

VINCE HOLDING CORP.
Form 10-Q
June 12, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 3, 2014

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.)
1441 Broadway 6th Floor
New York, New York 10018
(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 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 Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

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 June 6, 2014
36,723,727 shares

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VINCE HOLDING CORP. AND SUBSIDIARIES

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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. Such statements often include words such as may, will, should, believe, expect, seek, anticipate, intend, estimate, plan, target, project, forecast, envisage, 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 financial results or benefits anticipated. These forward-looking statements are not guarantees of actual results. 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 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; 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, including the availability and cost of acceptable real estate locations for new store openings; the execution and management of our international expansion, including our ability to promote our brand and merchandise outside the U.S. and find suitable partners in certain geographies, our ability to expand our product offerings into new product categories including the ability to find suitable licensing partners; our ability to successfully implement our marketing initiatives; our ability to protect our trademarks in the U.S. and internationally; our ability to maintain the security of electronic and other confidential information; serious disruptions and catastrophic events; changes in global economies and credit and financial markets; competition; our ability to attract and retain key personnel; commodity, raw material and other cost increases; compliance with 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 2013 annual report on Form 10-K filed with the Securities and Exchange Commission on April 4, 2014 (our 2013 Annual Report on Form 10-K) under 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.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****VINCE HOLDING CORP. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(in thousands, except share and per share data, unaudited)**

	May 3, 2014	February 1, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 21,789	\$ 21,484
Trade receivables, net	13,535	40,198
Inventories, net	31,850	33,956
Prepaid expenses and other current assets	11,787	8,093
Total current assets	78,961	103,731
Property, plant and equipment, net	14,053	13,615
Intangible assets, net	110,093	110,243
Goodwill	63,746	63,746
Deferred income taxes and other assets	121,738	123,007
Total assets	\$ 388,591	\$ 414,342
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 16,272	\$ 23,847
Accrued salaries and employee benefits	2,534	5,425
Other accrued expenses	8,957	9,061
Total current liabilities	27,763	38,333
Long-term debt	150,000	170,000
Deferred income taxes and other	6,482	3,443
Other liabilities	169,015	169,015
Commitments and contingencies (Note 11)		
Stockholders equity:		
Common Stock at \$0.01 par value (100,000,000 shares authorized, 36,723,727 shares issued and outstanding)	367	367
Additional paid-in capital	1,008,945	1,008,549
Accumulated deficit	(973,916)	(975,300)
Accumulated other comprehensive loss	(65)	(65)

Total stockholders' equity	35,331	33,551
Total liabilities and stockholders' equity	\$ 388,591	\$ 414,342

See notes to unaudited condensed consolidated financial statements.

Table of Contents**VINCE HOLDING CORP. AND SUBSIDIARIES****Condensed Consolidated Statements of Operations****(in thousands, except share and per share data, unaudited)**

	Three Months Ended	
	May 3, 2014	May 4, 2013
Net sales	\$ 53,452	\$ 40,363
Cost of products sold	27,041	22,850
Gross profit	26,411	17,513
Selling, general and administrative expenses	21,204	15,613
Income from operations	5,207	1,900
Interest expense, net	2,850	10,624
Other expense, net	50	125
Income (loss) before income taxes	2,307	(8,849)
Provision for income taxes	923	930
Net income (loss) from continuing operations	1,384	(9,779)
Net loss from discontinued operations, net of tax		(5,330)
Net income (loss)	\$ 1,384	\$ (15,109)
Basic earnings (loss) per share:		
Net income (loss) from continuing operations	\$ 0.04	\$ (0.37)
Net loss from discontinued operations		(0.21)
Net income (loss)	\$ 0.04	\$ (0.58)
Diluted earnings (loss) per share:		
Net income (loss) from continuing operations	\$ 0.04	\$ (0.37)
Net loss from discontinued operations		(0.21)
Net income (loss)	\$ 0.04	\$ (0.58)
Weighted average shares outstanding:		
Basic	36,723,727	26,211,130
Diluted	38,071,048	26,211,130

See notes to unaudited condensed consolidated financial statements.

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VINCE HOLDING CORP. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands, unaudited)

	Three Months Ended	
	May 3, 2014	May 4, 2013
Net income (loss)	\$ 1,384	\$ (15,109)
Foreign currency translation adjustment		(56)
Comprehensive income (loss)	\$ 1,384	\$ (15,165)

See notes to unaudited condensed consolidated financial statements.

