

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended May 4, 2019

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
(State or other jurisdiction of
incorporation or organization)

75-3264870
(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)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	VNCE	New York Stock Exchange

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

As of May 31, 2019, the registrant had 11,664,500 shares of common stock, \$0.01 par value per share, outstanding.

VINCE HOLDING CORP. AND SUBSIDIARIES

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DISCLOSURES REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, and any statements incorporated by reference herein, contains forward-looking statements under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are indicated by words or phrases such as “may,” “will,” “should,” “believe,” “expect,” “seek,” “anticipate,” “intend,” “estimate,” “plan,” “target,” “project,” “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 realize the benefits of our strategic initiatives; our ability to maintain our larger wholesale partners; the execution and management of our retail store growth plans; our ability to make lease payments when due; our ability to expand our product offerings into new product categories, including the ability to find suitable licensing partners; our ability to comply with the obligations under our credit facilities; our ability to continue having the liquidity necessary to service our debt, meet contractual payment obligations, and fund our operations; our ability to remediate the identified material weakness in our internal control over financial reporting; our ability to optimize our systems, processes and functions; our ability to mitigate system security risk issues, such as cyber or malware attacks, as well as other major system failures; our ability to comply with privacy-related obligations; our ability to comply with domestic and international laws, regulations and orders; changes in laws and regulations; our ability to ensure the proper operation of the distribution facilities by third-party logistics providers; 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 remain competitive in the areas of merchandise quality, price, breadth of selection and customer service; our ability to keep a strong brand image; changes in global economies and credit and financial markets; our ability to attract and retain key personnel; our ability to protect our trademarks in the U.S. and internationally; 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 current and future licensing arrangements; the extent of our foreign sourcing; fluctuations in the price, availability and quality of raw materials; commodity, raw material and other cost increases; our reliance on independent manufacturers; seasonal and quarterly variations in our revenue and income; further impairment of our goodwill and indefinite-lived intangible assets; competition; other tax matters; and other factors as set forth from time to time in our Securities and Exchange Commission filings, including those described in this report on Form 10-Q and our 2018 Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 12, 2019 (the “2018 Annual Report on Form 10-K”) under the heading “Item 1A—Risk Factors.” We intend these forward-looking statements to speak only as of the time of this report on Form 10-Q and do not undertake to update or revise them as more information becomes available, except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(in thousands, except share and per share data, unaudited)

	May 4, 2019	February 2, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 147	\$ 118
Trade receivables, net	15,767	28,896
Inventories, net	50,311	53,271
Prepaid expenses and other current assets	7,808	6,317
Total current assets	<u>74,033</u>	<u>88,602</u>
Property and equipment, net	23,826	25,156
Operating lease right-of-use assets, net	80,430	—
Intangible assets, net	76,351	76,501
Goodwill	41,435	41,435
Deferred income taxes	203	203
Other assets	3,131	3,034
Total assets	<u>\$ 299,409</u>	<u>\$ 234,931</u>
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 21,612	\$ 28,787
Accrued salaries and employee benefits	4,158	5,510
Other accrued expenses	9,071	8,535
Short-term lease liabilities	16,524	—
Current portion of long-term debt	2,750	2,750
Total current liabilities	<u>54,115</u>	<u>45,582</u>
Long-term debt	41,529	42,340
Deferred rent	—	14,636
Long-term lease liabilities	78,830	—
Other liabilities	58,273	58,273
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock at \$0.01 par value (100,000,000 shares authorized, 11,664,500 and 11,622,994 shares issued and outstanding at May 4, 2019 and February 2, 2019, respectively)	117	116
Additional paid-in capital	1,114,821	1,114,695
Accumulated deficit	(1,048,211)	(1,040,646)
Accumulated other comprehensive loss	(65)	(65)
Total stockholders' equity	<u>66,662</u>	<u>74,100</u>
Total liabilities and stockholders' equity	<u>\$ 299,409</u>	<u>\$ 234,931</u>

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Loss
(in thousands, except share and per share data, unaudited)

	Three Months Ended	
	May 4, 2019	May 5, 2018
Net sales	\$ 55,122	\$ 54,514
Cost of products sold	26,856	28,978
Gross profit	28,266	25,536
Selling, general and administrative expenses	34,015	29,900
Loss from operations	(5,749)	(4,364)
Interest expense, net	1,077	1,289
Other expense (income), net	108	(64)
Loss before income taxes	(6,934)	(5,589)
Provision for income taxes	42	48
Net loss and comprehensive loss	\$ (6,976)	\$ (5,637)
Loss per share:		
Basic loss per share	\$ (0.60)	\$ (0.49)
Diluted loss per share	\$ (0.60)	\$ (0.49)
Weighted average shares outstanding:		
Basic	11,629,836	11,616,500
Diluted	11,629,836	11,616,500

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share data, unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
	Number of Shares Outstanding	Par Value				
Balance as of February 2, 2019	11,622,994	116	1,114,695	(1,040,646)	(65)	74,100
Comprehensive loss:						
Net loss	—	—	—	(6,976)	—	(6,976)
Share-based compensation expense	—	—	427	—	—	427
Cumulative effect of accounting change from adoption of ASU 2016-02	—	—	—	(589)	—	(589)
Restricted stock unit vestings	64,572	1	—	—	—	1
Tax withholdings related to restricted stock vesting	(23,066)	—	(301)	—	—	(301)
Balance as of May 4, 2019	<u>11,664,500</u>	<u>117</u>	<u>1,114,821</u>	<u>(1,048,211)</u>	<u>(65)</u>	<u>66,662</u>

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
	Number of Shares Outstanding	Par Value				
Balance as of February 3, 2018	11,616,500	116	1,113,342	(1,038,624)	(65)	74,769
Comprehensive loss:						
Net loss	—	—	—	(5,637)	—	(5,637)
Share-based compensation expense	—	—	196	—	—	196
Balance as of May 5, 2018	<u>11,616,500</u>	<u>\$ 116</u>	<u>\$ 1,113,538</u>	<u>\$ (1,044,261)</u>	<u>\$ (65)</u>	<u>\$ 69,328</u>

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(in thousands, unaudited)

	Three Months Ended	
	May 4, 2019	May 5, 2018
Operating activities		
Net loss	\$ (6,976)	\$ (5,637)
Add (deduct) items not affecting operating cash flows:		
Depreciation and amortization	1,889	2,069
Deferred rent	—	(319)
Share-based compensation expense	427	198
Amortization of deferred financing cost	142	294
Changes in assets and liabilities:		
Receivables, net	13,129	7,996
Inventories	2,960	(439)
Prepaid expenses and other current assets	(1,491)	(997)
Accounts payable and accrued expenses	(8,076)	(3,767)
Other assets and liabilities	(303)	85
Net cash provided by (used in) operating activities	1,701	(517)
Investing activities		
Payments for capital expenditures	(461)	(250)
Net cash used in investing activities	(461)	(250)
Financing activities		
(Repayment of) proceeds from borrowings under the Revolving Credit Facilities	(222)	2,712
Repayment of borrowings under the Term Loan Facilities	(688)	(2,000)
Tax withholdings related to restricted stock vesting	(301)	—
Proceeds from stock option exercises, restricted stock vesting, and issuance of common stock under employee stock purchase plan	1	—
Financing fees	(1)	(90)
Net cash (used in) provided by financing activities	(1,211)	622
Increase (decrease) in cash, cash equivalents, and restricted cash	29	(145)
Cash, cash equivalents, and restricted cash, beginning of period	129	5,445
Cash, cash equivalents, and restricted cash, end of period	158	5,300
Less: restricted cash at end of period	11	72
Cash and cash equivalents per balance sheet at end of period	147	5,228
Supplemental Disclosures of Cash Flow Information		
Cash payments on Tax Receivable Agreement obligation	—	351
Cash payments for interest	\$ 869	\$ 1,411
Cash payments for income taxes, net of refunds	—	—
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Capital expenditures in accounts payable and accrued liabilities	126	50

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Notes to the Unaudited Condensed Consolidated Financial Statements (in thousands except share and per share data)

Note 1. Description of Business and Basis of Presentation

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

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

(A) Description of Business: Established in 2002, Vince is a global luxury apparel and accessories brand best known for creating elevated yet understated pieces for every day. The collections are inspired by the brand’s California origins and embody a feeling of warm and effortless style. Vince designs uncomplicated yet refined pieces that approach dressing with a sense of ease. Known for its range of luxury products, Vince offers women’s and men’s ready-to-wear and footwear, as well as capsule collections of handbags, fragrance and home for a global lifestyle. Vince products are sold in prestige locations worldwide. 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, the Company’s e-commerce site, vince.com, and the Company’s subscription business, Vince Unfold. The Company designs products in the U.S. and sources the vast majority of products from contract manufacturers outside the U.S., primarily in Asia. Products are manufactured to meet the Company’s product specifications and labor standards.

