

VINCE HOLDING CORP.
Form 10-Q
September 13, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 4, 2018

Or

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

Commission File Number: 001-36212

VINCE HOLDING CORP.

(Exact name of registrant as specified in its charter)

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

500 5th Avenue—20th Floor

New York, New York 10110

(Address of principal executive offices) (Zip code)

(212) 515-2600

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(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

Common Stock	Outstanding at August 31, 2018
Common Stock, \$0.01 par value per share	11,621,012 shares

VINCE HOLDING CORP. AND SUBSIDIARIES

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DISCLOSURES REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, and any statements incorporated by reference herein, contains forward-looking statements under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are indicated by words or phrases such as “may,” “will,” “should,” “believe,” “expect,” “seek,” “anticipate,” “intend,” “estimate,” “plan,” “target,” “forecast,” “envision” and other similar phrases. Although we believe the assumptions and expectations reflected in these forward-looking statements are reasonable, these assumptions and expectations may not prove to be correct and we may not achieve the results or benefits anticipated. These forward-looking statements are not guarantees of actual results, and our actual results may differ materially from those suggested in the forward-looking statements. These forward-looking statements involve a number of risks and uncertainties, some of which are beyond our control, including, without limitation: our ability to continue having the liquidity necessary to service our debt, meet contractual payment obligations, and fund our operations; our ability to comply with the covenants under our credit facilities; our ability to successfully operate the newly implemented systems, processes and functions recently transitioned from Kellwood Company, LLC; our ability to remediate the identified material weaknesses in our internal control over financial reporting; further impairment of our goodwill and indefinite-lived intangible assets; our ability to realize the benefits of our recently announced strategic initiatives; the execution and management of our retail store growth plans; our ability to make lease payments when due; our ability to ensure the proper operation of the distribution facility by a third-party logistics provider; our ability to remain competitive in the areas of merchandise quality, price, breadth of selection and customer service; our ability to anticipate and/or react to changes in customer demand and attract new customers, including in connection with making inventory commitments; our ability to manage excess inventory in a way that will promote the long-term health of the brand; changes in consumer confidence and spending; our ability to maintain projected profit margins; the execution and management of our international expansion, including our ability to promote our brand and merchandise outside the U.S. and find suitable partners in certain geographies; our ability to expand our product offerings into new product categories, including the ability to find suitable licensing partners; our ability to successfully implement our marketing initiatives; our ability to protect our trademarks in the U.S. and internationally; our ability to maintain the security of electronic and other confidential information; serious disruptions and catastrophic events; changes in global economies and credit and financial markets; competition; our ability to attract and retain key personnel; commodity, raw material and other cost increases; compliance with domestic and international laws, regulations and orders; changes in laws and regulations; outcomes of litigation and proceedings and the availability of insurance, indemnification and other third-party coverage of any losses suffered in connection therewith; effect of the U.S. federal income tax law reform; other tax matters; and other factors as set forth from time to time in our Securities and Exchange Commission filings, including those described in this report on Form 10-Q and our 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 25, 2018 (the “2017 Annual Report on Form 10-K”) under the heading “Item 1A—Risk Factors.” We intend these forward-looking statements to speak only as of the time of this report on Form 10-Q and do not undertake to update or revise them as more information becomes available, except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

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

	August 4, 2018	February 3, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$5,321	\$5,372
Trade receivables, net	22,999	20,760
Inventories, net	61,616	48,921
Prepaid expenses and other current assets	6,726	6,521
Total current assets	96,662	81,574
Property and equipment, net	29,271	31,608
Intangible assets, net	76,800	77,099
Goodwill	41,435	41,435
Deferred income taxes	379	379
Other assets	2,237	2,439
Total assets	\$246,784	\$234,534
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$30,569	\$22,556
Accrued salaries and employee benefits	4,347	6,715
Other accrued expenses	8,938	7,906
Current portion of long-term debt	—	8,000
Total current liabilities	43,854	45,177
Long-term debt	63,584	40,682
Deferred rent	15,172	15,633
Other liabilities	58,273	58,273
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock at \$0.01 par value (100,000,000 shares authorized, 11,621,012 and 11,616,500 shares issued and outstanding at August 4, 2018 and February 3, 2018, respectively)	116	116
Additional paid-in capital	1,113,933	1,113,342
Accumulated deficit	(1,048,083)	(1,038,624)