Table of Contents**VINCE HOLDING CORP. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows****(in thousands, unaudited)**

	Three Months Ended	
	May 3, 2014	May 4, 2013
Operating activities		
Net income (loss)	\$ 1,384	\$ (15,109)
Less: Net loss from discontinued operations		(5,330)
Add (deduct) items not affecting operating cash flows:		
Depreciation	905	382
Amortization of intangible assets	150	150
Amortization of deferred financing costs	265	
Amortization of deferred rent	385	78
Deferred income taxes	908	923
Share-based compensation expense	396	
Capitalized PIK Interest		10,624
Changes in assets and liabilities:		
Receivables, net	26,663	17,556
Inventories, net	2,106	(1,216)
Prepaid expenses and other current assets	(1,100)	(3,727)
Accounts payable and accrued expenses	(10,364)	(12,108)
Other assets and liabilities	59	9
Net cash provided by operating activities continuing operations	21,757	2,892
Net cash used in operating activities discontinued operations		(11,902)
Net cash provided by (used in) operating activities	21,757	(9,010)
Investing activities		
Payments for capital expenditures	(1,338)	(942)
Net cash used in investing activities continuing operations	(1,338)	(942)
Net cash provided by investing activities discontinued operations		4,998
Net cash (used in)/provided by investing activities	(1,338)	4,056
Financing activities		
Payment for Term Loan Facility	(20,000)	
Fees paid for Term Loan Facility and Revolving Credit Facility	(114)	
Net cash used in financing activities continuing operations	(20,114)	
Net cash provided by financing activities discontinued operations		4,004

Net cash (used in)/provided by financing activities	(20,114)	4,004
Increase (decrease) cash and cash equivalents	305	(950)
Cash and cash equivalents, beginning of period	21,484	1,881
Cash and cash equivalents, end of period	21,789	931
Less cash and cash equivalents of discontinued operations, end of period		(671)
Cash and cash equivalents of continuing operations, end of period	\$ 21,789	\$ 260

See notes to unaudited condensed consolidated financial statements.

Table of Contents**VINCE HOLDING CORP. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows****(in thousands, unaudited)**

	Three Months Ended	
	May 3, 2014	May 4, 2013
Supplemental Disclosures of Cash Flow Information, continuing operations		
Cash payments for interest	\$ 2,571	\$
Cash payments for income taxes, net of refunds	52	5
Supplemental Disclosures of Cash Flow Information, discontinued operations		
Cash payments for interest		5,879
Cash payments for income taxes, net of refunds		7
Supplemental Disclosures of Non-Cash Investing and Financing Activities, continuing operations		
Capital expenditures in accounts payable	16	274

See notes to unaudited condensed consolidated financial statements.

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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), previously known as Apparel Holding Corp., closed an initial public offering of its common stock and completed a series of restructuring transactions through which (i) Kellwood Holding, LLC acquired the non-Vince businesses, which include Kellwood Company, LLC, from the Company and (ii) the Company continues to own and operate the Vince business, which includes Vince, LLC.

The historical financial information presented herein as of May 3, 2014 includes only the Vince business and all historical financial information prior to November 27, 2013 includes the Vince business as continuing operations and the non-Vince businesses as a component of discontinued operations.

(A) Description of Business: Vince is a leading contemporary fashion brand known for modern, effortless style and everyday luxury essentials. We reach our customers through a variety of channels, specifically through premier wholesale department stores and specialty stores in the United States (U.S.) and select international markets, as well as through our branded retail locations and our website. We design our products in the U.S. and source the vast majority of our products from contract manufacturers outside the U.S., primarily in Asia and South America. Products are manufactured to meet our 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 February 1, 2014, as set forth in the 2013 Annual Report on Form 10-K.

The condensed consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries as of May 3, 2014. All intercompany accounts and transactions have been eliminated. The amounts and disclosures included in the notes to the condensed consolidated financial statements, unless otherwise indicated, are presented on a continuing operations basis. 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. As used in this report, unless the context requires otherwise, our, us, we and the Company refer to VHC and its consolidated subsidiaries.

Certain reclassifications have been made to the prior periods' financial information in order to conform to the current period's presentation.

Note 2. The IPO and Restructuring Transactions

Initial Public Offering

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On November 27, 2013, VHC completed an initial public offering (the IPO) of 10,000,000 shares of VHC common stock at a public offering price of \$20.00 per share. The selling stockholders in the offering sold an additional 1,500,000 shares of VHC common stock to the underwriters in the initial public offering. Shares of the Company s common stock are listed on the New York Stock Exchange under the ticker symbol VNCE . VHC received net proceeds of \$177,000, after deducting underwriting discounts, commissions and estimated

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offering expenses from its sale of shares in the initial public offering. The Company retained approximately \$5,000 of such proceeds for general corporate purposes and used the remaining net proceeds, together with net borrowings under our new term loan facility to repay a promissory note (the Kellwood Note Receivable) issued to Kellwood Company, LLC in connection with the restructuring transactions which occurred immediately prior to the consummation of the IPO (the Restructuring Transactions). Proceeds from the repayment of the Kellwood Note Receivable were used to repay or discharge certain existing debt of Kellwood Company.

In connection with the IPO noted above and the Restructuring Transactions described below, we separated the Vince and non-Vince businesses on November 27, 2013. Any and all Kellwood debt obligations outstanding at the time of the transactions either remain with Kellwood Intermediate Holding, LLC and its subsidiaries (i.e. the non-Vince businesses) and/or were discharged, repurchased or refinanced. See information below for a summary of the Company's new revolving credit facility and term loan facility.