(B) Basis of Presentation : The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and the rules and regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. Therefore, these financial statements should be read in conjunction with VHC’s audited financial statements for the fiscal year ended February 2, 2019, as set forth in the 2018 Annual Report on Form 10-K.

The condensed consolidated financial statements include the Company’s accounts and the accounts of the Company’s wholly-owned subsidiaries as of May 4, 2019. All intercompany accounts and transactions have been eliminated. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting solely of normal recurring adjustments) and disclosures necessary for a fair statement. The results of operations for these periods are not necessarily comparable to, or indicative of, results of any other interim period or the fiscal year as a whole.

(C) Sources and Uses of Liquidity: The Company’s sources of liquidity are cash and cash equivalents, cash flows from operations, if any, borrowings available under the 2018 Revolving Credit Facility (as defined below) and the Company’s ability to access capital markets. The Company’s primary cash needs are funding working capital requirements, meeting debt service requirements, paying amounts due under the Tax Receivable Agreement (as defined below) and capital expenditures for new stores and related leasehold improvements.

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

Revenue associated with gift cards is recognized upon redemption and unredeemed balances are considered contract liability and recorded within other accrued expenses, which are subject to escheatment within the jurisdictions in which it operates. As of May 4, 2019 and February 2, 2019, contract liability was \$1,337 and \$1,361, respectively. For the three months ended May 4, 2019, the Company recognized \$123 of revenue that was previously included in contract liability as of February 2, 2019.

Note 2. Goodwill and Intangible Assets

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

(in thousands)	Wholesale	Direct-to-consumer	Total Net Goodwill
Balance as of May 4, 2019	<u>\$ 41,435</u>	<u>\$ —</u>	<u>\$ 41,435</u>
Balance as of February 2, 2019	<u>\$ 41,435</u>	<u>\$ —</u>	<u>\$ 41,435</u>

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

The following tables present a summary of identifiable intangible assets:

(in thousands)	Gross Amount	Accumulated Amortization	Accumulated Impairments	Net Book Value
Balance as of May 4, 2019				
Amortizable intangible assets:				
Customer relationships	\$ 11,970	\$ (6,719)	\$ —	\$ 5,251
Indefinite-lived intangible asset:				
Tradename	101,850	—	(30,750)	71,100
Total intangible assets	<u>\$ 113,820</u>	<u>\$ (6,719)</u>	<u>\$ (30,750)</u>	<u>\$ 76,351</u>
(in thousands)	Gross Amount	Accumulated Amortization	Accumulated Impairments	Net Book Value
Balance as of February 2, 2019				
Amortizable intangible assets:				
Customer relationships	\$ 11,970	\$ (6,569)	\$ —	\$ 5,401
Indefinite-lived intangible asset:				
Tradename	101,850	—	(30,750)	71,100
Total intangible assets	<u>\$ 113,820</u>	<u>\$ (6,569)</u>	<u>\$ (30,750)</u>	<u>\$ 76,501</u>

Amortization of identifiable intangible assets was \$150 and \$150 for the three months ended May 4, 2019 and May 5, 2018. 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 May 4, 2019 or February 2, 2019. At May 4, 2019 and February 2, 2019, the Company believes that the carrying value of cash and cash equivalents, receivables and accounts payable approximates fair value, due to the short-term maturity of these instruments. The Company’s debt obligations with a carrying value of \$45,606 as of May 4, 2019 are at variable interest rates. The carrying value of the Company’s 2018 Revolving Credit Facility (as defined below) approximates fair value as the stated interest rate approximates market rates currently available to the Company, which are considered Level 2 inputs. The fair value of the Company’s 2018 Term Loan

Facility (as defined below) was approximately \$ 26,000 as of May 4, 2019 based upon an estimated market value calculation that factors principal, time to maturity, interest rate, and current cost of debt, which is considered a Level 3 input.

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

Note 4. Long-Term Debt and Financing Arrangements

Long-term debt consisted of the following:

(in thousands)	May 4, 2019	February 2, 2019
Term Loan Facilities	\$ 26,812	\$ 27,500
Revolving Credit Facilities	18,794	19,016
Total debt principal	45,606	46,516
Less: current portion of long-term debt	2,750	2,750
Less: deferred financing costs	1,327	1,426
Total long-term debt	<u>\$ 41,529</u>	<u>\$ 42,340</u>

2018 Term Loan Facility

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

The 2018 Term Loan Facility contains a requirement that Vince, LLC maintain a Consolidated Fixed Charge Coverage Ratio (as defined in the credit agreement for the 2018 Term Loan Facility) as of the last day of any period of four fiscal quarters not to exceed 0.85:1.00 for the fiscal quarter ended November 3, 2018, 1.00:1.00 for the fiscal quarter ended February 2, 2019, 1.20:1.00 for the fiscal quarter ended May 4, 2019, 1.35:1.00 for the fiscal quarter ending August 3, 2019, 1.50:1.00 for the fiscal quarters ending November 2, 2019 and February 1, 2020 and 1.75:1.00 for the fiscal quarter ending May 2, 2020 and each fiscal quarter thereafter. In addition, the 2018 Term Loan Facility contains customary representations and warranties, other covenants, and events of default, including but not limited to, covenants with respect to limitations on the incurrence of additional indebtedness, liens, burdensome agreements, guarantees, investments, loans, asset sales, mergers, acquisitions, prepayment of other debt, the repurchase of capital stock, transactions with affiliates, and the ability to change the nature of the Company's business or its fiscal year, and distributions and dividends. The 2018 Term Loan Facility generally permits dividends to the extent that no default or event of default is continuing or would result from a contemplated dividend, so long as (i) after giving pro forma effect to the contemplated dividend and for the following six months Excess Availability will be at least the greater of 20.0% of the Loan Cap (as defined in the credit agreement for the 2018 Term Loan Facility) and \$10,000, (ii) after giving pro forma effect to the contemplated dividend, the Consolidated Fixed Charge Coverage Ratio for the 12 months preceding such dividend will be greater than or equal to 1.0 to 1.0 (provided that the Consolidated Fixed Charge Coverage Ratio may be less than 1.0 to 1.0 if, after giving pro forma effect to the contemplated dividend, Excess Availability for the six fiscal months following the dividend is at least the greater of 25.0% of the Loan Cap and \$12,500), and (iii) the pro forma Fixed Charge Coverage Ratio after giving effect to such contemplated dividend is no less than the minimum Consolidated Fixed Charge Coverage Ratio for such quarter. In addition, the 2018 Term Loan Facility is subject to a Borrowing Base (as defined in the credit agreement of the 2018 Term Loan Facility) which can, under certain conditions, result in the imposition of a reserve under the 2018 Revolving Credit Facility. As of May 4, 2019, the Company was in compliance with applicable covenants.

