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 September 30, 2020

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 November 6, 2020, there were 19,231,040 shares of common stock, $.001 par value per share, of the issuer outstanding.

XCEL BRANDS, INC.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2020 (Unaudited)	December 31, 2019 (Note 1)
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,783	$ 4,641
Accounts receivable, net of allowances of $1,163 and $155, respectively	8,188	10,622
Inventory	723	899
Prepaid expenses and other current assets	1,426	1,404
Total current assets	15,120	17,566
Property and equipment, net	3,604	3,666
Operating lease right-of-use assets	9,019	9,250
Trademarks and other intangibles, net	107,675	111,095
Restricted cash	1,109	1,109
Other assets	297	505
Total non-current assets	121,704	125,625
Total Assets	**$ 136,824**	**$ 143,191**
Liabilities and Equity		
Current Liabilities:		
Accounts payable, accrued expenses and other current liabilities	$ 2,908	$ 4,391
Accrued payroll	618	1,444
Current portion of operating lease obligation	1,917	1,752
Current portion of long-term debt	2,850	2,250
Total current liabilities	8,293	9,837
Long-Term Liabilities:		
Long-term portion of operating lease obligation	9,101	9,773
Long-term debt, less current portion	14,523	16,571
Contingent obligation	900	900
Deferred tax liabilities, net	7,165	7,434
Other long-term liabilities	224	224
Total long-term liabilities	31,913	34,902
Total Liabilities	40,206	44,739
Commitments and Contingencies		
Equity:		
Preferred stock, $.001 par value, 1,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $.001 par value, 50,000,000 shares authorized, and 19,231,040 and 18,866,417 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	19	19
Paid-in capital	102,236	101,736
Accumulated deficit	(6,198)	(3,659)
Total Xcel Brands, Inc. stockholders' equity	96,057	98,096
Noncontrolling interest	561	356
Total Equity	96,618	98,452
Total Liabilities and Equity	**$ 136,824**	**$ 143,191**

See 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 September 30, 2020	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2020	For the Nine Months Ended September 30, 2019
Revenues				
Net licensing revenue	$ 5,236	$ 6,428	$ 15,378	$ 21,094
Net sales	2,155	4,504	6,590	9,277
Net revenue	7,391	10,932	21,968	30,371
Cost of goods sold (sales)	1,270	2,950	3,923	6,549
Gross profit	6,121	7,982	18,045	23,822
Operating costs and expenses				
Salaries, benefits and employment taxes	2,968	4,045	9,798	12,038
Other design and marketing costs	706	797	2,336	2,352
Other selling, general and administrative expenses	1,642	1,356	5,027	4,014
(Recovery of) costs in connection with potential acquisition	(189)	126	(210)	231
Stock-based compensation	49	295	780	777
Depreciation and amortization	1,437	991	4,069	2,939
Government assistance - Paycheck Protection Program and other	(176)	—	(1,816)	—
Property and equipment impairment	31	—	113	—
Total operating costs and expenses	6,468	7,610	20,097	22,351
Other income	46	—	46	2,850
Operating (loss) income	(301)	372	(2,006)	4,321
Interest and finance expense				
Interest expense and other finance charges	304	330	897	968
Loss on extinguishment of debt	—	—	—	189
Total interest and finance expense	304	330	897	1,157
(Loss) income before income taxes	(605)	42	(2,903)	3,164
Income tax (benefit) provision	(145)	137	(269)	1,280
Net (loss) income	**(460)**	**(95)**	**(2,634)**	**1,884**
Less: Net loss attributable to noncontrolling interest	(26)	—	(95)	—
Net (loss) income attributable to Xcel Brands, Inc. stockholders	**$ (434)**	**$ (95)**	**$ (2,539)**	**$ 1,884**
(Loss) earnings per share attributable to Xcel Brands, Inc. common stockholders:				
Basic net (loss) income per share:	$ (0.02)	$ (0.01)	$ (0.13)	$ 0.10
Diluted net (loss) income per share:	$ (0.02)	$ (0.01)	$ (0.13)	$ 0.10
Weighted average number of common shares outstanding:				
Basic weighted average common shares outstanding	19,231,040	18,975,265	19,078,453	18,839,424
Diluted weighted average common shares outstanding	19,231,040	18,975,265	19,078,453	18,840,149

See 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			Retained Earnings		
	Number of Shares	Amount	Paid-In Capital	(Accumulated Deficit)	Noncontrolling Interest	Total Equity
Balance as of December 31, 2018	18,138,616	$ 18	$ 100,097	$ (233)	$ —	$ 99,882
Issuance of common stock in connection with the acquisition of Halston Heritage	777,778	1	1,057	—	—	1,058
Compensation expense in connection with stock options and restricted stock	—	—	347	—	—	347
Net income	—	—	—	127	—	127
Balance as of March 31, 2019	18,916,394	19	101,501	(106)	—	101,414
Compensation expense in connection with stock options and restricted stock	—	—	135	—	—	135
Shares issued to employees in connection with restricted stock grants	60,000	—	—	—	—	—
Net income	—	—	—	1,852	—	1,852
Balance as of June 30, 2019	18,976,394	19	101,636	1,746	—	103,401
Compensation expense in connection with stock options and restricted stock	—	—	127	—	—	127
Shares repurchased including vested restricted stock in exchange for withholding taxes	(18,147)	—	(24)	—	—	(24)
Net loss	—	—	—	(95)	—	(95)
Balance as of September 30, 2019	18,958,247	$ 19	$ 101,739	$ 1,651	$ —	$ 103,409
Balance as of December 31, 2019	18,866,417	$ 19	$ 101,736	$ (3,659)	$ 356	$ 98,452
Compensation expense in connection with stock options and restricted stock	—	—	91	—	—	91
Shares issued to executive in connection with stock grants for bonus payments	336,700	—	220	—	—	220
Shares repurchased from executive in exchange for withholding taxes	(155,556)	—	(102)	—	—	(102)
Net loss	—	—	—	(805)	(33)	(838)
Balance as of March 31, 2020	19,047,561	19	101,945	(4,464)	323	97,823
Compensation expense in connection with stock options and restricted stock	—	—	55	—	—	55
Shares issued to employees in connection with stock grants	270,728	—	265	—	—	265
Shares repurchased from employees in exchange for withholding taxes	(87,249)	—	(85)	—	—	(85)
Additional investment in Longaberger Licensing, LLC by non-controlling interest holder	—	—	—	—	300	300
Net loss	—	—	—	(1,300)	(36)	(1,336)
Balance as of June 30, 2020	19,231,040	19	102,180	(5,764)	587	97,022
Compensation expense in connection with stock options and restricted stock	—	—	56	—	—	56
Net loss	—	—	—	(434)	(26)	(460)
Balance as of September 30, 2020	19,231,040	$ 19	$ 102,236	$ (6,198)	$ 561	$ 96,618

