

**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 August 4, 2018

Or

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

Commission File Number: 001-36212

VINCE HOLDING CORP.

(Exact name of registrant as specified in its charter)

Delaware
(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)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" 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

Common Stock
Common Stock, \$0.01 par value per share

Outstanding at August 31, 2018
11,621,012 shares

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 continue having the liquidity necessary to service our debt, meet contractual payment obligations, and fund our operations; our ability to comply with the covenants under our credit facilities; our ability to successfully operate the newly implemented systems, processes and functions recently transitioned from Kellwood Company, LLC; our ability to remediate the identified material weaknesses in our internal control over financial reporting; further impairment of our goodwill and indefinite-lived intangible assets; our ability to realize the benefits of our recently announced strategic initiatives; the execution and management of our retail store growth plans; our ability to make lease payments when due; our ability to ensure the proper operation of the distribution facility by a third-party logistics provider; our ability to remain competitive in the areas of merchandise quality, price, breadth of selection and customer service; our ability to anticipate and/or react to changes in customer demand and attract new customers, including in connection with making inventory commitments; our ability to manage excess inventory in a way that will promote the long-term health of the brand; changes in consumer confidence and spending; our ability to maintain projected profit margins; the execution and management of our international expansion, including our ability to promote our brand and merchandise outside the U.S. and find suitable partners in certain geographies; our ability to expand our product offerings into new product categories, including the ability to find suitable licensing partners; our ability to successfully implement our marketing initiatives; our ability to protect our trademarks in the U.S. and internationally; our ability to maintain the security of electronic and other confidential information; serious disruptions and catastrophic events; changes in global economies and credit and financial markets; competition; our ability to attract and retain key personnel; commodity, raw material and other cost increases; compliance with domestic and international laws, regulations and orders; changes in laws and regulations; outcomes of litigation and proceedings and the availability of insurance, indemnification and other third-party coverage of any losses suffered in connection therewith; effect of the U.S. federal income tax law reform; other tax matters; and other factors as set forth from time to time in our Securities and Exchange Commission filings, including those described in this report on Form 10-Q and our 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 25, 2018 (the “2017 Annual Report on Form 10-K”) under the heading “Item 1A—Risk Factors.” We intend these forward-looking statements to speak only as of the time of this report on Form 10-Q and do not undertake to update or revise them as more information becomes available, except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

VINCE HOLDING CORP. AND SUBSIDIARIES

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

	August 4, 2018	February 3, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,321	\$ 5,372
Trade receivables, net	22,999	20,760
Inventories, net	61,616	48,921
Prepaid expenses and other current assets	6,726	6,521
Total current assets	<u>96,662</u>	<u>81,574</u>
Property and equipment, net	29,271	31,608
Intangible assets, net	76,800	77,099
Goodwill	41,435	41,435
Deferred income taxes	379	379
Other assets	2,237	2,439
Total assets	<u>\$ 246,784</u>	<u>\$ 234,534</u>
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 30,569	\$ 22,556
Accrued salaries and employee benefits	4,347	6,715
Other accrued expenses	8,938	7,906
Current portion of long-term debt	—	8,000
Total current liabilities	<u>43,854</u>	<u>45,177</u>
Long-term debt	63,584	40,682
Deferred rent	15,172	15,633
Other liabilities	58,273	58,273
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock at \$0.01 par value (100,000,000 shares authorized, 11,621,012 and 11,616,500 shares issued and outstanding at August 4, 2018 and February 3, 2018, respectively)	116	116
Additional paid-in capital	1,113,933	1,113,342
Accumulated deficit	(1,048,083)	(1,038,624)
Accumulated other comprehensive loss	(65)	(65)
Total stockholders' equity	<u>65,901</u>	<u>74,769</u>
Total liabilities and stockholders' equity	<u>\$ 246,784</u>	<u>\$ 234,534</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		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net sales	\$ 63,128	\$ 60,822	\$ 117,642	\$ 118,867
Cost of products sold	35,409	35,266	64,387	67,720
Gross profit	27,719	25,556	53,255	51,147
Selling, general and administrative expenses	30,143	34,416	60,043	68,200
Loss from operations	(2,424)	(8,860)	(6,788)	(17,053)
Interest expense, net	1,297	1,276	2,586	2,320
Other (income) expense, net	73	2	9	3
Loss before income taxes	(3,794)	(10,138)	(9,383)	(19,376)
Provision for income taxes	28	(4)	76	48
Net loss and comprehensive loss	\$ (3,822)	\$ (10,134)	\$ (9,459)	\$ (19,424)
Loss per share:				
Basic loss per share	\$ (0.33)	\$ (2.05)	\$ (0.81)	\$ (3.93)
Diluted loss per share	\$ (0.33)	\$ (2.05)	\$ (0.81)	\$ (3.93)
Weighted average shares outstanding:				
Basic	11,619,664	4,944,971	11,618,082	4,943,898
Diluted	11,619,664	4,944,971	11,618,082	4,943,898

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

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

	Six Months Ended	
	August 4, 2018	July 29, 2017
Operating activities		
Net loss	\$ (9,459)	\$ (19,424)
Add (deduct) items not affecting operating cash flows:		
Depreciation and amortization	4,100	4,891
Provision for inventories	107	—
Loss on disposal of property and equipment	259	—
Deferred rent	(661)	(480)
Share-based compensation expense	593	483
Other	490	442
Changes in assets and liabilities:		
Receivables, net	(2,239)	(8,603)
Inventories	(12,802)	(3,313)
Prepaid expenses and other current assets	123	(2,166)
Accounts payable and accrued expenses	5,973	(9,376)
Other assets and liabilities	80	(231)
Net cash used in operating activities	<u>(13,436)</u>	<u>(37,777)</u>
Investing activities		
Payments for capital expenditures	(1,026)	(2,716)
Net cash used in investing activities	<u>(1,026)</u>	<u>(2,716)</u>
Financing activities		
Proceeds from borrowings under the Revolving Credit Facility	105,062	149,998
Repayment of borrowings under the Revolving Credit Facility	(86,562)	(126,682)
Repayment of borrowings under the Term Loan Facility	(4,000)	—
Proceeds from stock option exercises and issuance of common stock under employee stock purchase plan	—	32
Financing fees	(90)	(15)
Net cash provided by financing activities	<u>14,410</u>	<u>23,333</u>
Decrease in cash, cash equivalents, and restricted cash	(52)	(17,160)
Cash, cash equivalents, and restricted cash, beginning of period	5,445	21,036
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 5,393</u>	<u>\$ 3,876</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments on Tax Receivable Agreement obligation	351	—
Cash payments for interest	2,496	1,909
Cash payments for income taxes, net of refunds	(11)	—
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Capital expenditures in accounts payable and accrued liabilities	724	29

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 wide array of women’s and men’s ready-to-wear, shoes, and capsule collection of handbags, and home for a global lifestyle. The Company reaches its customers through a variety of channels, specifically through major wholesale department stores and specialty stores in the United States (“U.S.”) and select international markets, as well as through the Company’s branded retail locations and the Company’s website. The Company designs products in the U.S. and sources the vast majority of products from contract manufacturers outside the U.S., primarily in Asia. Products are manufactured to meet the Company’s product specifications and labor standards.

