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 March 31, 2022

or

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

For the transition period from ___ to ___

Commission File Number: 001-37527

XCEL BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware	76-0307819
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1333 Broadway, 10th Floor, New York, NY 10018
(Address of Principal Executive Offices)

(347) 727-2474
(Issuer's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.001 par value per share	XELB	NASDAQ Global Market

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 every Interactive Data File required to be submitted 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 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 ☒	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 a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 30, 2022, there were 19,761,990 shares of common stock, $.001 par value per share, of the issuer outstanding.

XCEL BRANDS, INC.

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Xcel Brands, Inc. and Subsidiaries
Unaudited Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

	March 31, 2022 (Unaudited)	December 31, 2021 (Note 1)
Assets		
Current Assets:		
Cash and cash equivalents	$ 3,063	$ 4,483
Accounts receivable, net of allowance of $1,090	8,676	7,640
Inventory	3,941	3,375
Prepaid expenses and other current assets	1,480	1,681
Total current assets	17,160	17,179
Non-current Assets:		
Property and equipment, net	2,293	2,549
Operating lease right-of-use assets	6,097	6,314
Trademarks and other intangibles, net	96,775	98,304
Restricted cash	608	739
Deferred tax assets, net	141	141
Other assets	635	555
Total non-current assets	106,549	108,602
Total Assets	**$ 123,709**	**$ 125,781**
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, accrued expenses and other current liabilities	$ 7,855	$ 6,233
Accrued payroll	1,563	577
Current portion of operating lease obligations	1,045	1,207
Current portion of long-term debt	2,500	2,500
Total current liabilities	12,963	10,517
Long-Term Liabilities:		
Long-term portion of operating lease obligations	6,963	7,252
Long-term debt, net, less current portion	24,998	25,531
Contingent obligations	7,539	7,539
Other long-term liabilities	13	—
Total long-term liabilities	39,513	40,322
Total Liabilities	52,476	50,839
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $.001 par value, 1,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $.001 par value, 50,000,000 shares authorized, and 19,571,119 shares issued and outstanding at March 31, 2022 and December 31, 2021	20	20
Paid-in capital	103,069	103,039
Accumulated deficit	(32,266)	(28,779)
Total Xcel Brands, Inc. stockholders' equity	70,823	74,280
Noncontrolling interest	410	662
Total Stockholders' Equity	71,233	74,942
Total Liabilities and Stockholders' Equity	**$ 123,709**	**$ 125,781**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Xcel Brands, Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)

	For the Three Months Ended March 31, 2022	2021
Revenues		
Net licensing revenue	$ 5,961	$ 4,307
Net sales	2,786	3,502
Net revenue	8,747	7,809
Cost of goods sold	1,680	1,835
Gross profit	7,067	5,974
Operating costs and expenses		
Salaries, benefits and employment taxes	4,853	4,052
Other selling, general and administrative expenses	3,392	3,038
Stock-based compensation	32	160
Depreciation and amortization	1,820	1,210
Total operating costs and expenses	10,097	8,460
Operating loss	(3,030)	(2,486)
Interest and finance expense		
Interest expense - term loan debt	708	276
Other interest and finance charges (income), net	1	4
Total interest and finance expense	709	280
Loss before income taxes	(3,739)	(2,766)
Income tax benefit	—	(138)
Net loss	**(3,739)**	**(2,628)**
Less: Net loss attributable to noncontrolling interest	(252)	(81)
Net loss attributable to Xcel Brands, Inc. stockholders	**$ (3,487)**	**$ (2,547)**
Loss per common share attributable to Xcel Brands, Inc. stockholders:		
Basic and diluted net loss per share	$ (0.18)	$ (0.13)
Weighted average number of common shares outstanding:		
Basic and diluted weighted average common shares outstanding	19,571,119	19,261,436

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Xcel Brands, Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share data)

	Xcel Brands, Inc. Stockholders					
	Common Stock					
	Number of Shares	Amount	Paid-In Capital	Accumulated Deficit	Noncontrolling Interest	Total Equity
Balance as of December 31, 2020	19,260,862	$ 19	$ 102,324	$ (16,595)	$ 507	$ 86,255
Compensation expense related to stock options and restricted stock	—	—	169	—	—	169
Shares issued on exercise of stock options, net	1,667	—	—	—	—	—
Net loss	—	—	—	(2,547)	(81)	(2,628)
Balance as of March 31, 2021	19,262,529	$ 19	$ 102,493	$ (19,142)	$ 426	$ 83,796
Balance as of December 31, 2021	19,571,119	$ 20	$ 103,039	$ (28,779)	$ 662	$ 74,942
Compensation expense related to stock options and restricted stock	—	—	30	—	—	30
Net loss	—	—	—	(3,487)	(252)	(3,739)
Balance as of March 31, 2022	19,571,119	$ 20	$ 103,069	$ (32,266)	$ 410	$ 71,233

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Xcel Brands, Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	For the Three Months Ended March 31,	
	2022	**2021**
Cash flows from operating activities		
Net loss	$ (3,739)	$ (2,628)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	1,820	1,210
Amortization of deferred finance costs included in interest expense	91	20
Stock-based compensation	32	160
Provision for doubtful accounts	—	132
Deferred income tax benefit	—	(138)
Changes in operating assets and liabilities:		
Accounts receivable	(1,036)	(377)
Inventory	(566)	(1,569)
Prepaid expenses and other current and non-current assets	15	(222)
Accounts payable, accrued expenses, accrued payroll and other current liabilities	2,620	1,819
Lease-related assets and liabilities	(128)	(100)
Net cash used in operating activities	(891)	(1,693)
Cash flows from investing activities		
Purchase of property and equipment	(35)	(295)
Net cash used in investing activities	(35)	(295)
Cash flows from financing activities		
Payment of long-term debt	(625)	—
Net cash used in financing activities	(625)	—
Net decrease in cash, cash equivalents, and restricted cash	(1,551)	(1,988)
Cash, cash equivalents, and restricted cash at beginning of period	5,222	6,066
Cash, cash equivalents, and restricted cash at end of period	$ 3,671	$ 4,078
Reconciliation to amounts on condensed consolidated balance sheets:		
Cash and cash equivalents	$ 3,063	$ 2,969
Restricted cash	608	1,109
Total cash, cash equivalents, and restricted cash	$ 3,671	$ 4,078
Supplemental disclosure of non-cash activities:		
Liability for equity-based bonuses and other equity-based payments	$ 2	$ (9)
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 623	$ 236
Cash paid during the period for income taxes	$ —	$ 15

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

XCEL BRANDS, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2022
(Unaudited)

1. Nature of Operations, Background, and Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2021 (which has been derived from audited financial statements) and the unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and pursuant to the instructions to Form 10-Q and Article 8 of Regulation S-X promulgated by the United States Securities and Exchange Commission (“SEC”). Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, pursuant to the rules and regulations of the SEC for interim financial reporting. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position, results of operations, or cash flows.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements were prepared following the same policies and procedures used in the preparation of the audited consolidated financial statements and reflect all adjustments (consisting of normal recurring adjustments) necessary to present fairly the results of operations, financial position, and cash flows of Xcel Brands, Inc. and its subsidiaries (the “Company” or "Xcel"). The results of operations for the interim periods presented herein are not necessarily indicative of the results for the entire fiscal year or for any future interim periods. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on April 15, 2022.