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	For the Nine Months Ended September 30, 2020	2019
Cash flows from operating activities		
Net (loss) income	$ (2,634)	$ 1,884
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	4,069	2,939
Property and equipment impairment	113	—
Amortization of deferred finance costs	72	114
Stock-based compensation	780	777
Amortization of note discount	—	16
Allowance for doubtful accounts	1,054	(144)
Loss on extinguishment of debt	—	189
Deferred income tax (benefit) provision	(269)	1,280
Net gain on sale of assets	(46)	—
Gain on reduction of contingent obligation	—	(2,850)
Changes in operating assets and liabilities:		
Accounts receivable	1,380	1,182
Inventory	176	(87)
Prepaid expenses and other assets	187	(14)
Accounts payable, accrued expenses and other current liabilities	(2,403)	(1,744)
Cash paid in excess of rent expense	(276)	(337)
Other liabilities	—	(196)
Net cash provided by operating activities	2,203	3,009
Cash flows from investing activities		
Cash consideration for acquisition of Halston Heritage assets	—	(8,830)
Net proceeds from sale of assets	46	—
Purchase of property and equipment	(700)	(918)
Net cash used in investing activities	(654)	(9,748)
Cash flows from financing activities		
Shares repurchased including vested restricted stock in exchange for withholding taxes	(187)	(24)
Cash contribution from non-controlling interest	300	—
Payment of deferred finance costs	(20)	(315)
Proceeds from long-term debt	—	7,500
Payment of long-term debt	(1,500)	(3,742)
Net cash (used in) provided by financing activities	(1,407)	3,419
Net increase (decrease) in cash, cash equivalents, and restricted cash	142	(3,320)
Cash, cash equivalents, and restricted cash at beginning of period	5,750	10,319
Cash, cash equivalents, and restricted cash at end of period	$ 5,892	$ 6,999
Reconciliation to amounts on consolidated balance sheets:		
Cash and cash equivalents	$ 4,783	$ 5,890
Restricted cash	1,109	1,109
Total cash, cash equivalents, and restricted cash	$ 5,892	$ 6,999
Supplemental disclosure of non-cash activities:		
Operating lease right-of-use asset	$ 797	$ 10,409
Operating lease obligation	$ 797	$ 13,210
Accrued rent offset to operating lease right-of-use assets	$ —	$ 2,801
Settlement of seller note through offset to receivable	$ —	$ 600
Settlement of contingent obligation through offset to note receivable	$ —	$ 100
Issuance of common stock in connection with Halston Heritage assets acquisition	$ —	$ 1,058
Contingent obligation related to acquisition of Halston Heritage assets at fair value	$ —	$ 900
Liability for equity-based bonuses	$ 93	$ 168
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	$ 58	$ 91
Cash paid during the period for interest	$ 1,092	$ 1,108

See Notes to Unaudited Condensed Consolidated Financial Statements.

XCEL BRANDS, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2020
(Unaudited)

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

The accompanying condensed consolidated balance sheet as of December 31, 2019 (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, 2019, as filed with the SEC on April 14, 2020.

The Company is a media and consumer products company engaged in the design, production, marketing, wholesale distribution, and direct-to-consumer sales of branded apparel, footwear, accessories, jewelry, home goods and other consumer products, and the acquisition of dynamic consumer lifestyle brands. The Company has developed a design, production, and supply chain capability driven by its proprietary integrated technology platform. Currently, the Company’s brand portfolio consists of the Isaac Mizrahi brands (the "Isaac Mizrahi Brand"), the Judith Ripka brands (the "Ripka Brand"), the Halston brands (the "Halston Brands"), 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 designs, produces, markets, and distributes products, and in certain cases, licenses its brands to third parties, and generates licensing fees. The Company and its licensees distribute through a ubiquitous-channel retail sales strategy, which includes distribution through interactive television, the internet, and traditional brick-and-mortar retail channels.

Recently Adopted Accounting Pronouncements

The Company adopted Accounting Standards Update ("ASU") No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement,” effective January 1, 2020. This ASU adds, modifies, and removes several disclosure requirements relative to the three levels of inputs used to measure fair value in accordance with Topic 820, “Fair Value Measurement.” The adoption of this new guidance did not have any impact on the Company’s results of operations, cash flows, and financial condition.

XCEL BRANDS, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2020
(Unaudited)

2. Trademarks and Other Intangibles

Trademarks and other intangibles, net consist of the following:

($ in thousands)	Weighted Average Amortization Period	September 30, 2020 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks (indefinite-lived)	n/a	$ 44,500	$ —	$ 44,500
Trademarks (finite-lived)	15 years	34,613	6,291	28,322
Trademarks (finite-lived)	18 years	38,194	3,660	34,534
Other intellectual property	7 years	762	510	252
Copyrights and other intellectual property	10 years	190	123	67
Total		**$ 118,259**	**$ 10,584**	**$ 107,675**

($ in thousands)	Weighted Average Amortization Period	December 31, 2019 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks (indefinite-lived)	n/a	$ 62,900	$ —	$ 62,900
Trademarks (finite-lived)	15 years	16,213	4,560	11,653
Trademarks (finite-lived)	18 years	38,194	2,067	36,127
Other intellectual property	7 years	762	428	334
Copyrights and other intellectual property	10 years	190	109	81
Total		**$ 118,259**	**$ 7,164**	**$ 111,095**

Amortization expense for intangible assets was approximately $1.14 million for the three-month period ended September 30, 2020 (the "current quarter") and was approximately $0.83 million for the three-month period ended September 30, 2019 (the "prior year quarter"). Amortization expense for intangible assets was approximately $3.42 million for the nine-month period ended September 30, 2020 (the “current nine months”) and was approximately $2.43 million for the nine-month period ended September 30, 2019 (the “prior year nine months”).

Effective January 1, 2020, the Company determined that the Ripka Brand, inclusive of all its trademarks, has a finite life of 15 years, and is amortized on a straight-line basis accordingly. Prior to January 1, 2020, the Ripka Brand trademarks were considered indefinite-lived assets.

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.

XCEL BRANDS, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2020
(Unaudited)

3. Significant Contracts

QVC Agreements

Under the Company's agreements with QVC, QVC is required to pay the Company fees based primarily on a percentage of its net sales of Isaac Mizrahi, Ripka, and H Halston branded merchandise. QVC royalty revenue represents a significant portion of the Company's total revenues.

