

VINCE HOLDING CORP.
Form 10-Q
September 08, 2015

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 1, 2015

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 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	Outstanding at September 1, 2015
Common Stock, \$0.01 par value per share	36,775,443 shares

VINCE HOLDING CORP. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Condensed Consolidated Financial Statements:</u>	
a) <u>Unaudited Condensed Consolidated Balance Sheets at August 1, 2015 and January 31, 2015</u>	4
b) <u>Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months ended August 1, 2015 and August 2, 2014</u>	5
c) <u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months ended August 1, 2015 and August 2, 2014</u>	6
d) <u>Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months ended August 1, 2015 and August 2, 2014</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>	18
Item 3. <u>Quantitative and Qualitative Disclosure About Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	28
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	29
Item 1A. <u>Risk Factors</u>	29
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>	32
Item 5. <u>Other Information</u>	32
Item 6. <u>Exhibits</u>	32

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,” “envision” and 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; including in connection with making inventory commitments; our ability to control the level of sales in the off-price channels; our ability to manage current excess inventory in a way that will promote the long-term health of the brand; 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; 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; the impact of recent turnover in the senior management team, including the departures of our former CEO and former CFO, the appointment on an interim basis of a CEO and a CFO who are both serving on a leave of absence from Sun Capital Partners, Inc; 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 a qualified permanent CEO and a qualified permanent CFO, as well other 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 2014 annual report on Form 10-K filed with the Securities and Exchange Commission on March 27, 2015 (our “2014 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.

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 1, 2015	January 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$88	\$112
Trade receivables, net	22,679	33,797
Inventories, net	45,566	37,419
Prepaid expenses and other current assets	11,112	9,812
Total current assets	79,445	81,140
Property, plant and equipment, net	35,188	28,349
Intangible assets, net	109,345	109,644
Goodwill	63,746	63,746
Deferred income taxes and other assets	96,110	95,769
Total assets	\$383,834	\$378,648
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$38,063	\$29,118
Accrued salaries and employee benefits	2,158	7,380
Other accrued expenses	8,216	27,992
Total current liabilities	48,437	64,490
Long-term debt	81,877	84,450
Deferred rent	14,183	11,676
Other liabilities	168,964	146,063
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock at \$0.01 par value (100,000,000 shares authorized, 36,775,443 and 36,748,245 shares issued and outstanding at August 1, 2015 and January 31, 2015, respectively)	368	367
Additional paid-in capital	1,012,219	1,011,244
Accumulated deficit	(942,149)	(939,577)
Accumulated other comprehensive loss	(65)	(65)
Total stockholders' equity	70,373	71,969

Total liabilities and stockholders' equity	\$383,834	\$378,648
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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		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Net sales	\$79,993	\$89,326	\$139,835	\$142,778
Cost of products sold	59,204	45,312	88,305	72,353
Gross profit	20,789	44,014	51,530	70,425
Selling, general and administrative expenses	27,331	24,070	52,971	45,274
(Loss) Income from operations	(6,542)	19,944	(1,441)	25,151
Interest expense, net	1,623	2,485	2,939	5,335
Other expense, net	350	435	491	485
(Loss) Income before income taxes	(8,515)	17,024	(4,871)	19,331
(Benefit) Provision for income taxes	(3,489)	6,523	(2,299)	7,446
Net (Loss) Income	\$(5,026)	\$10,501	(2,572)	11,885
(Loss) Earnings per share:				
Basic (loss) earnings per share	\$(0.14)	\$0.29	\$(0.07)	\$0.32
Diluted (loss) earnings per share	\$(0.14)	\$0.27	\$(0.07)	0.31
Weighted average shares outstanding:				
Basic	36,774,752	36,726,319	36,763,933	36,725,023
Diluted	36,774,752	38,262,958	36,763,933	38,192,955

See notes to unaudited condensed consolidated financial statements.

VINCE HOLDING CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(in thousands, unaudited)

	Three Months		Six Months Ended	
	Ended		August	August
	August	August	August	August
	1,	2,	1,	2,
	2015	2014	2015	2014
Net (loss) income	\$ (5,026)	\$ 10,501	\$ (2,572)	\$ 11,885
Comprehensive (loss) income	\$ (5,026)	\$ 10,501	\$ (2,572)	\$ 11,885