Certain reclassifications have been made to prior year comparable period financial statements to conform to classifications used in the current year – specifically, the disaggregation of the components of interest and finance expense. These reclassifications had no impact on total interest and finance expense, net loss, stockholders’ equity, or cash flows as previously reported.

The Company is a media and consumer products company engaged in the design, production, marketing, live streaming, wholesale distribution, and direct-to-consumer sales of branded apparel, footwear, accessories, fine jewelry, home goods and other consumer products, and the acquisition of dynamic consumer lifestyle brands. Currently, the Company’s brand portfolio consists of the Isaac Mizrahi brands (the "Isaac Mizrahi Brand"), the LOGO by Lori Goldstein brand (the “Lori Goldstein Brand”), the Halston brands (the "Halston Brands"), the Judith Ripka brands (the "Ripka Brand"), the C Wonder brands (the "C Wonder Brand"), and other proprietary brands. The Company also manages the Longaberger brand (the “Longaberger Brand”) through its 50% ownership interest in Longaberger Licensing, LLC; the Company consolidates Longaberger Licensing, LLC and recognizes noncontrolling interest for the remaining ownership interest held by a third party.

The Company designs, produces, markets, and distributes products, licenses its brands to third parties, and generates licensing revenues through contractual arrangements with manufacturers and retailers. The Company and its licensees distribute through an omni-channel retail sales strategy, which includes distribution through interactive television, digital live-stream shopping, brick-and-mortar retail, wholesale, and e-commerce channels to be everywhere its customers shop.

The Company’s wholesale and direct-to-consumer operations are presented as "Net sales" and "Cost of goods sold" in the Condensed Consolidated Statements of Operations, separately from the Company’s licensing revenues.

Liquidity

The Company incurred a net loss of approximately $3.7 million during the three months ended March 31, 2022, and had an accumulated deficit of approximately $32.3 million as of March 31, 2022. The Company had working capital (current assets less current liabilities, excluding the current portion of lease obligations) of approximately $5.2 million as of March 31, 2022. The Company’s cash and cash equivalents were approximately $3.1 million as of March 31, 2022. Management expects that existing cash and operating cash flows will be adequate to meet the Company's operating needs, term debt service obligations, and capital expenditure needs, for at least the twelve months subsequent to the filing date of this Quarterly Report on Form 10-Q.

2. Trademarks and Other Intangibles

Trademarks and other intangibles, net consist of the following:

($ in thousands)	Weighted Average Amortization Period	March 31, 2022 Gross Carrying Amount	March 31, 2022 Accumulated Amortization	March 31, 2022 Net Carrying Amount
Trademarks (indefinite-lived)	n/a	$ 44,500	$ —	$ 44,500
Trademarks (finite-lived)	15 years	68,880	16,782	52,098
Copyrights and other intellectual property	8 years	429	252	177
Total		**$ 113,809**	**$ 17,034**	**$ 96,775**

($ in thousands)	Weighted Average Amortization Period	December 31, 2021 Gross Carrying Amount	December 31, 2021 Accumulated Amortization	December 31, 2021 Net Carrying Amount
Trademarks (indefinite-lived)	n/a	$ 44,500	$ —	$ 44,500
Trademarks (finite-lived)	15 years	68,880	15,268	53,612
Non-compete agreement	7 years	562	562	—
Copyrights and other intellectual property	8 years	429	237	192
Total		**$ 114,371**	**$ 16,067**	**$ 98,304**

Amortization expense for intangible assets was approximately $1.53 million for the three-month period ended March 31, 2022 (the "current quarter") and was approximately $0.91 million for the three-month period ended March 31, 2021 (the "prior year quarter").

The trademarks related to the Isaac Mizrahi Brand have been determined to have indefinite useful lives and, accordingly, no amortization has been recorded for these assets.

3. Significant Contracts and Concentrations

Qurate Agreements

Under the Company's agreements with Qurate Retail Group ("Qurate"), collectively referred to as the Qurate Agreements, Qurate is obligated to make payments to the Company on a quarterly basis, based primarily upon a percentage of net retail sales of Isaac Mizrahi, Judith Ripka, Lori Goldstein, and Longaberger branded merchandise. Net retail sales are defined as the aggregate amount of all revenue generated through the sale of the specified branded products by Qurate and its subsidiaries under the Qurate Agreements, net of customer returns, and excluding freight, shipping and handling charges, and sales, use, or other taxes. Net licensing revenue from the Qurate Agreements represents a significant portion of the Company's total net revenue.

Net licensing revenue from the Qurate Agreements totaled $5.01 million and $3.79 million for the current quarter and prior year quarter, respectively, representing approximately 57% and 49% of the Company's total net revenue for the current quarter and prior year quarter, respectively.

As of March 31, 2022 and December 31, 2021, the Company had receivables from Qurate of $5.04 million and $3.51 million, respectively, representing approximately 58% and 46% of the Company's total net accounts receivable, respectively.

4. Allowance for Doubtful Accounts

Accounts receivable are presented on the Company's condensed consolidated balance sheets net of allowances of $1.09 million as of March 31, 2022 and December 31, 2021. The Company recognized bad debt expense of $0.13 million in the prior year quarter, but did not recognize any bad debt expense in the current quarter.

The prior year quarter bad debt expense was related to the bankruptcy of and economic impact on certain retail customers due to the COVID-19 pandemic. The allowance of approximately $1.1 million against such customers' outstanding receivable balances of $1.4 million at both December 31, 2021 and March 31, 2022 represents management's best estimate of collectibility, based on the most recent information available at the respective balance sheet dates.

5. Leases

The Company has an operating lease for its corporate offices and operations facility, as well as certain equipment with a term of 12 months or less.

The Company also has an operating lease for its former retail store location, which was closed in the current quarter. The Company is currently in the process of negotiating the termination of this lease.

The Company previously had an operating lease for its former office location, which it subleased to a third-party subtenant through February 27, 2022, and the Company's lease of this office space expired by its terms on February 28, 2022.

As of March 31, 2022, the Company's real estate leases have remaining lease terms of 5 – 7 years, with a weighted average remaining lease term of approximately 5.7 years and a weighted average discount rate of 6.25%.

The Company generally recognizes a right-of-use ("ROU") asset, representing its right to use the underlying leased asset for the lease term, and a liability for its obligation to make future lease payments (the lease liability) at commencement date (the date on which the lessor makes the underlying asset available for use) based on the present value of lease payments over the lease term. The Company does not recognize ROU assets and lease liabilities for lease terms of 12 months or less, but recognizes such lease payments in operations on a straight-line basis over the lease terms.

Lease expense for operating lease payments is generally recognized on a straight-line basis over the lease term. The Company recognizes income from subleases (in which the Company is the sublessor) on a straight-line basis over the term of the sublease, as a reduction to lease expense. Lease expense included in selling, general and administrative expenses on the Company's unaudited condensed consolidated statements of operations was approximately $0.4 million for both the current quarter and prior year quarter.

Cash paid for amounts included in the measurement of operating lease liabilities was $0.6 million in both the current quarter and prior year quarter.