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

The condensed consolidated financial statements include the Company’s accounts and the accounts of the Company’s wholly-owned subsidiaries as of August 4, 2018. All intercompany accounts and transactions have been eliminated. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting solely of normal recurring adjustments) and disclosures necessary for a fair statement. The results of operations for these periods are not necessarily comparable to, or indicative of, results of any other interim period or the fiscal year as a whole.

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

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

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

(D) Sources and Uses of Liquidity: The Company's sources of liquidity are cash and cash equivalents, cash flows from operations, if any, borrowings available under the New 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.

On August 21, 2018, the Company refinanced its existing Term Loan Facility (as defined below) and Revolving Credit Facility (as defined below) by entering into a new senior secured term loan facility and a new senior secured revolving credit facility. All outstanding amounts under the existing facilities were repaid in full and those existing credit facilities were terminated. See Note 4 "Long-Term Debt and Financing Arrangements" and Note 12 "Subsequent Events" for additional information. The Company believes it will generate sufficient liquidity to fund its working capital and capital expenditure needs, meet its Tax Receivable Agreement obligations, and satisfy its debt maturities and covenants under the New Term Loan Facility (as defined below) and New Revolving Credit Facility for the next twelve months. While we believe based upon our actions to date that we will have sufficient liquidity for the next twelve months, there can be no assurances in the future that we will be able to generate sufficient cash flow from operations to meet our liquidity needs. The Company's ability to continue to meet its obligations is dependent on its ability to generate positive cash flow from a combination of initiatives and failure to successfully implement these initiatives could have a material adverse effect on the Company's liquidity and operations in which case the Company would need to implement alternative plans, such as attempting to obtain other financing, in an effort to satisfy our liquidity needs.

Note 2. Goodwill and Intangible Assets

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

(in thousands)	Wholesale	Direct-to-consumer	Total Net Goodwill
Balance as of August 4, 2018	\$ 41,435	\$ —	\$ 41,435
Balance as of February 3, 2018	\$ 41,435	\$ —	\$ 41,435

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

The following tables present a summary of identifiable intangible assets:

(in thousands)	Gross Amount	Accumulated Amortization	Accumulated Impairments	Net Book Value
Balance as of August 4, 2018				
Amortizable intangible assets:				
Customer relationships	\$ 11,970	\$ (6,270)	\$ —	\$ 5,700
Indefinite-lived intangible asset:				
Tradename	101,850	—	(30,750)	71,100
Total intangible assets	\$ 113,820	\$ (6,270)	\$ (30,750)	\$ 76,800

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

Amortization of identifiable intangible assets was \$149 and \$150 for the three months ended August 4, 2018 and July 29, 2017, respectively and \$299 and \$300 for the six months ended August 4, 2018 and July 29, 2017. The estimated amortization expense for identifiable intangible assets is \$599 for each fiscal year for the next five fiscal years.

Note 3. Fair Value Measurements

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

- Level 1**— quoted market prices in active markets for identical assets or liabilities
- Level 2**— observable market-based inputs (quoted prices for similar assets and liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active) or inputs that are corroborated by observable market data
- Level 3**— significant unobservable inputs that reflect the Company’s assumptions and are not substantially supported by market data

The Company did not have any non-financial assets or non-financial liabilities recognized at fair value on a recurring basis at August 4, 2018 or February 3, 2018. At August 4, 2018 and February 3, 2018, the Company believes that the carrying value of cash and cash equivalents, receivables and accounts payable approximates fair value, due to the short-term maturity of these instruments. The Company’s debt obligations with a carrying value of \$64,400 as of August 4, 2018 are at variable interest rates and management estimates that the fair value of the Company’s outstanding debt obligations was approximately \$59,000 based upon quoted prices in markets that are not active, which is considered a Level 2 input.

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

Note 4. Long-Term Debt and Financing Arrangements

Long-term debt consisted of the following:

(in thousands)	August 4, 2018	February 3, 2018
Term Loan Facility	\$ 29,000	\$ 33,000
Revolving Credit Facility	35,400	16,900
Total debt principal	64,400	49,900
Less: current portion of long-term debt	—	8,000
Less: deferred financing costs	816	1,218
Total long-term debt	<u>\$ 63,584</u>	<u>\$ 40,682</u>

On August 21, 2018, the Company refinanced its existing Term Loan Facility (as defined below) and Revolving Credit Facility (as defined below) by entering into a new \$27,500 senior secured term loan facility and a new \$80,000 senior secured revolving credit facility. All outstanding amounts under the existing facilities were repaid in full and those existing credit facilities were terminated. As the existing debt was refinanced subsequent to the balance sheet date but prior to the issuance of this report on Form 10-Q, the Company moved the current portion of the existing long-term debt to long-term debt. See Note 12 “Subsequent Events” for additional information on the New Term Loan Facility and the New Revolving Credit Facility.

Term Loan Facility

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

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

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

The Term Loan Facility contained a requirement that Vince, LLC and Vince Intermediate maintain a “Consolidated Net Total Leverage Ratio” as of the last day of any period of four fiscal quarters not to exceed 3.25 to 1.00. The Term Loan Facility permitted Vince Holding Corp. to make a Specified Equity Contribution, as defined under the Agreement, to the Borrowers in order to increase, dollar for dollar, Consolidated EBITDA for such fiscal quarter for the purposes of determining compliance with this covenant at the end of such fiscal quarter and applicable subsequent periods provided that (a) in each four fiscal quarter period there were at least two fiscal quarters in which no Specified Equity Contribution was made; (b) no more than five Specified Equity Contributions were made in the aggregate during the term of the Agreement; and (c) the amount of any Specified Equity Contribution was no greater than the amount required to cause the Company to be in compliance with this covenant. During April 2017, the Company utilized \$6,241 of the funds held by Vince Holding Corp. to make a Specified Equity Contribution in connection with the calculation of the Consolidated Net Total Leverage Ratio as of January 28, 2017. In addition, during May and June 2017, the Company utilized \$11,831 of the funds held by Vince Holding Corp. to make Specified Equity Contributions in connection with the calculation of the Consolidated Net Total Leverage Ratio as of April 29, 2017. As discussed above, the Term Loan Amendment waived the Consolidated Net Total Leverage Ratio covenant for the test periods from July 2017 through and including April 2019.

In addition, the Term Loan Facility contained customary representations and warranties, other covenants, and events of default, including but not limited to, limitations on the incurrence of additional indebtedness, liens, negative pledges, guarantees, investments, loans, asset sales, mergers, acquisitions, prepayment of other debt, the repurchase of capital stock, transactions with affiliates, and the ability to change the nature of the Company’s business or its fiscal year, and distributions and dividends. The Term Loan Facility generally permitted dividends to the extent that no default or event of default was continuing or would have resulted from the contemplated dividend and the pro forma Consolidated Net Total Leverage Ratio after giving effect to such contemplated dividend was at least 0.25 lower than the maximum Consolidated Net Total Leverage Ratio for such quarter in an amount not to exceed the excess available amount, as defined in the loan agreement. All obligations under the Term Loan Facility were guaranteed by VHC and any future material domestic restricted subsidiaries of Vince, LLC and secured by a lien on substantially all of the assets of VHC, Vince, LLC and Vince Intermediate and any material domestic restricted subsidiaries. As of August 4, 2018, after giving effect to the waiver described above, the Company was in compliance with applicable covenants.

