, 2017	146,507	$ 3.44

Share-Based Compensation Expense

The Company recognized share-based compensation expense of $264 and $231 (including expense of $78 related to non-employees) during the three months ended July 29, 2017 and July 30, 2016, respectively. The Company recognized share-based compensation expense of $483 and $745 (including expense of $413 related to non-employees) during the six months ended July 29, 2017 and July 30, 2016, 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.

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

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Weighted-average shares—basic	49,449,717	48,968,760	49,438,988	43,485,767
Effect of dilutive equity securities	—	—	—	—
Weighted-average shares—diluted	49,449,717	48,968,760	49,438,988	43,485,767

Because the Company incurred a net loss for the three and six months ended July 29, 2017 and July 30, 2016, weighted-average basic shares and weighted-average diluted shares outstanding are equal for these periods.

For the three months ended July 29, 2017 and July 30, 2016, 1,872,545 and 1,937,739 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.

For the six months ended July 29, 2017 and July 30, 2016, 1,986,489 and 671,964 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

On May 5, 2017, a complaint was filed in the United States District Court for the Eastern District of New York on behalf of a putative class of the Company's stockholders, naming the Company as well as Brendan Hoffman, the Company's Chief Executive Officer, and David Stefko, the Company's Executive Vice President, Chief Financial Officer, as defendants. The complaint, brought on behalf of all persons who purchased the Company's common stock between December 8, 2016 and April 27, 2017, generally alleges that the Company and the named officers made false and/or misleading statements and/or failed to disclose matters relating to the transition of its ERP systems from Kellwood. The complaint brings causes of action for violations of Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") against the Company and the two named officers and for violations of Section 20(a) of the Exchange Act against the two named officers. The complaint seeks unspecified monetary damages and unspecified costs and fees. On August 3, 2017, the court appointed a lead plaintiff and lead counsel. The lead plaintiff has notified the Company that he intends to serve an amended complaint, which must be filed on or before October 2, 2017.

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

In addition, the Company is a party to legal proceedings, compliance matters and environmental claims that arise in the ordinary course of its 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 January 2017, the Financial Accounting Standards Board ("FASB") issued guidance to simplify the accounting for goodwill impairment. The guidance removes "step two" of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance is effective for interim and annual impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company adopted this guidance on January 29, 2017.

In March 2016, the FASB issued guidance regarding share-based compensation, to simplify the accounting for share-based payment transactions, including accounting for forfeitures, income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This guidance is effective for interim and annual periods beginning after December 15, 2016. The Company adopted the new guidance on January 29, 2017. Upon adoption, excess tax benefits and deficiencies from share-based compensation are recognized as income tax expense or benefit in the statement of operations as discrete items in the reporting period in which they occur, regardless of whether the benefit reduces taxes payable in the current period. As a result of the adoption of this guidance, the Company recognized an increase of $2,350 to deferred tax assets related to net operating loss carryforwards for the excess tax benefits related to share-based compensation and also recognized an increase of an equal amount in the valuation allowance against such increase of deferred tax assets. As permitted by the new guidance, the Company elected to account for forfeitures as they occur which resulted in an increase of $84 to the accumulated deficit within the Condensed Consolidated Balance Sheet. The remaining provisions of the new guidance did not have a material effect on the Company's condensed consolidated financial statements.

In November 2015, the FASB issued new guidance on the balance sheet classification of deferred taxes, which requires entities to classify deferred tax assets and liabilities as noncurrent in the consolidated balance sheet. Currently, deferred tax assets and liabilities must be classified as current or noncurrent amounts in the consolidated balance sheet. This guidance is effective for financial statements issued for interim and annual periods beginning after December 15, 2016. The Company adopted the new guidance on January 29, 2017 and, as a result of the full valuation allowance previously recorded against the Company's deferred tax assets, it did not have a material effect on the Company's Condensed Consolidated Balance Sheet.

In July 2015, the FASB issued new guidance on accounting for inventory, which requires entities to measure inventory at the lower of cost and net realizable value. This guidance is effective for interim and annual periods beginning on or after December 15, 2016. The Company adopted the new guidance on January 29, 2017 and it did not have a material impact on the Company's condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

In May 2017, the FASB issued guidance that clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will be applied prospectively to awards modified on or after the adoption date. The guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The Company is evaluating the impact of the adoption of this guidance on its financial statements but does not expect it to have a material impact.

In November 2016, the FASB issued guidance that 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 guidance is effective for interim and annual periods beginning after December 15, 2017 using a retrospective transition method to each period presented. Early adoption is permitted, including adoption in an interim period. This new guidance is not expected to have a material impact on the Company’s Condensed Consolidated Statement of Cash Flows.