As of March 31, 2022, the maturities of lease obligations were as follows:

($ in thousands)	
2022 (April 1 through December 31)	$ 1,132
2023	1,711
2024	1,711
2025	1,711
2026	1,710
Thereafter (through 2028)	1,610
Total lease payments	9,585
Less: Discount	1,577
Present value of lease liabilities	8,008
Current portion of lease liabilities	1,045
Non-current portion of lease liabilities	$ 6,963

6. Debt

The Company's net carrying amount of debt was comprised of the following:

($ in thousands)	March 31, 2022	December 31, 2021
Term loan debt	$ 28,375	$ 29,000
Unamortized deferred finance costs related to term loan debt	(877)	(969)
Total	27,498	28,031
Current portion of debt	2,500	2,500
Long-term debt	$ 24,998	$ 25,531

Current Term Loan Debt

On December 30, 2021, Xcel, as Borrower, and its wholly-owned subsidiaries, IM Brands, LLC, JR Licensing, LLC, H Licensing, LLC, C Wonder Licensing, LLC, Xcel Design Group, LLC, Judith Ripka Fine Jewelry, LLC, H Heritage Licensing, LLC, Xcel-CT MFG, LLC and Gold Licensing, LLC, as Guarantors (each a "Guarantor" and collectively, the "Guarantors"), entered into a Loan and Security Agreement (the "New Loan Agreement") with FEAC Agent, LLC ("FEAC"), as lead arranger and as administrative agent and collateral agent for the lenders party to the New Loan Agreement, and the financial institutions party thereto as lenders (the "Lenders"). Pursuant to the New Loan Agreement, the Lenders made a term loan in the aggregate amount of $29.0 million (the "New Term Loan"). The proceeds of the New Term Loan were used for the purpose of refinancing existing indebtedness (i.e., previous term loan debt), to pay fees, costs, and expenses incurred in connection with entering into the New Loan Agreement, and for working capital purposes.

The New Loan Agreement also provides that Xcel may request the Lenders make incremental term loans of up to $25.0 million (the "Incremental Term Loans"). The terms and conditions of the Incremental Term Loans will be agreed in an amendment to the New Loan Agreement prior to the funding of the Incremental Term Loans.

Upon entering into the New Loan Agreement, Xcel paid a 1.75% closing fee to FEAC for the benefit of the Lenders; the Company also paid approximately $0.5 million of various legal and other fees in connection with the execution of the New Loan Agreement. These fees and costs totaling approximately $0.97 million, net of accumulated amortization, have been deferred on the accompanying condensed consolidated balance sheets as a reduction of the carrying value of the New

Term Loan, and are being amortized to interest expense over the term of the New Term Loan using the effective interest method.

The New Term Loan matures on April 14, 2025. Principal on the New Term Loan is payable in quarterly installments of $625,000 on each of March 31, June 30, September 30 and December 31 of each year, commencing on March 31, 2022 and ending on March 31, 2025, with a final payment of $20,875,000 on the maturity date of April 14, 2025. Thus, the aggregate remaining annual principal payments under the New Term Loan at March 31, 2022 were as follows:

($ in thousands) **Year Ending December 31,**		**Amount of Principal Payment**
2022 (April 1 through December 31)	$	1,875
2023		2,500
2024		2,500
2025		21,500
Total	$	28,375

Xcel has the right upon thirty (30) days prior written notice to prepay all or any portion of the New Term Loan or Incremental Term Loans and accrued and unpaid interest thereon; provided that any prepayment shall be applied first to prepay the New Term Loan in full and second to the Incremental Term Loans. If the New Term Loan is prepaid in whole or in part (including as a result of an event of default), Xcel shall pay a prepayment premium as follows: an amount equal to the principal amount of the New Term Loan prepaid multiplied by: (i) five percent (5.00%) if such prepayment occurs on or before the first anniversary of the closing date; (ii) two percent (2.00%) if such prepayment occurs at any time after the first anniversary of the closing date and on or prior to the second anniversary of the closing date; and (iii) one percent (1.00%) if such prepayment occurs at any time after the second anniversary of the closing date.

Xcel's obligations under the New Loan Agreement are guaranteed by the Guarantors and secured by all of the assets of Xcel and the Guarantors (as well as any subsidiary formed or acquired that becomes a credit party to the New Loan Agreement) and, subject to certain limitations contained in the New Loan Agreement, equity interests of the Guarantors (as well as any subsidiary formed or acquired that becomes a credit party to the New Loan Agreement).

Xcel also granted the Lenders a right of first offer to finance any acquisition for which the consideration therefore will be paid other than by cash of Xcel or the Guarantors, the issuance of equity interest of Xcel, or the issuance of notes to the applicable seller.

The New Loan Agreement contains customary covenants, including reporting requirements, trademark preservation, and the following financial covenants of Xcel (on a consolidated basis with the Guarantors and any subsidiaries subsequently formed or acquired that become a credit party under the Loan Agreement):

- liquid assets of at least (i) $2.5 million during the first fiscal month of each fiscal quarter if cash payments from revenue licenses during the immediately succeeding 30 days are expected to be at least $4.0 million, and (ii) $3.0 million at all other times;

- a fixed charge coverage ratio of not less than 1.00 to 1.00 for the fiscal quarter ending September 30, 2022, and for the twelve fiscal month period ending at the end of each fiscal quarter commencing with the fiscal quarter ending December 31, 2022;

- a loan to value ratio not to exceed 50% at all times;

- minimum revenues as set forth below;

Fiscal Period		Minimum Revenue
April 1, 2021 - December 31, 2021	$	16,445,000
For the trailing twelve month period ending March 31, 2022	$	23,500,000
For the trailing twelve month period ending June 30, 2022	$	24,491,000
For the trailing twelve month periods ending September 30, 2022 and each fiscal quarter end thereafter	$	25,000,000

- the sum of (i) the eligible inventory plus (ii) eligible cash on hand to the extent not used to satisfy the Minimum Accounts Amount (as defined below) plus (iii) the eligible accounts to the extent not used to satisfy the Minimum Accounts Amount (as defined below) of at least $1.25 million at all times ("Minimum Inventory Amount"), and the sum of (i) the eligible accounts plus (ii) eligible cash on hand to the extent not used to satisfy the Minimum Inventory Amount of at least $1.5 million at all times ("Minimum Accounts Amount"); and

- Adjusted EBITDA of at least $2.0 million for the 6 fiscal month period ending June 30, 2022.

The Company was in compliance with all applicable covenants as of March 31, 2022.

Interest on the New Term Loan accrues at "LIBOR" plus 7.5% per annum, and is payable on the last business day of each calendar month. "LIBOR" is defined in the New Loan Agreement as the greater of (a) the rate of interest per annum for deposits in dollars for an interest period equal to three months as published by Bloomberg or a comparable or successor quoting service at approximately 11:00 a.m. (London time) two business days prior to the last business day of each calendar month and (b) 1.0% per annum.

For the current quarter and prior year quarter, the Company incurred interest expense (including both interest paid in cash and the amortization of deferred finance costs) related to term loan debt of approximately $0.71 million and $0.28 million, respectively. The effective interest rate related to term loan debt was approximately 9.8% and 6.6% for the current quarter and prior year quarter, respectively.