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 1,	August 2,
	2015	2014
Operating activities		
Net (loss) income	\$(2,572)	\$11,885
Add (deduct) items not affecting operating cash flows:		
Depreciation	3,803	1,849
Amortization of intangible assets	299	299
Amortization of deferred financing costs	664	597
Amortization of deferred rent	1,301	1,246
Deferred income taxes	(441)	7,415
Share-based compensation expense	801	792
Loss on disposal of property, plant and equipment	309	—
Changes in assets and liabilities:		
Receivables, net	11,118	1,894
Inventories, net	(8,147)	(24,676)
Prepaid expenses and other current assets	(88)	2,318
Accounts payable and accrued expenses	6,997	12,596
Other assets and liabilities	37	194
Net cash provided by operating activities	14,081	16,409
Investing activities		
Payments for capital expenditures	(11,043)	(7,351)
Net cash used in investing activities	(11,043)	(7,351)
Financing activities		
Proceeds from borrowings under the Revolving Credit Facility	54,402	27,100
Payments for Revolving Credit Facility	(42,554)	(4,500)
Payments for Term Loan Facility	(15,000)	(53,000)
Fees paid for Term Loan Facility and Revolving Credit Facility	(85)	(114)
Stock option exercise	175	34
Net cash used in financing activities	(3,062)	(30,480)
(Decrease) in cash and cash equivalents	(24)	(21,422)
Cash and cash equivalents, beginning of period	112	21,484
Cash and cash equivalents, end of period	\$88	\$62
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$2,112	\$5,064
Cash payments for income taxes, net of refunds	1,139	65
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Capital expenditures in accounts payable	\$220	\$1,057

See notes to unaudited condensed consolidated financial statements.

7

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 our IPO) or (iii) the operations of the non-Vince businesses after giving effect to our IPO and the related Restructuring Transactions.

(A) Description of Business: Vince is a leading contemporary fashion brand best known for modern effortless style and everyday luxury essentials. Established in 2002, the brand now offers a wide range of women’s and men’s apparel, women’s and men’s footwear and handbags. 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 January 31, 2015, as set forth in the 2014 Annual Report on Form 10-K.

The condensed consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries as of August 1, 2015. 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.

Note 2. Goodwill and Intangible Assets

Goodwill balances and changes therein subsequent to the January 31, 2015 condensed consolidated balance sheet are as follows (in thousands):

	Gross Goodwill	Accumulated Impairment	Net Goodwill
Balance as of January 31, 2015	\$ 110,688	\$ (46,942)	\$ 63,746
Balance as of August 1, 2015	\$ 110,688	\$ (46,942)	\$ 63,746

Identifiable intangible assets summary (in thousands):

	Gross Amount	Accumulated Amortization	Net Book Value
Balance as of January 31, 2015:			
Amortizable intangible assets:			
Customer relationships	\$ 11,970	\$ (4,176)	\$ 7,794
Indefinite-lived intangible assets:			
Trademarks	101,850	—	101,850
Total intangible assets	\$ 113,820	\$ (4,176)	\$ 109,644

	Gross Amount	Accumulated Amortization	Net Book Value
Balance as of August 1, 2015			
Amortizable intangible assets:			
Customer relationships	\$ 11,970	\$ (4,475)	\$ 7,495
Indefinite-lived intangible assets:			
Trademarks	101,850	—	101,850
Total intangible assets	\$ 113,820	\$ (4,475)	\$ 109,345

Amortization of identifiable intangible assets was \$149 and \$149 for the three months ended August 1, 2015 and August 2, 2014, respectively, and \$299 and \$299 for the six months ended August 1, 2015 and August 2, 2014, respectively. The estimated amortization expense for identifiable intangible assets is expected to be \$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 our
assumptions
and are not
substantially
supported by
market data

The Company did not have any non-financial assets or non-financial liabilities recognized at fair value on a recurring basis at August 1, 2015 or January 31, 2015. At August 1, 2015 and January 31, 2015, 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 items. As the Company's debt obligations as of August 1, 2015 are at variable rates, there is no significant difference between the fair value and carrying value of the Company's debt.

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 value. 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.

Revolving Credit Facility

On November 27, 2013, Vince, LLC entered into a \$50,000 senior secured revolving credit facility (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 of \$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, with applicable margins subject to a pricing grid based on an 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 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. 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 aggregate lending commitments 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 1.1 to 1.0 (provided that the Consolidated Fixed Charge Coverage Ratio may be less than 1.1 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 aggregate lending commitments and \$15,000). We are in compliance with applicable financial covenants.

As of August 1, 2015, \$27,930 is available under the Revolving Credit Facility and there were \$34,848 of borrowings outstanding and \$7,222 of letters of credit outstanding under the Revolving Credit Facility. The weighted average interest rate for borrowings outstanding under the Revolving Credit Facility as of August 1, 2015 was 2.1%. As of January 31, 2015, there was \$23,000 of borrowings outstanding and \$7,647 of letters of credit outstanding under the Revolving Credit Facility.

Note 5. Long-Term Debt

Long-term debt consisted of the following as of August 1, 2015 and January 31, 2015 (in thousands).