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

Through May 4, 2019, on an inception to date basis, the Company had made repayments totaling \$688 in the aggregate on the 2018 Term Loan Facility with all of such repayments made during the three months ended May 4, 2019. As of May 4, 2019, the Company had \$26,812 of debt outstanding under the 2018 Term Loan Facility.

2018 Revolving Credit Facility

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

Interest is payable on the loans under the 2018 Revolving Credit Facility at either the LIBOR or the Base Rate, in each case, with applicable margins subject to a pricing grid based on an average daily excess availability calculation. The "Base Rate" means, for any day, a fluctuating rate per annum equal to the highest of (i) the rate of interest in effect for such day as publicly announced from time to time by Citizens as its prime rate; (ii) the Federal Funds Rate for such day, plus 0.5%; and (iii) the LIBOR Rate for a one month interest period as determined on such day, plus 1.00%. During the continuance of certain specified events of default, at the election of Citizens, interest will accrue at a rate of 2.0% in excess of the applicable non-default rate.

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

The 2018 Revolving Credit Facility contains representations and warranties, other covenants and events of default that are customary for this type of financing, including covenants with respect to limitations on the incurrence of additional indebtedness, liens, burdensome agreements, guarantees, investments, loans, asset sales, mergers, acquisitions, prepayment of other debt, the repurchase of capital stock, transactions with affiliates, and the ability to change the nature of the Company's business or its fiscal year. The 2018 Revolving Credit Facility generally permits dividends in the absence of any event of default (including any event of default arising from a contemplated dividend), so long as (i) after giving pro forma effect to the contemplated dividend and for the following six months Excess Availability will be at least the greater of 20.0% of the Loan Cap and \$10 million and (ii) after giving pro forma effect to the contemplated dividend, the Consolidated Fixed Charge Coverage Ratio for the 12 months preceding such dividend will be greater than or equal to 1.0 to 1.0 (provided that the Consolidated Fixed Charge Coverage Ratio may be less than 1.0 to 1.0 if, after giving pro forma effect to the contemplated dividend, Excess Availability for the six fiscal months following the dividend is at least the greater of 25.0% of the Loan Cap and \$12,500). As of May 4, 2019, the Company was in compliance with applicable covenants.

As of May 4, 2019, \$35,291 was available under the 2018 Revolving Credit Facility, net of the loan cap, and there were \$18,794 of borrowings outstanding and \$5,940 of letters of credit outstanding under the 2018 Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the 2018 Revolving Credit Facility as of May 4, 2019 was 3.9%.

As of February 2, 2019, \$36,850 was available under the 2018 Revolving Credit Facility, net of the loan cap, and there were \$19,016 of borrowings outstanding and \$6,013 of letters of credit outstanding under the 2018 Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the 2018 Revolving Credit Facility as of February 2, 2019 was 4.4%.

2013 Term Loan Facility

On November 27, 2013, Vince, LLC and Vince Intermediate entered into a \$175,000 senior secured term loan facility (as amended from time to time, the “2013 Term Loan Facility”) with the lenders party thereto, Bank of America, N.A. (“BofA”), as administrative agent, JP Morgan Chase Bank and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers, and Cantor Fitzgerald as documentation agent. The 2013 Term Loan Facility would have matured on November 27, 2019. Vince, LLC and Vince Intermediate were borrowers and VHC was a guarantor under the 2013 Term Loan Facility.

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

2013 Revolving Credit Facility

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

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

Note 5. Inventory

Inventories consisted of finished goods. As of May 4, 2019 and February 2, 2019, finished goods, net of reserves were \$50,311 and \$53,271, respectively.

Note 6. Share-Based Compensation

Employee Stock Plans

Vince 2013 Incentive Plan

In connection with the IPO, the Company adopted the Vince 2013 Incentive Plan, which provides for grants of stock options, stock appreciation rights, restricted stock and other stock-based awards. In May 2018, the Company filed a Registration Statement on Form S-8 to register an additional 660,000 shares of common stock available for issuance under the Vince 2013 Incentive Plan. The aggregate number of shares of common stock which may be issued or used for reference purposes under the Vince 2013 Incentive Plan or with respect to which awards may be granted may not exceed 1,000,000 shares. The shares available for issuance under the Vince 2013 Incentive Plan may be, in whole or in part, either authorized and unissued shares of the Company’s common stock or shares of common stock held in or acquired for the Company’s treasury. In general, if awards under the Vince 2013 Incentive Plan are cancelled for any reason, or expire or terminate unexercised, the shares covered by such award may again be available for the grant of awards under the Vince 2013 Incentive Plan. As of May 4, 2019, there were 336,044 shares under the Vince 2013 Incentive Plan available for future grants. Options granted pursuant to the Vince 2013 Incentive Plan typically vest in equal installments over four years, subject to the employees’ continued employment and expire on the earlier of the tenth anniversary of the grant date or upon termination as outlined in the Vince 2013 Incentive Plan. Restricted stock units (“RSUs”) granted vest in equal installments over a three-year period or vest in equal installments over four years, subject to the employees’ continued employment, except for RSUs issued under the exchange offer described below.

On April 26, 2018, the Company commenced a tender offer to exchange certain options to purchase shares of its common stock, whether vested or unvested, from eligible employees and executive officers for replacement restricted stock units (“Replacement RSUs”) granted under the Vince 2013 Incentive Plan (the “Option Exchange”). Employees and executive officers of the Company on the date of offer commencement and those who remained an employee or executive officer of the Company through the expiration date of the offer and held at least one option as of the commencement of the offer that was granted under the Vince 2013 Incentive Plan were eligible to participate. The exchange ratio of this offer was a 1-to-1.7857 basis (one stock option exchanged for every 1.7857 Replacement RSUs). This tender offer expired on 11:59 p.m. Eastern Time on May 24, 2018 (the “Offer Expiration Date”). The Replacement RSUs were granted on the business day immediately following the Offer Expiration Date. As a result of the Option

Exchange, 149,819 stock options were cancelled and 267,538 Replacement RSUs were granted with a grant date fair value of \$9.15 per unit. All Replacement RSUs vest pursuant to the following schedule: 10% on April 19, 2019; 20% on April 17, 2020; 25% on April 16, 2021; and 45% on April 15, 2022, subject to the holder's remaining continuously employed with the Company through each such applicable vesting date. Replacement RSUs have the new vesting schedule regardless of whether the surrendered eligible options were partially vested at the time it was exchanged. The purpose of this exchange was to foster retention, motivate our key contributors, and better align the interests of our employees and stock holders to maximize stock holder value.

Employee Stock Purchase Plan

The Company maintains an employee stock purchase plan ("ESPP") for its employees. Under the ESPP, all eligible employees may contribute up to 10% of their base compensation, up to a maximum contribution of \$10 per year. The purchase price of the stock is 90% of the fair market value, with purchases executed on a quarterly basis. The plan is defined as compensatory, and accordingly, a charge for compensation expense is recorded to selling, general and administrative expense for the difference between the fair market value and the discounted purchase price of the Company's Stock. During the three months ended May 4, 2019, no shares of common stock were issued under the ESPP. During the three months ended May 5, 2018, no shares of common stock were issued under the ESPP. As of May 4, 2019, there were 93,325 shares available for future issuance under the ESPP.