- Total revenues from QVC totaled $4.70 million and $5.16 million for the current and prior year quarter, respectively, representing approximately 64% and 47% of the Company's total net revenues for the current and prior year quarter, respectively.

- Total revenues from QVC totaled $13.44 million and $17.96 million for the current and prior year nine months, respectively, representing approximately 61% and 59% of the Company's total net revenues for the current and prior year nine months, respectively.

- As of September 30, 2020 and December 31, 2019, the Company had receivables from QVC of $4.72 million and $5.30 million, respectively, representing approximately 58% and 50% of the Company's total receivables, respectively.

4. Allowance for Doubtful Accounts

Accounts receivable are presented on the Company's condensed consolidated balance sheets net of allowances of $1,163,000 and $155,000 as of September 30, 2020 and December 31, 2019, respectively. The Company recognized bad debt expense of $371,000 and $0 for the current quarter and prior year quarter, respectively, and recognized bad debt expense of $1,054,000 and a recovery of $(144,000) for the current nine months and prior year nine months, respectively.

Included within these amounts, the current quarter and current nine months reflect $385,000 and $971,000, respectively, of bad debt expense related to the bankruptcy of several retail customers due to the novel coronavirus disease pandemic. The total allowance of $971,000 against such customers' outstanding receivable balances of $1.21 million at September 30, 2020 represents management's best estimate of collectibility, based on information currently available.

5. Leases

The Company has operating leases for its current office, former office, and a planned retail store location, as well as certain equipment with a term of 12 months or less. The Company's real estate leases have remaining lease terms of between 1 to 8 years.

Under GAAP, a lessee is generally required to recognize a liability for its obligation to make future lease payments (the lease liability) and a right-of-use ("ROU") asset representing its right to use the underlying leased asset for the lease term. The Company determines if an arrangement is a lease at inception. Operating leases are recorded in operating lease ROU assets, current portion of operating lease liabilities, and long-term operating lease liabilities on the Company's condensed consolidated balance sheets. The Company does not recognize lease liabilities and ROU assets for lease terms of 12 months or less, but recognizes such lease payments in net income on a straight-line basis over the lease terms.

Operating lease ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases typically do not provide an implicit rate, the Company generally uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for operating lease payments related to office leases is recognized on a straight-line basis over the lease term. Lease expense for operating lease payments related to retail leases is recognized on a straight-line basis over the period of operation, as this is representative of the pattern in which benefit is derived from the lease.

For the current and prior year quarter, lease expense included in selling, general and administrative expenses on the Company's unaudited condensed consolidated statements of operations was $0.4 million. For the current and prior year nine months, lease expense included in selling, general and administrative expenses on the Company's unaudited condensed consolidated statements of operations was $1.2 million.

As of September 30, 2020, the weighted average remaining operating lease term was 6.4 years and the weighted average discount rate for operating leases was 6.25%.

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, $1.2 million in the current nine months, and $1.8 million in the prior year nine months.

As of September 30, 2020, the maturities of lease liabilities were as follows:

($ in thousands)		
Remainder of 2020	$	711
2021		2,544
2022		1,891
2023		1,711
2024		1,711
After 2024		4,886
Total lease payments		13,454
Less: Discount		2,436
Present value of lease liabilities		11,018
Current portion of lease liabilities		1,917
Non-current portion of lease liabilities	$	9,101

In Note 12 of the Company's Form 10-Q for the quarterly period ended June 30, 2020, the Company had previously disclosed (as a subsequent event) that it had entered into an assignment and assumption agreement with the landlord and subtenant at its former office location at 475 Tenth Avenue, New York, NY. However, this agreement was later voided during the current quarter, and ultimately was not consummated.

6. Debt

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

($ in thousands)		**September 30, 2020**		**December 31, 2019**
Xcel Term Loan	$	17,500	$	19,000
Unamortized deferred finance costs related to term loan		(127)		(179)
Total		17,373		18,821
Current portion of long-term debt		2,850		2,250
Long-term debt	$	14,523	$	16,571

XCEL BRANDS, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2020
(Unaudited)

Xcel Term Loan

On February 11, 2019, the Company entered into an amended loan agreement with Bank Hapoalim B.M. ("BHI"), which amended and restated the prior Xcel Term Loan. Immediately prior to February 11, 2019, the aggregate principal amount of the prior Xcel Term Loan was $14.5 million. Pursuant to the Xcel Term Loan agreement, the Lenders extended to Xcel an additional term loan in the amount of $7.5 million, such that, as of February 11, 2019, the aggregate outstanding balance of all the term loans extended by BHI to Xcel was $22.0 million, which amount was divided under the Xcel Term Loan agreement into two term loans: (1) a term loan in the amount of $7.3 million ("Term Loan A") and (2) a term loan in the amount of $14.7 million ("Term Loan B" and, together with Term Loan A, the "Term Loans").

The terms and conditions of the Xcel Term Loan resulted in significantly different debt service payment requirements compared with the prior term debt with BHI. Management assessed and determined that this amendment resulted in a loss on extinguishment of debt and recognized a loss of $0.2 million (consisting of unamortized deferred finance costs) during the prior year quarter. Upon entering into the Xcel Term Loan, Xcel paid an upfront fee in the amount of $0.09 million to BHI.

The Xcel Term Loan also allows that BHI and any other lender party to the Xcel Term Loan (collectively, the "Lenders") can provide to Xcel a revolving loan facility and a letter of credit facility, the terms of each of which shall be agreed to by Xcel and the Lenders. Amounts advanced under the revolving loan facility (the "Revolving Loans") will be used for the purpose of consummating acquisitions by Xcel or its subsidiaries that are or become parties to the Xcel Term Loan. Xcel will have the right to convert Revolving Loans to incremental term loans (the "Incremental Term Loans") in minimum amounts of $5.0 million. The Company has not drawn down any funds under either the revolving loan facility or letter of credit facility.

On April 13, 2020, the Company amended its Second Amended and Restated Loan and Security Agreement with BHI. Under this amendment, the quarterly installment payment due March 31, 2020 was deferred, and the amounts of the quarterly installment payments due throughout the remainder of 2020 were reduced, while the amount of principal to be repaid through variable payments based on excess cash flow was increased. In addition, there were multiple changes and waivers to the various financial covenants. Further, this amendment permitted Xcel to incur unsecured debt through the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), and excludes any associated PPP debt and debt service from the covenant calculations. There were no changes to the total principal balance, interest rate, or maturity date.

On August 18, 2020, the Company further amended its Second Amended and Restated Loan and Security Agreement with BHI. Under this amendment, the amounts of the quarterly installment payments due throughout 2021 were reduced, and the amount of principal to be repaid through variable payments based on excess cash flow was increased. In addition, there were multiple changes and waivers to the various financial covenants. There were no changes to the total principal balance, interest rate, or maturity date.

