
**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 October 29, 2016

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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

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 November 30, 2016
49,421,024 shares

VINCE HOLDING CORP. AND SUBSIDIARIES

TABLE OF CONTENTS

	<u>Page Number</u>
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Condensed Consolidated Financial Statements:</u>	
a) <u>Condensed Consolidated Balance Sheets at October 29, 2016 (unaudited) and January 30, 2016</u>	4
b) <u>Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended October 29, 2016 and October 31, 2015</u>	5
c) <u>Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended October 29, 2016 and October 31, 2015</u>	6
d) <u>Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended October 29, 2016 and October 31, 2015</u>	7
e) <u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3. <u>Quantitative and Qualitative Disclosure About Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	29
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	29
Item 1A. <u>Risk Factors</u>	30
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 3. <u>Defaults Upon Senior Securities</u>	31
Item 4. <u>Mine Safety Disclosures</u>	31
Item 5. <u>Other Information</u>	31
Item 6. <u>Exhibits</u>	31

DISCLOSURES REGARDING FORWARD-LOOKING STATEMENTS

This report on Form 10-Q, and any statements incorporated by reference herein, contains forward-looking statements under the Private Securities Litigation Reform Act of 1995. 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 maintain adequate cash flow from operations or availability under our revolving credit facility to meet our liquidity needs (including our obligations under the Tax Receivable Agreement with the Pre-IPO Stockholders); our ability to successfully complete the migration of our systems and processes from Kellwood Company and to successfully implement the new systems, processes and functions following the migration; our ability to ensure the proper operation of the distribution facility by a third party logistics provider recently transitioned from Kellwood; our ability to remain competitive in the areas of merchandise quality, price, breadth of selection and customer service; our ability to anticipate and/or react to changes in customer demand and attract new customers, including in connection with making inventory commitments; our ability to control the level of sales in the off-price channels; our ability to manage excess inventory in a way that will promote the long-term health of the brand; changes in consumer confidence and spending; our ability to maintain projected profit margins; unusual, unpredictable and/or severe weather conditions; the execution and management of our retail store growth plans, including the availability and cost of acceptable real estate locations for new store openings; the execution and management of our international expansion, including our ability to promote our brand and merchandise outside the U.S. and find suitable partners in certain geographies; our ability to expand our product offerings into new product categories, including the ability to find suitable licensing partners; our ability to successfully implement our marketing initiatives; our ability to protect our trademarks in the U.S. and internationally; our ability to maintain the security of electronic and other confidential information; serious disruptions and catastrophic events; changes in global economies and credit and financial markets; competition; the impact of recent turnover in the senior management team; the fact that a number of members of the management team have less than one year of tenure with the Company, and the current senior management team has not had a long period of time working together; our ability to attract and retain key personnel; commodity, raw material and other cost increases; compliance with domestic and international laws, regulations and orders; changes in laws and regulations; outcomes of litigation and proceedings and the availability of insurance, indemnification and other third-party coverage of any losses suffered in connection therewith; tax matters; and other factors as set forth from time to time in our Securities and Exchange Commission filings, including those described in this report on Form 10-Q and our 2015 annual report on Form 10-K filed with the Securities and Exchange Commission on April 14, 2016 (our “2015 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)

	October 29, 2016	January 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,705	\$ 6,230
Trade receivables, net	16,613	9,400
Inventories, net	34,420	36,576
Prepaid expenses and other current assets	8,736	8,027
Total current assets	<u>80,474</u>	<u>60,233</u>
Property, plant and equipment, net	46,097	37,769
Intangible assets, net	108,597	109,046
Goodwill	63,746	63,746
Deferred income taxes and other assets	97,429	92,774
Total assets	<u>\$ 396,343</u>	<u>\$ 363,568</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 23,790	\$ 28,719
Accrued salaries and employee benefits	2,738	5,755
Other accrued expenses	13,226	37,174
Total current liabilities	<u>39,754</u>	<u>71,648</u>
Long-term debt	50,736	57,615
Deferred rent	16,795	14,965
Other liabilities	140,843	140,838
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock at \$0.01 par value (100,000,000 shares authorized, 49,417,711 and 36,779,417 shares issued and outstanding at October 29, 2016 and January 30, 2016, respectively)	494	368
Additional paid-in capital	1,082,775	1,012,677
Accumulated deficit	(934,989)	(934,478)
Accumulated other comprehensive loss	(65)	(65)
Total stockholders' equity	<u>148,215</u>	<u>78,502</u>
Total liabilities and stockholders' equity	<u>\$ 396,343</u>	<u>\$ 363,568</u>

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

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

	Three Months Ended		Nine Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net sales	\$ 75,973	\$ 80,859	\$ 204,320	\$ 220,694
Cost of products sold	38,015	40,854	110,717	129,159
Gross profit	37,958	40,005	93,603	91,535
Selling, general and administrative expenses	31,895	27,662	95,343	80,633
Income (loss) from operations	6,063	12,343	(1,740)	10,902
Interest expense, net	1,023	1,428	2,909	4,367
Other expense, net	191	899	379	1,390
Income (loss) before income taxes	4,849	10,016	(5,028)	5,145
Provision (benefit) for income taxes	1,469	4,123	(4,517)	1,824
Net income (loss)	\$ 3,380	\$ 5,893	\$ (511)	\$ 3,321
Earnings (loss) per share:				
Basic earnings (loss) per share	\$ 0.07	\$ 0.16	\$ (0.01)	\$ 0.09
Diluted earnings (loss) per share	\$ 0.07	\$ 0.16	\$ (0.01)	\$ 0.09
Weighted average shares outstanding:				
Basic	49,287,448	36,775,443	45,419,661	36,767,770
Diluted	49,479,905	36,816,972	45,419,661	37,633,633

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)
(in thousands, unaudited)

	Three Months Ended		Nine Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net income (loss)	\$ 3,380	\$ 5,893	\$ (511)	\$ 3,321
Comprehensive income (loss)	\$ 3,380	\$ 5,893	\$ (511)	\$ 3,321

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

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

	Nine Months Ended	
	October 29, 2016	October 31, 2015
Operating activities		
Net income (loss)	\$ (511)	\$ 3,321
Add (deduct) items not affecting operating cash flows:		
Depreciation and amortization	6,203	6,240
Provision for inventories	815	17,988
Deferred rent	596	1,536
Deferred income taxes	(4,710)	2,871
Share-based compensation expense	1,383	706
Other	456	1,268
Changes in assets and liabilities:		
Receivables, net	(7,213)	14,929
Inventories	1,341	(24,464)
Prepaid expenses and other current assets	9	848
Accounts payable and accrued expenses	(32,706)	(1,904)
Other assets and liabilities	185	795
Net cash (used in) provided by operating activities	<u>(34,152)</u>	<u>24,134</u>
Investing activities		
Payments for capital expenditures	(12,677)	(14,107)
Net cash used in investing activities	<u>(12,677)</u>	<u>(14,107)</u>
Financing activities		
Proceeds from borrowings under the Revolving Credit Facility	118,567	108,423
Repayment of borrowings under the Revolving Credit Facility	(125,767)	(98,514)
Repayment of borrowings under the Term Loan Facility	—	(20,000)
Proceeds from common stock issuance, net of transaction costs	63,773	—
Stock option exercise and issuance of common stock under employee stock purchase plan	4,731	175
Fees paid for Term Loan Facility and Revolving Credit Facility	—	(99)
Net cash provided by (used in) financing activities	<u>61,304</u>	<u>(10,015)</u>
Increase in cash and cash equivalents	14,475	12
Cash and cash equivalents, beginning of period	6,230	112
Cash and cash equivalents, end of period	<u>\$ 20,705</u>	<u>\$ 124</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments on TRA obligation	\$ 22,262	\$ —
Cash payments for interest	2,107	2,945
Cash payments for income taxes, net of refunds	319	1,235
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Capital expenditures in accounts payable and accrued liabilities	1,447	517

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 (i) Kellwood Holding, LLC acquired the non-Vince businesses, which include Kellwood Company, LLC (“Kellwood Company” or “Kellwood”), from the Company and (ii) 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 and other businesses. 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”) retained full ownership and control of the non-Vince businesses through their ownership of Kellwood Holding, LLC. The Vince business is now the sole operating business of Vince Holding Corp.

In this interim report on Form 10-Q, “Kellwood” refers, as applicable and unless otherwise defined, to any of (i) Kellwood Company, (ii) Kellwood Company, LLC (a limited liability company to which Kellwood Company converted at the time of the Restructuring Transactions related to the IPO) or (iii) the operations of the non-Vince businesses after giving effect to the IPO and the related Restructuring Transactions.

(A) Description of Business: Established in 2002, Vince is a global luxury brand best known for utilizing luxe fabrications and innovative techniques to create a product assortment that combines urban utility and modern effortless style. From its edited core collection of ultra-soft cashmere knits and cotton tees, Vince has evolved into a global lifestyle brand and destination for both women’s and men’s apparel and accessories. The Company reaches its customers through a variety of channels, specifically through major wholesale department stores and specialty stores in the United States (“U.S.”) and select international markets, as well as through the Company’s branded retail locations and the Company’s website. The Company designs products in the U.S. and sources the vast majority of products from contract manufacturers outside the U.S., primarily in Asia and South America. 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 (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. Therefore, these financial statements should be read in conjunction with VHC’s audited financial statements for the fiscal year ended January 30, 2016, as set forth in the 2015 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 October 29, 2016. All intercompany accounts and transactions have been eliminated. In the opinion of management, the financial statements contain all adjustments (consisting solely of normal recurring adjustments) and disclosures necessary to make the information presented therein not misleading. The results of operations for these periods are not necessarily comparable to, or indicative of, results of any other interim period or the fiscal year as a whole.

(C) Rights Offering: During fiscal year 2015 and fiscal year 2016, the Company has made strategic investments for the future growth of the Vince brand. Management believes these significant investments are essential to the commitment to developing a strong foundation from which the Company can drive consistent profitable growth for the long term. In order to enhance the Company’s liquidity position in support of these investments, during the three months ended April 30, 2016, the Company completed a rights offering (the “Rights Offering”) whereby the Company received subscriptions and over-subscriptions from its existing stockholders for a total of 11,622,518 shares of its common stock, and received gross proceeds of \$63,924. Simultaneous with the closing of the Rights Offering, the Company received \$1,076 of proceeds from a related Investment Agreement entered into with Sun Cardinal, LLC and SCSF Cardinal, LLC, affiliates of Sun Capital Partners, Inc. (collectively the “Investors”) and issued to the Investors 195,663 shares of its common stock in connection therewith. See Note 11 “Related Party Transactions” for additional details. As a result of the Rights Offering and related Investment Agreement transactions, the Company received total gross proceeds of \$65,000, issued 11,818,181 shares of its common stock and recorded increases of \$118 within Common Stock and \$63,992 within Additional paid-in capital on the condensed consolidated balance sheet.

The Company used a portion of the net proceeds received from the Rights Offering and related Investment Agreement to (1) repay the amount owed by the Company under the Tax Receivable Agreement with Sun Cardinal, for itself and as a representative of the other stockholders party thereto, for the tax benefit with respect to the 2014 taxable year including accrued interest, totaling \$22,262 (see Note 11 “Related Party Transactions” for additional details), and (2) repay all then outstanding indebtedness, totaling \$20,000, under the Revolving Credit Facility. The Company intends to use the remaining net proceeds, which funds are held by Vince Holding Corp. until needed by its operating subsidiary, for additional strategic investments and general corporate purposes, which may include future amounts owed by the Company under the Tax Receivable Agreement.