Through August 4, 2018, on an inception to date basis, the Company had made repayments totaling \$146,000 in the aggregate on the original \$175,000 Term Loan Facility entered into on November 27, 2013 with \$4,000 of such repayments made during the six months ended August 4, 2018. As of August 4, 2018, the Company had \$29,000 of debt outstanding under the Term Loan Facility.

Revolving Credit Facility

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

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

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

The Revolving Credit Facility also contained representations and warranties, other covenants and events of default that were customary for this type of financing, including limitations on the incurrence of additional indebtedness, liens, negative pledges, guarantees, investments, loans, asset sales, mergers, acquisitions, prepayment of other debt, the repurchase of capital stock, transactions with affiliates, and the ability to change the nature of the Company’s business or its fiscal year. The Revolving Credit Facility generally permitted dividends in the absence of any event of default (including any event of default that would have arisen from the contemplated dividend), so long as (i) after giving pro forma effect to the contemplated dividend, for the following six months Excess Availability would have been at least the greater of 20% of the adjusted loan cap and \$10,000 and (ii) after giving pro forma effect to the contemplated dividend, the “Consolidated Fixed Charge Coverage Ratio” for the 12 months preceding such dividend would have been greater than or equal to 1.0 to 1.0 (provided that the Consolidated Fixed Charge Coverage Ratio was 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 was at least the greater of 35% of the adjusted loan cap and \$15,000). As of August 4, 2018, the Company was in compliance with applicable financial covenants. The second amendment replaced and superseded all side letters previously entered into between Vince, LLC and BofA.

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

As of August 4, 2018, \$23,723 was available under the Revolving Credit Facility, net of the amended loan cap, and there were \$35,400 of borrowings outstanding and \$7,230 of letters of credit outstanding under the Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the Revolving Credit Facility as of August 4, 2018 was 4.1%.

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

Bank of Montreal Facility

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

Note 5. Inventory

Inventories consisted of finished goods. As of August 4, 2018 and February 3, 2018, finished goods, net of reserves were \$61,616 and \$48,921, respectively.

Note 6. Share-Based Compensation

Employee Stock Plans

Vince 2013 Incentive Plan

In connection with the IPO, the Company adopted the Vince 2013 Incentive Plan, which provides for grants of stock options, stock appreciation rights, restricted stock and other stock-based awards. In May 2018, the Company filed Registration Statement on Form S-8 to register an additional 660,000 shares of common stock available for issuance under the Vince 2013 Incentive Plan. The aggregate number of shares of common stock which may be issued or used for reference purposes under the Vince 2013 Incentive Plan or with respect to which awards may be granted may not exceed 1,000,000 shares, as adjusted to reflect the Reverse Stock Split. The shares available for issuance under the Vince 2013 Incentive Plan may be, in whole or in part, either authorized and unissued shares of the Company's common stock or shares of common stock held in or acquired for the Company's treasury. In general, if awards under the Vince 2013 Incentive Plan are cancelled for any reason, or expire or terminate unexercised, the shares covered by such award may again be available for the grant of awards under the Vince 2013 Incentive Plan. As of August 4, 2018, there were 474,404 shares under the Vince 2013 Incentive Plan available for future grants. Options granted pursuant to the Vince 2013 Incentive Plan typically vest in equal installments over four years, subject to the employees' continued employment and expire on the earlier of the tenth anniversary of the grant date or upon termination as outlined in the Vince 2013 Incentive Plan. Restricted stock units ("RSUs") granted vest in equal installments over a three-year period or vest in equal installments over four years, subject to the employees' continued employment, except for RSUs issued under the exchange offer described below.

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

On April 26, 2018, the Company commenced a tender offer to exchange certain options to purchase shares of its common stock, whether vested or unvested, from eligible employees and executive officers for replacement restricted stock units (“Replacement RSUs”) granted under the Vince 2013 Incentive Plan (the “Option Exchange”). Employees and executive officers of the Company on the date of offer commencement and those who remained an employee or executive officer of the Company through the expiration date of the offer and held at least one option as of the commencement of the offer that was granted under the Vince 2013 Incentive Plan were eligible to participate. The exchange ratio of this offer was a 1-to-1.7857 basis (one stock option exchanged for every 1.7857 Replacement RSUs). This tender offer expired on 11:59 p.m. Eastern Time on May 24, 2018 (the “Offer Expiration Date”). The Replacement RSUs were granted on the business day immediately following the Offer Expiration Date. As a result of the Option Exchange, 149,819 stock options were cancelled and 267,538 Replacement RSUs were granted with a grant date fair value of \$9.15 per unit. All Replacement RSUs vest pursuant to the following schedule: 10% on April 19, 2019; 20% on April 17, 2020; 25% on April 16, 2021; and 45% on April 15, 2022, subject to the holder’s remaining continuously employed with the Company through each such applicable vesting date. Replacement RSUs have the new vesting schedule regardless of whether the surrendered eligible options were partially vested at the time it was exchanged. The purpose of this exchange was to foster retention, motivate our key contributors, and better align the interests of our employees and 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 six months ended August 4, 2018, no shares of common stock were issued under the ESPP. During the six months ended July 29, 2017, 2,660 shares of common stock were issued under the ESPP, as adjusted to reflect the Reverse Stock Split. As of August 4, 2018, there were 94,979 shares available for future issuance under the ESPP, as adjusted to reflect the Reverse Stock Split.

Stock Options

A summary of stock option activity for both employees and non-employees for the six months ended August 4, 2018 is as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at February 3, 2018	170,757	\$ 42.23	8.1	\$ 32
Granted	—	\$ —		
Exercised	—	\$ —		
Forfeited or expired ¹	(170,553)	\$ 42.23		
Outstanding at August 4, 2018	<u>204</u>	\$ 31.71	7.2	\$ —
Vested and exercisable at August 4, 2018	102	\$ 38.96	7.2	\$ —

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

Of the above outstanding shares, 102 are expected to vest.

Restricted Stock Units

A summary of restricted stock unit activity for the six months ended August 4, 2018 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Nonvested restricted stock units at February 3, 2018	13,236	\$ 29.19
Granted ²	543,851	\$ 8.97
Vested	(4,784)	\$ 34.16
Forfeited	(36,867)	\$ 9.60
Nonvested restricted stock units at August 4, 2018	<u>515,436</u>	<u>\$ 9.21</u>

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

Share-Based Compensation Expense

The Company recognized share-based compensation expense of \$395 and \$264, including expense of \$35 and \$78 respectively, related to non-employees, during the three months ended August 4, 2018 and July 29, 2017, respectively. The Company recognized share-based compensation expense of \$593 and \$483, including expense of \$71 and \$413 respectively, related to non-employees, during the six months ended August 4, 2018 and July 29, 2017, respectively.

Note 7. Earnings Per Share

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

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

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

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

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Weighted-average shares—basic	11,619,664	4,944,971	11,618,082	4,943,898
Effect of dilutive equity securities	—	—	—	—
Weighted-average shares—diluted	<u>11,619,664</u>	<u>4,944,971</u>	<u>11,618,082</u>	<u>4,943,898</u>

Because the Company incurred a net loss for the three and six months ended August 4, 2018 and July 29, 2017, weighted-average basic shares and weighted-average diluted shares outstanding are equal for these periods.