The Term Loans mature on December 31, 2023; Incremental Term Loans shall mature on the date set forth in the applicable term note; and Revolving Loans and the letter of credit facility shall mature on such date as agreed upon by Xcel and the Lenders. Any letter of credit issued under the Xcel Term Loan shall terminate no later than one year following the date of issuance thereof.

XCEL BRANDS, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2020
(Unaudited)

The remaining principal balance of the Xcel Term Loan, as amended, outstanding at September 30, 2020 is payable in fixed installments as set forth in the following table, plus the variable payments as described below:

($ in thousands) Installment Payment Dates		Amount
December 31, 2020	$	750
March 31, 2021, June 30, 2021, September 30, 2021, and December 31, 2021	$	700
March 31, 2022, June 30, 2022, September 30, 2022, and December 31, 2022	$	1,125
March 31, 2023, June 30, 2023, September 30, 2023, and December 31, 2023	$	1,250

In addition to the fixed installments outlined above, commencing with the fiscal quarter ended March 31, 2021, the Company is required to repay a portion of the Xcel Term Loan in an amount equal to 50% of the excess cash flow for the fiscal quarter, provided that no early termination fee shall be payable with respect to any such payment. Excess cash flow means, for any period, cash flow from operations (before certain permitted distributions) less (i) capital expenditures not made through the incurrence of indebtedness, (ii) all cash principal paid or payable during such period, and (iii) all dividends declared and paid (or which could have been declared and paid) during such period to equity holders of any credit party treated as a disregarded entity for tax purposes. To the extent that the cumulative amount of such variable repayments made is less than $4.45 million as of March 31, 2022, any such shortfall must be repaid at that date.

Thus, the aggregate remaining annual scheduled principal payments under the Xcel Term Loan are as follows:

($ in thousands) Year Ending December 31,		Amount of Principal Payment
2020	$	750
2021		2,800
2022		8,950
2023		5,000
Total	$	17,500

Xcel has the right to prepay the Term Loans, Incremental Term Loans, Revolving Loans, and obligations with respect to letters of credit and accrued and unpaid interest thereon and to terminate the Lenders' obligations to make Revolving Loans and issue letters of credit; provided that any prepayment of less than all of the outstanding balances of the Term Loans and Incremental Term Loans shall be applied to the remaining amounts due in inverse order of maturity.

If any Term Loan or any Incremental Term Loan is prepaid on or prior to the third anniversary of the Closing Date (including as a result of an event of default), Xcel shall pay an early termination fee as follows: an amount equal to the principal amount of the Term Loan or Incremental Term Loan, as applicable, being prepaid, multiplied by: (i) two percent (2.00%) if any of Term Loan B or any Incremental Term Loan is prepaid on or before the second anniversary of the later of the Closing Date or the date such Incremental Term Loan was made, as applicable; (ii) one percent (1.00%) if any of Term Loan A is prepaid on or before the second anniversary of the Closing Date; (iii) one percent (1.00%) if any of Term Loan B or any Incremental Term Loan is prepaid after the second anniversary of the later of the Closing Date or such Incremental Term Loan was made, as applicable, but on or before the third anniversary of such date; (iv) one-half of one percent (0.50%) if any of Term Loan A is prepaid after the second anniversary of the Closing Date, but on or before the third anniversary of such date; or (v) zero percent (0.00%) if any Term Loan or any Incremental Term Loan is prepaid after the third anniversary of the later of the Closing Date or the date such Incremental Term Loan was made, as applicable.

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Notwithstanding the above, Xcel may make a voluntary prepayment of up to $0.75 million without any early termination fees. Any such prepayment would be applied against the April 30, 2021 fixed installment payment and would be excluded from the computation of excess cash flows.

Xcel's obligations under the Xcel Term Loan are guaranteed by and secured by all of the assets of Xcel and its wholly owned subsidiaries, as well as any subsidiary formed or acquired that becomes a credit party to the Xcel Term Loan agreement (the "Guarantors") and, subject to certain limitations contained in the Xcel Term Loan, equity interests of the Guarantors. Xcel also granted the Lenders a right of first offer to finance any acquisition for which the consideration will be paid other than by cash of Xcel or by the issuance of equity interest of Xcel.

Interest on Term Loan A accrues at a fixed rate of 5.1% per annum and is payable on each day on which the scheduled principal payments on Term Loans are required to be made. Interest on Term Loan B accrues at a fixed rate of 6.25% per annum and is payable on each day on which the scheduled principal payments on Term Loans are required to be made. Interest on the Revolving Loans will accrue at either the Base Rate or LIBOR, as elected by Xcel, plus a margin to be agreed to by Xcel and the Lenders and will be payable on the first day of each month. Base Rate is defined in the Xcel Term Loan agreement as the greater of (a) BHI's stated prime rate or (b) 2.00% per annum plus the overnight federal funds rate published by the Federal Reserve Bank of New York. Interest on the Incremental Term Loans will accrue at rates to be agreed to by Xcel and the Lenders and will be payable on each day on which the scheduled principal payments under the applicable note are required to be made.

The Xcel Term Loan contains customary covenants, including reporting requirements, trademark preservation, and the following financial covenants of Xcel (on a consolidated basis with Xcel and the Guarantors under the Second Amended and Restated Loan and Security Agreement):

- net worth as defined in the loan agreements of at least $90.0 million at the end of each fiscal quarter;

- liquid assets of at least $3.0 million through December 31, 2020, at least $2.5 million for the fiscal quarters ending March 31, 2021 through September 30, 2021, at least $3.0 million for the fiscal quarter ending December 31, 2021, and at least $5.0 million thereafter;

- EBITDA shall not be less than $5.0 million for the twelve month fiscal period ending September 30, 2020;

- the fixed charge coverage ratio for the twelve fiscal month period ending at the end of each fiscal quarter shall not be less than the ratio set forth below:

Fiscal Quarter End	Fixed Charge Coverage Ratio
December 31, 2020, March 31, 2021, June 30, 2021, September 30, 2021, and December 31, 2021	1.25 to 1.00
March 31, 2022, and thereafter	1.10 to 1.00

- capital expenditures (excluding any capitalized compensation costs) shall not exceed $1.6 million for the fiscal year ending December 31, 2020, and $0.7 million for any fiscal year beginning after December 31, 2020; and

- the leverage ratio for the twelve fiscal month period ending at the end of each fiscal period set forth below shall not exceed the ratio below:

Fiscal Period	Maximum Leverage Ratio
September 30, 2020	4.00 to 1.00
December 31, 2020	3.50 to 1.00
March 31, 2021	3.15 to 1.00
June 30, 2021	3.00 to 1.00
September 30, 2021	2.75 to 1.00
December 31, 2021	2.50 to 1.00
March 31, 2022 and each Fiscal Quarter end thereafter	1.50 to 1.00

The Company was in compliance with all applicable covenants as of September 30, 2020.