Stock split

In connection with the IPO, VHC's board of directors approved the conversion of all non-voting common stock into voting common stock on a one-for-one basis, and a 28.5177-for-one split of its common stock. Accordingly, all references to share and per share information in all periods presented have been adjusted to reflect the stock split. The par value per share of common stock was changed to \$0.01 per share.

Restructuring Transactions

The following transactions were consummated as part of the Restructuring Transactions:

Affiliates of Sun Capital Partners, Inc. (Sun Capital) contributed certain indebtedness under the Sun Term Loan Agreements as a capital contribution to Vince Holding Corp. (the Additional Sun Capital Contribution);

Vince Holding Corp. contributed such indebtedness to Kellwood Company as a capital contribution, at which time such indebtedness was cancelled;

Vince Intermediate Holding, LLC was formed and became a direct subsidiary of Vince Holding Corp.;

Kellwood Company, LLC (which was converted from Kellwood Company in connection with the Restructuring Transactions) was contributed to Vince Intermediate Holding, LLC;

Vince Holding Corp. and Vince Intermediate Holding, LLC entered into the transfer agreement with Kellwood Company, LLC;

Kellwood Company, LLC distributed 100% of Vince, LLC's membership interests to Vince Intermediate Holding, LLC, who issued the Kellwood Note Receivable to Kellwood Company, LLC. Proceeds from the

repayment of the Kellwood Note Receivable were used to, among other things, repay, discharge or repurchase indebtedness of Kellwood Company, LLC;

Kellwood Holding, LLC was formed by Vince Intermediate Holding, LLC and Vince Intermediate Holding, LLC, through a series of steps, contributed 100% of the membership interests of Kellwood Company, LLC to Kellwood Intermediate Holding, LLC (which was formed as a wholly-owned subsidiary of Kellwood Holding, LLC);

100% of the membership interests of Kellwood Holding, LLC were distributed to the Pre-IPO Stockholders (as defined below);

Revolving Credit Facility Vince, LLC entered into a new senior secured revolving credit facility (the Revolving Credit Facility). Bank of America, N.A. (BofA) serves as administrative agent under the Revolving Credit Facility. This Revolving Credit Facility provides for a revolving line of credit of up to \$50,000;

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Term Loan Facility Vince, LLC and Vince Intermediate Holding, LLC entered into a new \$175,000 senior secured term loan credit facility with the lenders party thereto, BofA, as administrative agent, J.P. Morgan Chase Bank and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers;

Shared Services Agreement Vince, LLC entered into a shared services agreement (the Shared Services Agreement) with Kellwood Company, LLC pursuant to which Kellwood Company, LLC provides support services to Vince, LLC in various operational areas including, among other things, distribution, logistics, information technology, accounts payable, credit and collections, and payroll and benefits;

Tax Receivable Agreement The Company entered into a tax receivable agreement (the Tax Receivable Agreement) with its stockholders immediately prior to the consummation of the Restructuring Transactions (the Pre-IPO Stockholders). 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 certain tax benefits (including net operating losses and tax credits generated prior to the IPO and certain section 197 intangible deductions); and

the conversion of all of our issued and outstanding non-voting common stock into common stock on a one-for-one basis and the subsequent stock split of our common stock on a 28.5177-for-one basis, at which time Apparel Holding Corp. became Vince Holding Corp.

As a result of the IPO and Restructuring Transactions, the non-Vince businesses were separated from the Vince business, and 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 Vince Holding Corp., with the Pre-IPO stockholders retaining approximately a 68% ownership (calculated immediately after consummation of the IPO).

Immediately after the consummation of the IPO and as described below, Vince Holding Corp. contributed the net proceeds from the IPO to Vince Intermediate Holding, LLC. Vince Intermediate Holding, LLC used such proceeds, less approximately \$5,000 retained for general corporate purposes, and approximately \$169,500 of net borrowings under its Term Loan Facility to immediately repay the Kellwood Note Receivable. There was no outstanding balance on the Kellwood Note Receivable after giving effect to such repayment. Proceeds from the repayment of the Kellwood Note Receivable were used to (i) repay, discharge or repurchase indebtedness of Kellwood Company, LLC in connection with the closing of the IPO (including approximately \$9,100 of accrued and unpaid interest on such indebtedness), and (ii) pay (A) the restructuring fee payable to Sun Capital Management and (B) the debt recovery bonus payable to our Chief Executive Officer, all after giving effect to the Additional Sun Capital Contribution. The Kellwood Note Receivable did not include amounts outstanding under Kellwood's revolving credit facility, which was refinanced in connection with consummation of the IPO. Kellwood Company, LLC refinanced the Wells Fargo Facility in connection with the consummation of the IPO. Neither Vince Holding Corp. nor Vince, LLC guarantee or are a borrower party to the refinanced credit facility.

Kellwood Company, LLC used the proceeds from the repayment of the Kellwood Note Receivable to, after giving effect to the Additional Sun Capital Contribution, (i) repay, at closing, all indebtedness outstanding under (A) the Cerberus Term Loan and (B) the Sun Term Loan Agreements, (ii) redeem at par all of the 12.875% Notes, pursuant to an unconditional redemption notice issued at the closing of the IPO, plus, with respect to clauses (i)