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Accumulated other comprehensive loss	(65)	(65)
Total stockholders' equity	65,901		74,769	
Total liabilities and stockholders' equity	\$246,784		\$234,534	

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Loss

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

	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net sales	\$63,128	\$60,822	\$117,642	\$118,867
Cost of products sold	35,409	35,266	64,387	67,720
Gross profit	27,719	25,556	53,255	51,147
Selling, general and administrative expenses	30,143	34,416	60,043	68,200
Loss from operations	(2,424)	(8,860)	(6,788)	(17,053)
Interest expense, net	1,297	1,276	2,586	2,320
Other (income) expense, net	73	2	9	3
Loss before income taxes	(3,794)	(10,138)	(9,383)	(19,376)
Provision for income taxes	28	(4)	76	48
Net loss and comprehensive loss	\$(3,822)	\$(10,134)	\$(9,459)	\$(19,424)
Loss per share:				
Basic loss per share	\$(0.33)	\$(2.05)	\$(0.81)	\$(3.93)
Diluted loss per share	\$(0.33)	\$(2.05)	\$(0.81)	\$(3.93)
Weighted average shares outstanding:				
Basic	11,619,664	4,944,971	11,618,082	4,943,898
Diluted	11,619,664	4,944,971	11,618,082	4,943,898

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands, unaudited)

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

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Notes to the Unaudited Condensed Consolidated Financial Statements

(in thousands except share and per share data)

Note 1. Description of Business and Basis of Presentation

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

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

(A) Description of Business: Established in 2002, Vince is a global luxury apparel and accessories brand best known for creating elevated yet understated pieces for every day. The collections are inspired by the brand’s California origins and embody a feeling of warm and effortless style. Vince designs uncomplicated yet refined pieces that approach dressing with a sense of ease. Known for its range of luxury products, Vince offers wide array of women’s and men’s ready-to-wear, shoes, and capsule collection of handbags, and home for a global lifestyle. The Company reaches its customers through a variety of channels, specifically through major wholesale department stores and specialty stores in the United States (“U.S.”) and select international markets, as well as through the Company’s branded retail locations and the Company’s website. The Company designs products in the U.S. and sources the vast majority of products from contract manufacturers outside the U.S., primarily in Asia. Products are manufactured to meet the Company’s product specifications and labor standards.

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

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

(C) Reverse Stock Split: At the close of business on October 23, 2017, the Company effected a 1-for-10 reverse stock split (the “Reverse Stock Split”). The Company’s common stock began trading on a split-adjusted basis when the market opened on October 24, 2017. Pursuant to the Reverse Stock Split, every 10 shares of the Company’s issued and

outstanding common stock were automatically converted into one share of common stock. No fractional shares were issued if, as a result of the Reverse Stock Split, a stockholder would otherwise have been entitled to a fractional share. Instead, each stockholder was entitled to receive a cash payment based on a pre-split cash in lieu rate of \$0.48, which was the average closing price per share on the New York Stock Exchange for the five consecutive trading days immediately preceding October 23, 2017.

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

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

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

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

Note 2. Goodwill and Intangible Assets

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

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

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

The following tables present a summary of identifiable intangible assets:

(in thousands)	Gross Amount	Accumulated Amortization	Accumulated Impairments	Net Book Value
Balance as of August 4, 2018				
Amortizable intangible assets:				
Customer relationships	\$ 11,970	\$ (6,270)	\$ —	\$ 5,700

Indefinite-lived intangible asset:

Tradename	101,850
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