For the current and prior year quarter, the Company incurred aggregate interest expense related to term loan debt of approximately $281,000 and $317,000, respectively. For the current nine months and prior year nine months, the Company incurred aggregate interest expense related to term loan debt of approximately $854,000 and $903,000, respectively. The effective interest rate related to term loan debt was approximately 6.6% for the current quarter and current nine months, approximately 6.7% for the prior year quarter, and approximately 6.8% for the prior year nine months.

7. Government assistance

Paycheck Protection Program (PPP)

On April 20, 2020, the Company executed a promissory note (the “Promissory Note”) with Bank of America, N.A., which provides for an unsecured loan in the amount of $1.806 million, pursuant to the PPP under the CARES Act. The loan has a two-year term and bears interest at a fixed rate of 1.0% per annum. Monthly principal and interest payments are deferred for six months after the date of disbursement. The loan may be prepaid at any time prior to maturity with no prepayment penalties. The Promissory Note contains events of default and other provisions customary for a loan of this type. The loan was funded on April 23, 2020.

The PPP also provides that this loan may be partially or wholly forgiven if the funds are used for certain qualifying expenses as described in the CARES Act, and later amended by the Paycheck Protection Program Flexibility Act (the "Flexibility Act") signed into law on June 5, 2020. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and any payments of mortgage interest, rent, and utilities. While management believes that it is probable that the loan will be forgiven in full, no definite assurance can be provided that forgiveness for any portion of the loan will be obtained. Management's determination that full forgiveness is probable is based on qualification under the Flexibility Act.

Management evaluated the legal and contractual terms associated with the loan, and concluded that, although the legal form of the loan is debt, it represents in substance a government grant that is expected to be forgiven. Given the lack of definitive authoritative guidance under GAAP for accounting for government grants, the Company analogized to accounting guidance under International Accounting Standard 20, “Accounting for Government Grants and Disclosure of Government Assistance.” Under such guidance, once it is probable that the conditions attached to the assistance will be met, the earnings impact of government grants is recorded on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. Accordingly, the Company recognized approximately $166,000 and $1,806,000 as a reduction to operating expenses in the current quarter and current nine months, respectively. No interest expense related to the loan has been recorded in the Company’s unaudited condensed consolidated financial statements.

Economic Incentive Disaster Loan (EIDL)

Concurrently with the PPP loan, in May 2020 the Company also received a $10,000 Economic Incentive Disaster Loan (EIDL) Advance through the U.S. Small Business Administration. The EIDL Advance represents a grant that does not have to be repaid, and as such, the Company has recognized $10,000 as a reduction to operating expenses in the current quarter and current nine months.

In total, the Company recognized approximately $176,000 and $1,816,000 as a reduction to operating expenses in the current quarter and current nine months, respectively.

8. Stockholders' Equity

2011 Equity Incentive Plan

The Company's 2011 Equity Incentive Plan, as amended and restated (the "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 13,000,000 shares of common stock are eligible for issuance under the Plan. The Plan provides for the grant of any or all of the following types of awards: stock options, restricted stock, deferred stock, stock appreciation rights, and other stock-based awards. The Plan is administered by the Company's Board of Directors, or, at the Board's discretion, a committee of the Board.

The Company accounts for stock-based compensation in accordance with ASC 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.

The fair value of options and warrants is estimated on the date of grant using the Black-Scholes option pricing model. The valuation determined by the Black-Scholes option pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The risk-free rate is based on the U.S. Treasury rate for the expected life at the time of grant, volatility is based on the average long-term implied volatilities of peer companies, and expected life is based on the estimated average of the life of options and warrants using the simplified method. The Company utilizes the simplified method to determine the expected life of the options and warrants due to insufficient exercise activity during recent years as a basis from which to estimate future exercise patterns. The expected dividend assumption is based on the Company's history and expectation of dividend payouts.

Restricted stock awards are valued using the fair value of the Company's stock at the date of grant.

The Company accounts for non-employee awards in accordance with ASU 2018-07, "Compensation - Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting." Such awards are measured at the grant-date fair value of the equity instruments to be issued, and the Company recognizes compensation cost for grants to non-employees on a straight-line basis over the period of the grant.

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.

Forfeitures are accounted for as a reduction of compensation cost in the period when such forfeitures occur.

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Stock Options

Options granted under the Plan expire at various times - either five, seven, or ten years from the date of grant, depending on the particular grant.

A summary of the Company's stock options activity for the current nine months is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2020	7,222,625	$ 3.33	5.82	$ —
Granted	481,250	1.43		
Canceled	—	—		
Exercised	—	—		
Expired/Forfeited	(200,000)	1.55		
Outstanding at September 30, 2020, and expected to vest	7,503,875	$ 3.26	5.06	$ —
Exercisable at September 30, 2020	3,067,125	$ 4.92	1.45	$ —

On January 1, 2020, the Company granted options to purchase 5,000 shares of stock to a board observer. The exercise price of the options is $4.00 per share, and 50% of the options vest on each of January 1, 2021 and January 1, 2022.

On January 31, 2020, the Company granted options to purchase 75,000 shares of stock to a consultant. The exercise price of the options is $1.57 per share, and all options vested immediately on the date of grant.

On February 28, 2020, the Company granted options to purchase 50,000 shares of common stock to an employee. The exercise price is $1.40 per share, and the vesting of such options is dependent upon the Company achieving certain 12-month sales targets through December 31, 2021.

On March 13, 2020, the Company granted options to purchase 50,000 shares of common stock to a certain key employee. The exercise price of the options is $5.50 per share, and all options vested immediately on the date of grant.

On March 31, 2020, the Company granted options to purchase 50,000 shares of common stock to an employee. The exercise price of the options is $0.61 per share, and one-third of the options shall vest on each of March 31, 2021, March 31, 2021, and March 31, 2022.

On April 1, 2020, the Company granted options to purchase an aggregate of 200,000 shares of commons stock to non-management directors. The exercise price of the options is $0.50 per share, and 50% of the options shall vest on each of April 1, 2021 and April 1, 2022.

On April 15, 2020, the Company granted options to purchase 13,500 shares of common stock to a consultant. The exercise price of the options is $3.00 per share. One-third of the options vested on June 30, 2020, and one-third of the options shall vest on each of September 30, 2020 and December 31, 2020.