For the three months ended August 4, 2018 and July 29, 2017, 36,043 and 187,254 options to purchase shares of the Company's common stock, respectively, were excluded from the computation of weighted average shares for diluted earnings per share since the related exercise prices exceeded the average market price of the Company's common stock and such inclusion would be anti-dilutive.

For the six months ended August 4, 2018 and July 29, 2017, 90,361 and 198,648 options to purchase shares of the Company's common stock, respectively, were excluded from the computation of weighted average shares for diluted earnings per share since the related exercise prices exceeded the average market price of the Company's common stock and such inclusion would be anti-dilutive.

Note 8. Commitments and Contingencies

Litigation

On September 7, 2018, a complaint was filed in the United States District Court for the Eastern District of New York by certain stockholders, naming the Company as well as Brendan Hoffman, the Company's Chief Executive Officer, David Stefko, the Company's Executive Vice President, Chief Financial Officer, one of the Company's directors, certain of the Company's former officers and directors, and Sun Capital Partners, Inc. and certain of its affiliates, as defendants. See Note 12 "Subsequent Events" for additional information.

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

Note 9. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

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

(in thousands)	August 4, 2018	February 3, 2018
Cash and cash equivalents	\$ 5,321	\$ 5,372
Restricted cash	72	73
Total Cash, cash equivalents, and restricted cash	<u>\$ 5,393</u>	<u>\$ 5,445</u>

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

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

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

Revenue associated with gift cards is recognized upon redemption and unredeemed balances are considered contract liability and recorded within other accrued expenses, which are subject to escheatment within the jurisdictions in which it operates. As of August 4, 2018 and February 3, 2018, contract liability was \$1,255 and \$1,229, respectively. For the three and six months ended August 4, 2018, the Company recognized \$68 and \$200 of revenue respectively that was previously included in contract liability as of February 3, 2018.

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

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

The following table summarizes the impacts of adopting Topic 606 on the Company's condensed consolidated balance sheet as of August 4, 2018.

(in thousands)	Impact of changes in accounting standard		
	As reported	Adjustments	Balances without adoption of Topic 606
Assets			
Trade receivables, net	22,999	(1,016)	21,983
Prepaid expenses and other current assets	6,726	(1,031)	5,695
Liabilities			
Other accrued expenses	8,938	(2,047)	6,891

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02: "Leases (Topic 842)", a new lease accounting standard. The guidance requires lessees to recognize right-of-use lease assets and lease liabilities on the balance sheet for those leases currently classified as operating leases. In July 2018, the FASB issued ASU 2018-11: "Leases (Topic 842): Targeted improvements" which provides companies with an additional transition method to apply the new guidance at the adoption date instead of the earliest period presented in the financial statements. The guidance is effective for interim and annual periods beginning after December 15, 2018. The Company plans to adopt the new guidance for its interim and annual reporting periods beginning February 3, 2019. The Company is currently evaluating the impact of adopting this guidance on the consolidated financial statements.

Note 10. Segment Financial Information

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

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

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

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

(in thousands)	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net Sales:				
Wholesale	\$ 37,844	\$ 39,250	\$ 66,339	\$ 74,657
Direct-to-consumer	25,284	21,572	51,303	44,210
Total net sales	<u>\$ 63,128</u>	<u>\$ 60,822</u>	<u>\$ 117,642</u>	<u>\$ 118,867</u>
Income (loss) before income taxes:				
Wholesale	\$ 9,388	\$ 10,462	\$ 16,309	\$ 19,428
Direct-to-consumer	414	(1,782)	1,652	(3,084)
Subtotal	9,802	8,680	17,961	16,344
Unallocated corporate expenses	(12,226)	(17,540)	(24,749)	(33,397)
Interest expense, net	1,297	1,276	2,586	2,320
Other expense, net	73	2	9	3
Total income (loss) before income taxes	<u>\$ (3,794)</u>	<u>\$ (10,138)</u>	<u>\$ (9,383)</u>	<u>\$ (19,376)</u>

(in thousands)	August 4, 2018	February 3, 2018
Total Assets:		
Wholesale	\$ 75,280	\$ 58,733
Direct-to-consumer	38,764	40,751
Unallocated corporate	132,740	135,050
Total assets	<u>\$ 246,784</u>	<u>\$ 234,534</u>

Note 11. Related Party Transactions

Sourcing Arrangement

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

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

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

RT is owned by affiliates of Sun Capital Partners, Inc., whose affiliates owned approximately 73% of the outstanding common stock of the Company as of August 4, 2018. During the three and six months ended August 4, 2018, the Company has paid \$0 and \$29 respectively for orders placed under the Sourcing Arrangement. During the three and six months ended July 29, 2017, the Company had not yet paid for orders placed under the Sourcing Arrangement. No new orders have been placed under the Sourcing Arrangement since September 2017. On May 30, 2018, the Company terminated the Sourcing Arrangement with RT effective as of February 3, 2018. There were no early termination penalties incurred by the Company as a result of the termination.

Tax Receivable Agreement

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

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

As of August 4, 2018, the Company's total obligation under the Tax Receivable Agreement is estimated to be \$58,273, which is included as a component of Other liabilities on the condensed consolidated balance sheet. The tax benefit payment of \$351, including accrued interest, with respect to the 2016 taxable year was paid in the first quarter of fiscal 2018. The Tax Receivable Agreement expires on December 31, 2023. The obligation was originally recorded in connection with the IPO as an adjustment to additional paid-in capital on the Company's consolidated balance sheet.

Bank of Montreal Facility

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

2017 Investment Agreement and 2017 Rights Offering

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

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

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

As of August 4, 2018, affiliates of Sun Capital Partners, Inc., including the Sun Cardinal Investors, collectively beneficially owned approximately 73% of the Company’s outstanding common stock.

Sun Capital Consulting Agreement

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

During the three months ended August 4, 2018 and July 29, 2017, the Company incurred expenses of \$10 and \$12, respectively, under the Sun Capital Consulting Agreement. During the six months ended August 4, 2018 and July 29, 2017, the Company incurred expenses of \$22 and \$18, respectively, under this agreement.

Note 12. Subsequent Events

On August 21, 2018, Vince, LLC entered into a new \$27,500 senior secured term loan facility (the “New Term Loan Facility”) with Crystal Financial, LLC as administrative agent, collateral agent, and lender. On the same day, Vince, LLC also entered into a new \$80,000 senior secured revolving credit facility (the “New Revolving Credit Facility”) with Citizens Bank, N.A. (“Citizens”) as administrative agent, collateral agent, and lender. Vince, LLC is a borrower and VHC and Vince Intermediate are guarantors under the New Term Loan Facility and the New Revolving Credit Facility. Using the proceeds from the new borrowings above and the Company’s existing working capital, all outstanding amounts under the Term Loan Facility of \$29,146 including interest, and the Revolving Credit Facility of \$40,689 including interest, were repaid in full and those credit facilities were terminated. The Company paid \$2,229 of total fees and expenses associated with the New Term Loan Facility and the New Revolving Credit Facility.