Stock Options

A summary of stock option activity for both employees and non-employees for the three months ended May 4, 2019 is as follows:

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (years)</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Outstanding at February 2, 2019	204	\$ 31.71	6.7	\$ —
Granted	—	\$ —		
Exercised	—	\$ —		
Forfeited or expired	-	\$ -		
Outstanding at May 4, 2019	<u>204</u>	\$ 38.86	6.4	\$ —
Vested and exercisable at May 4, 2019	154	\$ 38.87	6.4	\$ —

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

Restricted Stock Units

A summary of restricted stock unit activity for the three months ended May 4, 2019 is as follows:

	<u>Restricted Stock Units</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested restricted stock units at February 2, 2019	504,230	\$ 9.19
Granted	172,304	\$ 12.28
Vested	(64,572)	\$ 8.64
Forfeited	—	\$ —
Non-vested restricted stock units at May 4, 2019	<u>611,962</u>	\$ 10.12

Share-Based Compensation Expense

The Company recognized share-based compensation expense of \$427 and \$198, including expense of \$40 and \$36, respectively, related to non-employees, during the three months ended May 4, 2019 and May 5, 2018, 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. In periods when we have a net loss, share-based awards are excluded from our calculation of earnings per share as their inclusion would have an anti-dilutive effect.

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

	Three Months Ended	
	May 4, 2019	May 5, 2018
Weighted-average shares—basic	11,629,836	11,616,500
Effect of dilutive equity securities	—	—
Weighted-average shares—diluted	11,629,836	11,616,500

Because the Company incurred a net loss for the three months ended May 4, 2019 and May 5, 2018, weighted-average basic shares and weighted-average diluted shares outstanding are equal for these periods.

Note 8. Commitments and Contingencies

Litigation

On September 7, 2018, a complaint was filed in the United States District Court for the Eastern District of New York by certain stockholders (collectively, the “Plaintiff”), naming the Company as well as Brendan Hoffman, the Company’s Chief Executive Officer, David Stefko, the Company’s Executive Vice President, Chief Financial Officer, one of the Company’s directors, certain of the Company’s former officers and directors, and Sun Capital Partners, Inc. and certain of its affiliates, as defendants. The complaint generally alleges that the Company and the named parties made false and/or misleading statements and/or failed to disclose matters relating to the transition of the Company’s ERP systems from Kellwood. The complaint brings causes of action for violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Rule 10b-5 promulgated under the Exchange Act against the Company and the named parties and for violations of Section 20(a) of the Exchange Act against the individual parties, Sun Capital Partners, Inc. and its affiliates. The complaint seeks unspecified monetary damages and unspecified costs and fees. On January 28, 2019, in response to our motion to dismiss the original complaint, the Plaintiff filed an amended complaint, naming the same defendants as parties and asserting the same causes of action as those stated in the original complaint.

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

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

Note 9. Leases

During the first quarter of fiscal 2019, the Company adopted ASU No. 2016-02: "Leases (topic 842)" which requires lessees to recognize right-of-use ("ROU") lease assets and lease liabilities on the balance sheet for those leases that were previously classified as operating leases. The Company adopted the standard on February 3, 2019, the first day of fiscal 2019 instead of the earliest period presented in the financial statements per ASU No. 2018-11: "Leases (Topic 842): Targeted improvements." The Company recognized a \$589 cumulative effect adjustment in retained earnings at the beginning of the period of adoption which resulted from the impairment of select operating lease ROU assets of \$416 related to stores whose fixed assets had been previously impaired and for which the initial carrying value of the ROU assets were determined to be above fair market value and \$173 of cumulative correction of an immaterial error in prior period rent expense.

The Company elected the package of three practical expedients. As such, the Company did not reassess whether expired or existing contracts are or contain a lease and did not need to reassess the lease classifications or reassess the initial direct costs associated with expired or existing leases. The Company did not elect the hindsight practical expedient in determining the lease term and assessing the impairment of the entity's right-of-use assets. The land easement practical expedient is not applicable to the Company.

The Company determines if an arrangement is a lease at inception. The Company has operating leases for real estate (primarily retail stores, storage, and office spaces) which generally have initial terms of 10 years and cannot be extended or can be extended for one additional 5-year term, with the exception of a few recent leases which are on shorter terms. In general, the Company will not include renewal options in the underlying lease term unless the Company is reasonably certain to exercise the renewal option. Substantially all of our leases require a fixed annual rent, and most require the payment of additional rent if store sales exceed a negotiated amount. These percentage rent expenses are considered as variable lease costs and recognized in the condensed consolidated financial statements when incurred. In addition, the Company's real estate leases may also require additional payments for real estate taxes and other occupancy-related costs which it considers as non-lease components. The Company did not elect the practical expedient to group lease and non-lease components as a single lease component for the operating leases. Operating lease ROU assets and operating lease liabilities are recognized based upon the present value of the future lease payments over the lease term. As the Company's leases do not provide an implicit borrowing rate, the Company uses an estimated incremental borrowing rate based upon combination of market-based factors, such as market quoted forward yield curves and company specific factors, such as the Company's credit rating, lease size and duration to calculate the present value. The Company does not have any finance leases. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The weighted-average remaining lease term and weighted-average discount rate for our operating leases are 5.7 years and 6.9% as of May 4, 2019.

Total lease cost is included in Cost of sales and SG&A in the accompanying condensed consolidated statement of operations and comprehensive income and is recorded net of immaterial sublease income. Some leases have a non-cancelable lease term of less than one year and therefore, the Company has elected to exclude these short-term leases from our ROU asset and lease liabilities. Short term lease costs were immaterial for the quarter ended May 4, 2019. The Company's lease cost is comprised of the following:

	<u>Three Months Ended</u>	
	<u>May 4,</u>	
<u>(in thousands)</u>	<u>2019</u>	
Operating lease cost	\$	5,193
Variable operating lease cost		47
Total lease cost	\$	5,240

Supplemental cash flow and non-cash information related to leases is as follows:

	<u>Three Months Ended</u>	
	<u>May 4,</u>	
(in thousands)	<u>2019</u>	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	5,508
Right-of-use assets obtained in exchange for new operating lease liabilities		<u>4,208</u>

Subsequent to the date of adoption, during the first quarter of fiscal 2019, the Company had a lease modification which changed the lease payment from fixed to variable which reduced the ROU assets and lease liabilities by \$2,748 and \$2,764, respectively.

The future maturity of lease liabilities are as follows:

	<u>May 4,</u>	
(in thousands)	<u>2019</u>	
Fiscal 2019	\$	16,935
Fiscal 2020		21,216
Fiscal 2021		19,659
Fiscal 2022		17,768
Fiscal 2023		15,984
Thereafter		24,653
Total lease payments		<u>116,215</u>
Less: Imputed interest		(20,861)
Total operating lease liabilities	\$	<u>95,354</u>

The operating lease payments does not include any renewal options as such leases are not reasonably certain of being renewed as of May 4, 2019 and does not include \$11,147 of legally binding minimum lease payments of leases signed but not yet commenced.

As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease accounting standard, future minimum lease payments due under non-cancelable operating leases would have been as follows:

	<u>February 2,</u>	
(in thousands)	<u>2019</u>	
Fiscal 2019	\$	21,512
Fiscal 2020		19,997
Fiscal 2021		18,935
Fiscal 2022		17,056
Fiscal 2023		15,251
Thereafter		24,140
Total minimum lease payments	\$	<u>116,891</u>

Note 10. Segment Financial Information

The Company operates and manages its business by distribution channel and has identified two reportable segments, as further described below. Management considered both similar and dissimilar economic characteristics, internal reporting and management structures, as well as products, customers, and supply chain logistics to identify the following reportable segments:

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

The accounting policies of the Company's reportable segments are consistent with those described in Note 1 to the audited consolidated financial statements of VHC for the fiscal year ended February 2, 2019 included in the 2018 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 trade name, deferred tax assets, and other assets that will be utilized to generate revenue for both of the Company's reportable segments.