Management believes that the Company’s cash and cash equivalents, expected cash flow from operations and amounts available under the Revolving Credit Facility will be sufficient to comply with any covenants under the Term Loan Facility and the Revolving Credit Facility, fund the Company’s debt service requirements, fund the Company’s obligations under the Tax Receivable Agreement, and fund planned capital expenditures and working capital needs for at least the next twelve months. However, there can be no assurance that the Company will be able to achieve its strategic initiatives in the future and failure to do so would have a significant adverse effect on the Company’s operations.

Note 2. Goodwill and Intangible Assets

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

(in thousands)	<u>Wholesale</u>	<u>Direct-to-consumer</u>	<u>Total Net Goodwill</u>
Balance as of October 29, 2016	\$ 41,435	\$ 22,311	\$ 63,746
Balance as of January 30, 2016	\$ 41,435	\$ 22,311	\$ 63,746

The total carrying amount of goodwill for all periods presented was net of accumulated impairments of \$46,942.

Identifiable intangible assets summary:

(in thousands)	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Balance as of October 29, 2016			
Amortizable intangible assets:			
Customer relationships	\$ 11,970	\$ (5,223)	\$ 6,747
Indefinite-lived intangible assets:			
Trademarks	101,850	—	101,850
Total intangible assets	<u>\$ 113,820</u>	<u>\$ (5,223)</u>	<u>\$ 108,597</u>

(in thousands)	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Balance as of January 30, 2016			
Amortizable intangible assets:			
Customer relationships	\$ 11,970	\$ (4,774)	\$ 7,196
Indefinite-lived intangible assets:			
Trademarks	101,850	—	101,850
Total intangible assets	<u>\$ 113,820</u>	<u>\$ (4,774)</u>	<u>\$ 109,046</u>

Amortization of identifiable intangible assets was \$150 and \$149 for the three months ended October 29, 2016 and October 31, 2015, respectively, and \$449 and \$448 for the nine months ended October 29, 2016 and October 31, 2015, respectively. The estimated amortization expense for identifiable intangible assets is \$598 for each fiscal year for the next five fiscal years.

Note 3. Fair Value

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 October 29, 2016 or January 30, 2016. At October 29, 2016 and January 30, 2016, the Company believes that the carrying value of cash and cash equivalents, receivables and accounts payable approximates fair value, due to the short maturity of these instruments and would be measured using Level 1 inputs. As the Company’s debt obligations as of October 29, 2016 are at variable rates, the fair value approximates the carrying value of the Company’s debt and would be measured using Level 2 inputs.

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 indefinite lived 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 as of October 29, 2016 and January 30, 2016:

(in thousands)	October 29, 2016	January 30, 2016
Term Loan Facility	\$ 45,000	\$ 45,000
Revolving Credit Facility	7,800	15,000
Total long-term debt principal	52,800	60,000
Less: Deferred financing costs	2,064	2,385
Total long-term debt	<u>\$ 50,736</u>	<u>\$ 57,615</u>

Term Loan Facility

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

The Term Loan Facility also provides for an incremental facility of up to the greater of \$50,000 and an amount that would result in the consolidated net total secured leverage ratio not exceeding 3.00 to 1.00, in addition to certain other rights to refinance or repurchase portions of the term loan. The Term Loan Facility is subject to quarterly amortization of principal equal to 0.25% of the original aggregate principal amount of the Term Loan Facility (adjusted to reflect any prepayments), with the balance payable at final maturity. Interest is payable on loans under the Term Loan Facility at a rate of either (i) the Eurodollar rate (subject to a 1.00% floor) plus an applicable margin of 4.75% to 5.00% based on a consolidated net total leverage ratio or (ii) the base rate applicable margin of 3.75% to 4.00% based on a consolidated net total leverage ratio. During the continuance of a payment or bankruptcy event of default, interest will accrue (i) on the overdue principal amount of any loan at a rate of 2% in excess of the rate otherwise applicable to such loan and (ii) on any overdue interest or any other outstanding overdue amount at a rate of 2% in excess of the non-default interest rate then applicable to base rate loans. The Term Loan Facility requires Vince, LLC and Vince Intermediate to make mandatory prepayments upon the occurrence of certain events, including additional debt issuances, common and preferred stock issuances, certain asset sales, and annual payments of 50% of excess cash flow, subject to reductions to 25% and 0% if Vince, LLC and Vince Intermediate maintain a Consolidated Net Total Leverage Ratio of 2.50 to 1.00 and 2.00 to 1.00, respectively, and subject to reductions for voluntary prepayments made during such fiscal year.

The Term Loan Facility contains a requirement that Vince, LLC and Vince Intermediate maintain a “Consolidated Net Total Leverage Ratio” as of the last day of any period of four fiscal quarters not to exceed 3.25 to 1.00. In addition, the Term Loan Facility contains customary representations and warranties, other covenants, and events of default, including but not limited to, limitations on the incurrence of additional indebtedness, liens, negative pledges, guarantees, investments, loans, asset sales, mergers, acquisitions, prepayment of other debt, the repurchase of capital stock, transactions with affiliates, and the ability to change the nature of its business or its fiscal year, and distributions and dividends. The Term Loan Facility generally permits dividends to the extent that no default or event of default is continuing or would result from the contemplated dividend and the pro forma Consolidated Net Total Leverage Ratio after giving effect to such contemplated dividend is at least 0.25 lower than the maximum Consolidated Net Total Leverage Ratio for such quarter in an amount not to exceed the excess available amount, as defined in the loan agreement. All obligations under the Term Loan Facility are guaranteed by VHC and any future material domestic restricted subsidiaries of Vince, LLC and secured by a lien on substantially all of the assets of VHC, Vince, LLC and Vince Intermediate and any future material domestic restricted subsidiaries. As of October 29, 2016, the Company was in compliance with applicable financial covenants.

Through October 29, 2016, on an inception to date basis, the Company has made voluntary prepayments totaling \$130,000 in the aggregate on the original \$175,000 Term Loan Facility entered into on November 27, 2013. Of the \$130,000 of aggregate voluntary prepayments made to date, \$0 was paid during the nine months ended October 29, 2016. As of October 29, 2016, the Company had \$45,000 of debt outstanding under the Term Loan Facility.

Revolving Credit Facility

On November 27, 2013, Vince, LLC entered into a \$50,000 senior secured revolving credit facility (as amended from time to time, the “Revolving Credit Facility”) with BofA as administrative agent. Vince, LLC is the borrower and VHC and Vince Intermediate are the guarantors under the Revolving Credit Facility. On June 3, 2015, Vince LLC entered into a first amendment to the Revolving Credit Facility, that among other things, increased the aggregate commitments under the facility from \$50,000 to \$80,000, subject to a loan cap which is the lesser of (i) the Borrowing Base, as defined in the loan agreement, (ii) the aggregate commitments, or (iii) \$70,000 until debt obligations under the Company’s term loan facility have been paid in full, and extended the maturity date from November 27, 2018 to June 3, 2020. The Revolving Credit Facility also provides for a letter of credit sublimit of \$25,000 (plus any increase in aggregate commitments) and an accordion option that allows for an increase in aggregate commitments up to \$20,000. Interest is payable on the loans under the Revolving Credit Facility at either the LIBOR or the Base Rate, in each case, plus an applicable margin of 1.25% to 1.75% for LIBOR loans or 0.25% to 0.75% for Base Rate loans, and in each case subject to a pricing grid based on an average daily excess availability calculation. The “Base Rate” means, for any day, a fluctuating rate per annum equal to the highest of (i) the rate of interest in effect for such day as publicly announced from time to time by BofA as its prime rate; (ii) the Federal Funds Rate for such day, plus 0.50%; and (iii) the LIBOR Rate for a one month interest period as determined on such day, plus 1.0%. During the continuance of an event of default and at the election of the required lender, interest will accrue at a rate of 2% in excess of the applicable non-default rate.

The Revolving Credit Facility contains a maintenance requirement that, at any point when “Excess Availability” is less than the greater of (i) 15% percent of the adjusted loan cap (without giving effect to item (iii) of the loan cap described above) or (ii) \$10,000, and continuing until Excess Availability exceeds the greater of such amounts for 30 consecutive days, during which time, Vince, LLC must maintain a consolidated EBITDA (as defined in the Revolving Credit Facility) equal to or greater than \$20,000 measured at the end of each applicable fiscal month for the trailing twelve-month period. The Company has not been subject to this maintenance requirement as Excess Availability was greater than the required minimum.

The Revolving Credit Facility contains representations and warranties, other covenants and events of default that are customary for this type of financing, including limitations on the incurrence of additional indebtedness, liens, negative pledges, guarantees, investments, loans, asset sales, mergers, acquisitions, prepayment of other debt, the repurchase of capital stock, transactions with affiliates, and the ability to change the nature of its business or its fiscal year. The Revolving Credit Facility generally permits dividends in the absence of any event of default (including any event of default arising from the contemplated dividend), so long as (i) after giving pro forma effect to the contemplated dividend, for the following six months Excess Availability will be at least the greater of 20% of the adjusted loan cap and \$10,000 and (ii) after giving pro forma effect to the contemplated dividend, the “Consolidated Fixed Charge Coverage Ratio” for the 12 months preceding such dividend shall be greater than or equal to 1.0 to 1.0 (provided that the Consolidated Fixed Charge Coverage Ratio may be less than 1.0 to 1.0 if, after giving pro forma effect to the contemplated dividend, Excess Availability for the six fiscal months following the dividend is at least the greater of 35% of the adjusted loan cap and \$15,000). As of October 29, 2016, the Company was in compliance with applicable financial covenants.

As of October 29, 2016, \$31,980 was available under the Revolving Credit Facility, net of the amended loan cap, and there were \$7,800 of borrowings outstanding and \$7,474 of letters of credit outstanding under the Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the Revolving Credit Facility as of October 29, 2016 was 4.0%.

As of January 30, 2016, there was \$15,000 of borrowings outstanding and \$7,522 of letters of credit outstanding under the Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the Revolving Credit Facility as of January 30, 2016 was 2.1%.

Note 5. Inventory

Inventories consist of the following:

(in thousands)	October 29, 2016	January 30, 2016
Finished goods	\$ 37,264	\$ 49,837
Less: reserves	(2,844)	(13,261)
Total inventories, net	<u>\$ 34,420</u>	<u>\$ 36,576</u>

Note 6. Share-Based Compensation

In connection with the Company's IPO, which closed on November 27, 2013, and the separation of the Vince and non-Vince businesses, VHC assumed Kellwood Company's remaining obligations under the 2010 Stock Option Plan of Kellwood Company (the "2010 Option Plan") and all Kellwood Company stock options previously issued to Vince employees under such plan became options to acquire shares of VHC common stock. Additionally, VHC assumed Kellwood Company's obligations with respect to the vested Kellwood Company stock options previously issued to Kellwood Company employees, which options were cancelled in exchange for shares of VHC common stock. Accordingly, option information presented below for previously issued Kellwood Company stock options under the 2010 Option Plan has been adjusted to account for the split of the Company's common stock and applicable conversion to options to acquire shares of VHC common stock.