7. Stockholders' Equity

Equity Incentive Plans

The Company's 2021 Equity Incentive Plan (the "2021 Plan") is designed and utilized to enable the Company to provide its employees, officers, directors, consultants, and others whose past, present, and/or potential contributions to the Company have been, are, or will be important to the success of the Company, an opportunity to acquire a proprietary interest in the Company. A total of 4,000,000 shares of common stock are eligible for issuance under the 2021 Plan. The 2021 Plan provides for the grant of any or all of the following types of awards: stock options (incentive or non-qualified), restricted stock, restricted stock units, performance awards, or cash awards. The 2021 Plan is administered by the Company's Board of Directors, or, at the Board's discretion, a committee of the Board.

In addition, stock-based awards (including options, warrants, and restricted stock) previously granted under the Company's 2011 Equity Incentive Plan (the "2011 Plan") remain outstanding and shares of common stock may be issued to satisfy options or warrants previously granted under the 2011 Plan, although no new awards may be granted under the 2011 Plan.

Stock-based Compensation

The Company accounts for stock-based compensation in accordance with Accounting Standards Codification Topic 718, “Compensation - Stock Compensation,” by recognizing the fair value of stock-based compensation as an operating expense over the service period of the award or term of the corresponding contract, as applicable. Forfeitures are accounted for as a reduction of compensation cost in the period when such forfeitures occur. For stock option awards for which vesting is contingent upon the achievement of certain performance targets, the timing and amount of compensation expense recognized is based upon the Company’s projections and estimates of the relevant performance metric(s) until the time the performance obligation is satisfied. Expense for such awards is recognized only to the extent that the achievement of the specified performance target(s) has been met or is considered probable.

Total expense recognized in the current quarter and prior year quarter for all forms of stock-based compensation was approximately $0.03 million and $0.16 million, respectively. Of the current quarter expense amount, approximately $0.01 million related to employees and approximately $0.02 million related to directors and consultants. Of the prior year quarter expense amount, approximately $0.14 million related to employees and approximately $0.02 million related to directors and consultants.

Stock Options

A summary of the Company’s stock options activity for the current quarter is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2022	5,630,970	$ 2.25	5.46	$ —
Granted	—	—		
Canceled	—	—		
Exercised	—	—		
Expired/Forfeited	(364,310)	3.61		
Outstanding at March 31, 2022, and expected to vest	5,266,660	$ 2.16	5.52	$ —
Exercisable at March 31, 2022	1,495,826	$ 3.32	1.93	$ —

Compensation expense related to stock options for the current quarter and the prior year quarter was approximately $0.02 million and $0.16 million, respectively. Total unrecognized compensation expense related to unvested stock options at March 31, 2022 amounts to approximately $0.07 million and is expected to be recognized over a weighted average period of approximately 1.07 years.

XCEL BRANDS, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2022
(Unaudited)

A summary of the Company's non-vested stock options activity for the current quarter is as follows:

	Number of Options	Weighted Average Grant Date Fair Value
Balance at January 1, 2022	3,873,334	$ 0.07
Granted	—	—
Vested	(102,500)	1.24
Forfeited or Canceled	—	—
Balance at March 31, 2022	3,770,834	$ 0.03

Warrants

A summary of the Company's warrants activity for the current quarter is as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding and exercisable at January 1, 2022	116,065	$ 3.15	2.57	$ —
Granted	—	—		
Canceled	—	—		
Exercised	—	—		
Expired/Forfeited	—	—		
Outstanding and exercisable at March 31, 2022	116,065	$ 3.15	2.32	$ —

No compensation expense related to warrants was recognized in the current quarter or prior year quarter.

Stock Awards

A summary of the Company's restricted stock activity for the current quarter is as follows:

	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2022	815,833	$ 4.00
Granted	—	—
Canceled	—	—
Vested	—	—
Expired/Forfeited	—	—
Outstanding at March 31, 2022	815,833	$ 4.00

Compensation expense related to restricted stock grants was approximately $0.10 million for the current quarter and prior year quarter. Total unrecognized compensation expense related to unvested restricted stock grants at March 31, 2022 amounts to approximately $0.05 million and is expected to be recognized over a weighted average period of approximately 1.00 years.

Shares Available Under the Company's Equity Incentive Plans

As of March 31, 2022, there were 4,000,000 shares of common stock available for award grants under the 2021 Plan.

Shares Reserved for Issuance

As of March 31, 2022, there were 9,382,725 shares of common stock reserved for issuance, including 5,382,725 shares reserved for issuance pursuant to unexercised warrants and stock options previously granted under the 2011 Plan, and 4,000,000 shares available for issuance under the 2021 Plan.

8. Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS gives effect to all potentially dilutive common shares outstanding during the period, including stock options and warrants, using the treasury stock method. Diluted EPS excludes all potentially dilutive shares of common stock if their effect is anti-dilutive.

As a result of the net loss for all periods presented, the Company calculated diluted EPS using basic weighted average shares outstanding for such period, as utilizing diluted shares would be anti-dilutive to loss per share.

The computation of basic and diluted earnings (loss) per share excludes the following potentially dilutive securities because their inclusion would be anti-dilutive:

	Three Months Ended March 31,	
	2022	2021
Stock options	5,266,660	5,900,765
Warrants	116,065	579,815
Total	5,382,725	6,480,580

9. Income Tax

The estimated annual effective income tax benefit rate for the current quarter and the prior year quarter was approximately 0% and 5%, respectively, resulting in an income tax benefit of $0 and $0.14 million, respectively.

For the current quarter, the federal statutory rate differed from the effective tax rate primarily due to the recording of a valuation allowance against the current period loss. Since it is not more likely than not that the current period loss will be utilized, the Company recorded the valuation allowance.

For the prior year quarter, the federal statutory rate differed from the effective tax rate primarily due to recurring permanent differences, which decreased the effective tax rate by approximately 17%, partially offset by state taxes, which increased the effective tax rate by approximately 1%.

10. Related Party Transactions

Isaac Mizrahi

On February 24, 2020, the Company entered into an employment agreement with Isaac Mizrahi, a principal stockholder of the Company, for Mr. Mizrahi to continue to serve as Chief Design Officer of the Isaac Mizrahi Brand. The term of the employment agreement expires on December 31, 2022, subject to earlier termination, and may be extended, at the Company's option, for two successive one-year terms (each, a "Renewal Period"). Mr. Mizrahi's base salary shall be $1.8 million, $2.0 million, and $2.1 million per annum during the term of the agreement and $2.25 million and $2.4 million during 2023 and 2024 if the term is extended, in each case, subject to adjustment in the event Mr. Mizrahi does not make a specified number of appearances on Qurate's QVC channel. Mr. Mizrahi shall be eligible to receive an annual cash bonus (the "Bonus") up to an amount equal to $2.5 million less base salary for 2020 and $3.0 million less base salary for 2021, 2022, and any year during the Renewal Period. The Bonus shall consist of the DRT Revenue, Bonus, the Brick-and-Mortar Bonus, the Endorsement Bonus and the Monday Bonus, if any, as determined in accordance with the following:

- "DRT Bonus" means for any calendar year an amount equal to 10% of the aggregate net revenue related to sales of Isaac Mizrahi Brand products through direct response television. The DRT Revenue Bonus shall be reduced by the amount of the Monday Bonus.