In August 2016, the FASB issued guidance which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2017 and must be applied using a retrospective transition method to each period presented. The Company is currently evaluating the impact of adopting this guidance on its Condensed Consolidated Statement of Cash Flows.

In February 2016, the FASB issued a new lease accounting standard, which 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 retrospectively by restating all years presented in the Company’s financial statements. 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.

In May 2014, the FASB issued new guidance on revenue recognition accounting, which 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. In August 2015, the FASB elected to defer the effective dates for this guidance, which is now effective for interim and annual periods beginning on or after December 15, 2017. The Company is currently evaluating the impact of the adoption of the new guidance on its 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 January 28, 2017 included in the 2016 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 July 29, 2017	Three Months Ended July 30, 2016	Six Months Ended July 29, 2017	Six Months Ended July 30, 2016
Net Sales:				
Wholesale	$39,250	$39,619	$74,657	$84,395
Direct-to-consumer	21,572	21,083	44,210	43,952
Total net sales	$60,822	$60,702	$118,867	$128,347
Income (loss) from Operations:				
Wholesale	$10,462	$10,732	$19,428	$21,006
Direct-to-consumer	(1,782)	(323)	(3,084)	1,354
Subtotal	8,680	10,409	16,344	22,360
Unallocated corporate expenses	(17,540)	(14,664)	(33,397)	(30,163)
Total loss from operations	$(8,860)	$(4,255)	$(17,053)	$(7,803)

(in thousands)	July 29, 2017	January 28, 2017
Total Assets:		
Wholesale	$59,559	$ 44,442
Direct-to-consumer	40,811	45,038
Unallocated corporate	133,068	150,000
Total assets	$233,438	$ 239,480

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 58% of the outstanding common stock of the Company as of July 29, 2017. During the six months ended July 29, 2017, the Company placed $7,315 of orders under the Sourcing Arrangement.

Shared Services Agreement

In connection with the consummation of the Company's IPO on November 27, 2013, Vince, LLC entered into a Shared Services Agreement with Kellwood (the "Shared Services Agreement"), pursuant to which Kellwood would provide support services in various areas. As of the end of fiscal 2016, the Company completed the transition of all functions and systems from Kellwood to the Company's own systems or processes as well as to third-party service providers. In connection with the Kellwood Sale, the Shared

Services Agreement was contributed to St. Louis, LLC. St. Louis, LLC continues to provide certain services, including those related to historical records and legacy functions, which the Company is in the process of winding down. The Shared Services Agreement will terminate automatically upon the termination of all services provided thereunder. After termination of the agreement, St. Louis, LLC will have no obligation to provide any services to the Company.

The Company is invoiced monthly for the services provided under the Shared Services Agreement and generally is required to pay within 15 business days of receiving such invoice. The payments can be trued-up and disputed once each fiscal quarter. During the three months ended July 29, 2017 and July 30, 2016, the Company recognized $103 and $1,227, respectively, of expense within the Condensed Consolidated Statements of Operations for services provided under the Shared Services Agreement. During the six months ended July 29, 2017 and July 30, 2016, the Company recognized $159 and $3,405, respectively, of expense within the Condensed Consolidated Statements of Operations for services provided under the Shared Services Agreement. As of July 29, 2017, the Company has recorded $72 in Other accrued expenses to recognize amounts payable under the Shared Services Agreement.

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.

As of July 29, 2017, the Company's total obligation under the Tax Receivable Agreement is estimated to be $140,618, of which $2,788 is included as a component of Other accrued expenses and $137,830 is included as a component of Other liabilities on the Condensed Consolidated Balance Sheet. In accordance with the Term Loan Amendment (see Note 4 "Long-Term Debt and Financing Arrangements"), the Company is prohibited from making any payments on the Tax Receivable Agreement before the first amortization payment is made or if the Borrowers are not current on any of the foregoing amortization payments. Management anticipates that the tax benefit payment, plus accrued interest, with respect to the 2016 taxable year will be paid in the first quarter of 2018. The Tax Receivable Agreement expires on December 31, 2023.