Employee Stock Plans

2010 Option Plan

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

Prior to the IPO, the 2010 Option Plan, as amended, provided for the grant of options to acquire up to 2,752,155 shares of Kellwood Company common stock. The options granted pursuant to the 2010 Option Plan (i) vest in five equal installments on the first, second, third, fourth and fifth anniversaries of the grant date, subject to the employee's continued employment, and (ii) expire on the earlier of the tenth anniversary of the grant date or upon termination of employment. The Company will not grant any future awards under the 2010 Option Plan. Future awards will be granted under the Vince 2013 Incentive Plan described further below. As of October 29, 2016, there are no options outstanding under the 2010 Stock Option Plan.

Vince 2013 Incentive Plan

In connection with the IPO, the Company adopted the Vince 2013 Incentive Plan, which provides for grants of stock options, stock appreciation rights, restricted stock and other stock-based awards. The aggregate number of shares of common stock which may be issued or used for reference purposes under the Vince 2013 Incentive Plan or with respect to which awards may be granted may not exceed 3,400,000 shares. The shares available for issuance under the Vince 2013 Incentive Plan may be, in whole or in part, either authorized and unissued shares of the Company's common stock or shares of common stock held in or acquired for the Company's treasury. In general, if awards under the Vince 2013 Incentive Plan are cancelled for any reason, or expire or terminate unexercised, the shares covered by such award may again be available for the grant of awards under the Vince 2013 Incentive Plan. As of October 29, 2016, there were 1,020,241 shares under the Vince 2013 Incentive Plan available for future grants. Options granted pursuant to the Vince 2013 Incentive Plan (i) vest in equal installments over two, three or four years or at 33 1/3% per year beginning in year two, over four years, subject to the employees' continued employment, and (ii) expire on the earlier of the tenth anniversary of the grant date or upon termination as outlined in the Vince 2013 Incentive Plan. Options granted to the non-employee consultants vest 50% after one year, 25% after 18 months and 25% after two years and expire on the earlier of the tenth anniversary of the grant date or

upon termination as outlined in their grant agreements pursuant to the Vince 2013 Incentive Plan. Restricted stock units granted vest in equal installments over a three year period or vest in equal installments over four years, subject to the employees' continued employment.

Employee Stock Purchase Plan

The Company maintains an employee stock purchase plan ("ESPP") for its employees. Under the ESPP, all eligible employees may contribute up to 10% of their base compensation, up to a maximum contribution of \$10 per year. The purchase price of the stock is 90% of the fair market value, with purchases executed on a quarterly basis. The plan is defined as compensatory, and accordingly, a charge for compensation expense is recorded to selling, general and administrative expense for the difference between the fair market value and the discounted purchase price of the Company's Stock. As of October 29, 2016, 9,248 shares of common stock have been issued under the ESPP.

Stock Options

A summary of stock option activity for both employees and non-employees during the nine months ended October 29, 2016 is as follows:

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Contractual Term (years)</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Outstanding at January 30, 2016	2,879,735	\$ 4.61	8.7	\$ 2,402
Granted	703,951	\$ 5.78		
Exercised	(807,545)	\$ 5.79		
Forfeited or expired	(531,346)	\$ 4.75		
Outstanding at October 29, 2016	<u>2,244,795</u>	\$ 4.52	9.2	\$ 2,064
Vested and exercisable at October 29, 2016	206,082	\$ 4.29	8.9	\$ 237

Of the above outstanding shares, 1,968,008 are vested or expected to vest.

Restricted Stock Units

A summary of restricted stock unit activity under the Vince 2013 Incentive Plan during the nine months ended October 29, 2016 is as follows:

	<u>Restricted Stock Units</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested restricted stock units at January 30, 2016	29,532	\$ 12.22
Granted	99,478	\$ 5.80
Vested	(3,320)	\$ 16.91
Forfeited	(2,559)	\$ 5.98
Nonvested restricted stock units at October 29, 2016	<u>123,131</u>	\$ 7.03

Share-Based Compensation Expense

The Company recognized share-based compensation expense of \$638 and \$1,383, including \$296 and \$709, respectively, of expense related to non-employees, during the three and nine months ended October 29, 2016. The Company recognized a net reversal, primarily due to option forfeitures as a result of executive departures, of \$95 and expense of \$706 during the three and nine months ended October 31, 2015, respectively.

Note 7. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding for the period. Except when the effect would be anti-dilutive, diluted earnings per share is calculated based on the

weighted average number of outstanding shares of common stock plus the dilutive effect of share-based awards calculated under the treasury stock method.

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

	Three Months Ended		Nine Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Weighted-average shares—basic	49,287,448	36,775,443	45,419,661	36,767,770
Effect of dilutive equity securities	192,457	41,529	—	865,863
Weighted-average shares—diluted	<u>49,479,905</u>	<u>36,816,972</u>	<u>45,419,661</u>	<u>37,633,633</u>

Because the Company incurred a net loss for the nine months ended October 29, 2016, weighted-average basic shares and weighted-average diluted shares outstanding are equal for this period.

For the three months ended October 29, 2016 and October 31, 2015, 764,431 and 649,236 options to purchase shares of the Company's common stock, respectively, were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive. For the nine months ended October 29, 2016 and October 31, 2015, 723,620 and 617,078 options to purchase shares of the Company's common stock, respectively, were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive.

On April 22, 2016, the Company issued an aggregate of 11,818,181 shares in conjunction with the completed Rights Offering and Investment Agreement. See Note 1 "Description of Business and Basis of Presentation" for additional information.

Note 8. Commitments and Contingencies

Restructuring Charges

In the second quarter of 2015, a number of senior management departures occurred. In connection with these departures, the Company had certain obligations under existing employment arrangements with respect to severance and employee related benefits. As a result, the Company recognized a net charge of \$3,394 for these departures within selling, general, and administrative expenses on the condensed consolidated statement of operations during fiscal year 2015. This net charge was reflected within the "unallocated corporate expenses" for segment disclosures. These amounts are being paid over a period of six to eighteen months, which began in the third quarter of fiscal 2015.

The following is a reconciliation of the accrued severance and employee related benefits associated with the above charge included within total current liabilities on the condensed consolidated balance sheet:

(in thousands)	
Balance at January 30, 2016	\$ 1,837
Cash payments	(714)
Balance at April 30, 2016	1,123
Cash payments	(490)
Balance at July 30, 2016	633
Cash payments	(277)
Balance at October 29, 2016	<u>\$ 356</u>

Litigation

The Company is a party to legal proceedings, compliance matters and environmental claims that arise in the ordinary course of our 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

In August 2016, the Financial Accounting Standards Board (“FASB”) issued guidance which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2017 and should be applied using a retrospective transition method to each period presented. The Company is currently evaluating the impact of adopting this guidance on the consolidated statement of cash flows.

In March 2016, the FASB issued guidance regarding share-based compensation, to simplify the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This guidance is effective for interim and annual periods beginning after December 15, 2016. This new guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued a new lease accounting standard, which requires lessees to recognize right-of-use lease assets and lease liabilities on the balance sheet for those leases currently classified as operating leases. The guidance is required to be adopted retrospectively by restating all years presented in the Company’s financial statements. The guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of adopting this guidance on the consolidated financial statements.

In November 2015, the FASB issued new guidance on the balance sheet classification of deferred taxes, which requires entities to classify deferred tax assets and liabilities as noncurrent in the consolidated balance sheet. Currently deferred tax assets and liabilities must be classified as current and noncurrent amounts in the consolidated balance sheet. This guidance is effective for financial statements issued for interim and annual periods beginning after December 15, 2016. The guidance may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company will reclassify deferred tax balances, as required.

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

In April 2015, the FASB issued new guidance on accounting for cloud computing fees. If a cloud computing arrangement includes a software license, then the customer should account for the license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the arrangement should be accounted for as a service contract. This guidance is effective for arrangements entered into, or materially modified, in interim and annual periods beginning after December 15, 2015. The Company adopted this accounting guidance for any contracts entered into or materially modified after January 30, 2016. The adoption of this guidance did not have a material effect on the Company’s consolidated financial statements.

In May 2014, the FASB issued new guidance on revenue recognition accounting, which requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Since its issuance, the FASB has amended several aspects of the new guidance. In August 2015, the FASB elected to defer the effective dates. The updated guidance is now effective for interim and annual periods beginning on or after December 15, 2017. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. The Company is currently evaluating the impact of the adoption of the new guidance on its consolidated financial statements.

Note 10. Segment Financial Information

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

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

The accounting policies of the Company’s segments are consistent with those described in Note 1 to the audited Consolidated Financial Statements of VHC for the fiscal year ended January 30, 2016 included in the 2015 Annual Report on Form 10-K. Unallocated corporate expenses are comprised of selling, general, and administrative expenses attributable to corporate and administrative activities, and other charges that are not directly attributable to the Company’s reportable segments. Unallocated corporate assets are comprised of the carrying values of goodwill and unamortized trademark, 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		Nine Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net Sales:				
Wholesale	\$ 51,219	\$ 56,505	\$ 135,614	\$ 153,104
Direct-to-consumer	24,754	24,354	68,706	67,590
Total net sales	<u>\$ 75,973</u>	<u>\$ 80,859</u>	<u>\$ 204,320</u>	<u>\$ 220,694</u>
Income (loss) from Operations:				
Wholesale	\$ 18,416	\$ 22,233	\$ 39,422	\$ 44,249
Direct-to-consumer	990	1,526	2,344	1,970
Subtotal	19,406	23,759	41,766	46,219
Unallocated expenses	(13,343)	(11,416)	(43,506)	(35,317)
Total income (loss) from operations	<u>\$ 6,063</u>	<u>\$ 12,343</u>	<u>\$ (1,740)</u>	<u>\$ 10,902</u>

There were no material changes in assets by reportable segment except for unallocated corporate assets which increased from \$280,378 at January 30, 2016 to \$302,530 at October 29, 2016.

Note 11. Related Party Transactions

Shared Services Agreement

In connection with the consummation of the Company's IPO on November 27, 2013, Vince, LLC entered into a Shared Services Agreement with Kellwood (the "Shared Services Agreement"), pursuant to which Kellwood would provide support services in various areas, including, among other things, certain accounting functions, tax, e-commerce operations, distribution, logistics, information technology, accounts payable, credit and collections and payroll and benefits administration. Since the IPO, the Company has been working on transitioning certain functions performed by Kellwood under the Shared Services Agreement. Functions that have transitioned to the Company, including its outsource service providers, include certain accounting related functions, e-commerce customer service, distribution and logistics, payroll and benefits administration and information technology support for systems that have been implemented. Additionally, to date, the Company has completed the implementation of its own point-of-sale system, third party e-commerce platform, human resource recruitment system, distribution applications, and network infrastructure. The Company is currently in the process of transitioning the remainder of the Kellwood systems and services, including tax, accounts payable, credit and collections, as well as its own enterprise resource planning ("ERP") and supporting systems and related IT support services. Until those systems are implemented, the Company will continue to utilize the Kellwood information technology infrastructure under the Shared Services Agreement.

The Company is invoiced by Kellwood monthly for the services provided under the Shared Services Agreement and generally is required to pay within 15 business days of receiving such invoice. The payments will be true-up and can be disputed once each fiscal quarter. For the three months ended October 29, 2016 and October 31, 2015 the Company recognized \$635 and \$2,272, respectively, of expense within the condensed consolidated statements of operations for services provided under the Shared Services Agreement. For the nine months ended October 29, 2016 and October 31, 2015, the Company recognized \$4,040 and \$6,837, respectively, of expense within the condensed consolidated statements of operations for services provided under the Shared Services Agreement. As of October 29, 2016, the Company has recorded \$478 in other accrued expenses to recognize amounts payable to Kellwood under the Shared Services Agreement.