- "Brick-and-Mortar Bonus" means for any calendar year an amount equal to 10% of the net revenues from sales of products under the Isaac Mizrahi Brand, excluding DRT revenue and endorsement revenues.

- "Endorsement Bonus" means for any calendar year an amount equal to 40% of revenues derived from projects undertaken by the Company with one or more third parties solely for Mr. Mizrahi to endorse the third party's products through the use of Mr. Mizrahi's name, likeness, and/or image, and neither the Company nor Mr. Mizrahi provides licensing or design.

- "Monday Bonus" means $10,000 for each appearance by Mr. Mizrahi on the QVC channel on Mondays (subject to certain expectations) up to a maximum of 40 such appearances in a calendar year.

Mr. Mizrahi is required to devote his full business time and attention to the business and affairs of the Company and its subsidiaries; however, Mr. Mizrahi is the principal of IM Ready-Made, LLC and Laugh Club, Inc. ("Laugh Club"), and accordingly, he may undertake promotional activities related thereto (including the promotion of his name, image, and likeness) through television, video, and other media (and retain any compensation he receives for such activities) (referred to as "Retained Media Rights") so long as such activities (i) do not utilize the IM trademarks, (ii) do not have a mutually negative impact upon or materially conflict with Mr. Mizrahi's duties under the employment agreement, or (iii) are consented to by the Company. The Company believes that it benefits from Mr. Mizrahi's independent promotional activities by increased brand awareness of IM Brands and the IM trademarks.

Severance. If Mr. Mizrahi's employment is terminated by the Company without "cause," or if Mr. Mizrahi resigns with "good reason," then Mr. Mizrahi will be entitled to receive his unpaid base salary and cash bonuses through the termination date and an amount equal to his base salary in effect on the termination date for the longer of six months and the remainder of the then-current term, but in no event exceeding 18 months. If Mr. Mizrahi's employment is terminated by the Company without "cause" or if Mr. Mizrahi resigns with "good reason" within six months following a change of control (as defined in the employment agreement), Mr. Mizrahi shall be eligible to receive a lump-sum payment equal to two times the sum of (i) his base salary (at an average rate that would have been in effect for such two-year period following termination) plus (ii) the bonus paid or due to Mr. Mizrahi in the year prior to the change in control.

Non-Competition and Non-Solicitation. During the term of Mr. Mizrahi's employment by the Company and for a one-year period after the termination of such employment (unless his employment was terminated without "cause" or was terminated by him for "good reason"), Mr. Mizrahi may not permit his name to be used by or to participate in any business or enterprise (other than the mere passive ownership of not more than 3% of the outstanding stock of any class of a publicly held corporation whose stock is traded on a national securities exchange or in the over-the-counter market) that engages or proposes to engage in the Company's business anywhere in the world other than the Company and its subsidiaries. Also during his employment and for a one-year period after the termination of such employment, Mr. Mizrahi may not, directly or indirectly, solicit, induce, or attempt to induce any customer, supplier, licensee, or other business relation of the Company or any of its subsidiaries to cease doing business with the Company or any or its subsidiaries; or solicit, induce, or attempt to induce any person who is, or was during the then-most recent 12-month period, a corporate officer, general manager, or other employee of the Company or any of its subsidiaries, to terminate such employee's employment with the Company or any of its subsidiaries; or hire any such person unless such person's employment was terminated by the Company or any of its subsidiaries; or in any way interfere with the relationship between any such customer, supplier, licensee, employee, or business relation and the Company or any of its subsidiaries.

On February 24, 2020, the Company entered into a services agreement with Laugh Club, an entity wholly-owned by Mr. Mizrahi, pursuant to which Laugh Club shall provide services to Mr. Mizrahi necessary for Mr. Mizrahi to perform his services pursuant to the employment agreement. The Company will pay Laugh Club an annual fee of $0.72 million for such services.

11. Commitments and Contingencies

Contingent Obligation – Halston Heritage Earn-Out

In connection with the February 11, 2019 purchase of the Halston Heritage trademarks from H Company IP, LLC ("HIP"), the Company agreed to pay HIP additional consideration (the "Halston Heritage Earn-Out") of up to an aggregate of $6.0 million, based on royalties earned through December 31, 2022. The Halston Heritage Earn-Out of $0.9 million is recorded as a long-term liability at March 31, 2022 and December 31, 2021 in the accompanying condensed consolidated balance sheets, based on the difference between the fair value of the acquired assets of the Halston Heritage trademarks and the total consideration paid. In accordance with Accounting Standards Codification ("ASC") Topic 480, "Distinguishing Liabilities from Equity," the Halston Heritage Earn-Out obligation is treated as a liability in the accompanying condensed consolidated balance sheets because of the variable number of shares payable under the agreement.

Contingent Obligation – Lori Goldstein Earn-Out

In connection with the April 1, 2021 acquisition of the Lori Goldstein trademarks, the Company agreed to pay the seller additional cash consideration (the "Lori Goldstein Earn-Out") of up to an aggregate of $12.5 million, based on royalties earned during the six calendar year period commencing in 2021. The Lori Goldstein Earn-Out of $6.6 million is recorded as a long-term liability at March 31, 2022 and December 31, 2021 in the accompanying condensed consolidated balance sheets, based on the difference between the fair value of the acquired assets of the Lori Goldstein brand and the total consideration paid, in accordance with the guidance in ASC Subtopic 805-50.

Legal Proceedings

From time to time, the Company becomes involved in legal claims and litigation in the ordinary course of business. In the opinion of management, based on consultations with legal counsel, the disposition of litigation currently pending against the Company is unlikely to have, individually or in the aggregate, a materially adverse effect on the Company’s business, financial position, results of operations, or cash flows. The Company routinely assesses all its litigation and threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable.

Coronavirus Pandemic

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus disease (“COVID-19”) as a pandemic, which continues to circulate throughout the U.S. and the world. COVID-19 has had an unprecedented impact on the U.S. and global economy as national, state, and local governments continue to react to and attempt to manage this ongoing public health crisis.

The impacts of the ongoing COVID-19 pandemic are broad reaching and have had an impact on the Company’s licensing and wholesale businesses. The COVID-19 pandemic has impacted the Company’s supply chain as most of the Company’s products are manufactured in China, Thailand, and other places around the world affected by this event. Temporary factory closures and the pace of workers returning to work have impacted contract manufacturers’ ability to source certain raw materials and to produce finished goods in a timely manner. The pandemic has also impacted distribution and logistics providers' ability to operate in the normal course of business. Further, the initial onset of the pandemic in 2020 resulted in a sudden decrease in sales for many of the Company’s products, from which the Company has yet to fully recover. This resulted in order cancellations and a decrease in accounts receivable collections, as the Company recorded additional allowances for doubtful accounts of approximately $1 million and $0.1 million for the years ended December 31, 2020 and 2021, respectively, related to retailers that filed for bankruptcy.