New Term Loan Facility

The New Term Loan Facility is subject to quarterly amortization of principal equal to 2.5% of the original aggregate principal amount of the New Term Loan Facility, with the balance payable at final maturity. Interest is payable on loans under the New 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 New 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 New Term Loan Facility matures on the earlier of August 21, 2023 and maturity date of the New Revolving Credit Facility.

The New Term Loan Facility contains a requirement that Vince, LLC will maintain a Consolidated Fixed Charge Coverage Ratio (as defined in the credit agreement for the New Term Loan Facility) as of the last day of any period of four fiscal quarters not to exceed 0.85:1.00 for the fiscal quarter ending November 3, 2018, 1.00:1.00 for the fiscal quarters ending February 2, 2019, 1.20:1.00 for the fiscal quarter ending May 4, 2019, 1.35:1.00 for the fiscal quarter ending August 3, 2019, 1.50:1.00 for the fiscal quarters ending November 2, 2019 and February 1, 2020 and 1.75:1.00 for the fiscal quarter ending May 2, 2020 and each fiscal quarter thereafter. In addition, the New Term Loan Facility contains customary representations and warranties, other covenants, and events of default, including but not limited to, limitations on the incurrence of additional indebtedness, liens, 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 New 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 New 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 New Term Loan Facility is subject to a Borrowing Base (as defined in the credit agreement of the New Term Loan Facility) which can, under certain conditions result in the imposition of a reserve under the New Revolving Credit Facility.

The New Term Loan Facility also contains an Excess Cash Flow (as defined in the credit agreement for the New 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 New Term Loan Facility or the New 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 Form 10-K starting from fiscal year ending February 1, 2020.

New Revolving Credit Facility

The New 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 New 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 New Revolving Credit Facility matures on the earlier of August 21, 2023 and the maturity date of the New 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 New 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 a 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 New Revolving Credit Facility contains a requirement that, at any point when Excess Availability (as defined in the credit agreement for the New 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 New 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 New Revolving Credit Facility contains representations and warranties, other covenants and events of default that are customary for this type of financing, including limitations on the incurrence of additional indebtedness, liens, 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 New 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).

Litigation

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

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

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

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

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

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

Executive Overview

Established in 2002, Vince is a global luxury apparel and accessories brand best known for creating elevated yet understated pieces for every day. The collections are inspired by the brand's California origins and embody a feeling of warm and effortless style. Vince designs uncomplicated yet refined pieces that approach dressing with a sense of ease. Known for its range of luxury products, Vince offers wide array of women's and men's ready-to-wear, shoes, and capsule collection of handbags, and home for a global lifestyle. Vince products are sold in prestige locations worldwide. Additionally, we have recently entered into limited distribution arrangements with Nordstrom, Inc. and Neiman Marcus Group LTD in order to rationalize our department store distribution strategy which is intended to improve profitability in the Wholesale segment in the future and to enable us to focus on other areas of growth for the brand, particularly in the Direct-to-consumer segment. We plan to capture the sales from exited wholesale doors through our retail and e-commerce businesses while collaborating with the wholesale partners in various areas including merchandising and logistics to build a more profitable and focused wholesale business.

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

The following is a summary of highlights during the three months ended August 4, 2018:

- Our net sales totaled \$63,128, reflecting a 3.8% increase compared to prior year net sales of \$60,822.
- Our Wholesale net sales decreased 3.6% to \$37,844 and our Direct-to-consumer net sales increased 17.2% to \$25,284. Comparable sales, including e-commerce, increased 14.4% compared to last year.
- Selling, general, and administrative expenses were \$30,143, a decrease of \$4,273 or 12.4% compared to \$34,416 in the prior year.
- Net loss for the quarter was \$3,822, or \$0.33 per share, compared to \$10,134, or \$2.05 per share, in the prior year.
- We opened two new retail stores and closed one retail store during the quarter.
- As of August 4, 2018, we had \$64,400 of total debt principal outstanding, comprised of \$29,000 outstanding under our Term Loan Facility and \$35,400 outstanding on our Revolving Credit Facility, as well as \$5,321 of cash and cash equivalents.

Results of Operations

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

	Three Months Ended				Six Months Ended			
	August 4, 2018		July 29, 2017		August 4, 2018		July 29, 2017	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales
(in thousands, except per share data, store counts and percentages)								
Statements of Operations:								
Net sales	\$ 63,128	100.0%	\$ 60,822	100.0%	\$ 117,642	100.0%	\$ 118,867	100.0%
Cost of products sold	35,409	56.1%	35,266	58.0%	64,387	54.7%	67,720	57.0%
Gross profit	27,719	43.9%	25,556	42.0%	53,255	45.3%	51,147	43.0%
Selling, general and administrative expenses	30,143	47.7%	34,416	56.6%	60,043	51.1%	68,200	57.3%
Loss from operations	(2,424)	(3.8)%	(8,860)	(14.6)%	(6,788)	(5.8)%	(17,053)	(14.3)%
Interest expense, net	1,297	2.1%	1,276	2.1%	2,586	2.2%	2,320	2.0%
Other (income) expense, net	73	0.1%	2	0.0%	9	0.0%	3	0.0%
Loss before income taxes	(3,794)	(6.0)%	(10,138)	(16.7)%	(9,383)	(8.0)%	(19,376)	(16.3)%
Provision for income taxes	28	0.1%	(4)	0.0%	76	0.0%	48	0.0%
Net loss and comprehensive loss	\$ (3,822)	(6.1)%	\$ (10,134)	(16.7)%	\$ (9,459)	(8.0)%	\$ (19,424)	(16.3)%
Loss per share:								
Basic loss per share	\$ (0.33)		\$ (2.05)		\$ (0.81)		\$ (3.93)	
Diluted loss per share	\$ (0.33)		\$ (2.05)		\$ (0.81)		\$ (3.93)	
Other Operating and Financial Data:								
Total stores at end of period	58		55		58		55	
Comparable sales growth (1) (2)	14.4%		(0.8)%		13.3%		(3.3)%	

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

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

Three Months Ended August 4, 2018 Compared to Three Months Ended July 29, 2017

Net sales for the three months ended August 4, 2018 were \$63,128, increasing \$2,306, or 3.8%, versus \$60,822 for the three months ended July 29, 2017. Net sales by reportable segment were as follows:

	Three Months Ended	
	August 4, 2018	July 29, 2017
(in thousands)		
Wholesale	\$ 37,844	\$ 39,250
Direct-to-consumer	25,284	21,572
Total net sales	\$ 63,128	\$ 60,822

Net sales from our Wholesale segment decreased \$1,406, or 3.6%, to \$37,844 in the three months ended August 4, 2018 from \$39,250 in the three months ended July 29, 2017, due to the planned reduction in full-price wholesale partners.

Net sales from our Direct-to-consumer segment increased \$3,712, or 17.2%, to \$25,284 in the three months ended August 4, 2018 from \$21,572 in the three months ended July 29, 2017. Comparable sales increased \$3,008, or 14.4%, including e-commerce, primarily due to increases in average unit retail and number of transactions. Non-comparable sales contributed \$704 of sales growth. Since July 29, 2017, three net new stores have opened, bringing our total retail store count to 58 as of August 4, 2018, compared to 55 as of the end of the prior year period.