Tax Receivable Agreement

VHC entered into a Tax Receivable Agreement with the Pre-IPO Stockholders on November 27, 2013. The Company and its former subsidiaries have 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 (i ii) 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.

The Company had expected to make a required payment under the Tax Receivable Agreement in the fourth quarter of 2015. As a result of lower than expected cash from operations due to weaker than projected performance, and the level of projected availability under the Company's Revolving Credit Facility, management concluded that the Company would not be able to fund the payment when due. Accordingly, on September 1, 2015, the Company entered into an amendment to the Tax Receivable Agreement with Sun Cardinal, LLC, an affiliate of Sun Capital Partners, Inc., for itself and as a representative of the other stockholders parties thereto. Pursuant to this amendment, Sun Cardinal agreed to postpone payment of the tax benefit with respect to the 2014 taxable year, estimated at \$21,762 plus accrued interest, to September 15, 2016. The amendment to the Tax Receivable Agreement also waived the application of a default interest rate at LIBOR plus 500 basis points per annum on the postponed payment. The interest rate on the postponed payment remained at LIBOR plus 200 basis points per annum. As a condition of the Investment Agreement, the Company repaid its obligation, including accrued interest, totaling \$22,262, with respect to the 2014 taxable year under the Tax Receivable Agreement upon the closing of the Rights Offering.

As of October 29, 2016, the Company's total obligation under the Tax Receivable Agreement is estimated to be \$148,167, of which \$7,324 is included as a component of other accrued expenses and \$140,843 is included as a component of other liabilities on the condensed consolidated balance sheet. The tax benefit payment, plus accrued interest, with respect to the 2015 taxable year is expected to be paid in the fourth quarter of 2016. There is a remaining term of seven years under the Tax Receivable Agreement. During the nine months ended October 29, 2016, the obligation under the Tax Receivable Agreement was adjusted in connection with the reversal of certain valuation allowances. The adjustment resulted in a net increase of \$16 to the liability under the Tax Receivable Agreement with the corresponding net increase accounted for as an adjustment to other expense, net on the Condensed Consolidated Statement of Operations.

Investment Agreement and Rights Offering

On March 15, 2016, the Company entered into an Investment Agreement with the Investors pursuant to which Sun Cardinal and SCSF Cardinal agreed to backstop a rights offering by purchasing at the subscription price of \$5.50 per share any and all shares not subscribed through the exercise of rights, including the oversubscription. The Investment Agreement superseded the Rights Offering Commitment Letter, dated December 9, 2015, from Sun Capital Partners V, L.P., which is disclosed in further detail in the Company's 2015 Annual Report on Form 10-K, Note 15 "Related Party Transactions." Additionally, see Note 1 "Description of Business and Basis of Presentation" for additional information.

On March 29, 2016, the Company commenced a Rights Offering, whereby the Company distributed, at no charge, to stockholders of record as of March 23, 2016 (the "Rights Offering Record Date"), rights to purchase new shares of the Company's common stock at \$5.50 per share. Each stockholder as of the Rights Offering Record Date ("Rights Holders") received one non-transferrable right to purchase 0.3191 shares for every share of common stock owned on the Rights Offering Record Date (the "subscription right"). Rights Holders who fully exercised their subscription rights were entitled to subscribe for additional shares that remained unsubscribed as a result of any unexercised subscription rights (the "over-subscription right"). The over-subscription right allowed a Rights Holder to subscribe for an additional number of shares equal to up to 20% of the shares of common stock for which such holder was otherwise entitled to subscribe. Subscription rights could only be exercised for whole numbers of shares; no fractional shares of common stock were issued in the Rights Offering. The Rights Offering period expired on April 14, 2016 at 5:00 p.m. New York City time, prior to which payment for all subscription rights required an irrevocable funding of cash to the transfer agent, to be held in an account for the benefit of the Company. The Investors fully subscribed in the Rights Offering and exercised their oversubscription right. The Company received subscriptions and oversubscriptions from its existing stockholders for a total of 11,622,518 shares of its common stock, resulting in aggregate gross proceeds of approximately \$63,924. Simultaneous with the closing of the Rights Offering, the Company received \$1,076 of gross proceeds from the related Investment Agreement and issued to the Investors 195,663 shares of its common stock in connection therewith. In total, the Company received total gross proceeds of \$65,000 as a result of the Rights Offering and related Investment Agreement transactions. Upon the completion of these transactions, affiliates of Sun Capital owned 58% of the Company's outstanding common stock.

The Company used a portion of the net proceeds received from the Rights Offering and related Investment Agreement to (1) repay the amount owed by the Company under the Tax Receivable Agreement (as discussed above) with Sun Cardinal, for itself

and as a representative of the other stockholders party thereto, for the tax benefit with respect to the 2014 taxable year including accrued interest , totaling \$22,262 , and (2) repay all then outstanding indebtedness , totaling \$20,000, under the Company's Revolving Credit Facility. The Company intends to use the remaining net proceeds , which funds are held by Vince Holding Corp. until needed by its operating subsidiary , for additional strategic investments and general corporate purposes, which may include future amounts owed by the Company under the Tax Receivable Agreement.

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 October 29, 2016 and October 31, 2015, the Company incurred expenses of \$27 and \$3, respectively, under the Sun Capital Consulting Agreement. During the nine months ended October 29, 2016 and October 31, 2015, the Company incurred expenses of \$80 and \$32, respectively, for reimbursement of expenses under the Sun Capital Consulting Agreement.

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

This discussion summarizes our consolidated operating results, financial condition and liquidity. The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this report on Form 10-Q. All amounts disclosed are in thousands except door and store counts, countries, share data and percentages.

For purposes of this report on Form 10-Q, "Vince," the "Company," "we," and "our," refer to Vince Holding Corp. ("VHC") and our wholly owned subsidiaries, including Vince Intermediate Holding ("Vince Intermediate"), LLC and Vince, LLC. References to "Kellwood" refer, as applicable, to Kellwood Holding, LLC and its consolidated subsidiaries (including Kellwood Company, LLC) or the operations of the non-Vince businesses after giving effect to the restructuring transactions (the "Restructuring Transactions") that were completed in connection with our initial public offering (the "IPO") on November 27, 2013.

This discussion contains forward-looking statements involving risks, uncertainties and assumptions that could cause our results to differ materially from expectations. While we believe our growth strategy offers significant opportunities, it also presents risks and challenges, including among others, the risks that we may not be able to match inventory purchases with demand, hire and train qualified associates, that our new product offerings and expanded sales channels may not maintain or enhance our brand image and that our distribution facilities and information systems may not be adequate to support our growth plans. For a more complete discussions of risks facing our business see "Item 1A—Risk Factors" of this report on Form 10-Q as well as in our 2015 Annual Report on Form 10-K.

Executive Overview

Established in 2002, Vince is a global luxury brand best known for utilizing luxe fabrications and innovative techniques to create a product assortment that combines urban utility and modern effortless style. From its edited core collection of ultra-soft cashmere knits and cotton tees, Vince has evolved into a global lifestyle brand and destination for both women's and men's apparel and accessories. Vince products are sold in prestige distribution worldwide, including approximately 2,400 distribution locations across approximately 40 countries. While we have recently experienced a slowdown in sales growth, we believe that we can generate growth by improving and expanding our product offering, expanding our selling into international markets, and growing our own branded retail and e-commerce direct-to-consumer businesses.

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

As of October 29, 2016, our products are sold at 2,337 doors through our wholesale partners in the U.S. and international markets and we operated 54 retail stores, including 40 full price stores and 14 outlet stores, throughout the United States.

The following is a summary of highlights during the three months ended October 29, 2016:

- Our net sales totaled \$75,973, reflecting a 6.0% decrease compared to prior year net sales of \$80,859.
- Our wholesale net sales decreased 9.4% to \$51,219 and our direct-to-consumer net sales increased 1.6% to \$24,754. Comparable sales including e-commerce declined 11.7% compared to last year.
- We continue to incur costs associated with certain strategic investments within cost of products sold and selling, general and administrative expenses that we believe will facilitate achieving our long-term goals. We incurred charges of \$1,588 and \$5,316 during the three and nine months ended October 29, 2016 related to (i) the migration of our distribution facilities to a new third party service provider; (ii) the realignment of our supplier base; (iii) the transition of information technology systems and infrastructure in-house from Kellwood; (iv) the estimated impact of our strategic decision regarding handbags; and (v) our brand update initiatives.
- Net income for the quarter was \$3,380, or \$0.07 per diluted share, compared to \$5,893, or \$0.16 per diluted share, in the prior year third quarter. Net income in the prior year included pre-tax income of \$1,986 associated with the recovery of inventory write-downs taken in the second quarter of 2015 and pre-tax expense of \$164 related to net management transition costs associated with employee departures.
- We opened two new retail stores during the three months ended October 29, 2016.
- As of October 29, 2016, we had \$52,800 of total debt principal outstanding, comprised of \$45,000 outstanding under our Term Loan Facility and \$7,800 outstanding on our Revolving Credit Facility, as well as \$20,705 of cash and cash equivalents.

- We continued to invest in new stores and infrastructure related to our IT migration efforts .

Results of Operations

The following table presents our operating results as a percentage of net sales, as well as earnings per share data for the three and nine months ended October 29, 2016 and October 31, 2015:

	Three Months Ended				Nine Months Ended			
	October 29, 2016		October 31, 2015		October 29, 2016		October 31, 2015	
(In thousands, except share data, store and door counts and percentages)								
Statements of Operations:								
Net sales	\$ 75,973	100.0%	\$ 80,859	100.0%	\$ 204,320	100.0%	\$ 220,694	100.0%
Cost of products sold	38,015	50.0%	40,854	50.5%	110,717	54.2%	129,159	58.5%
Gross profit	37,958	50.0%	40,005	49.5%	93,603	45.8%	91,535	41.5%
Selling, general and administrative expenses	31,895	42.0%	27,662	34.2%	95,343	46.7%	80,633	36.6%
Income (loss) from operations	6,063	8.0%	12,343	15.3%	(1,740)	(0.9)%	10,902	4.9%
Interest expense, net	1,023	1.3%	1,428	1.8%	2,909	1.4%	4,367	2.0%
Other expense, net	191	0.3%	899	1.1%	379	0.2%	1,390	0.6%
Income (loss) before income taxes	4,849	6.4%	10,016	12.4%	(5,028)	(2.5)%	5,145	2.3%
Provision (benefit) for income taxes	1,469	2.0%	4,123	5.1%	(4,517)	(2.2)%	1,824	0.8%
Net income (loss)	\$ 3,380	4.4%	\$ 5,893	7.3%	\$ (511)	(0.3)%	\$ 3,321	1.5%
Earnings (loss) per share:								
Basic earnings (loss) per share	\$ 0.07		\$ 0.16		\$ (0.01)		\$ 0.09	
Diluted earnings (loss) per share	\$ 0.07		\$ 0.16		\$ (0.01)		\$ 0.09	
Other Operating and Financial Data:								
Total wholesale doors at end of period	2,337		2,539		2,337		2,539	
Total stores at end of period	54		46		54		46	
Comparable sales growth ^{(1) (2)}	-11.7%		-12.5%		-14.1%		1.1%	

- (1) Comparable sales include our e-commerce sales in order to align with how the Company manages its brick-and-mortar retail stores and e-commerce online store as a combined single direct-to-consumer segment. As a result of our omni-channel sales and inventory strategy, as well as cross-channel customer shopping patterns, there is less distinction between our brick-and-mortar retail stores and our e-commerce online store and we believe the inclusion of e-commerce sales in our comparable sales metric is a more meaningful representation of these results and provides a more comprehensive view of our year over year comparable store 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 change square footage of an existing store, we would treat that store as non-comparable until it has completed 13 full fiscal months of operations following the relocation or 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 October 29, 2016 Compared to Three Months Ended October 31, 2015

Net sales for the three months ended October 29, 2016 were \$75,973, decreasing \$4,886, or 6.0%, versus \$80,859 for the three months ended October 31, 2015. Net sales by reportable segment are as follows:

(in thousands)	Three Months Ended	
	October 29, 2016	October 31, 2015
Wholesale	\$ 51,219	\$ 56,505
Direct-to-consumer	24,754	24,354
Total net sales	\$ 75,973	\$ 80,859

Net sales from our wholesale segment decreased \$5,286, or 9.4%, to \$51,219 in the three months ended October 29, 2016 from \$56,505 in the three months ended October 31, 2015, primarily driven by a planned reduction in off-price orders.