Due to the ongoing COVID-19 pandemic, there is significant uncertainty surrounding the impact on the Company’s future results of operations and cash flows. Continued impacts of the pandemic could materially adversely affect the Company’s near-term and long-term revenues, earnings, liquidity, and cash flows as the Company’s customers and/or licensees may request temporary relief, delay, or not make scheduled payments.

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

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995. The statements that are not historical facts contained in this report are forward-looking statements that involve a number of known and unknown risks, uncertainties and other factors, all of which are difficult or impossible to predict and many of which are beyond our control, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks are detailed in the Risk Factors section of our Form 10-K for the fiscal year ended December 31, 2021, as filed with the SEC on April 15, 2022. The words "believe," "anticipate," "expect," "continue," "estimate," "appear," "suggest," "goal," "potential," "predicts," "seek," "will," "confident," "project," "provide," "plan," "likely," "future," "ongoing," "intend," "may," "should," "would," "could," "guidance," and similar expressions identify forward-looking statements.

Overview

Xcel Brands, Inc. ("Xcel," the "Company," "we," "us," or "our") is a media and consumer products company engaged in the design, production, marketing, live streaming, wholesale distribution, and direct-to-consumer sales of branded apparel, footwear, accessories, fine jewelry, home goods and other consumer products, and the acquisition of dynamic consumer lifestyle brands. Xcel was founded in 2011 with a vision to reimagine shopping, entertainment, and social media as one thing. The Company owns and manages the Isaac Mizrahi brand (the "Isaac Mizrahi Brand"), the LOGO by Lori Goldstein brand (the "Lori Goldstein Brand"), the Halston brand (the "Halston Brand"), the Judith Ripka brand (the "Ripka Brand"), the C Wonder brand (the "C Wonder Brand"), and the Longaberger brand (the "Longaberger Brand"), pioneering a true omni-channel sales strategy which includes the promotion and sale of products under its brands through interactive television, digital live-stream shopping, brick-and-mortar retail, wholesale, and e-commerce channels to be everywhere its customers shop.

Our objective is to build a diversified portfolio of lifestyle consumer brands through organic growth and the strategic acquisition of new brands. To grow our brands, we are focused on the following primary strategies:

- distribution and/or licensing of our brands for sale through interactive television (i.e., QVC, HSN, The Shopping Channel, TVSN, etc.);
- wholesale distribution of our brands to retailers that sell to the end consumer;
- direct-to-consumer distribution of our brands through e-commerce and live streaming;
- licensing our brands to manufacturers and retailers for promotion and distribution through e-commerce, social commerce, and traditional brick-and-mortar retail channels whereby we provide certain design services; and
- acquiring additional consumer brands and integrating them into our operating platform and leveraging our operating infrastructure and distribution relationships.

We believe that Xcel offers a unique value proposition to our retail and direct-to-consumer customers and our licensees for the following reasons:

- our management team, including our officers' and directors' experience in, and relationships within the industry;
- our deep knowledge and expertise in live streaming;
- our design, production, sales, marketing, and supply chain and integrated technology platform that enables us to design and distribute trend-right product; and

- our operating strategy, significant media and internet presence, and distribution network.

Our design, production and supply chain platform was developed to shorten the supply chain cycle by utilizing state-of-the-art supply chain management technology, trend analytics, and data science to actively monitor fashion trends and read and react to customer demands.

Summary of Operating Results

Three months ended March 31, 2022 (the "current quarter") compared with the three months ended March 31, 2021 (the "prior year quarter")

Revenues

Current quarter net revenue increased approximately $0.9 million to $8.7 million from $7.8 million for the prior year quarter.

Net licensing revenue increased by approximately $1.7 million in the current quarter to $6.0 million, compared with $4.3 million in the prior year quarter. This increase in licensing revenue was primarily attributable to the Lori Goldstein brand, which we acquired on April 1, 2021.

Net sales decreased by approximately $0.7 million in the current quarter to $2.8 million, compared with $3.5 million in the prior year quarter. This decrease in net sales was primarily attributable to declines in apparel wholesale revenue, mainly driven by a change in our C Wonder brand distribution.

Cost of Goods Sold

Current quarter cost of goods sold was $1.7 million, compared with $1.8 million for the prior year quarter.

Gross profit margin from net product sales (net sales less cost of goods sold, divided by net sales) declined from approximately 48% in the prior year quarter to approximately 40% in the current quarter, primarily due to the selling-off of seasoned apparel inventory during the current quarter, a portion of which was reserved for in previous periods.

Gross profit (net revenue less cost of goods sold) increased approximately $1.1 million to $7.1 million from $6.0 million in the prior year quarter, primarily driven by the aforementioned increase in net licensing revenue.

Operating Costs and Expenses

Operating costs and expenses increased approximately $1.6 million from $8.5 million in the prior year quarter to $10.1 million in the current quarter. This increase was mainly driven by costs associated with the Lori Goldstein brand acquired on April 1, 2021 and, to a lesser extent, cost increases from service providers and vendors due to the current inflationary economic environment. Costs associated with the Lori Goldstein brand included a $0.6 million increase in salaries, benefits and employment taxes and $0.6 million of increased trademark amortization expense. The remainder of the increase in operating costs is largely attributable to higher shipping and logistics costs.

Interest and Finance Expense

Interest and finance expense for the current quarter was $0.7 million, compared with $0.3 million for the prior year quarter. This increase was attributable to the fact that the new term loan agreement entered into on December 30, 2021 resulted in a higher outstanding principal balance at a higher effective interest rate as compared with the previous term loan agreement.

Income Tax Benefit

The estimated annual effective income tax benefit rate for the current quarter and the prior year quarter was approximately 0% and 5%, respectively, resulting in an income tax benefit of $0 and $0.14 million, respectively.

For the current quarter, the federal statutory rate differed from the effective tax rate primarily due to the recording of a valuation allowance against the current period loss. Since it is not more likely than not that the current period loss will be utilized, the Company recorded the valuation allowance.

For the prior year quarter, the federal statutory rate differed from the effective tax rate primarily due to recurring permanent differences, which decreased the effective tax rate by approximately 17%, partially offset by state taxes, which increased the effective tax rate by approximately 1%.

Net Loss Attributable to Xcel Brands, Inc. Stockholders

We had a net loss of $3.5 million for the current quarter, compared with a net loss of $2.5 million for the prior year quarter, due to the combination of the factors outlined above.

Non-GAAP Net Income, Non-GAAP Diluted EPS, and Adjusted EBITDA

We had a non-GAAP net loss of approximately $1.9 million, or $0.10 per diluted share ("non-GAAP diluted EPS"), for the current quarter and a non-GAAP net loss of $1.5 million, or $0.08 per diluted share, for the prior year quarter. Non-GAAP net (loss) income is a non-GAAP unaudited term, which we define as net income (loss) attributable to Xcel Brands, Inc. stockholders, exclusive of amortization of trademarks, stock-based compensation, loss on extinguishment of debt, gain on sales of assets, gain on reduction of contingent obligations, costs (recoveries) in connection with potential acquisitions, certain adjustments to the provision for doubtful accounts related to the bankruptcy of and economic impact on certain retail customers due to the COVID-19 pandemic, asset impairments, and deferred income taxes. Non-GAAP net income and non-GAAP diluted EPS measures do not include the tax effect of the aforementioned adjusting items, due to the nature of these items and the Company's tax strategy.