On August 21, 2020, the Company granted options to purchase 22,750 shares of common stock to a consultant. The exercise price of the options is $1.00 per share, and all options shall vest on December 31, 2020.

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On September 28, 2020, the Company granted options to purchase 15,000 shares of common stock to an employee. The exercise price of the options is $0.71 per share, and one-third of the options shall vest on each of September 28, 2021, September 28, 2022, and September 28, 2023.

Compensation expense related to stock options for the current quarter and the prior year quarter was approximately $45,000 and $66,000, respectively. Compensation expense related to stock options for the current nine months and prior year nine months was approximately $158,000 and $382,000, respectively.

Total unrecognized compensation expense related to unvested stock options at September 30, 2020 amounts to approximately $204,000 and is expected to be recognized over a weighted average period of approximately 1.24 years.

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

	Number of Options	Weighted Average Grant Date Fair Value
Balance at January 1, 2020	4,551,500	$ 0.18
Granted	481,250	0.13
Vested	(413,500)	0.61
Forfeited or Canceled	(182,500)	0.29
Balance at September 30, 2020	4,436,750	$ 0.13

Warrants

Warrants expire at various times - either five or ten years from the date of grant, depending on the particular grant.

A summary of the Company's warrants activity for the current nine months 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, 2020	579,815	$ 4.63	2.32	$ —
Granted	—	—		
Canceled	—	—		
Exercised	—	—		
Expired/Forfeited	—	—		
Outstanding and exercisable at September 30, 2020	579,815	$ 4.63	1.56	$ —

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

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Stock Awards

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

	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2020	1,230,623	$ 4.33
Granted	607,428	0.80
Canceled	—	—
Vested	(1,057,218)	2.47
Expired/Forfeited	—	—
Outstanding at September 30, 2020	780,833	$ 4.09

On March 30, 2020, the Company issued 336,700 shares of stock to a member of senior management as payment for a performance bonus earned in 2019. These shares vested immediately. The Company recognized compensation expense of $220,000 in 2019 ($168,000 in the prior year quarter and prior year nine months) to accrue for this performance bonus.

On May 20, 2020, the Company issued an aggregate of 270,728 shares of stock to its employees. These shares vested immediately. The Company recognized approximately $265,000 of compensation expense in the current nine months related to this grant.

Compensation expense related to restricted stock grants for the current and prior year quarter was approximately $11,000 and $47,000, respectively. Compensation expense related to restricted stock grants for the current nine months and prior year nine months was approximately $44,000 and $213,000, respectively.

Total unrecognized compensation expense related to unvested restricted stock grants at June 30, 2020 amounts to approximately $21,000 and is expected to be recognized over a weighted average period of approximately 0.50 years.

The Company also recognized approximately $ (7,000) and $313,000 of compensation expense in the current quarter and current nine months related to certain senior management bonuses payable in stock in 2021.

Shares Available Under the Company's 2011 Equity Incentive Plan

As of September 30, 2020, there were 1,254,920 shares of common stock available for issuance under the Plan.

Shares Reserved for Issuance

As of September 30, 2020, there were 9,338,610 shares of common stock reserved for issuance pursuant to unexercised warrants and stock options, or available for issuance under the Plan.

Dividends

The Company has not paid any dividends to date.

9. Earnings Per Share

Basic earnings 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Basic	19,231,040	18,975,265	19,078,453	18,839,424
Effect of exercise of warrants	—	—	—	725
Diluted	19,231,040	18,975,265	19,078,453	18,840,149

As a result of the net loss presented for the current quarter, prior year quarter, and current nine months, the Company calculated diluted earnings per share using basic weighted average shares outstanding for such period, as utilizing diluted shares would be anti-dilutive to loss per share.

The computation of diluted EPS excludes the following potentially dilutive securities because their inclusion would be anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Stock options and warrants	8,083,690	8,469,440	8,083,690	8,419,375

10. Income Tax

The effective income tax rate for the current quarter and the prior year quarter was approximately 25% and 333%, respectively, resulting in an income tax (benefit) provision of $(0.15) million and $0.14 million, respectively.

The effective income tax rate for the current nine months and prior year nine months was approximately 10% and 40%, respectively, resulting in an income tax (benefit) provision of $(0.27) million and $1.28 million, respectively.

For the current quarter, the federal statutory rate differed from the effective tax rate primarily due to state taxes and recurring permanent differences, which increased the effective tax rate by approximately 12% and 18%, respectively, partially offset by the tax impact from the vesting of restricted shares of common stock, which was treated as a discrete item for tax purposes and decreased the effective rate by approximately 26%. The effective tax rate was also affected by the tax impact of a potential federal net operating loss carryback due to the CARES Act; this item increased the effective rate by approximately 3%.

For the prior year quarter, the effective tax rate was primarily attributable to the tax impact from the vesting of restricted shares of common stock, which was treated as a discrete item for tax purposes; this item increased the effective rate by approximately 291%. The federal statutory rate also differed from the effective tax rate due to state taxes and recurring permanent differences, which increased the effective tax rate by approximately 8% and 12%, respectively.

For the current nine months, the federal statutory rate differed from the effective tax rate primarily due to the tax impact from the vesting of restricted shares of common stock, which was treated as a discrete item for tax purposes and decreased the effect rate by approximately 5%. The effective rate was also attributable to state taxes and recurring permanent differences, which increased the effective tax rate by approximately 6% and decreased the effective tax rate by approximately 3%, respectively.

For the prior year nine months, the federal statutory rate differed from the effective tax rate primarily due to state taxes and recurring permanent differences, which increased the effective tax rate by approximately 9% and 9%, respectively. The effective tax rate was also partially attributable to the tax impact from the vesting of restricted shares of common stock, which was treated as a discrete item for tax purposes; this item increased the effective rate by approximately 4%.

On March 27, 2020, the CARES Act was enacted and signed into law. The CARES Act includes certain provisions impacting businesses' income taxes related to 2018, 2019, and 2020. Some of the significant tax law changes are to increase the limitation on deductible business interest expense for 2019 and 2020, allow for the five-year carryback of net operating losses for 2018-2020, suspend the 80% limitation of taxable income for net operating loss carryforwards for 2018-2020, provide for the acceleration of depreciation expense from 2018 and forward on qualified improvement property, and accelerate the ability to claim refunds of AMT credit carryforwards. The Company is required to recognize the effect of tax law changes on its financial statements in the period in which the law was enacted. At this time, the Company may avail itself of the ability to carry back net operating losses generated in 2018 and 2019 tax years for five years, which would result in an estimated income statement benefit of $98,000 and tax refund receivable of $203,000.