Net sales from our direct-to-consumer segment increased \$400, or 1.6%, to \$24,754 in the three months ended October 29, 2016 from \$24,354 in the three months ended October 31, 2015. Non-comparable sales contributed \$3,143 of sales growth, which was partly offset by a decline in comparable sales of \$2,743, or 11.7%, including e-commerce, reflecting a decline in average order value as well as a decline in the number of transactions due to lower traffic and a reduction in promotional activity. Since October 31, 2015, 8 new stores have opened, bringing our total retail store count to 54 as of October 29, 2016, compared to 46 as of the end of the prior year period.

Gross profit decreased 5.1% to \$37,958 for the three months ended October 29, 2016 versus \$40,005 in the prior year third quarter. As a percentage of sales, gross margin was 50.0%, compared with 49.5% in the prior year third quarter. Gross profit and margin were favorably impacted in the prior year by \$1,986 associated with the recovery of inventory write-downs taken in the second quarter of 2015. The total gross margin rate increase was primarily driven by the following factors:

- The favorable change in channel mix, including the impact from decreased off-price penetration, contributed approximately 450 basis points of improvement;
- The favorable impact from a decrease in the rate of sales allowances and reduced discounts contributed approximately 450 basis points of improvement; and
- The unfavorable impact from year-over-year adjustments to inventory reserves contributed negatively by approximately 600 basis points.

Selling, general and administrative (“SG&A”) expenses for the three months ended October 29, 2016 were \$31,895, increasing \$4,233, or 15.3%, versus \$27,662 for the three months ended October 31, 2015. SG&A expenses as a percentage of sales were 42.0% and 34.2% for the three months ended October 29, 2016 and October 31, 2015, respectively. As we continue to invest in initiatives that we believe will drive future growth, our SG&A expenses as a percentage of sales have deleveraged. The increase in SG&A expenses compared to the prior fiscal year period is primarily due to:

- Increased consulting fees of \$1,313 largely driven by expenses associated with the consulting agreements with our co-founders;
- Increased rent and occupancy costs of \$1,094 primarily due to new retail store openings; and
- Certain strategic investment increases of \$1,585 related to the transition of the information technology systems and infrastructure in-house from Kellwood and costs related to our brand update initiatives.

The above increases were partially offset by a decrease in professional search fees primarily due to \$615 of executive search costs incurred in the prior year as a result of management departures.

Income from operations by segment for the three months ended October 29, 2016 and October 31, 2015 is summarized in the following table :

	Three Months Ended	
	October 29, 2016	October 31, 2015
(in thousands)		
Wholesale	\$ 18,416	\$ 22,233
Direct-to-consumer	990	1,526
Subtotal	19,406	23,759
Unallocated expenses	(13,343)	(11,416)
Total income from operations	<u>\$ 6,063</u>	<u>\$ 12,343</u>

Operating income from our wholesale segment decreased \$3,817, or 17.2%, to \$18,416 in the three months ended October 29, 2016 from \$22,233 in the three months ended October 31, 2015. This decrease was primarily driven by a decrease in gross margin, including the unfavorable impact from year-over-year adjustments in inventory reserves, and the sales volume decrease discussed above.

Operating income from our direct-to-consumer segment decreased \$536, or 35.1%, to \$990 in the three months ended October 29, 2016 from \$1,526 in the three months ended October 31, 2015. The decrease resulted primarily from the impact of higher SG&A expenses associated with the 8 new stores that have opened since the end of the prior year third quarter, partly offset by an increase in gross margin, including the favorable impact from year-over-year adjustments in inventory reserves.

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 resources departments), and other charges that are not directly attributable to our reportable segments.

Interest expense decreased \$405, or 28.4%, to \$1,023 in the three months ended October 29, 2016 from \$1,428 in the three months ended October 31, 2015. The reduction in interest expense is primarily due to lower overall debt balances as a result of voluntary prepayments on our Term Loan Facility during the nine months ended October 31, 2015 and reduced borrowings under the Revolving Credit Facility.

Other expense, net decreased \$708, or 78.8%, to \$191 in the three months ended October 29, 2016 from \$899 in the three months ended October 31, 2015 primarily due to an \$801 adjustment to the obligation under the Tax Receivable Agreement with the Pre-IPO Stockholders recorded in the prior year.

Provision for income taxes for the three months ended October 29, 2016 was \$1,469 as compared to \$4,123 for the three months ended October 31, 2015. Our effective tax rate on pretax income for the three months ended October 29, 2016 and October 31, 2015 was 30.3% and 41.2%, respectively. The effective tax rate for the three months ended October 29, 2016 differed from the U.S. statutory rate of 35% primarily due to the impact of certain non-deductible executive compensation costs and state taxes, offset by the impact of a change in projected pre-tax income. The effective tax rate for the three months ended October 31, 2015 differed from the U.S. statutory rate of 35% primarily due to state taxes and non-deductible expenses, partly offset by the return to provision adjustment.

Nine Months Ended October 29, 2016 Compared to Nine Months Ended October 31, 2015

Net sales for the nine months ended October 29, 2016 were \$204,320, decreasing \$16,374, or 7.4%, versus \$220,694 for the nine months ended October 31, 2015. Net sales by reportable segment are as follows:

	Nine Months Ended	
	October 29, 2016	October 31, 2015
(in thousands)		
Wholesale	\$ 135,614	\$ 153,104
Direct-to-consumer	68,706	67,590
Total net sales	<u>\$ 204,320</u>	<u>\$ 220,694</u>

Net sales from our wholesale segment decreased \$ 17 , 490 , or 11 . 4 % , to \$ 135 , 614 in the nine months ended October 29, 2016, from \$153,104 in the nine months ended October 31, 2015 primarily driven by the planned reduction in full- price orders , partly offset by higher off- price orders .

Net sales from our direct-to-consumer segment increased \$1,116, or 1.7%, to \$68,706 in the nine months ended October 29, 2016 from \$67,590 in the nine months ended October 31, 2015. Non-comparable sales contributed \$10,306 of sales growth which was partly offset by a decline in comparable sales of \$9,190, or 14.1%, including e-commerce, reflecting declines in the number of transactions, due to lower conversion rates and reduced traffic and a decrease in average order value. Since October 31, 2015, 8 new stores have opened, bringing our total retail store count to 54 as of October 29, 2016, compared to 46 as of the end of the prior year period.

Gross profit increased 2.3% to \$93,603 for the nine months ended October 29, 2016 versus \$91,535 in the prior year. As a percentage of sales, gross margin was 45.8%, compared with 41.5% in the prior year. Gross profit and margin were negatively impacted in the prior year by net charges totaling \$12,461 associated with the Company's decision to accelerate the disposition of aged and excess product. The total gross margin rate increase was primarily driven by the following factors:

- The favorable impact from year-over-year adjustments to inventory reserves contributed approximately 950 basis points of improvement; and
- The unfavorable impact from increased off price penetration partly offset by a favorable change in channel mix contributed negatively by approximately 300 basis points.

SG&A expenses for the nine months ended October 29, 2016 were \$95,343, increasing \$14,710, or 18.2%, versus \$80,633 for the nine months ended October 31, 2015. SG&A expenses as a percentage of sales were 46.7% and 36.6% for the nine months ended October 29, 2016 and October 31, 2015, respectively. As we continue to invest in initiatives that we believe will drive future growth, our SG&A expenses as a percentage of sales have deleveraged. SG&A expenses in the prior year included a \$3,025 charge for net management transition costs. The increase in SG&A expenses compared to the prior fiscal year period is primarily due to:

- Increased consulting fees of \$4,406 largely driven by expenses associated with the consulting agreements with our co-founders;
- Increased compensation expense of \$3,972, as a result of an increase in incentive compensation costs and new retail store openings;
- Increased rent and occupancy costs of \$3,819 due primarily to new retail store openings; and
- Certain strategic investment increases of \$3,732 related to the transition of the information technology systems and infrastructure in-house from Kellwood, the realignment of our supplier base, costs related to our brand update initiatives and severance and other costs related to handbags.

The above increases were partially offset by a net charge of \$3,025 for management transition costs recorded in the prior year.

Income (loss) from operations by segment for the nine months ended October 29, 2016 and October 31, 2015 is summarized in the following table:

	Nine Months Ended	
	October 29, 2016	October 31, 2015
(in thousands)		
Wholesale	\$ 39,422	\$ 44,249
Direct-to-consumer	2,344	1,970
Subtotal	41,766	46,219
Unallocated expenses	(43,506)	(35,317)
Total (loss) income from operations	\$ (1,740)	\$ 10,902

Operating income from our wholesale segment decreased \$4,827, or 10.9%, to \$39,422 in the nine months ended October 29, 2016 from \$44,249 in the nine months ended October 31, 2015. This decrease was primarily driven by lower gross margins resulting from the sales volume decline discussed above, partly offset by the favorable impact from year-over-year adjustments in inventory reserves.

Operating income from our direct-to-consumer segment increased by \$ 374 , or 19 . 0 % , to \$ 2,344 in the nine months ended October 29, 2016 from \$ 1,970 in the nine months ended October 31, 2015 . The increase resulted primarily from an increase in gross margin including the favorable impact from year-over-year adjustments in inventory reserves , partly offset by the impact of higher SG&A expenses associated with the 8 new stores that have opened since the end of the prior year third quarter .

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 resources departments), and other charges that are not directly attributable to our reportable segments.

Interest expense decreased \$1,458, or 33.4%, to \$2,909 in the nine months ended October 29, 2016 from \$4,367 in the nine months ended October 31, 2015. The reduction in interest expense is primarily due to the lower overall debt balances as a result of voluntary prepayments on our Term Loan Facility during the nine months ended October 31, 2015.

Other expense, net decreased \$1,011, or 72.7%, to \$379 in the nine months ended October 29, 2016 from \$1,390 in the nine months ended October 31, 2015 primarily due to an \$801 adjustment to the obligation under the Tax Receivable Agreement with the Pre-IPO Stockholders recorded in the prior year.