Gross profit increased 8.5% to \$27,719 for the three months ended August 4, 2018 from \$25,556 in the prior year second quarter. As a percentage of sales, gross margin was 43.9%, compared with 42.0% in the prior year second quarter. The total gross margin rate increase was primarily driven by the following factors:

- The favorable impact of lower supply chain costs contributed approximately 200 basis points of improvement;
- The favorable impact in channel mix contributed approximately 70 basis points of improvement; and
- The unfavorable impact from year-over-year adjustments to inventory reserves contributed negatively by approximately 80 basis points.

Selling, general and administrative (“SG&A”) expenses for the three months ended August 4, 2018 were \$30,143, decreasing \$4,273, or 12.4%, versus \$34,416 for the three months ended July 29, 2017. SG&A expenses as a percentage of sales were 47.7% and 56.6% for the three months ended August 4, 2018 and July 29, 2017, respectively. The change in SG&A expenses compared to the prior fiscal year period was primarily due to:

- \$1,319 of costs incurred in the prior year associated with the remediation and optimization of the systems implemented during fiscal 2016 which were not incurred in the current year;
- \$1,248 of decreased severance costs;
- \$1,078 of decreased product development costs; and
- \$999 of additional one-time investments incurred in the prior year primarily associated with our efforts to reduce costs and improve profitability which were not incurred in the current year.

The above decreases were partially offset by:

- \$353 of increased compensation and benefits.

Loss from operations by segment for the three months ended August 4, 2018 and July 29, 2017 is summarized in the following table:

(in thousands)	Three Months Ended	
	August 4, 2018	July 29, 2017
Wholesale	\$ 9,388	\$ 10,462
Direct-to-consumer	414	(1,782)
Subtotal	9,802	8,680
Unallocated corporate expenses	(12,226)	(17,540)
Total loss from operations	\$ (2,424)	\$ (8,860)

Operating income from our Wholesale segment decreased \$1,074, or 10.3%, to \$9,388 in the three months ended August 4, 2018 from \$10,462 in the three months ended July 29, 2017 primarily driven by the decrease in net sales.

Operating income from our Direct-to-consumer segment increased \$2,196, or 123.2%, to \$414 in the three months ended August 4, 2018 from a loss of \$1,782 in the three months ended July 29, 2017 primarily driven by the sales increase discussed above.

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

Interest expense increased \$21, or 1.6%, to \$1,297 in the three months ended August 4, 2018 from \$1,276 in the three months ended July 29, 2017.

Other (income) expense, net increased \$71 to \$73 in the three months ended August 4, 2018 from \$2 in the three months ended July 29, 2017.

Provision for income taxes for the three months ended August 4, 2018 was \$28 as compared to a benefit of \$4 for the three months ended July 29, 2017. On December 22, 2017, U.S. tax reform legislation known as the Tax Cuts and Jobs Act (“TCJA”) was signed into law. The TCJA makes substantial changes to U.S. tax law, including a reduction in the corporate tax rate from 35% to 21%, a limitation on deductibility of interest expense, a limitation on the use of net operating losses to offset future taxable income, and the allowance of immediate expensing of capital expenditures. Our effective tax rate for the three months ended August 4, 2018 and July 29, 2017 was 0.7% and 0.0%, respectively. The effective tax rate for the three months ended August 4, 2018 and July 29, 2017 differed from the U.S. statutory rate of 21% and 35%, respectively, primarily due to the impact of the valuation allowance established against our deferred tax assets partly offset by state taxes.

Six Months Ended August 4, 2018 Compared to Six Months Ended July 29, 2017

Net sales for the six months ended August 4, 2018 were \$117,642, decreasing \$1,225, or 1.0%, versus \$118,867 for the six months ended July 29, 2017. Net sales by reportable segment were as follows:

(in thousands)	Six Months Ended	
	August 4, 2018	July 29, 2017
Wholesale	\$ 66,339	\$ 74,657
Direct-to-consumer	51,303	44,210
Total net sales	\$ 117,642	\$ 118,867

Net sales from our Wholesale segment decreased \$8,318, or 11.1%, to \$66,339 in the six months ended August 4, 2018 from \$74,657 in the six months ended July 29, 2017, primarily due to the planned reduction in full-price wholesale partners.

Net sales from our Direct-to-consumer segment increased \$7,093, or 16.0%, to \$51,303 in the six months ended August 4, 2018 from \$44,210 in the six months ended July 29, 2017. Comparable sales increased \$5,788, or 13.3%, including e-commerce, primarily due to increases in transactions and average unit retail. Non-comparable sales contributed \$1,305 of sales growth. Since July 29, 2017, net of three new stores have opened, bringing our total retail store count to 58 as of August 4, 2018, compared to 55 as of the end of the prior year period.

Gross profit increased 4.1% to \$53,255 for the six months ended August 4, 2018 from \$51,147 in the same prior year period. As a percentage of sales, gross margin was 45.3%, compared with 43.0% in the same prior year period. The total gross margin rate increase was primarily driven by the following factors:

- The favorable impact of lower product and supply chain costs contributed approximately 220 basis points of improvement;
- The favorable impact in channel mix contributed approximately 160 basis points of improvement; and
- The unfavorable impact from year-over-year adjustments to inventory reserves contributed negatively by approximately 140 basis points.

Selling, general and administrative (“SG&A”) expenses for the six months ended August 4, 2018 were \$60,043, decreasing \$8,157, or 12.0%, versus \$68,200 for the six months ended July 29, 2017. SG&A expenses as a percentage of sales were 51.1% and 57.3% for the six months ended August 4, 2018 and July 29, 2017, respectively. The change in SG&A expenses compared to the prior fiscal year period was primarily due to:

- \$3,090 of decreased product development costs;
- \$2,962 of costs incurred in the prior year associated with the remediation and optimization of the systems implemented during fiscal 2016 which were not incurred in the current year;
- \$1,358 of decreased severance costs; and
- \$932 of additional one-time investments incurred in the prior year primarily associated with our efforts to reduce costs and improve profitability which were not incurred in the current year.

Loss from operations by segment for the six months ended August 4, 2018 and July 29, 2017 is summarized in the following table :

(in thousands)	Six Months Ended	
	August 4, 2018	July 29, 2017
Wholesale	\$ 16,309	\$ 19,428
Direct-to-consumer	1,652	(3,084)
Subtotal	17,961	16,344
Unallocated corporate expenses	(24,749)	(33,397)
Total loss from operations	\$ (6,788)	\$ (17,053)

Operating income from our Wholesale segment decreased \$3,119, or 16.1%, to \$16,309 in the six months ended August 4, 2018 from \$19,428 in the six months ended July 29, 2017 primarily driven by the decrease in net sales.

Operating income from our Direct-to-consumer segment increased \$4,736, or 153.6%, to \$1,652 in the six months ended August 4, 2018 from a loss of \$3,084 in the six months ended July 29, 2017 primarily driven by the sales increase discussed above.

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

Interest expense increased \$266, or 11.5%, to \$2,586 in the six months ended August 4, 2018 from \$2,320 in the six months ended July 29, 2017 primarily due to increased financing fees as a result of the amendments to the Term Loan Facility and Revolving Credit Facility.