11. Related Party Transactions

Benjamin Malka

Benjamin Malka was a director of the Company from June 2014 through September 2019. Mr. Malka is also a 25% equity holder of House of Halston LLC ("HOH"), and is the former Chief Executive Officer of HOH. HOH is the parent company of the H Company IP, LLC ("HIP").

On February 11, 2019, the Company and its wholly owned subsidiary, H Heritage Licensing, LLC, entered into an asset purchase agreement (the "Heritage Asset Purchase Agreement") with HIP and HOH, pursuant to which the Company acquired certain assets of HIP, including the "Halston," "Halston Heritage," and "Roy Frowick" trademarks (collectively, the "Halston Heritage Trademarks") and other intellectual property rights relating thereto.

Pursuant to the Heritage Asset Purchase Agreement, at closing, the Company delivered in escrow for HIP or its designees (collectively, the "Sellers") an aggregate of $8.4 million in cash and 777,778 shares of the Company's common stock valued at $1.1 million (the "Xcel Shares"), subject to a voting agreement and a lock-up agreement relating to the Xcel Shares and a consent and waiver agreement each in form satisfactory to Xcel within three months from the date of the Heritage Asset Purchase Agreement. Such agreements were executed and delivered to Xcel, and the Xcel Shares were issued and delivered to the Sellers.

In addition to the closing considerations, HIP is eligible to earn up to an aggregate of $6.0 million (the "Earn-Out Value") through December 31, 2022 based on Excess Net Royalties. "Excess Net Royalties" during any calendar year for 2019 through 2022 (each, a "Royalty Target Year") is equal to (a) the positive amount, if any, of the Net Royalties as calculated for such Royalty Target Year, less the greater of (i) One Million Five Hundred Thousand Dollars ($1.5 million), or (ii) the maximum Net Royalties for any previous Royalty Target Year. "Applicable Percentage" means (a) 50% of the first $10.0 million of Excess Net Royalties during the Earn-Out Period, (b) 20% of aggregate Excess Net Royalties during the Earn-Out Period greater than $10.0 million and up to $15.0 million and (c) 0% of aggregate Excess Net Royalties during the Earn-Out Period in excess of $15.0 million. The Earn-Out Consideration shall be payable in common stock of Xcel (the "Earn-Out Shares"); provided, however, that if the number of Earn-Out Shares, when combined with the number of Xcel Shares issued at the Closing Date, will exceed 4.99% of the aggregate number of shares of Xcel common stock outstanding as of the Closing Date (calculated in accordance with Nasdaq Rule 5635(a)) (the "Xcel Share Limit"), then Xcel may, in its sole and unfettered discretion, elect to (x) pay cash for the Earn-Out Value attributable to the Earn-Out Shares that would exceed the Xcel Share Limit; (y) solicit stockholder approval for the issuance of Earn-Out Shares in excess of the Xcel Share Limit in accordance with Nasdaq Rule 5635(a)(2) and, if such stockholder approval is obtained, issue such Earn-Out Shares to HIP; or (z) solicit stockholder approval for the issuance of Shares in excess of the Xcel Share Limit in accordance with Nasdaq Rule 5635(a)(2) and, if such stockholder approval is obtained, pay the applicable Earn-Out Consideration with a combination of cash and Earn-Out Shares.

Hilco Trading, LLC

Hilco Trading, LLC ("Hilco") directly and indirectly owns greater than 5% of the Company's common stock, and its affiliate Hilco Global owns 50% of the equity of Longaberger Licensing, LLC. During the current quarter, the Company sold certain apparel products to an affiliate of Hilco, and recognized $151,000 of revenue from this transaction. Additionally, during the current quarter, the Company sold certain intangible assets of Longaberger Licensing, LLC to a third party; an affiliate of Hilco earned and was paid a commission of $46,000 related to the sale of these assets.

Robert W. D’Loren

Jennifer D’Loren is the wife of Robert W. D’Loren, the Company’s Chief Executive Officer and Chairman of the Board, and is employed by the Company. Mrs. D’Loren brings vast experience in project management and implementation of financial IT solutions. During the past two years, Mrs. D’Loren has worked on the implementation of the Company’s ERP system. Mrs. D’Loren received compensation of $29,000 and $42,000 for the current quarter and prior year quarter, respectively. Mrs. D’Loren received compensation of $99,000 and $125,000 for the current nine months and prior year nine months, respectively.

12. Commitments and Contingencies

Contingent Obligation

In connection with the February 11, 2019 purchase of the Halston Heritage Trademarks from 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 September 30, 2020 and December 31, 2019 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.

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 spread throughout the U.S. COVID-19 is having an unprecedented impact on the U.S. economy as federal, state, and local governments react to this public health crisis.

The impacts of the current COVID-19 pandemic are broad reaching and are having an impact on the Company’s licensing and wholesale businesses. The COVID-19 pandemic is impacting 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 outbreak is also impacting distribution and logistics providers' ability to operate in the normal course of business. Further, the pandemic has resulted in a sudden and continuing decrease in sales for many of the Company's products, resulting in order cancellations, and a decrease in accounts receivable collections, as the Company recorded approximately $1 million of additional allowance for doubtful accounts for the nine months ended September 30, 2020 for retailers that have filed for bankruptcy.

Due to the COVID-19 outbreak, there is significant uncertainty surrounding the potential 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.

Compliance with Listing Rules

On August 6, 2020, the Company received a letter from the Listing Qualifications Department of The Nasdaq Stock Market ("Nasdaq") notifying Xcel that the minimum bid price per share for its common stock fell below $1.00 for a period of 30 consecutive business days. Therefore, the Company did not meet the minimum bid price requirement set forth in the Nasdaq Listing Rules.

The letter also states that pursuant to Nasdaq Listing Rules 5810(c)(3)(A), the Company will be provided 180 calendar days to regain compliance with the minimum bid price requirement, or until February 2, 2021.

Xcel can regain compliance if, at any time during the Tolling Period or such 180-day period, the closing bid price of its common stock is at least $1.00 for a minimum period of 10 consecutive business days. If by February 2, 2021, the Company does not regain compliance with the Nasdaq Listing Rules, it may be eligible for additional time to regain compliance pursuant to Nasdaq Listing Rule 5810(c)(3)(A)(ii). To qualify, Xcel would need to submit a transfer application and a $5,000 application fee. The Company would also need to provide written notice to Nasdaq of its intention to cure the minimum bid price deficiency during the second compliance period by effecting a reverse stock split, if necessary. As part of its review process, the Nasdaq staff will make a determination of whether it believes the Company will be able to cure this deficiency. Should the Nasdaq staff conclude that Xcel will not be able to cure the deficiency, or should management determine not to submit a transfer application or make the required representation, Nasdaq will provide notice that the Company's shares of common stock will be subject to delisting.