We had Adjusted EBITDA of approximately $(0.9) million for both the current quarter and the prior year quarter. Adjusted EBITDA is a non-GAAP unaudited measure, which we define as net income (loss) attributable to Xcel Brands, Inc. stockholders before depreciation and amortization, interest and finance expenses (including loss on extinguishment of debt, if any), income taxes, other state and local franchise taxes, stock-based compensation, gain on reduction of contingent obligations, gain on sale of assets, costs (recoveries) in connection with potential acquisitions, asset impairments, and certain adjustments to the provision for doubtful accounts related to the bankruptcy of and economic impact on certain retail customers due to the COVID-19 pandemic.

Management uses non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA as measures of operating performance to assist in comparing performance from period to period on a consistent basis and to identify business trends relating to the Company's results of operations. Management believes non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA are also useful because these measures adjust for certain costs and other events that management believes are not representative of our core business operating results, and thus, these non-GAAP measures provide supplemental information to assist investors in evaluating the Company's financial results. Adjusted EBITDA is the measure used to calculate compliance with the EBITDA covenant under our term loan agreement.

Non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA should not be considered in isolation or as alternatives to net income, earnings per share, or any other measure of financial performance calculated and presented in accordance with GAAP. Given that non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA are financial measures not deemed to be in accordance with GAAP and are susceptible to varying calculations, our non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA may not be comparable to similarly titled measures of other companies, including companies in our industry, because other companies may calculate non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA in a different manner than we calculate these measures.

In evaluating non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA, you should be aware that in the future we may or may not incur expenses similar to some of the adjustments in this report. Our presentation of non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA does not imply that our future results will be unaffected by these expenses or any other unusual or non-recurring items. When evaluating our performance, you should consider non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA alongside other financial performance measures, including our net income and other GAAP results, and not rely on any single financial measure.

The following table is a reconciliation of net loss attributable to Xcel Brands, Inc. stockholders (our most directly comparable financial measure presented in accordance with GAAP) to non-GAAP net income:

($ in thousands)	**Three Months Ended March 31, 2022**	**2021**
Net loss attributable to Xcel Brands, Inc. stockholders	$ (3,487)	$ (2,547)
Amortization of trademarks	1,514	876
Stock-based compensation	32	160
Certain adjustments to provision for doubtful accounts	—	132
Deferred income tax benefit	—	(138)
Non-GAAP net (loss) income	$ (1,941)	$ (1,517)

The following table is a reconciliation of diluted loss per share (our most directly comparable financial measure presented in accordance with GAAP) to non-GAAP diluted EPS:

	Three Months Ended March 31, 2022	**2021**
Diluted loss per share	$ (0.18)	$ (0.13)
Amortization of trademarks	0.08	0.04
Stock-based compensation	0.00	0.01
Certain adjustments to provision for doubtful accounts	—	0.01
Deferred income tax benefit	—	(0.01)
Non-GAAP diluted EPS	$ (0.10)	$ (0.08)
Non-GAAP weighted average diluted shares	19,571,119	19,261,436

The following table is a reconciliation of net loss attributable to Xcel Brands, Inc. stockholders (our most directly comparable financial measure presented in accordance with GAAP) to Adjusted EBITDA:

($ in thousands)	**Three Months Ended March 31, 2022**	**2021**
Net loss attributable to Xcel Brands, Inc.	$ (3,487)	$ (2,547)
Depreciation and amortization	1,820	1,210
Interest and finance expense	709	280
Income tax benefit	—	(138)
State and local franchise taxes	36	39
Stock-based compensation	32	160
Certain adjustments to provision for doubtful accounts	—	132
Adjusted EBITDA	$ (890)	$ (864)

Liquidity and Capital Resources

Liquidity

Our principal capital requirements have been to fund working capital needs, acquire new brands, and to a lesser extent, capital expenditures. As of March 31, 2022 and December 31, 2021, our cash and cash equivalents were approximately $3.1 million and $4.5 million, respectively.

Restricted cash at March 31, 2022 and December 31, 2021 was approximately $0.6 million and $0.7 million, respectively, and consisted of cash deposited as collateral for an irrevocable standby letter of credit associated with the lease of our corporate office and operating facility.

We expect that existing cash and operating cash flows will be adequate to meet our operating needs, term debt service obligations, and capital expenditure needs, for at least the 12 months subsequent to the filing date of this Quarterly Report on Form 10-Q.

Changes in Working Capital

Our working capital (current assets less current liabilities, excluding the current portion of operating lease obligations and any contingent obligations payable in common stock) was $5.2 million and $7.9 million as of March 31, 2022 and December 31, 2021, respectively. This decrease in working capital was primarily attributable to the use of cash in operations, as well as scheduled debt interest payments, and the timing of payments to vendors and service providers.

Commentary on the components of our cash flows for the current quarter as compared with the prior year quarter is set forth below.

Operating Activities

Net cash used in operating activities was approximately $0.89 million in the current quarter, compared with approximately $1.69 million in the prior year quarter.

The current quarter cash used in operating activities was primarily attributable to the combination of the net loss of $(3.74) million plus non-cash expenses of approximately $1.94 million and the net change in operating assets and liabilities of approximately $0.91 million. Non-cash net expenses were primarily comprised of $1.82 million of depreciation and amortization and $0.09 million of amortization of deferred finance costs. The net change in operating assets and liabilities was primarily comprised of an increase in accounts payable, accrued expenses, and other liabilities of $2.62 million, partially offset by an increase in accounts receivable of $(1.04) million and an increase in inventory of $(0.57) million. The changes in these operating assets and liabilities were primarily related to the timing and volume of sales and collections, and the timing of payments to vendors and service providers.

The prior year quarter cash used in operating activities was primarily attributable to the combination of the net loss of $(2.63) million plus non-cash expenses of approximately $1.38 million and the net change in operating assets and liabilities of approximately $(0.45) million. Non-cash net expenses were primarily comprised of $1.21 million of depreciation and amortization, $0.16 million of stock-based compensation, $0.13 million of bad debt expense, and a deferred income tax benefit of $(0.14) million. The net change in operating assets and liabilities includes an increase in inventory of $(1.57) million, an increase in accounts receivable of $(0.38) million, an increase in accounts payable, accrued expenses and other current liabilities of $1.82 million, an increase in prepaid expenses and other assets of $(0.22) million, and changes in lease-related assets and liabilities of $(0.10) million. The changes in inventory and accounts payable, which largely offset each other, are related and are mainly due to the timing of certain inventory purchases. The change in accounts receivable is primarily related to the timing of sales and collections.

Investing Activities

Net cash used in investing activities for the current quarter was approximately $0.04 million, related to minor capital expenditures.

Net cash used in investing activities for the prior year quarter was approximately $0.30 million, primarily attributable to capital expenditures relating to the fit-out and furnishing of our planned Judith Ripka fine jewelry retail store (which opened in the second quarter of 2021 and was subsequently closed in the first quarter of 2022).

Financing Activities

Net cash used in financing activities for the current quarter consisted of $0.63 million of scheduled payments on our term loan debt.