Other (income) expense, net increased \$6, or 200.0% to \$9 in the six months ended August 4, 2018 from \$3 in the six months ended July 29, 2017.

Provision for income taxes for the six months ended August 4, 2018 was \$76 as compared to \$48 for the six months ended July 29, 2017. On December 22, 2017, U.S. tax reform legislation known as the Tax Cuts and Jobs Act (“TCJA”) was signed into law. The TCJA makes substantial changes to U.S. tax law, including a reduction in the corporate tax rate from 35% to 21%, a limitation on deductibility of interest expense, a limitation on the use of net operating losses to offset future taxable income, and the allowance of immediate expensing of capital expenditures. Our effective tax rate for the six months ended August 4, 2018 and July 29, 2017 was 0.8% and 0.2%, respectively. The effective tax rate for the six months ended August 4, 2018 and July 29, 2017 differed from the U.S. statutory rate of 21% and 35%, respectively, primarily due to the impact of the valuation allowance established against our deferred tax assets partly offset by state taxes.

Liquidity and Capital Resources

Our sources of liquidity are cash and cash equivalents, cash flows from operations, if any, borrowings available under our revolving credit facility and our ability to access the capital markets. Our primary cash needs are funding working capital requirements, meeting our debt service requirements, paying amounts due under the Tax Receivable Agreement and capital expenditures for new stores and related leasehold improvements. The most significant components of our working capital are cash and cash equivalents, accounts receivable, inventories, accounts payable and other current liabilities. We believe that the actions taken by management as described in Note 1 “Description of Business and Basis of Presentation — (D) Sources and Uses of Liquidity ” will generate sufficient liquidity to meet our obligations during the next twelve months from the date the financial statements are issued. See Note 1 “Description of Business and Basis of Presentation — (D) Sources and Uses of Liquidity ” within the notes to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q for additional details.

Operating Activities

(in thousands)	Six Months Ended	
	August 4, 2018	July 29, 2017
Operating activities		
Net loss	\$ (9,459)	\$ (19,424)
Add (deduct) items not affecting operating cash flows:		
Depreciation and amortization	4,100	4,891
Provision for inventories	107	—
Loss on disposal of property and equipment	259	—
Deferred rent	(661)	(480)
Share-based compensation expense	593	483
Other	490	442
Changes in assets and liabilities:		
Receivables, net	(2,239)	(8,603)
Inventories	(12,802)	(3,313)
Prepaid expenses and other current assets	123	(2,166)
Accounts payable and accrued expenses	5,973	(9,376)
Other assets and liabilities	80	(231)
Net cash used in operating activities	<u>\$ (13,436)</u>	<u>\$ (37,777)</u>

Net cash used in operating activities during the six months ended August 4, 2018 was \$13,436, which consisted of a net loss of \$9,459, impacted by non-cash items of \$4,888 and cash used in working capital of \$8,865. Net cash used in working capital primarily resulted from a cash outflow of \$12,802 in inventories primarily due to an earlier receipt of inventory for the fall season and the planned product returns from exited wholesale partners, and cash outflow of \$2,239 in receivables, net, offset by a cash inflow in accounts payable and accrued expenses of \$5,973 primarily due to the timing of payments to vendors.

Net cash used in operating activities during the six months ended July 29, 2017 was \$37,777, which consisted of a net loss of \$19,424, impacted by non-cash items of \$5,336 and cash used in working capital of \$23,689. Net cash used in working capital primarily resulted from a cash outflow in accounts payable and accrued expenses of \$9,376 due to the timing of payments to vendors and a cash outflow of \$8,603 in receivables, net primarily driven by the timing of collections.

Investing Activities

(in thousands)	Six Months Ended	
	August 4, 2018	July 29, 2017
Investing activities		
Payments for capital expenditures	\$ (1,026)	\$ (2,716)
Net cash used in investing activities	<u>\$ (1,026)</u>	<u>\$ (2,716)</u>

Net cash used in investing activities of \$1,026 during the six months ended August 4, 2018 represents capital expenditures primarily related to the investment in our retail store build-outs, including leasehold improvements and store fixtures.

Net cash used in investing activities of \$2,716 during the six months ended July 29, 2017 represents capital expenditures primarily related to the investment in our retail store build-outs, including leasehold improvements and store fixtures and our new systems.

Financing Activities

(in thousands)	Six Months Ended	
	August 4, 2018	July 29, 2017
Financing activities		
Proceeds from borrowings under the Revolving Credit Facility	\$ 105,062	\$ 149,998
Repayment of borrowings under the Revolving Credit Facility	(86,562)	(126,682)
Repayment of borrowings under the Term Loan Facility	(4,000)	—
Proceeds from stock option exercises and issuance of common stock under employee stock purchase plan	—	32
Financing fees	(90)	(15)
Net cash provided by financing activities	<u>\$ 14,410</u>	<u>\$ 23,333</u>

Net cash provided by financing activities was \$14,410 during the six months ended August 4, 2018, primarily consisting of \$18,500 of net proceeds from borrowings under our Revolving Credit Facility, partly offset by \$4,000 of payments under the Term Loan Facility.

Net cash provided by financing activities was \$23,333 during the six months ended July 29, 2017, primarily consisting of \$23,316 of net proceeds from borrowings under our Revolving Credit Facility.

On August 21, 2018, the Company refinanced its existing Term Loan Facility (as defined below) and Revolving Credit Facility (as defined below) by entering into a new \$27,500 senior secured term loan facility and a new \$80,000 senior secured revolving credit facility. All outstanding amounts under the existing facilities were repaid in full and those existing credit facilities were terminated. See Note 12 “Subsequent Events” within the notes to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q for additional details.

Revolving Credit Facility

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

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

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

The Revolving Credit Facility also contained representations and warranties, other covenants and events of default that are customary for this type of financing, including limitations on the incurrence of additional indebtedness, liens, negative pledges, guarantees, investments, loans, asset sales, mergers, acquisitions, prepayment of other debt, the repurchase of capital stock, transactions with affiliates, and the ability to change the nature of the Company’s business or its fiscal year. The Revolving Credit Facility generally permitted dividends in the absence of any event of default (including any event of default arising from the contemplated dividend), so long as (i) after giving pro forma effect to the contemplated dividend, for the following six months Excess Availability would have been at least the greater of 20% of the adjusted loan cap and \$10,000 and (ii) after giving pro forma effect to the contemplated dividend, the “Consolidated Fixed Charge Coverage Ratio” for the 12 months preceding such dividend would have been 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 was at least the greater of 35% of the adjusted loan cap and \$15,000). As of August 4, 2018, we were in compliance with applicable financial covenants. The second amendment replaced and superseded all side letters previously entered into between Vince, LLC and BofA.

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

As of August 4, 2018, \$23,723 was available under the Revolving Credit Facility, net of the amended loan cap, and there were \$35,400 of borrowings outstanding and \$7,230 of letters of credit outstanding under the Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the Revolving Credit Facility as of August 4, 2018 was 4.1%.

As of July 29, 2017, the availability under the Revolving Credit Facility was \$18,091 net of the amended loan cap and there were \$28,516 of borrowings outstanding and \$8,378 of letters of credit outstanding under the Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the Revolving Credit Facility as of July 29, 2017 was 3.8%.