(Benefit) Provision for income taxes for the nine months ended October 29, 2016 was a benefit of \$4,517 as compared to expense of \$1,824 for the nine months ended October 31, 2015. Our effective tax rate on pretax income for the nine months ended October 29, 2016 and October 31, 2015 was 89.8% and 35.5%, respectively. The effective tax rate for the nine months ended October 29, 2016 differed from the U.S. statutory rate of 35% primarily due to the impact of certain non-deductible executive compensation costs as well as state taxes. Our effective tax rate for the nine months ended October 31, 2015 differed from the U.S. statutory rate of 35% primarily due to state taxes and non-deductible expenses, mostly offset by the favorable impact of changes to the New York City tax laws that impacted the net operating loss deferred tax assets and the return to provision adjustment.

Liquidity and Capital Resources

Our sources of liquidity are cash and cash equivalents, cash flows from operations, borrowings available under the Revolving Credit Facility and our ability to access capital markets. Our primary cash needs are capital expenditures for new stores and related leasehold improvements, for investment in our new information technology systems and related infrastructure, meeting our debt service requirements, paying amounts due under the Tax Receivable Agreement and funding working capital requirements. The most significant components of our working capital are cash and cash equivalents, accounts receivable, inventories, accounts payable and other current liabilities.

On March 15, 2016, the Company entered into an Investment Agreement with Sun Cardinal, LLC and SCSF Cardinal, LLC, affiliates of Sun Capital Partners, Inc. (collectively the “Investors”) pursuant to which Sun Cardinal and SCSF Cardinal agreed to backstop a rights offering by purchasing at the subscription price of \$5.50 per share any and all shares not subscribed through the exercise of rights, including the oversubscription. The Investment Agreement superseded the Rights Offering Commitment Letter, dated December 9, 2015, from Sun Capital Partners V, L.P. See Note 11 “Related Party Transactions” within the notes to the Unaudited Condensed Consolidated Financial Statements in this quarterly report on Form 10-Q for additional information.

On March 29, 2016, the Company commenced a rights offering (the “Rights Offering”), whereby the Company distributed, at no charge, to stockholders of record as of March 23, 2016 (the “Rights Offering Record Date”), rights to purchase new shares of the Company’s common stock at \$5.50 per share. Each stockholder as of the Rights Offering Record Date (“Rights Holders”) received one non-transferrable right to purchase 0.3191 shares for every share of common stock owned on the Rights Offering Record Date (the “subscription right”). Rights Holders who fully exercised their subscription rights were entitled to subscribe for additional shares that remained unsubscribed as a result of any unexercised subscription rights (the “over-subscription right”). The over-subscription right allowed a Rights Holder to subscribe for an additional number of shares equal to up to 20% of the shares of common stock for which such holder was otherwise entitled to subscribe. Subscription rights could only be exercised for whole numbers of shares; no fractional shares of common stock were issued in the Rights Offering. The Rights Offering period expired on April 14, 2016 at 5:00 p.m. New York City time, prior to which payment for all subscription rights required an irrevocable funding of cash to the transfer agent, to be held in an account for the benefit of the Company. The Investors fully subscribed in the Rights Offering and exercised their oversubscription right. The Company received subscriptions and oversubscriptions from its existing stockholders for a total of 11,622,518 shares of its common stock, resulting in aggregate gross proceeds of approximately \$63,924. Simultaneous with the closing of the Rights Offering, the Company received \$1,076 of gross proceeds from the related Investment Agreement and issued to the Investors 195,663 shares of its common stock in connection therewith. In total, the Company received total gross proceeds of \$65,000 as a result of the Rights Offering and related Investment Agreement transactions. Upon the completion of these transactions, affiliates of Sun Capital owned 58% of our outstanding common stock.

The Company used a portion of the net proceeds received from the Rights Offering to (1) repay the amount owed by us under the Tax Receivable Agreement with Sun Cardinal, for itself and as a representative of the other stockholders party thereto, for the tax benefit with respect to the 2014 taxable year including accrued interest, totaling \$22,262 (see Note 11 “Related Party Transactions” within the notes to the Unaudited Condensed Consolidated Financial Statements in this quarterly report on Form 10-Q), and (2) repay all then outstanding indebtedness, totaling \$20,000, under our Revolving Credit Facility. The Company intends to use the remaining net proceeds, which funds are held by Vince Holding Corp. until needed by our operating subsidiary, for additional strategic investments and general corporate purposes, which may include future amounts owed by us under the Tax Receivable Agreement.

Management believes that our cash and cash equivalents, expected cash flow from operations and amounts available under the Revolving Credit Facility will be sufficient to comply with any covenants under the Term Loan Facility and the Revolving Credit Facility, fund our debt service requirements, fund our obligations under our Tax Receivable Agreement, and fund planned capital expenditures and working capital needs for at least the next twelve months. However, there can be no assurance that we will be able to achieve our strategic initiatives in the future and failure to do so would have a significant adverse effect on our operations.

Operating Activities

	Nine Months Ended	
	October 29, 2016	October 31, 2015
(in thousands)		
Operating activities		
Net income (loss)	\$ (511)	\$ 3,321
Add (deduct) items not affecting operating cash flows:		
Depreciation and amortization	6,203	6,240
Provision for inventories	815	17,988
Deferred rent	596	1,536
Deferred income taxes	(4,710)	2,871
Share-based compensation expense	1,383	706
Other	456	1,268
Changes in assets and liabilities:		
Receivables, net	(7,213)	14,929
Inventories	1,341	(24,464)
Prepaid expenses and other current assets	9	848
Accounts payable and accrued expenses	(32,706)	(1,904)
Other assets and liabilities	185	795
Net cash (used in) provided by operating activities	<u>\$ (34,152)</u>	<u>\$ 24,134</u>

Net cash used in operating activities during the nine months ended October 29, 2016 was \$34,152, which consisted of a net loss of \$511, impacted by non-cash items of \$4,743 and cash used in working capital of \$38,384. Net cash used in working capital primarily resulted from a cash outflow in accounts payable and accrued expenses of \$32,706, primarily due to the payment of \$22,262, including accrued interest, under the Tax Receivable Agreement with Sun Cardinal and a cash outflow of \$7,213 in receivables, net primarily driven by the timing of sales activity.

Net cash provided by operating activities during the nine months ended October 31, 2015 was \$24,134, which consisted of net income of \$3,321, impacted by non-cash items of \$30,609 and cash used in working capital of \$9,796. Net cash used in working capital primarily resulted from a cash outflow in inventories of \$24,464 due to new store additions, increased handbag inventory and higher in-transit inventory and a cash outflow in accounts payable and accrued expenses of \$1,904 primarily due to the timing of payments. These cash outflows were partially offset by a cash inflow in accounts receivable of \$14,929 primarily due to the timing of current year collections from prior year receivables and lower wholesale sales performance.

Investing Activities

(in thousands)	Nine Months Ended	
	October 29,	October 31,
	2016	2015
Investing activities		
Payments for capital expenditures	\$ (12,677)	\$ (14,107)
Net cash used in investing activities	<u>\$ (12,677)</u>	<u>\$ (14,107)</u>

Net cash used in investing activities of \$12,677 during the nine months ended October 29, 2016 represents capital expenditures primarily related to the investment in our new systems and related infrastructure and retail store build-outs, including leasehold improvements and store fixtures.

Net cash used in investing activities of \$14,107 during the nine months ended October 31, 2015 represents capital expenditures for construction of retail stores, costs related to the build-out of our new corporate office space and showroom facilities, costs related to information technology initiatives, as well as additional build-out of shop-in-shops within selected wholesale partner locations.

Financing Activities

(in thousands)	Nine Months Ended	
	October 29,	October 31,
	2016	2015
Financing activities		
Proceeds from borrowings under the Revolving Credit Facility	\$ 118,567	\$ 108,423
Repayment of borrowings under the Revolving Credit Facility	(125,767)	(98,514)
Repayment of borrowings under the Term Loan Facility	—	(20,000)
Proceeds from common stock issuance, net of transaction costs	63,773	—
Stock option exercise and issuance of common stock under employee stock purchase plan	4,731	175
Fees paid for Term Loan Facility and Revolving Credit Facility	—	(99)
Net cash provided by (used in) financing activities	<u>\$ 61,304</u>	<u>\$ (10,015)</u>

Net cash provided by financing activities was \$61,304 during the nine months ended October 29, 2016, primarily consisting of net proceeds received from the issuance of common stock in connection with the completed Rights Offering of \$63,773 and \$4,731 of proceeds from stock option exercises, partially offset by \$7,200 of net repayments of borrowings under our Revolving Credit Facility.

Net cash used in financing activities was \$10,015 during the nine months ended October 31, 2015, primarily consisting of voluntary prepayments totaling \$20,000 on the Term Loan Facility, partially offset by \$9,909 of net proceeds from borrowings under our Revolving Credit Facility.

Revolving Credit Facility

On November 27, 2013, Vince, LLC entered into a \$50,000 senior secured revolving credit facility (as amended from time to time, the “Revolving Credit Facility”) with Bank of America, N.A. (“BoFA”) as administrative agent. Vince, LLC is the borrower and VHC and Vince Intermediate Holding, LLC, a direct subsidiary of VHC and the direct parent company of Vince, LLC (“Vince Intermediate”), are the guarantors under the Revolving Credit Facility. On June 3, 2015, Vince LLC entered into a first amendment to the Revolving Credit Facility, that among other things, increased the aggregate commitments under the facility from \$50,000 to \$80,000, subject to a loan cap which is the lesser of (i) the Borrowing Base, as defined in the loan agreement, (ii) the aggregate commitments, or (iii) \$70,000 until debt obligations under the Company’s term loan facility have been paid in full, and extended the maturity date from November 27, 2018 to June 3, 2020. The Revolving Credit Facility also provides for a letter of credit sublimit of \$25,000 (plus any increase in aggregate commitments) and an accordion option that allows for an increase in aggregate commitments up to \$20,000. Interest is payable on the loans under the Revolving Credit Facility at either the LIBOR or the Base Rate, in each case, plus an applicable margin of 1.25% to 1.75% for LIBOR loans or 0.25% to 0.75% for Base Rate loans, and in each case subject to a pricing grid based on an average daily excess availability calculation. The “Base Rate” means, for any day, a fluctuating rate per

annum equal to the highest of (i) the rate of interest in effect for such day as publicly announced from time to time by BofA as its prime rate; (ii) the Federal Funds Rate for such day, plus 0.50%; and (iii) the LIBOR Rate for a one month interest period as determined on such day, plus 1.0%. During the continuance of an event of default and at the election of the required lender, interest will accrue at a rate of 2% in excess of the applicable non-default rate.

The Revolving Credit Facility contains a maintenance requirement that, at any point when “Excess Availability” is less than the greater of (i) 15% percent of the adjusted loan cap (without giving effect to item (iii) of the loan cap described above) or (ii) \$10,000, and continuing until Excess Availability exceeds the greater of such amounts for 30 consecutive days, during which time, we must maintain a consolidated EBITDA (as defined in the Revolving Credit Facility) equal to or greater than \$20,000 measured at the end of each applicable fiscal month for the trailing twelve-month period. We have not been subject to this maintenance requirement as Excess Availability was greater than the required minimum.