There was no cash provided by or used in financing activities for the prior year quarter.

Other Factors

We continue to seek to expand and diversify the types of products being produced and licensed under our brands. We plan to continue to diversify the distribution channels within which products are sold, in an effort to reduce dependence on any particular retailer, consumer, or market sector within each of our brands. The Mizrahi brand, Halston brand, Lori Goldstein brand, and C Wonder brand have a core business in fashion apparel and accessories. The Ripka brand is a fine jewelry business, and the Longaberger brand focuses on home good products, which we believe helps diversify our industry focus while at the same time complements our business operations and relationships.

We continue to work towards expanding our wholesale and e-commerce businesses, and complement these operations with our licensing business.

In addition, we continue to seek new opportunities, including expansion through interactive television, our design, production and supply chain platform, additional domestic and international licensing arrangements, and acquiring additional brands. In April 2021, we acquired the Lori Goldstein brand, which is currently available and sold to consumers through Qurate's QVC channel.

However, the impacts of the ongoing COVID-19 pandemic are broad reaching and are having an impact on our licensing and wholesale businesses. This global pandemic is impacting our supply chain, and temporary factory closures and the pace of workers returning to work have impacted our contract manufacturers' ability to source certain raw materials and to produce finished goods in a timely manner. The pandemic is also impacting distribution and logistics providers' ability to operate in the normal course of business. In addition, COVID-19 has resulted in a sudden and continuing decrease in sales for many of our products, resulting in order cancellations. Further, the global pandemic has affected the financial health of certain of our customers, and the bankruptcy of certain other customers, including Lord & Taylor and Le Tote, Stein Mart, and Century 21, from which we had an aggregate of approximately $1.4 million of accounts receivable due at March 31, 2022. As a result, we continue to recognize an allowance for doubtful accounts of approximately $1.1 million as of March 31, 2022, and may be required to make additional adjustments for doubtful accounts which would increase our operating expenses in future periods and negatively impact our operating results, and could result in our failure to meet financial covenants under our credit facility. Financial impacts associated with the COVID-19 pandemic include, but are not limited to, lower net sales, adjustments to allowances for doubtful accounts due to customer bankruptcy or other inability to pay their amounts due to vendors, the delay of inventory production and fulfillment, potentially further impacting net sales, and potential incremental costs associated with mitigating the effects of the pandemic, including increased freight and logistics costs and other expenses. The impact of the COVID-19 pandemic is expected to continue to have an adverse effect on our operating results, which could result in our inability to comply with certain debt covenants and require our lenders to waive compliance with, or agree to amend, any such covenant to avoid a default. The COVID-19 global pandemic is ongoing, and its dynamic nature, including uncertainties relating to the severity and duration of the pandemic, as well as actions that would be taken by governmental authorities to contain the pandemic or to treat its impact, makes it difficult to forecast any effects on our 2022 results. However, as of the date of this filing, we expect our results for some portion of 2022 to be affected.

In addition, the global shipping industry continues to face challenges related to port delays and tight availability for carriers and containers. This situation has negatively impacted our supply chain partners, including third party manufacturers, logistics providers, and other vendors, as well as the supply chains of our licensees, and has resulted in increased cost of supply and freight costs for us and our licensees. Such higher costs are currently expected to continue for at least some portion of 2022.

Our long-term success, however, will still remain largely dependent on our ability to build and maintain our brands' awareness and continue to attract wholesale and direct-to-consumer customers, and contract with and retain key licensees, as well as our and our licensees' ability to accurately predict upcoming fashion and design trends within their respective customer bases and fulfill the product requirements of the particular retail channels within the global marketplace. Unanticipated changes in consumer fashion preferences and purchasing patterns, slowdowns in the U.S. economy, changes in the prices of supplies, consolidation of retail establishments, and other factors noted in "Risk Factors" could adversely affect our licensees' ability to meet and/or exceed their contractual commitments to us and thereby adversely affect our future operating results

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, results of operations, or liquidity.

Critical Accounting Policies and Estimates

The preparation of our unaudited condensed consolidated financial statements in conformity with GAAP requires management to exercise judgment. We exercise considerable judgment with respect to establishing sound accounting policies and in making estimates and assumptions that affect the reported amounts of our assets and liabilities, our recognition of revenues and expenses, and disclosure of commitments and contingencies at the date of the financial statements. We evaluate our estimates and judgments on an on-going basis. We base our estimates and judgments on a variety of factors, including our historical experience, knowledge of our business and industry, and current and expected economic conditions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically re-evaluate our estimates and assumptions with respect to these judgments and modify our approach when circumstances indicate that modifications are necessary. While we believe that the factors we evaluate provide us with a meaningful basis for establishing and applying sound accounting policies, we cannot guarantee that the results will always be accurate. Because the determination of these estimates requires the exercise of judgment, actual results could differ from such estimates.

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on April 15, 2022, for a discussion of our critical accounting policies and estimates.

During the three months ended March 31, 2022, there were no material changes to our accounting policies.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

A. EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES:

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of March 31, 2022, the end of the period covered by this report. Based on, and as of the date of such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2022 such that the information required to be disclosed in our SEC reports is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

B. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

There have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, from time to time we become involved in legal claims and litigation. In the opinion of management, based on consultations with legal counsel, the disposition of litigation currently pending against us is unlikely to have, individually or in the aggregate, a materially adverse effect on our business, financial position, or results of operations.

ITEM 1A. RISK FACTORS

We operate in a highly competitive industry that involves numerous known and unknown risks and uncertainties that could impact our operations. The risks described in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2021 are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our financial condition and/or operating results.

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

There were no sales of unregistered or registered securities during the three months ended March 31, 2022.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed herewith:
31.1 Rule 13a-14(a)/15d-14(a) Certification (CEO) *
31.2 Rule 13a-14(a)/15d-14(a) Certification (CFO) *
32.1 Section 1350 Certification (CEO) *
32.2 Section 1350 Certification (CFO) *
101.INS Inline XBRL Instance Document
101.SCH Inline XBRL Taxonomy Extension Schema Document
101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF Inline XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
104 Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Furnished herewith.

SIGNATURES

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

Date: May 23, 2022

By: /s/ Robert W. D'Loren
Name: Robert W. D'Loren
Title: Chairman and Chief Executive Officer

By: /s/ James Haran
Name: James Haran
Title: Chief Financial Officer and Vice President

EXHIBIT 31.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert W. D'Loren, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2022 of Xcel Brands, Inc. (the "Company").

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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 controls 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.

May 23, 2022

By: /s/ Robert W. D'Loren
Name: Robert W. D'Loren
Title: Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James Haran, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2022 of Xcel Brands, Inc. (the "Company").

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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 Company's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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.

May 23, 2022

By: /s/ James Haran
Name: James Haran
Title: Chief Financial Officer and Vice President

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Xcel Brands, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert W. D’Loren, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 23, 2022	By:	/s/ Robert W. D’Loren
		Name: Robert W. D’Loren
		Title: Chairman and Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Xcel Brands, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James Haran, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 23, 2022	By:	/s/ James Haran
		Name: James Haran
		Title: Chief Financial Officer and Vice President