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

(in thousands)	Three Months Ended	
	May 4, 2019	May 5, 2018
Net Sales:		
Wholesale	\$ 27,355	\$ 28,495
Direct-to-consumer	27,767	26,019
Total net sales	<u>\$ 55,122</u>	<u>\$ 54,514</u>
Income (loss) before income taxes:		
Wholesale	\$ 7,781	\$ 6,921
Direct-to-consumer	1,038	1,238
Subtotal	8,819	8,159
Unallocated corporate expenses	(14,568)	(12,523)
Interest expense, net	1,077	1,289
Other expense (income), net	108	(64)
Total loss before income taxes	<u>\$ (6,934)</u>	<u>\$ (5,589)</u>
(in thousands)	May 4, 2019	February 2, 2019
Total Assets:		
Wholesale	\$ 52,052	\$ 67,622
Direct-to-consumer	111,502	40,825
Unallocated corporate	135,855	126,484
Total assets	<u>\$ 299,409</u>	<u>\$ 234,931</u>

Note 11. Related Party Transactions

Tax Receivable Agreement

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

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

accrue interest at a default rate of LIBOR plus 500 basis points until paid, instead of the agreed rate of LIBOR plus 200 basis points per annum in accordance with the terms of the Tax Receivable Agreement.

As of May 4, 2019, the Company's total obligation under the Tax Receivable Agreement is estimated to be \$58,273, which is included as a component of Other liabilities on the condensed consolidated balance sheet. The tax benefit payment of \$351, including accrued interest, with respect to the 2016 taxable year was paid in the first quarter of fiscal 2018. No additional payments are expected to be made under the Tax Receivable Agreement during fiscal year 2019. The Tax Receivable Agreement expires on December 31, 2023. The obligation was originally recorded in connection with the IPO as an adjustment to additional paid-in capital on the Company's consolidated balance sheet.

Sun Capital Consulting Agreement

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

During the three months ended May 4, 2019 and May 5, 2018, the Company incurred expenses of \$0 and \$12, respectively, under the Sun Capital Consulting Agreement.

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

This discussion summarizes our consolidated operating results, financial condition and liquidity. The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this report on Form 10-Q. All amounts disclosed are in thousands except store counts, countries, share and per share data and percentages. See Note 1 "Description of Business and Basis of Presentation" within the notes to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q for further information.

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

This discussion contains forward-looking statements involving risks, uncertainties and assumptions that could cause our results to differ materially from expectations. For a discussion of the risks facing our business see "Item 1A—Risk Factors" of this report on Form 10-Q as well as in our 2018 Annual Report on Form 10-K.

Executive Overview

Established in 2002, Vince is a global luxury apparel and accessories brand best known for creating elevated yet understated pieces for every day. The collections are inspired by the brand's California origins and embody a feeling of warm and effortless style. Vince designs uncomplicated yet refined pieces that approach dressing with a sense of ease. Known for its range of luxury products, Vince offers wide array of women's and men's ready-to-wear and footwear, as well as capsule collection of handbags, fragrance, and home for a global lifestyle. Vince products are sold in prestige locations worldwide.

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

The following is a summary of highlights during the three months ended May 4, 2019:

- Our net sales totaled \$55,122, reflecting a 1.1% increase compared to prior year net sales of \$54,514.
- Our Wholesale net sales decreased 4.0% to \$27,355 and our Direct-to-consumer net sales increased 6.7% to \$27,767. Comparable sales, including e-commerce, increased 1.1% compared to last year.
- Selling, general, and administrative expenses were \$34,015, an increase of \$4,115 or 13.8% compared to \$29,900 in the prior year.
- Net loss for the quarter was \$6,976, or \$0.60 per share, compared to \$5,637, or \$0.49 per share, in the prior year.
- We opened one new retail store and closed one retail store during the quarter.
- As of May 4, 2019, we had \$45,606 of total debt principal outstanding, comprised of \$26,812 outstanding under our Term Loan Facility and \$18,794 outstanding on our Revolving Credit Facility, as well as \$147 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 loss per share data:

	Three Months Ended			
	May 4, 2019		May 5, 2018	
	Amount	% of Net Sales	Amount	% of Net Sales
(in thousands, except per share data, store counts and percentages)				
Statements of Operations:				
Net sales	\$ 55,122	100.0%	\$ 54,514	100.0%
Cost of products sold	26,856	48.7%	28,978	53.2%
Gross profit	28,266	51.3%	25,536	46.8%
Selling, general and administrative expenses	34,015	61.7%	29,900	54.8%
Loss from operations	(5,749)	(10.4)%	(4,364)	(8.0)%
Interest expense, net	1,077	2.0%	1,289	2.4%
Other expense (income), net	108	0.2%	(64)	(0.1)%
Loss before income taxes	(6,934)	(12.6)%	(5,589)	(10.3)%
Provision for income taxes	42	0.1%	48	0.0%
Net loss and comprehensive loss	\$ (6,976)	(12.7)%	\$ (5,637)	(10.3)%
Loss per share:				
Basic loss per share	\$ (0.60)		\$ (0.49)	
Diluted loss per share	\$ (0.60)		\$ (0.49)	
Other Operating and Financial Data:				
Total stores at end of period	59		57	
Comparable sales growth (1) (2)	1.1%		12.7%	

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

(2) In the fourth quarter of fiscal 2018, we changed our comparable sales definition to align with our internal company reporting. Under the new definition, a store is included in the comparable sales calculation after it has completed 13 full fiscal months of operations and includes stores, if any, that have been remodeled or relocated within the same geographic market the Company served prior to the relocation. Non-comparable sales include new stores which have not completed 13 full fiscal months of operations, sales from closed stores, and relocated stores serving a new geographic market. Under the old definition, in the event that we relocated or remodeled an existing store, we had treated that store as comparable unless the square footage changed by more than 20%, in which case we would treat that store as non-comparable sales until it has completed 13 full fiscal months of operations following the square footage adjustment. For 53-week fiscal years, we continue to adjust comparable sales to exclude the additional week. There may be variations in the way in which some of our competitors and other retailers calculate comparable sales. The prior year comparable sales have been re-casted to align with our new comparable sales definition. The change in our comparable sales definition did not have a significant impact on our current and prior years' comparable sales percentages.

Three Months Ended May 4, 2019 Compared to Three Months Ended May 5, 2018

Net sales for the three months ended May 4, 2019 were \$55,122, increasing \$608, or 1.1%, versus \$54,514 for the three months ended May 5, 2018. Net sales by reportable segment were as follows:

(in thousands)	Three Months Ended	
	May 4, 2019	May 5, 2018
Wholesale	\$ 27,355	\$ 28,495
Direct-to-consumer	27,767	26,019
Total net sales	\$ 55,122	\$ 54,514

Net sales from our Wholesale segment decreased \$1,140, or 4.0%, to \$27,355 in the three months ended May 4, 2019 from \$28,495 in the three months ended May 5, 2018, due to the shift in timing of seasonal wholesale shipments.

Net sales from our Direct-to-consumer segment increased \$1,748, or 6.7%, to \$27,767 in the three months ended May 4, 2019 from \$26,019 in the three months ended May 5, 2018. Comparable sales increased \$281, or 1.1%, including e-commerce, primarily due to an increase in average dollar sale. Non-comparable sales contributed \$1,467 of sales growth. Since May 5, 2018, two net new stores have opened, bringing our total retail store count to 59 as of May 4, 2019, compared to 57 as of the end of the prior year period.

Gross profit increased 10.7% to \$28,266 for the three months ended May 4, 2019 from \$25,536 in the prior year first quarter. As a percentage of sales, gross margin was 51.3%, compared with 46.8% in the prior year first quarter. The total gross margin rate increase was primarily driven by the following factors:

- Non-recurrence of an unfavorable adjustments to inventory reserves in the prior year contributed approximately 245 basis points of improvement; and
- The favorable impact of stronger full price selling and lower product costs contributed approximately 250 basis points of improvement.