The Revolving Credit Facility contains representations and warranties, other covenants and events of default that are customary for this type of financing, including limitations on the incurrence of additional indebtedness, liens, negative pledges, guarantees, investments, loans, asset sales, mergers, acquisitions, prepayment of other debt, the repurchase of capital stock, transactions with affiliates, and the ability to change the nature of its business or its fiscal year. The Revolving Credit Facility generally permits dividends in the absence of any event of default (including any event of default arising from the contemplated dividend), so long as (i) after giving pro-forma effect to the contemplated dividend, for the following six months Excess Availability will be at least the greater of 20% of the adjusted loan cap and \$10,000 and (ii) after giving pro forma effect to the contemplated dividend, the “Consolidated Fixed Charge Coverage Ratio” for the 12 months preceding such dividend shall be greater than or equal to 1.0 to 1.0 (provided that the Consolidated Fixed Charge Coverage Ratio may be less than 1.0 to 1.0 if, after giving pro forma effect to the contemplated dividend, Excess Availability for the six fiscal months following the dividend is at least the greater of 35% of the adjusted loan cap and \$15,000). As of October 29, 2016, we were in compliance with applicable financial covenants.

As of October 29, 2016, the availability under the Revolving Credit Facility was \$31,980 net of the amended loan cap and there were \$7,800 of borrowings outstanding and \$7,474 of letters of credit outstanding under the Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the Revolving Credit Facility as of October 29, 2016 was 4.0%. As of October 31, 2015, the availability on the Revolving Credit Facility was \$29,569 and there was \$32,909 of borrowings outstanding and \$7,522 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 October 31, 2015 was 2.3%.

Term Loan Facility

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

The Term Loan Facility also provides for an incremental facility of up to the greater of \$50,000 and an amount that would result in the consolidated net total secured leverage ratio not exceeding 3.00 to 1.00, in addition to certain other rights to refinance or repurchase portions of the term loan. The Term Loan Facility is subject to quarterly amortization of principal equal to 0.25% of the original aggregate principal amount of the Term Loan Facility (adjusted to reflect any prepayments), with the balance payable at final maturity. Interest is payable on loans under the Term Loan Facility at a rate of either (i) the Eurodollar rate (subject to a 1.00% floor) plus an applicable margin of 4.75% to 5.00% based on a consolidated net total leverage ratio or (ii) the base rate applicable margin of 3.75% to 4.00% based on a consolidated net total leverage ratio. During the continuance of a payment or bankruptcy event of default, interest will accrue (i) on the overdue principal amount of any loan at a rate of 2% in excess of the rate otherwise applicable to such loan and (ii) on any overdue interest or any other outstanding overdue amount at a rate of 2% in excess of the non-default interest rate then applicable to base rate loans. The Term Loan Facility requires Vince, LLC and Vince Intermediate to make mandatory prepayments upon the occurrence of certain events, including additional debt issuances, common and preferred stock issuances, certain asset sales, and annual payments of 50% of excess cash flow, subject to reductions to 25% and 0% if Vince, LLC and Vince Intermediate maintain a Consolidated Net Total Leverage Ratio of 2.50 to 1.00 and 2.00 to 1.00, respectively, and subject to reductions for voluntary prepayments made during such fiscal year .

The Term Loan Facility contains a requirement that Vince, LLC and Vince Intermediate maintain a “Consolidated Net Total Leverage Ratio” as of the last day of any period of four fiscal quarters not to exceed 3.25 to 1.00. In addition, the Term Loan Facility contains customary representations and warranties, other covenants, and events of default, including but not limited to, limitations on the incurrence of additional indebtedness, liens, negative pledges, guarantees, investments, loans, asset sales, mergers, acquisitions,

prepayment of other debt, the repurchase of capital stock, transactions with affiliates, and the ability to change the nature of its business or its fiscal year, and distributions and dividends. The Term Loan Facility generally permits dividends to the extent that no default or event of default is continuing or would result from the contemplated dividend and the pro forma Consolidated Net Total Leverage Ratio after giving effect to such contemplated dividend is at least 0.25 lower than the maximum Consolidated Net Total Leverage Ratio for such quarter in an amount not to exceed the excess available amount, as defined in the loan agreement. All obligations under the Term Loan Facility are guaranteed by Vince Holding Corp. and any future material domestic restricted subsidiaries of Vince, LLC and secured by a lien on substantially all of the assets of Vince Holding Corp., Vince, LLC and Vince Intermediate and any future material domestic restricted subsidiaries. As of October 29, 2016, we were in compliance with applicable financial covenants.

Through October 29, 2016, on an inception to date basis, we have made voluntary prepayments totaling \$130,000 in the aggregate on the original \$175,000 Term Loan Facility entered into on November 27, 2013. Of the \$130,000 aggregate voluntary prepayments made to date, \$0 was paid during the nine months ended October 29, 2016. As of October 29, 2016, the Company had \$45,000 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 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 2015 Annual Report on Form 10-K. As of October 29, 2016, there have been no material changes to the critical accounting policies contained therein.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our principal market risk relates to interest rate sensitivity, which is the risk that changes in interest rates will reduce our net income or net assets. Our variable rate debt consists of borrowings under the Term Loan Facility and Revolving Credit Facility. Our current interest rate on the Term Loan Facility is based on the Eurodollar rate (subject to a 1.00% floor) plus an applicable margin of 4.75% to 5.00%. Our interest rate on the Revolving Credit Facility is based on the Eurodollar rate or the Base Rate (as defined in the Revolving Credit Facility) with applicable margins subject to a pricing grid based on excess availability. As of October 29, 2016, a one percentage point increase in the interest rate on our variable rate debt would result in additional interest expense of approximately \$528 for the \$52,800 of borrowings outstanding under the Term Loan Facility and Revolving Credit Facility as of such date, calculated on an annual basis.

We do not currently anticipate that foreign currency risk, commodity price or inflation risks will be material to our business or our consolidated financial position, results of operations or cash flows. Substantially all of our foreign sales and purchases are made in U.S. dollars.

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 October 29, 2016.

We evaluate the effectiveness of our disclosure controls and procedures on at least a quarterly basis. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure information is recorded, processed, summarized and reported within the periods specified in the Securities and Exchange Commission's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended October 29, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are a party to legal proceedings, compliance matters and environmental claims that arise in the ordinary course of our business. Except as disclosed in our 2015 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 our 2015 Annual Report on Form 10-K, in addition to the other information set forth in this report on Form 10-Q, could materially affect our business, financial condition or results. The Company's risk factors have not changed materially from those disclosed in our 2015 Annual Report on Form 10-K other than the following:

We have completed the process of migrating our U.S. distribution system from Kellwood to a new third party provider. Problems with our distribution system, including any disruption caused by the migration, could materially harm our ability to meet customer expectations, manage inventory, complete sale transactions and achieve targeted operating efficiencies.

In the U.S., we historically relied on a distribution facility operated by Kellwood in City of Industry, California as part of the Shared Services Agreement. In November 2015, we entered into a service agreement with a new third-party distribution provider in California and completed the migration of the distribution facility from Kellwood in 2016. Our ability to meet the needs of our wholesale partners and our own direct-to-consumer business depends on the proper operation of this distribution facility. The migration of these services from Kellwood required us to implement new system integrations. There can be no assurance that we will not encounter problems as a result of such transition to the new third party provider, including significant chargebacks from our wholesale partners and delays in shipments of merchandise to our customers, which could have a material adverse effect on our business, financial condition, liquidity and results of operations. We also have a warehouse in Belgium operated by a third-party logistics provider to support our wholesale orders for customers located primarily in Europe.

Because substantially all of our products are distributed from one location, our operations could also be interrupted by labor difficulties, or by floods, fires, earthquakes or other natural disasters near such facility. For example, a majority of our ocean shipments go through the ports in Los Angeles, which had previously been subject to significant processing delays due to labor issues involving the port workers. We maintain business interruption insurance. These policies, however, may not adequately protect us from the adverse effects that could result from significant disruptions to our distribution system, including those that may arise from the migration. If we encounter problems with any of our distribution systems, our ability to meet customer expectations, manage inventory, complete sales and achieve targeted operating efficiencies could be harmed. Any of the foregoing factors could have a material adverse effect on our business, financial condition and operating results.

Kellwood has provided us with certain key services for our business since the IPO. We have substantially completed the transition of some of such services to our own systems or processes, and are in the process of transitioning the rest of the services to internal and external resources. If we cannot successfully implement the necessary new systems, processes and functions, or complete the transition of the remaining services from Kellwood, our business, financial condition, results of operations and cash flows could be materially harmed.

Since the IPO and Restructuring Transactions, we have relied on certain administrative and operational support functions and systems of Kellwood to run our business pursuant to a Shared Services Agreement (the "Shared Services Agreement"), dated November 27, 2013, by and between Kellwood and us. To date, we have completed the implementation of our own point-of-sale system, third party e-commerce platform, human resource recruitment system, distribution applications, and network infrastructure. The new systems we have recently implemented may not, initially or at all, operate as successfully as the systems we historically used as such systems were highly customized or proprietary. Moreover, the processes and functions that were transitioned to our internal capabilities may not achieve the appropriate levels of operational efficiency in a timely manner, or at all. In addition, we have transitioned certain support services, including e-commerce operations, distribution, logistics, accounting, payroll, benefits administration, and information technology support for our systems implemented to either internal or external resources. We are currently in the process of transitioning the remainder of the Kellwood systems and services, including tax, accounts payable, credit and collections, as well as our own enterprise resource planning ("ERP") and supporting systems and related IT support services, and we expect to complete such transition by the end of fiscal 2016. We have engaged third party service providers to assume tax, accounts payable, collections as well as information technology support functions from Kellwood and are in the process of integrating the service providers into our processes. The third party service providers may be unable to effectively replace the functions historically provided by Kellwood in a manner that meets our business needs. If we are unable to successfully implement these new systems, processes and functions, or fail to complete the transition of the remaining systems and functions from Kellwood in a timely manner or as planned, we may be forced to adopt more costly, less capable alternatives to replace those systems and functions and our business and results of operations, cash flows and liquidity may be materially and adversely affected.

The Shared Services Agreement governs the provisions of certain support services to us, including distribution, information technology and back office support by Kellwood, as described above. Kellwood will provide these services until we elect to terminate the provision thereof in accordance with the terms of the agreement. The Shared Services Agreement will terminate automatically upon the termination of all services provided thereunder, unless earlier terminated by either party in connection with the other party's

material breach upon 30 days prior notice to such defaulting party. After termination of the agreement, Kellwood will have no obligation to provide any services to us. See “Shared Services Agreement” under Note 11 “Related Party Transactions” to the Unaudited Consolidated Financial Statements included in this quarterly report on Form 10-Q for further details. We have terminated some of the services provided by Kellwood upon completion of the transition of such services to our own resources and have given notice to Kellwood of our intent to terminate the remaining services once the transition of those services is complete. If Kellwood encounters any operational or financial issues during the remainder of the transitional period which impact its ability to provide services pursuant to the Shared Services Agreement, or any failure or significant downtime in our own financial or administrative systems or in Kellwood’s financial or administrative systems occurs during such period, our business could be materially harmed.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 10.1† Employment Agreement, dated as of June 30, 2016, between Vince, LLC to Mark Engebretson
- 10.2† Amendment No. 1 to Offer Letter, dated as of September 12, 2016, between Vince, LLC to Mark Engebretson
- 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

† Indicates exhibits that constitute management contracts or compensatory plans or arrangements

SIGNATURE

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

Signature

Title

Date

/s/ David Stefko

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

December 8, 2016

David Stefko

VINCE.