Rights Offering Commitment Letter and Investment Agreement

On May 18, 2017, the Company received a Rights Offering Commitment Letter from Sun Fund V that provides the Company with an amount equal to $30,000 of cash proceeds (the “Contribution Obligation”) in the event that the Company commences a Rights Offering. Such Contribution Obligation will be reduced by any proceeds received from the Rights Offering. The Company is required, simultaneously with the funding of the Contribution Obligation by Sun Fund V, or one or more of its affiliates, to issue to Sun Fund V or one or more of its affiliates the applicable number of shares of the Company’s common stock at the price per share at which participants in the Rights Offering are entitled to purchase shares of common stock, which price will be mutually agreed between the Company and Sun Fund V and approved by the members of the Company’s board of directors that are not employed by or affiliated with the Company or Sun Fund V. The funding of the Contribution Obligation, and the issuance of the shares of common stock by the Company, will be made pursuant to an investment agreement in substantially the same form as the investment agreement, dated March 15, 2016, by and among Sun Cardinal, LLC, SCSF Cardinal, LLC and the Company, with any modifications thereto as may be mutually agreed between Sun Fund V and the Company. There will be no commitment fee due to Sun Fund V from the Company in connection with the Contribution Obligation. Sun Fund V’s obligations under the Rights Offering Commitment Letter are subject to (i) the Company entering into an amendment to its existing Term Loan Facility that is acceptable to Sun Fund V in its sole discretion, (ii) no default or event of default having occurred under the Company’s Term Loan Facility or Revolving Credit Facility, unless promptly cured or reasonably expected to be promptly cured by the Company and (iii) no circumstance existing that has had or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its subsidiaries taken as a whole. Sun Fund V's obligations under the Rights Offering Commitment Letter terminate upon the earliest to occur of (A) the consummation of the Rights Offering whereby the Company receives proceeds equal to or exceeding $30,000, (B) 11:59 p.m. New York City time on June 30, 2017 if the Rights Offering has not commenced by such time (which date to be extended by 45 days in the event the Company's registration statement relating to the Rights Offering is reviewed by the SEC) , (C) 11:59 p.m. New York City time on August 1, 2017 (which date to be extended by 45 days in the event the Company's registration statement relating to the Rights Offering is reviewed by the SEC), and (D) the date Sun Fund V, or its affiliates, fund the Contribution Obligation.

On August 10, 2017, the Company entered into an Investment Agreement (the "Investment Agreement") with Sun Cardinal, LLC and SCSF Cardinal, LLC (collectively, the "Sun Cardinal Investors"), in connection with the previously announced proposed non-transferable rights offering (the "Rights Offering"). The Investment Agreement supersedes the Rights Offering Commitment Letter. On August 15, 2017, the Company commenced the Rights Offering. See Note 12 "Subsequent Events" for further details.

As of July 29, 2017, affiliates of Sun Fund V collectively beneficially owned approximately 58% 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 July 29, 2017 and July 30, 2016, the Company incurred expenses of $12 and $28, respectively, under the Sun Capital Consulting Agreement. During the six months ended July 29, 2017 and July 30, 2016, the Company incurred expenses of $18 and $53, respectively, under the Sun Capital Consulting Agreement.

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, as discussed in Note 4 "Long-Term Debt and Financing Arrangements." The BMO LC Line is guaranteed by Sun Capital Fund V, L.P., an affiliate of Sun Capital Partners, Inc.

Note 12. Subsequent Events

Investment Agreement and Rights Offering

On August 10, 2017, the Company entered into the Investment Agreement with the Sun Cardinal Investors, in connection with the previously announced Rights Offering. Pursuant to the Investment Agreement, 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 Rights Offering, at the Rights Offering subscription price per share of $0.45, subject to the terms and conditions set forth in the Investment Agreement (the "Backstop Commitment"). The Investment Agreement supersedes the Rights Offering Commitment Letter, dated May 18, 2017, from Sun Capital Partners V, L.P.

The Investment Agreement may be terminated at any time prior to the closing of the transactions contemplated by the Investment Agreement (i) by mutual written agreement of the Sun Cardinal Investors and the Company; (ii) by any party, in the event the closing of the transactions to be contemplated by the Investment Agreement does not occur by September 30, 2017; (iii) by any party, if any governmental entity shall have taken action prohibiting any of the contemplated transactions; (iv) by the Sun Cardinal Investors, if the Company breaches any of its representations, warranties, covenants or agreements set forth in the Investment Agreement that would result in the applicable condition to closing not being satisfied, and such breach is not cured within 10 days of receipt of written notice by the Sun Cardinal Investors; (v) by the Company, if the Sun Cardinal Investors breach any of their representations, warranties, covenants or agreements set forth in the Investment Agreement that would result in the applicable condition to closing not being satisfied, and such breach is not cured within 10 days of receipt of written notice by the Company; or (vi) by either party if the Company enters into a definitive agreement with respect to a Superior Transaction.

Regardless of whether the transactions contemplated by the Investment Agreement are consummated, the Company has agreed to reimburse the Sun Cardinal Investors for all reasonable out-of-pocket fees and expenses (including attorneys' fees and expenses) incurred by them in connection with the Investment Agreement and the transactions contemplated thereby.