Selling, general and administrative (“SG&A”) expenses for the three months ended May 4, 2019 were \$34,015, increasing \$4,115, or 13.8%, versus \$29,900 for the three months ended May 5, 2018. SG&A expenses as a percentage of sales were 61.7% and 54.8% for the three months ended May 4, 2019 and May 5, 2018, respectively. The change in SG&A expenses compared to the prior fiscal year period was primarily due to:

- \$1,350 of strategic consulting costs;
- \$1,217 of increased compensation and benefits;
- \$657 of increased marketing and advertising expenses; and
- \$378 of increased rent and occupancy expenses primarily related to net new store openings.

Loss from operations by segment for the three months ended May 4, 2019 and May 5, 2018 is summarized in the following table:

(in thousands)	Three Months Ended	
	May 4, 2019	May 5, 2018
Wholesale	\$ 7,781	\$ 6,921
Direct-to-consumer	1,038	1,238
Subtotal	8,819	8,159
Unallocated corporate expenses	(14,568)	(12,523)
Total loss from operations	\$ (5,749)	\$ (4,364)

Operating income from our Wholesale segment increased \$860, or 12.4%, to \$7,781 in the three months ended May 4, 2019 from \$6,921 in the three months ended May 5, 2018 primarily driven by higher gross margin.

Operating income from our Direct-to-consumer segment decreased \$200, or 16.2%, to \$1,038 in the three months ended May 4, 2019 from \$1,238 in the three months ended May 5, 2018 primarily driven by increased expenses associated with new stores as well as deleverage on fixed expenses.

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

Interest expense decreased \$212, or 16.4%, to \$1,077 in the three months ended May 4, 2019 from \$1,289 in the three months ended May 5, 2018.

Other (income) expense, net increased \$172 to \$108 in the three months ended May 4, 2019 from \$(64) in the three months ended May 5, 2018.

Provision for income taxes for the three months ended May 4, 2019 was \$42 as compared to \$48 for the three months ended May 5, 2018. Our effective tax rate for the three months ended May 4, 2019 and May 5, 2018 was 0.6% and 0.9%, respectively. The effective tax rate for the three months ended May 4, 2019 and May 5, 2018 differed from the U.S. statutory rate of 21% primarily due to the impact of the valuation allowance established against our deferred tax assets partly offset by state and foreign taxes.

Liquidity and Capital Resources

Our sources of liquidity are cash and cash equivalents, cash flows from operations, if any, borrowings available under the 2018 Revolving Credit Facility and our ability to access capital markets. Our primary cash needs are funding working capital requirements, meeting our debt service requirements, paying amounts due under the Tax Receivable Agreement and capital expenditures for new stores and related leasehold improvements. The most significant components of our working capital are cash and cash equivalents, accounts receivable, inventories, accounts payable and other current liabilities. We believe that our sources of liquidity will generate sufficient cash flows to meet our obligations during the next twelve months from the date the financial statements are issued.

Operating Activities

(in thousands)	Three Months Ended	
	May 4, 2019	May 5, 2018
Operating activities		
Net loss	\$ (6,976)	\$ (5,637)
Add (deduct) items not affecting operating cash flows:		
Depreciation and amortization	1,889	2,069
Deferred rent	—	(319)
Share-based compensation expense	427	198
Amortization of deferred financing cost	142	294
Changes in assets and liabilities:		
Receivables, net	13,129	7,996
Inventories	2,960	(439)
Prepaid expenses and other current assets	(1,491)	(997)
Accounts payable and accrued expenses	(8,076)	(3,767)
Other assets and liabilities	(303)	85
Net cash provided by (used in) operating activities	\$ 1,701	\$ (517)

Net cash provided by operating activities during the three months ended May 4, 2019 was \$1,701, which consisted of a net loss of \$6,976, impacted by non-cash items of \$2,458 and cash provided by working capital of \$6,219. Net cash provided by working capital primarily resulted from a cash inflow of \$13,129 in receivables, net due to timing of the collections and \$2,960 of inventories, net, offset by cash outflow in accounts payable and accrued expenses of \$8,076 primarily due to the timing of payments to vendors.

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

Investing Activities

(in thousands)	Three Months Ended	
	May 4, 2019	May 5, 2018
Investing activities		
Payments for capital expenditures	\$ (461)	\$ (250)
Net cash used in investing activities	<u>\$ (461)</u>	<u>\$ (250)</u>

Net cash used in investing activities of \$461 during the three months ended May 4, 2019 represents capital expenditures primarily related to the investment in our retail store build-outs, including leasehold improvements and store fixtures.

Net cash used in investing activities of \$250 during the three months ended May 5, 2018 represents capital expenditures primarily related to the investment in our retail store build-outs, including leasehold improvements and store fixtures and our new systems.

Financing Activities

(in thousands)	Three Months Ended	
	May 4, 2019	May 5, 2018
Financing activities		
(Repayment of) proceeds from borrowings under the Revolving Credit Facilities	(222)	2,712
Repayment of borrowings under the Term Loan Facilities	(688)	(2,000)
Tax withholdings related to restricted stock vesting	(301)	—
Proceeds from stock option exercises, restricted stock vesting, and issuance of common stock under employee stock purchase plan	1	—
Financing fees	(1)	(90)
Net cash (used in) provided by financing activities	<u>\$ (1,211)</u>	<u>\$ 622</u>

Net cash used in financing activities was \$1,211 during the three months ended May 4, 2019, primarily consisting of \$222 of net proceeds from borrowings under our Revolving Credit Facility, and \$688 of payments under the Term Loan Facility.

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

2018 Term Loan Facility

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

The 2018 Term Loan Facility contains a requirement that Vince, LLC maintain a Consolidated Fixed Charge Coverage Ratio (as defined in the credit agreement for the 2018 Term Loan Facility) as of the last day of any period of four fiscal quarters not to exceed 0.85:1.00 for the fiscal quarter ended November 3, 2018, 1.00:1.00 for the fiscal quarter ended February 2, 2019, 1.20:1.00 for the fiscal quarter ended May 4, 2019, 1.35:1.00 for the fiscal quarter ending August 3, 2019, 1.50:1.00 for the fiscal quarters ending November 2, 2019 and February 1, 2020 and 1.75:1.00 for the fiscal quarter ending May 2, 2020 and each fiscal quarter thereafter. In addition, the 2018 Term Loan Facility contains customary representations and warranties, other covenants, and events of default, including but not limited to, covenants with respect to limitations on the incurrence of additional indebtedness, liens, burdensome agreements, guarantees, investments, loans, asset sales, mergers, acquisitions, prepayment of other debt, the repurchase of capital

stock, transactions with affiliates, and the ability to change the nature of the Company's business or its fiscal year, and distributions and dividends. The 2018 Term Loan Facility generally permits dividends to the extent that no default or event of default is continuing or would result from a contemplated dividend, so long as (i) after giving pro forma effect to the contemplated dividend and for the following six months Excess Availability will be at least the greater of 20.0% of the Loan Cap (as defined in the credit agreement for the 2018 Term Loan Facility) and \$10,000, (ii) after giving pro forma effect to the contemplated dividend, the Consolidated Fixed Charge Coverage Ratio for the 12 months preceding such dividend will be greater than or equal to 1.0 to 1.0 (provided that the Consolidated Fixed Charge Coverage Ratio may be less than 1.0 to 1.0 if, after giving pro forma effect to the contemplated dividend, Excess Availability for the six fiscal months following the dividend is at least the greater of 25.0% of the Loan Cap and \$12,500), and (iii) the pro forma Fixed Charge Coverage Ratio after giving effect to such contemplated dividend is no less than the minimum Consolidated Fixed Charge Coverage Ratio for such quarter. In addition, the 2018 Term Loan Facility is subject to a Borrowing Base (as defined in the credit agreement of the 2018 Term Loan Facility) which can, under certain conditions, result in the imposition of a reserve under the 2018 Revolving Credit Facility. As of May 4, 2019, the Company was in compliance with applicable covenants.