EXHIBIT 10.1

June 30, 2016

Mark Engebretson

Dear Mark,

I am pleased to provide this letter confirming your offer of employment with Vince, LLC (hereafter “Vince” or “the Company”), for the position of **Executive Vice President of Operations**, with an expected start date of TBD. The terms of the employment offer are as follows:

Reporting Relationship and Primary Work Location

You will report to Vince’s Chief Executive Officer. You will be based in our Los Angeles office and will travel to the Company’s NY office and other locations as needed.

Base Salary, Signing Bonus and Incentive Bonus

Your annual base salary will be \$501,000 (you will be eligible for review for a merit increase based on Company performance and your individual performance in 2018).

You will be eligible to participate in the Company’s Annual Short-Term Incentive Plan (“STI Plan”), for Fiscal Year 2016 (February 1 – January 31). The 2016 target bonus opportunity for your position under this plan is 60% of your annual base salary, based upon annual performance targets established each fiscal year. Your bonus for 2016 will be pro-rated.

Long-Term Incentive Awards

Subject to approval by the Vince Board of Directors, you will receive a new hire equity grant in the form of 60,000 stock options, vesting annually over a four year period. This grant will be issued as soon as practicable after formal Board approval.

The official grant agreement, which will cover the vesting schedule, expiration rules, and other terms and conditions, will be provided at the time the grant is formally issued.

You will also be eligible to participate in the ongoing annual Long-Term Incentive Program. The Company’s Board of Directors will determine the target amount and terms (such as equity mix and vesting schedule) of the annual awards each year, based upon the Company’s performance as well as market conditions and other factors.

Benefits

You will be entitled to participate in and receive benefits under any existing employee benefit plan or similar arrangement generally available for employees, including medical, dental, and vision coverage, 401(k), disability and life insurance. Medical, Dental and Vision coverage begin on the first of the month following the completion of 30 days of employment with Vince. You will automatically be enrolled in the company’s 401k program on the first of the month following completion of 30 days of employment. A summary of Vince’s current benefits is enclosed.

You will accrue four (4) weeks of vacation per annum (pro-rated for the first year of employment) as well as all Company paid holidays and personal days in accordance with the Company’s standard vacation and holiday policies. Vacation time is accrued at 6.15 hours per pay period. All vacation time to be earned during the year is available to take as of January 1st each year even though you actually earn it as the year proceeds.

You are eligible to receive Vince's associate discount of 75% off apparel merchandise and 50 % off licensed merchandise in retail stores and online, beginning on your first day of employment. These amounts are subject to change at any time.

In accordance with the Company's clothing allowance policy, you will receive an allowance in the amount of \$6,000 per fiscal year (pro-rated for the first year of employment) with a full allowance of an additional \$6,000 as of February 1, 2016. Your allowance will be calculated based on 75% off the retail price of each item of clothing. Please note that receiving a clothing allowance is considered a taxable benefit and, as a result, the applicable income taxes associated with receiving this benefit will be applied. The clothing allowance policy, including the amount of the allowance, is subject to change with or without notice.

You may be requested, occasionally and for reasonable periods of time, to travel for business purposes. All travel will be at the cost of the Company and will be paid or reimbursed by the Company in accordance with the Company's Travel & Entertainment Policy as in effect. For travel internationally, you will be eligible to fly business class. For travel domestically, flight arrangements will be managed on a case by case basis.

Working at our LA Office

To support your employment in Los Angeles, the Company will pay for a studio apartment close to the LA Design Center. If your employment is terminated, voluntarily or involuntarily for cause, within one year of your start date, you will be required to repay the sum total of the monthly rent.

The Company will also pay for you to leave the New York metro area on an early morning flight on Monday for Los Angeles and two weeks later return to New York on Thursday evening, work in the New York office on Friday and return to Los Angeles the following Monday in the early morning. This equates to two round trips each month.

Employee Stock Purchase Plan

Vince believes that the strong work ethic of our associates is key to our success. Therefore, all associates can participate in stock ownership through the Company's Employee Stock Purchase Plan (the "ESPP"). You will be eligible to participate in the ESPP during the next open enrollment period following 90 days of continuous employment.

The Vince ESPP offers associates an opportunity to purchase shares of the Company's common stock at a 10% discount.

Severance

If your employment is terminated by the Company without "cause" (as such term is defined in the Company's stock option plan) within the first two years of employment, then subject to the execution of a satisfactory release by you, you will receive severance payments, equivalent to your then current base rate of pay, for the next six (6) months or until other employment is earlier secured. If your employment is terminated by the Company without "cause" after the first two years of employment, then subject to the execution of a satisfactory release by you, you will receive severance payments, equivalent to your then current base rate of pay, for the next twelve (12) months or until other employment is earlier secured.

If you are, as of the termination date, enrolled in the Company's medical and dental plans, then you will continue to receive medical and dental coverage in accordance with the Company's plans that are then in place until the end of the salary continuation period or, at the Company's option, coverage under another medical and/or dental plan.

Restrictive Covenants

Notice Period Requirement. Should you voluntarily resign your employment, you shall provide the Company with a sixty (60) day working notice period. During this notice period, you agree to continue performing all of the functions and responsibilities of your position, continue to give your full time and attention to such responsibilities, and assist the Company in preparing for your departure.

Non-Compete. During your employment and for a period of twelve (12) months thereafter , you shall not directly or indirectly (i) source, manufacture, produce, design, develop, promote, sell, license, distribute, or market anywhere in the world (the “ Territory ”) any contemporary apparel, accessories or related products (“ Competitive Products ”) or (ii) own, manage, operate, be employed by, participate in or have any interest in any other business or enterprise engaged in the design, production, distribution or sale of Competitive Products anywhere in the Territory; provided, however , that nothing herein shall prohibit you from being a passive owner of not more than five percent (5%) of the outstanding stock of any class of securities of a corporation or other entity engaged in such business which is publicly traded, so long as you have no active participation in the business of such corporation or other entity. This paragraph will not apply and will not be enforced by the Company with respect to post-termination activity by you that occurs in California or in any other state in which this prohibition is not enforceable under applicable law.

Non-solicit, Non-interference . During your employment and for a period of twelve (12) months thereafter you shall not , except in furtherance of your duties during your employment with the Company, directly or indirectly, individually or on behalf of any other person, firm, corporation or other entity, (A) solicit or induce any employee, consultant, representative or agent of the Company or any of its affiliates, to leave such employment or retention or to accept employment with or render services to or with any other person, firm, corporation or other entity unaffiliated with the Company or hire or retain any such employee, consultant, representative or agent, or take any action to materially assist or aid any other person, firm corporation or other entity in identifying, hiring or soliciting any such employee, consultant, representative or agent, or (B) interfere, or aid or induce any other person or entity in interfering, with the relationship between the Company or any of its affiliates and their respective customers, suppliers, vendors, joint ventures, distribution partners, franchisees, licensors, licensees or any other business relation of the Company or its affiliates. Any person described in subparagraph (A) above shall be deemed covered by this paragraph while so employed or retained and for a period of twelve (12) months thereafter, unless such person’s employment has been terminated by the Company.

Mutual Non-disparagement. During your period of employment and thereafter, neither you nor the Company shall not make any negative comments or otherwise disparage the other party or, in the case of the Company, any of its affiliates or any of the Company’s or its affiliates’ officers, directors, employees, shareholders, agents, products or business, or take any action, including making any public statements or publishing or participating in the publication of any accounts or stories relating to any persons, entities, products or businesses which negatively impacts or brings such person, entity, product or business into public ridicule or disrepute except if testifying truthfully under oath pursuant to subpoena or other legal process, in which event each party agrees to provide the other party, as appropriate, with notice of subpoena and opportunity to respond.

Compliance with Law

This letter is intended to comply with applicable law. Without limiting the foregoing, this letter is intended to comply with the requirements of section 409A of the Internal Revenue Code ("409A"), and, specifically, with the separation pay and short term deferral exceptions of 409A. Notwithstanding anything in the letter to the contrary, separation pay may only be made upon a "separation from service" under 409A and only in a manner permitted by 409A. For purposes of 409A, the right to a series of installment payments under this letter shall be treated as a right to a series of separate payments. In no event may you, directly or indirectly, designate the calendar year of a payment. All reimbursements and in-kind benefits provided in this letter shall be made or provided in accordance with the requirements of 409A (including, where applicable, the reimbursement rules set forth in the regulations issued under 409A).

Miscellaneous

Please be advised that this offer is contingent upon the favorable outcome of background and reference checks. Please also be advised that your employment is for an indefinite period and is terminable at the will of either the Company or you, with or without cause at any time, subject only to such limitations as may be imposed by law and/or the terms of this letter. This offer of employment is contingent on you not being subject to any restrictive covenants which would impact your ability to perform the services contemplated (or you having delivered to us an effective waiver thereof). By signing below, you are confirming to us that you are not presently subject to or otherwise bound by a non-compete, confidentiality or other restriction with any person or company with respect to any prior or existing employment, investment or other relationship.

You will receive an orientation packet with employment paperwork and benefit plan enrollment materials. Please review closely the Employment Eligibility Verification requirements and list of acceptable documents on the Form I-9 and bring with you the appropriate personal identification. One voided check will also be required to set up your direct deposit account for payroll. Please bring the entire packet and requested documentation to Human Resources on your first day.

I am excited about you joining our team and look forward to working with you. Please sign a copy of this letter to acknowledge your agreement with its conditions and return it via email to Melissa Wallace at mwallace@vince.com.

Sincerely,

/s/ Brendan Hoffman
Brendan Hoffman
Chief Executive Officer

/s/ Melissa Wallace
Melissa Wallace
SVP Human Resources

Accepted:

/s/ Mark Engebretson
Mark Engebretson

July 8, 2016
Date

Amendment No. 1 to Offer Letter

This Amendment No. 1 (this "Amendment") is an amendment to the Offer Letter by Vince, LLC ("Vince"), dated June 30, 2016, as accepted by Mark Engebretson (the "Offer Letter").

The first paragraph under the heading "Working at Our LA Office" in the Offer Letter is deleted in its entirety and is replaced by the following:

"To support your employment in Los Angeles, the Company will pay \$48,000 per year (the "Housing Stipend") to be used for purposes of rent and other housing related expenses, provided to you in a manner as agreed to by you and the Company from time to time in writing. Notwithstanding the foregoing, in the event the Housing Stipend is used for rent, it shall be provided in monthly installments, and any such monthly installment shall not in any event exceed \$4,000 per month.

If your employment is terminated, voluntarily by you or involuntarily by Vince for cause, within one year of your start date, you will be required to repay the entire amount of the Housing Stipend you used hereunder through the date of your termination."

This Amendment shall amend, modify and supersede, to the extent of any inconsistencies, the provisions of the Offer Letter. Except as expressly modified by this Amendment, the Offer Letter shall remain in full force and effect as previously drafted.

/s/ Melissa Wallace
Melissa Wallace
Senior Vice President, Human Resources

September 12, 2016
Date

I agree to the terms as outlined above.

/s/ Mark Engebretson
Mark Engebretson

October 25, 2016
Date

**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)
December 8, 2016

**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 annual 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)

December 8, 2016

**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 October 29, 2016 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)

December 8, 2016

**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 October 29, 2016 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)

December 8, 2016