Bank of Montreal Facility

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

Term Loan Facility

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

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

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

The Term Loan Facility contained a requirement that Vince, LLC and Vince Intermediate maintained a “Consolidated Net Total Leverage Ratio” as of the last day of any period of four fiscal quarters not to exceed 3.25 to 1.00. The Term Loan Facility permitted Vince Holding Corp. to make a Specified Equity Contribution, as defined under the Agreement, to the Borrowers in order to increase, dollar for dollar, Consolidated EBITDA for such fiscal quarter for the purposes of determining compliance with this covenant at the end of such fiscal quarter and applicable subsequent periods provided that (a) in each four fiscal quarter period there were at least two fiscal quarters in which no Specified Equity Contribution was made; (b) no more than five Specified Equity Contributions were made in the aggregate during the term of the Agreement; and (c) the amount of any Specified Equity Contribution was no greater than the amount required to cause the Company to be in compliance with this covenant. Approximately \$18,072 were contributed by Vince Holding Corp. to Vince, LLC as Specified Equity Contributions. As discussed above, the Term Loan Amendment waived the Consolidated Net Total Leverage Ratio covenant for the test periods from July 2017 through and including April 2019.

In addition, the Term Loan Facility contained customary representations and warranties, other covenants, and events of default, including but not limited to, limitations on the incurrence of additional indebtedness, liens, negative pledges, guarantees, investments, loans, asset sales, mergers, acquisitions, prepayment of other debt, the repurchase of capital stock, transactions with affiliates, and the ability to change the nature of the Company’s business or its fiscal year, and distributions and dividends. The Term Loan Facility generally permitted dividends to the extent that no default or event of default was continuing or would have resulted from the contemplated dividend and the pro forma Consolidated Net Total Leverage Ratio after giving effect to such contemplated dividend was at least 0.25 lower than the maximum Consolidated Net Total Leverage Ratio for such quarter in an amount not to exceed the excess available amount, as defined in the loan agreement. All obligations under the Term Loan Facility were guaranteed by VHC and any future material domestic restricted subsidiaries of Vince, LLC and secured by a lien on substantially all of the assets of VHC, Vince, LLC and Vince Intermediate and any future material domestic restricted subsidiaries. As of August 4, 2018, after giving effect to the waiver described above, we were in compliance with applicable covenants.

Through August 4, 2018, on an inception to date basis, we have made voluntary repayments totaling \$ 1 4 6 ,000 in the aggregate on the original \$175 ,000 Term Loan Facility entered into on November 27, 2013 with \$ 4 ,000 of such repayments made during the six months ended August 4, 2018. As of August 4, 2018, the Company had \$ 29 ,000 of debt outstanding under the Term Loan Facility.

Off-Balance Sheet Arrangements

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

Seasonality

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

Inflation

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

Critical Accounting Policies and Estimates

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

A summary of our critical accounting policies is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2017 Annual Report on Form 10-K. As of August 4, 2018, there have been no material changes to the critical accounting policies contained therein except for the adoption of ASC Topic 606, "*Revenue from Contracts with Customers*". See Note 9 "Recent Accounting Pronouncements" to the condensed consolidated financial statements in this Form 10-Q for additional information.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our principal market risk relates to interest rate sensitivity, which is the risk that changes in interest rates will reduce our net income or net assets. Our variable rate debt currently consists of borrowings under the New Term Loan Facility and New Revolving Credit Facility. The interest rate on the New Term Loan Facility is based on a rate equal to the 90-day LIBOR rate (subject to a 0% floor) plus applicable margins subject to a pricing grid based on a minimum Consolidated EBITDA calculation (as defined in the New Term Loan Facility). The interest rate on the New Revolving Credit Facility is based on the LIBOR or the Base Rate with applicable margins subject to a pricing grid based on an average daily excess availability calculation (as defined in the New Revolving Credit Facility).

As of August 4, 2018, our variable rate debt consisted of borrowings under the Term Loan Facility and Revolving Credit Facility. The interest rate on the Term Loan Facility was based on (i) the Eurodollar rate (which was subject to a 1.00% floor) plus an applicable margin of 7.00% or (ii) the base rate applicable margin of 6.00%. The interest rate on the Revolving Credit Facility was based on the LIBOR or the Base Rate (which was defined in the Revolving Credit Facility) with applicable margins that were subject to a pricing grid which was based on an average daily excess availability calculation. As of August 4, 2018, a one percentage point increase in the interest rate on the variable rate debt would have resulted in additional interest expense of approximately \$644 for the \$64,400 of borrowings outstanding under the Term Loan Facility and Revolving Credit Facility as of such date, calculated on an annual basis.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act) as of August 4, 2018.

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

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

Material Weaknesses in Internal Control over Financial Reporting

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

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

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

The material weaknesses above, which were initially identified during fiscal 2016, contributed to a third material weakness during fiscal 2017 where we did not maintain an effective control environment over the internal control activities to ensure the processing and reporting of transactions are complete, accurate, and timely. Specifically, we have not designed and implemented a sufficient level of formal financial reporting and operating policies and procedures that define how transactions across the business cycles should be initiated, recorded, processed, authorized, monitored, approved and appropriately reported, including presentation and disclosure within the financial statements.

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

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

Remediation Plan

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

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

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

- The Company established an IT Steering Committee which adopted comprehensive information technology governance policies and procedures;
- The Company implemented segregation of duties and internal controls related to the payroll system; and
- The Company modified system access rights of all retail store personnel, the largest group of systems users, with segregation of duties commensurate to the job responsibilities.

We continue to make progress on our remediation and our goal is to implement the remaining control improvements and to fully remediate these material weaknesses during fiscal 2018, subject to there being sufficient opportunities to conclude, through testing, that the implemented controls are operating effectively. Until the controls are remediated, we will continue to perform additional analysis, substantive testing and other post-closing procedures to ensure that our consolidated financial statements are prepared in accordance with U.S. GAAP.

Limitations on the Effectiveness of Disclosure Controls and Procedures

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 7, 2018, a complaint was filed in the United States District Court for the Eastern District of New York by certain stockholders, naming us as well as Brendan Hoffman, our Chief Executive Officer, David Stefko, our Executive Vice President, Chief Financial Officer, one of our directors, certain of our former officers and directors, and Sun Capital Partners, Inc. and certain of its affiliates, as defendants. The complaint generally alleges that we and the named parties made false and/or misleading statements

and /or failed to disclose matters relating to the transition of our ERP systems from Kellwood. The complaint brings causes of action for violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Rule 10b-5 promulgated under the Exchange Act against us and the named parties and for violations of Section 20(a) of the Exchange Act against the individual parties, Sun Capital Partners, Inc. and its affiliates. The complaint seeks unspecified monetary damages and unspecified costs and fees.

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

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

ITEM 1A. RISK FACTORS

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ David Stefko</u> David Stefko	Executive Vice President, Chief Financial Officer (as duly authorized officer and principal financial officer)	September 13, 2018

**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)
September 13, 2018

**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)

September 13, 2018

**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 August 4, 2018 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)
September 13, 2018

**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 August 4, 2018 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)

September 13, 2018