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

Through May 4, 2019, on an inception to date basis, the Company had made repayments totaling \$688 in the aggregate on the 2018 Term Loan Facility with all of such repayments made during the three months ended May 4, 2019. As of May 4, 2019, the Company had \$26,812 of debt outstanding under the 2018 Term Loan Facility.

2018 Revolving Credit Facility

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

Interest is payable on the loans under the 2018 Revolving Credit Facility at either the LIBOR or the Base Rate, in each case, with applicable margins subject to a pricing grid based on an average daily excess availability calculation. The "Base Rate" means, for any day, a fluctuating rate per annum equal to the highest of (i) the rate of interest in effect for such day as publicly announced from time to time by Citizens as its prime rate; (ii) the Federal Funds Rate for such day, plus 0.5%; and (iii) the LIBOR Rate for a one month interest period as determined on such day, plus 1.00%. During the continuance of certain specified events of default, at the election of Citizens, interest will accrue at a rate of 2.0% in excess of the applicable non-default rate.

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

The 2018 Revolving Credit Facility contains representations and warranties, other covenants and events of default that are customary for this type of financing, including covenants with respect to limitations on the incurrence of additional indebtedness, liens, burdensome agreements, guarantees, investments, loans, asset sales, mergers, acquisitions, prepayment of other debt, the repurchase of capital stock, transactions with affiliates, and the ability to change the nature of the Company's business or its fiscal year. The 2018 Revolving Credit Facility generally permits dividends in the absence of any event of default (including any event of default arising from a contemplated dividend), so long as (i) after giving pro forma effect to the contemplated dividend and for the following six months Excess Availability will be at least the greater of 20.0% of the Loan Cap and \$10 million and (ii) after giving pro forma effect to the contemplated dividend, the Consolidated Fixed Charge Coverage Ratio for the 12 months preceding such dividend will be greater than or equal to 1.0 to 1.0 (provided that the Consolidated Fixed Charge Coverage Ratio may be less than 1.0 to 1.0 if, after giving pro forma effect to the contemplated dividend, Excess Availability for the six fiscal months following the dividend is at least the greater of 25.0% of the Loan Cap and \$12,500). As of May 4, 2019, the Company was in compliance with applicable covenants.

As of May 4, 2019, \$35,291 was available under the 2018 Revolving Credit Facility, net of the loan cap, and there were \$18,794 of borrowings outstanding and \$5,940 of letters of credit outstanding under the 2018 Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the 2018 Revolving Credit Facility as of May 4, 2019 was 3.9%.

As of February 2, 2019, \$36,850 was available under the 2018 Revolving Credit Facility, net of the loan cap, and there were \$19,016 of borrowings outstanding and \$6,013 of letters of credit outstanding under the 2018 Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the 2018 Revolving Credit Facility as of February 2, 2019 was 4.4%.

2013 Term Loan Facility

On November 27, 2013, Vince, LLC and Vince Intermediate entered into a \$175,000 senior secured term loan facility (as amended from time to time, the "2013 Term Loan Facility") with the lenders party thereto, Bank of America, N.A. ("BofA"), as administrative agent, JP Morgan Chase Bank and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers, and Cantor Fitzgerald as documentation agent. The 2013 Term Loan Facility would have matured on November 27, 2019. Vince, LLC and Vince Intermediate were borrowers and VHC was a guarantor under the 2013 Term Loan Facility.

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

2013 Revolving Credit Facility

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

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

Off-Balance Sheet Arrangements

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

Seasonality

The apparel and fashion industry in which we operate is cyclical and, consequently, our revenues are affected by general economic conditions and the seasonal trends characteristic to the apparel and fashion industry. Purchases of apparel are sensitive to a number of factors that influence the level of consumer spending, including economic conditions and the level of disposable consumer

income, consumer debt, interest rates and consumer confidence as well as the impact of adverse weather conditions. In addition, fluctuations in the amount of sales in any fiscal quarter are affected by the timing of seasonal wholesale shipments and other events affecting direct-to-consumer sales; as such, the financial results for any particular quarter may not be indicative of results for the fiscal year. We expect such seasonality to continue.

Inflation

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

Critical Accounting Policies and Estimates

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

A summary of our critical accounting policies is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2018 Annual Report on Form 10-K. As of May 4, 2019, there have been no material changes to the critical accounting policies contained therein except for the adoption of ASC Topic 842, "Leases". See Note 9 "Leases" to the condensed consolidated financial statements in this Form 10-Q for additional information.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

As a "smaller reporting company," as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we are not required to provide the information in this Item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act) as of May 4, 2019.

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

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

Material Weaknesses in Internal Control over Financial Reporting

As described in Management's Annual Report On Internal Control Over Financial Reporting in Item 9A of our Annual Report on Form 10-K for the year ended February 2, 2019, we did not (i) maintain program change management controls to ensure that information technology program and data changes affecting financial IT applications and underlying accounting records were tested,

approved and implemented appropriately; and (ii) maintain adequate user access controls to ensure appropriate segregation of duties and to adequately restrict access to financial applications and data.

This material weakness did not result in a material misstatement to the annual or interim consolidated financial statements. However, this material weakness could impact the effectiveness of IT-dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports) that could result in a misstatement impacting account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Remediation Plan

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

- The implementation of (i) controls to ensure that only appropriate system access rights are granted to system users; and (ii) controls related to routine reviews of user system access;
- The implementation of appropriate segregation of duties in all systems that impact internal control over financial reporting;

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

- The Company strengthened its user provisioning and terminations processes in place to ensure employee access to key systems were properly approved, evaluated, and removed;
- The Company enhanced segregation of duties across all major business functions, as well as mitigating internal controls to proactively address segregation of duties risks;
- The Company modified system access rights of all retail store personnel, the largest group of systems users, with segregation of duties commensurate to the job responsibilities; and
- The Company performed an overall segregation of duties risk assessment to identify key segregation of duties risks to the Company, segregation of duties conflicts and actions associated with removing conflicts, and mapped remaining conflicts to detective and compensating controls performed by separate individuals from those associated with segregation of duties conflicts.

We continue to make progress on our remediation and our goal is to implement the remaining control improvements and to fully remediate these material weakness during fiscal 2019, subject to there being sufficient opportunities to conclude, through testing, that the implemented controls are operating effectively. Until the controls are remediated, we will continue to perform additional analysis, substantive testing and other post-closing procedures to ensure that our consolidated financial statements are prepared in accordance with U.S. GAAP.

Limitations on the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

We concluded that except for the implementation of certain internal controls related to the adoption of Accounting Standards Codification 842, Leases (“Topic 842”), there were no changes to internal controls over financial reporting during the quarter ended May 4, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The adoption of Topic 842 required implementation of new accounting processes and business applications which changed the Company’s internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 7, 2018, a complaint was filed in the United States District Court for the Eastern District of New York by certain stockholders (collectively, the “Plaintiff”), naming us as well as Brendan Hoffman, our Chief Executive Officer, David Stefko, our Executive Vice President, Chief Financial Officer, one of our directors, certain of our former officers and directors, and Sun Capital and certain of its affiliates, as defendants. The complaint generally alleges that we and the named parties made false and/or misleading statements and/or failed to disclose matters relating to the transition of our ERP systems from Kellwood. The complaint brings causes of action for violations of Section 10(b) of the Exchange Act, as amended and Rule 10b-5 promulgated under the Exchange Act against us and the named parties and for violations of Section 20(a) of the Exchange Act against the individual parties, Sun Capital Partners, Inc. and its affiliates. The complaint seeks unspecified monetary damages and unspecified costs and fees. On January 28, 2019, in response to our motion to dismiss the original complaint, the Plaintiff filed an amended complaint, naming the same defendants as parties and asserting the same causes of action as those stated in the original complaint.