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 "Rights Offering Record Date"), rights to purchase new shares of the Company's common stock at $0.45 per share. Each stockholder as of the Rights Offering Record Date ("Rights Holders") received one non-transferrable right to purchase 1.3475 shares for every share of common stock owned on the Rights Offering Record Date (the "subscription right"). 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 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 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 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. The Company expects to receive such proceeds on or about September 8, 2017. Additionally, in accordance with the related Investment Agreement, the Company expects to receive $8,024 of gross proceeds from the Sun Cardinal Investors on or about September 8, 2017. In total, the Company expects to receive gross proceeds of $30,000 as a result of the 2017 Rights Offering and related Investment Agreement transactions and the Company expects to issue 66,670,610 shares of its common stock. It is expected that the affiliates of Sun Capital will own approximately 73% of the Company's outstanding common stock immediately after giving effect to the completed 2017 Rights Offering and related Investment Agreement.

The Company will use a portion of the net proceeds received from the Rights Offering and related 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. The Company intends to use the remaining net proceeds for general corporate purposes, which may include additional payments on the Company's outstanding indebtedness.

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 door and store counts, countries, share and per share data and percentages.

For purposes of this report on Form 10-Q, "Vince," the "Company," "we," and "our," refer to Vince Holding Corp. ("VHC") a 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 2016 Annual Report on Form 10-K.

Executive Overview

Established in 2002, Vince is a global luxury brand best known for utilizing luxe fabrications and innovative techniques to create a product assortment that combines urban utility and modern effortless style. From its edited core collection of ultra-soft cashmere knits and cotton tees, Vince has evolved into a global lifestyle brand and destination for both women's and men's apparel and accessories. Vince products are sold in prestige distribution worldwide, including approximately 2,300 distribution locations across more than 40 countries. While we have experienced a decline in sales, we believe that we can generate growth by improving and expanding our product offering, expanding our selling into additional international markets, and growing our own branded retail and e-commerce direct-to-consumer businesses.

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.

As of July 29, 2017, our products are sold at 2,295 doors through our wholesale partners in the U.S. and international markets and we operated 55 retail stores, including 41 full price stores and 14 outlet stores, throughout the United States.

The following is a summary of highlights during the three months ended July 29, 2017:

- Our net sales totaled $60,822, reflecting a 0.2% increase compared to prior year net sales of $60,702.
- Our Wholesale net sales decreased 0.9% to $39,250 and our Direct-to-consumer net sales increased 2.3% to $21,572. Comparable sales including e-commerce declined 0.8% compared to last year.
- We incurred $1,319 and $2,962 of costs during the three and six months ended July 29, 2017, respectively, associated with the remediation and optimization of the systems implemented in the prior year. Additionally, in the prior year we incurred $1,106 and $3,728 during the three and six months ended July 30, 2016, respectively, of strategic investment costs related to (i) the migration of our distribution facilities to a new third party service provider; (ii) the realignment of our supplier base; (iii) the transition of information technology systems and infrastructure in-house from Kellwood; (iv) the estimated impact of our strategic decision regarding handbags; and

(v) our brand update initiatives.

- Net loss for the quarter was $10,134, or $0.20 per share, compared to a net loss of $1,967, or $0.04 per share, in the prior year second quarter.
- We opened one new retail store during the three months ended July 29, 2017.
- As of July 29, 2017, we had $73,516 of total debt principal outstanding, comprised of $45,000 outstanding under our Term Loan Facility and $28,516 outstanding on our Revolving Credit Facility, as well as $3,803 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				Six Months Ended			
	July 29, 2017		July 30, 2016		July 29, 2017		July 30, 2016	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales
(in thousands, except share data, store and door counts and percentages)								
Statements of Operations:								
Net sales	$60,822	100.0%	$60,702	100.0%	$118,867	100.0%	$128,347	100.0%
Cost of products sold	35,266	58.0 %	33,315	54.9 %	67,720	57.0 %	72,702	56.6 %
Gross profit	25,556	42.0 %	27,387	45.1 %	51,147	43.0 %	55,645	43.4 %
Selling, general and administrative expenses	34,416	56.6 %	31,642	52.1 %	68,200	57.3 %	63,448	49.5 %
Loss from operations	(8,860)	(14.6)%	(4,255)	(7.0)%	(17,053)	(14.3)%	(7,803)	(6.1)%
Interest expense, net	1,276	2.1 %	1,005	1.7 %	2,320	2.0 %	1,886	1.5 %
Other expense, net	2	0.0 %	28	0.0 %	3	0.0 %	188	0.1 %
Loss before income taxes	(10,138)	(16.7)%	(5,288)	(8.7)%	(19,376)	(16.3)%	(9,877)	(7.7)%
(Benefit) provision for income taxes	(4)	0.0 %	(3,321)	(5.5)%	48	0.0 %	(5,986)	(4.7)%
Net loss								