	August 1, 2015	January 31, 2015
Term Loan Facility	\$50,000	\$65,000
Revolving Credit Facility	34,848	23,000
Total long-term debt principal	\$84,848	\$88,000
Less: Deferred financing costs ⁽¹⁾	2,971	3,550
Total long-term debt	\$81,877	\$84,450

(1) Pursuant to new accounting guidance issued by the Financial Accounting Standards Board (“FASB”) in April 2015, entities are no longer required to present deferred financing costs as a deferred asset. The guidance is effective for our fiscal year beginning in 2016, however, the Company has early adopted this accounting standard update effective as of February 1, 2015 and accordingly adjusted the January 31, 2015 comparative balance sheet to conform to the new classification presentation. There was no other impact on the financial statements related to the adoption other than the reclassification change on the condensed consolidated balance sheet. Refer to Note 10, Recent Accounting Pronouncements, for further information regarding the accounting standard update.

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 (the “Term Loan Facility”) with the lenders party thereto, BofA, as administrative agent, JPMorgan 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. On November 27, 2013, net proceeds from the Term Loan Facility were used, at closing, 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 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, 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 leverage ratio or (ii) the base rate applicable margin of 3.75% to 4.00% based on a 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 nondefault interest rate then applicable to base rate loans.

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 3.75 to 1.00 for the fiscal quarters ending February 1, 2014 through November 1, 2014, 3.50 to 1.00 for the fiscal quarters ending January 31, 2015 through October 31, 2015, and 3.25 to 1.00 for the fiscal quarter ending January 30, 2016 and each fiscal quarter thereafter. 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, 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. 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. We are in compliance with applicable financial covenants.

Through August 1, 2015, on an inception to date basis, the Company has made voluntary prepayments totaling \$125,000 in the aggregate on the original \$175,000 Term Loan Facility entered into on November 27, 2013. Of the \$125,000 of aggregate voluntary prepayments made to date, \$15,000 was paid during the six months ended August 1, 2015. As of August 1, 2015, the Company had \$50,000 of debt outstanding under the Term Loan Facility.

Note 6. Inventory

Inventories consist of the following:

	August 1, 2015	January 31, 2015
Finished goods	\$45,566	\$37,395
Raw materials	—	24
Total inventories, net	45,566	37,419
Net of reserves of:	\$25,064	\$6,471

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out basis. Inventory values are reduced to net realizable value when there are factors indicating that certain inventories will not be sold on terms sufficient to recover their cost and is reflected in Cost of Goods Sold on the Condensed Consolidated Statements of Operations and Comprehensive Loss. The adjustment to net realizable value is based on management's judgment regarding future demand and market conditions and analysis of historical experience. As of August 1, 2015, the lower of cost or market reserve included a write-down of the carrying value for certain excess inventory and aged product to its estimated net realizable value, as the Company elected to accelerate the disposition of such inventory that no longer supports the Company's prospective brand positioning strategy.

Note 7. Share-Based Compensation

Prior to November 27, 2013, VHC did not have convertible equity or convertible debt securities, any of which could result in share-based compensation expense. In connection with our 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

Kellwood Company had convertible equity securities that result in recognition of share-based compensation expense. On June 30, 2010, the board of directors approved the 2010 Stock Option Plan. As discussed above, in connection with the closing of the IPO, 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. We 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.

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 our common stock or shares of common stock held in or acquired for our treasury. In general, if awards under the Vince 2013 Incentive Plan are cancelled for any reason, or expire or terminate unexercised, the shares covered by such award may again be

available for the grant of awards under the Vince 2013 Incentive Plan. As of August 1, 2015, there were 2,731,507 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 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. Please refer to Note 13 for further information regarding our stock option exchange program.

Stock Options

A summary of stock option activity under the plans is as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 31, 2015	2,726,169	\$ 13.18		
Granted	102,553	\$ 12.22		
Exercised	(26,209)	\$ 6.64		
Forfeited or expired	(637,665)	\$ 17.18		
Outstanding at August 1, 2015	2,164,848	\$ 12.03	7.1	\$ 5,882
Vested and exercisable at August 1, 2015	965,605	\$ 6.76	5.8	\$ 3,615

Of the above outstanding shares, 1,541,391 are vested or expected to vest.

Restricted Stock Units

The Company also issues restricted stock units to its non-employee directors and directors not affiliated with Sun Capital (our controlling shareholder) under the Vince 2013 Incentive Plan. A summary of restricted stock unit activity during the six months ended August 1, 2015 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Nonvested restricted stock units at January 31, 2015	12,384	\$ 26.24
Granted	5,341	\$ 15.76
Vested	(989)	\$ 25.28
Nonvested restricted stock units at August 1, 2015	16,736	\$ 22.95

Share-Based Compensation Expense

Share-based compensation expense is recognized over the requisite service period of each share-based payment award and the expense is included as a component of selling, general and administrative expenses in the condensed consolidated statements of operations. Share-based compensation expense for the three months ended