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

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

ITEM 1A. RISK FACTORS

The risk factors disclosed in the Company’s 2018 Annual Report on Form 10-K, in addition to the other information set forth in this report on Form 10-Q, could materially affect the Company’s business, financial condition or results. The Company’s risk factors have not changed materially from those disclosed in its 2018 Annual Report on Form 10-K other than those listed below. All amounts disclosed are in thousands except per share amounts.

System or data security issues, such as cyber or malware attacks, as well as other major system failures could disrupt our internal operations or information technology services, and any such disruption could negatively impact our net sales, increase our expenses and harm our reputation.

Experienced computer programmers and hackers, and even internal users, may be able to penetrate our network security and misappropriate our confidential information or that of third parties, including our customers, enter into or facilitate fraudulent transactions, create system disruptions or cause shutdowns. In addition, employee error, malfeasance or other errors in the storage, use or transmission of any such information could result in a disclosure to third parties outside of our network. As a result, we could incur significant expenses addressing problems created by any such inadvertent disclosure or any security breaches of our network. In addition, we rely on third parties for the operation of our website, www.vince.com, and for the various business strategies, including CRM, social media and other marketing tools and websites.

From time to time, we are subject to system or data security problems, including viruses and bugs, including a recent temporary company-wide systems outage that was caused by a malware. None of these incidents, including the most recent event, has resulted in any data or information breaches or any other material impact to our business and/or financial results. There is no assurance, however, that we would not be subject to material security problems in the future, including cyber or malware attacks, and we could incur significant expenses or disruptions of our operations in connection with resulting system failures or data and information breaches. In addition, sophisticated hardware and operating system software and applications that we procure from third parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the operation of our systems. The costs to us to eliminate or alleviate security problems, viruses and bugs could be significant, and the efforts to address these problems could result in interruptions, delays or cessation of service that may impede our sales, distribution or other critical functions.

Concerns have been increasing over the security of personal information transmitted over the internet and personal identity theft and user privacy. Any compromise of personal information of our customers or employees could subject us to litigation and/or penalties and harm our reputation, materially and adversely affecting our business and growth. In addition to taking the necessary precautions ourselves, we require that third-party service providers implement reasonable security measures to protect our customers’ or employees’ identity and privacy, including any personally identifiable information and credit card information. We do not,

however, control these third-party service providers and cannot guarantee that no electronic or physical computer break-ins and security breaches will occur in the future.

In the case of a disaster affecting our information technology systems, we may experience delays in recovery of data, inability to perform vital corporate functions, tardiness in required reporting and compliance, failures to adequately support our operations and other breakdowns in normal communication and operating procedures that could materially and adversely affect our financial condition and results of operations.

The extent of our foreign sourcing may adversely affect our business.

We work with more than 40 manufacturers across nine countries, with 88% of our products produced in China in fiscal 2018 and 78% in the first quarter of fiscal 2019. A manufacturing contractor's failure to ship products to us in a timely manner or to meet the required quality standards could cause us to miss the delivery date requirements of our customers for those items. The failure to make timely deliveries may cause customers to cancel orders, refuse to accept deliveries or demand reduced prices, any of which could have a material adverse effect on us. As a result of the magnitude of our foreign sourcing, our business is subject to the following risks:

- political and economic instability in countries or regions, especially Asia, including heightened terrorism and other security concerns, which could subject imported or exported goods to additional or more frequent inspections, leading to delays in deliveries or impoundment of goods;
- imposition of regulations, quotas and other trade restrictions relating to imports, including quotas imposed by bilateral textile agreements between the U.S. and foreign countries;
- currency exchange rates;
- imposition of increased duties, taxes, tariffs (including, but not limited to, the Trump Administration's tariffs on certain products manufactured in China and China's retaliatory tariffs on certain products sourced from the U.S. as described below) and other charges on imports;
- labor union strikes at ports through which our products enter the U.S.;
- labor shortages in countries where contractors and suppliers are located;
- restrictions on the transfer of funds to or from foreign countries;
- disease epidemics and health-related concerns, which could result in closed factories, reduced workforces, scarcity of raw materials and scrutiny or embargoing of goods produced in infected areas;
- the migration and development of manufacturing contractors, which could affect where our products are or are planned to be produced;
- increases in the costs of fuel, travel and transportation;
- reduced manufacturing flexibility because of geographic distance between our foreign manufacturers and us, increasing the risk that we may have to mark down unsold inventory as a result of misjudging the market for a foreign-made product; and
- violations by foreign contractors of labor and wage standards and resulting adverse publicity.

The current U.S. Administration is in the process of extending the 25% additional tariffs to all imports from China, valued at approximately \$300 billion, which tariff lines include products we manufacture. The Office of the U.S. Trade Representative is expected to hold a public hearing regarding the tariff extension on June 17, 2019. We are evaluating the potential impact of the proposed tariffs, potential retaliatory tariffs as well as other recent changes in foreign trade policy on our supply chain, costs, sales and profitability and are considering strategies to mitigate such impact, including reviewing sourcing options and working with our suppliers. While it is too early to predict how these changes in foreign trade policy and any recently enacted, proposed and future tariffs on products imported by us from China will affect our business, these changes could significantly increase our production costs and negatively impact our business and results of operations. In addition, while we may be able to shift our sourcing options, executing such a shift would be time consuming and would be difficult or impracticable for many products and may result in an increase in our manufacturing costs and/or may negatively impact the quality of our products. If our production costs increase, we may also be forced to raise the prices of our products, which could in turn negatively impact the demand for our products. Further, we are not at this time able to predict the impact of the potential adoption and expansion of trade restrictions, retaliatory tariffs, or other governmental action related to tariffs or international trade agreements or policies on our customers and/or the overall U.S. economy, which in turn could adversely affect our ability to adequately forecast our business.

If these risks limit or prevent us from manufacturing products in any significant international market, prevent us from acquiring products from foreign suppliers, or significantly increase the cost of our products, our operations could be seriously disrupted until alternative suppliers are found or alternative markets are developed, which could negatively and significantly impact our business.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 31.1 [CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2 [CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1 [CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 32.2 [CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101.1 Financial Statements in XBRL Format

SIGNATURE

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

Signature

Title

Date

/s/ David Stefko

Executive Vice President, Chief Financial Officer
(as duly authorized officer and principal financial officer)

June 13, 2019

David Stefko

**CEO CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
(15 U.S.C. SECTION 1350)**

I, Brendan Hoffman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vince Holding Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Brendan Hoffman

Brendan Hoffman
Chief Executive Officer
(principal executive officer)
June 13, 2019

**CFO CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
(15 U.S.C. SECTION 1350)**

I, David Stefko, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vince Holding Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David Stefko

David Stefko

Executive Vice President, Chief Financial Officer
(principal financial and accounting officer)

June 13, 2019

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Vince Holding Corp. (the "Company"), on Form 10-Q for the quarter ended May 4, 2019 as filed with the Securities and Exchange Commission (the "Report"), Brendan Hoffman, Chief Executive Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company at the dates and for the periods indicated in the Report.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The undersigned expressly disclaims any obligation to update the foregoing certification except as required by law.

/s/ Brendan Hoffman

Brendan Hoffman

Chief Executive Officer

(principal executive officer)

June 13, 2019

**CERTIFICATIONS OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Vince Holding Corp. (the "Company"), on Form 10-Q for the quarter ended May 4, 2019 as filed with the Securities and Exchange Commission (the "Report"), David Stefko, Chief Financial Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company at the dates and for the periods indicated in the Report.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The undersigned expressly disclaims any obligation to update the foregoing certification except as required by law.

/s/ David Stefko

David Stefko

Executive Vice President, Chief Financial Officer

(principal financial and accounting officer)

June 13, 2019