If the Company does not regain compliance within the allotted compliance period, including any extensions that may be granted by Nasdaq, Nasdaq will provide notice that Xcel's shares of common stock will be subject to delisting from the Nasdaq Global Select Market. At such time, the Company may appeal the delisting determination to a hearings panel.

Management intends to monitor the Company's common stock closing bid price between now and February 2, 2021, and will consider available options to resolve the Company's noncompliance with the minimum bid price requirement, as may be necessary. There can be no assurance that the Company will be able to regain compliance with the minimum bid price requirement or will otherwise be in compliance with other Nasdaq listing criteria.

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 Section of our Form 10-K for the fiscal year ended December 31, 2019. 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, wholesale distribution, and direct-to-consumer sales of branded apparel, footwear, accessories, jewelry, home goods and other consumer products, and the acquisition of dynamic consumer lifestyle brands. Xcel was founded by Robert W. D'Loren in 2011 with a vision to reimagine shopping, entertainment, and social as one. The Company owns and manages the Isaac Mizrahi brands (the "Isaac Mizrahi Brand"), the Judith Ripka brands (the "Ripka Brand"), the Halston brands ("Halston Brand"), and the C Wonder brands (the "C Wonder Brand"). The Company also owns and manages the Longaberger brand (the "Longaberger Brand") through its 50% ownership interest in Longaberger Licensing, LLC. The Company and its licensees distribute through a ubiquitous channel retail sales strategy which includes distribution through interactive television, the Internet and e-commerce, and traditional brick-and-mortar retail channels. Headquartered in New York City, Xcel is led by an executive team with significant production, merchandising, design, marketing, retailing, and licensing experience, and a proven track record of success in elevating branded consumer product companies. With an experienced team of professionals focused on design, production, and digital marketing, Xcel maintains control of product quality and promotion across all of its product categories and distribution channels.

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 following primary strategies:

- distribution and/or licensing of our brands for sale through interactive television (i.e. QVC, The Shopping Channel) whereby we design, manage production, merchandise the shows, and manage the on-air talent;
- 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, in certain cases, manage supply and merchandising;
- wholesale distribution of our brands to retailers that sell to the end consumer;
- distribution of our brands through our e-commerce sites directly to the end consumer; and
- quickly integrate additional consumer brands into our operating platform and leverage our design, production, and marketing capabilities, 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 design, production, sales, marketing, and supply chain and integrated technology platform that enables us to design and distribute trend-right product; and

- our significant media and internet presence and distribution.

We believe that our strategy distinguishes us from other brand management companies that rely primarily on their licensees for design, production, and distribution, and enables us to leverage the media reach of our interactive television partners, including through television, digital, and social media, to drive sales of products under our brands across multiple distribution channels. By leveraging digital and social media content across all distribution channels, we seek to drive consumer engagement and generate retail sales across our brands. Our strong relationships with leading retailers and interactive television companies and cable networks enable us to reach consumers in over 380 million homes worldwide and hundreds of millions of social media followers.

We believe our design, production and supply chain platform provides significant competitive advantages compared with traditional wholesale apparel companies that design, manufacture, and distribute products. We focus on our core competencies of design, integrated technologies, design, production and supply chain platform, marketing, and brand development. We believe that we offer a 360-degree solution to our retail partners that addresses many of the challenges facing the retail industry today. We believe our platform is highly scalable. Additionally, we believe we can quickly integrate additional brands into our platform in order to leverage our design, production, and marketing capabilities, and distribution network.

Summary of Operating Results

Three months ended September 30, 2020 (the "current quarter") compared with the three months ended September 30, 2019 (the "prior year quarter")

Revenues

Current quarter net revenue decreased approximately $3.5 million to $7.4 million from $10.9 million for the prior year quarter.

Net licensing revenue decreased by approximately $1.2 million in the current quarter to $5.2 million, compared with $6.4 million in the prior year quarter. Approximately half of this decline was attributable to a reduction in guaranteed minimum revenues from one of our existing licensing arrangements upon renewal effective January 1, 2020. The remaining portion of the decline in licensing revenue was driven by lower sales by our licensees as a result of an overall slowdown in economic activity related to the ongoing COVID-19 pandemic.

Net product sales decreased by approximately $2.3 million in the current quarter to $2.2 million, compared with $4.5 million in the prior year quarter. The decline in net product sales was the result of canceled and reduced wholesale orders caused by an overall slowdown in economic activity related to the ongoing COVID-19 pandemic.

Cost of Goods Sold

Current quarter cost of goods sold was $1.3 million, compared with $3.0 million for the prior year quarter due to lower volume of wholesale and e-commerce sales in the current quarter. Gross profit (net revenue less cost of goods sold) decreased approximately $1.9 million to $6.1 million from $8.0 million in the prior year quarter, primarily driven by the aforementioned decline in net licensing revenue.

Total gross profit margin increased from 73% in the prior year quarter to 83% in the current quarter, reflecting the proportional shift of revenue mix towards licensing revenues in the current quarter. Gross profit margin from product sales increased from 35% in the prior year quarter to 41% in the current quarter as a result of achieving greater efficiencies.

Operating Costs and Expenses

Operating costs and expenses decreased approximately $1.1 million from $7.6 million in the prior year quarter to $6.5 million in the current quarter. This reduction was primarily attributable to cost reduction actions taken by management in response to the COVID-19 pandemic, including temporary reductions of employee compensation and cutting non-essential costs. Also contributing to the reduction was government assistance received through the Paycheck Protection Program under the CARES Act, for which the Company recognized $0.2 million as a reduction to current quarter expenses, the recovery of $0.2 million of expenses previously recognized in 2019 for a potential acquisition which ultimately was not consummated, and a $0.2 million decrease in stock-based compensation costs. Partially offsetting these decreases in operating costs and expenses was a $0.4 million increase in depreciation and amortization expense, primarily due to the change in estimated life for the Judith Ripka trademarks, and $0.4 million of bad debt expense related to the bankruptcy of several retail customers due to the COVID-19 pandemic.

Other Income

During the current quarter, we recognized a $0.05 million net gain on the sale of certain assets related to the Longaberger brand.

Interest and Finance Expense

Interest and finance expense for the current quarter was $0.3 million, compared with $0.3 million for the prior year quarter.

Income Tax (Benefit) Provision

The effective income tax rate for the current quarter and the prior year quarter was approximately 25% and 333%, respectively, resulting in an income tax (benefit) provision of $(0.1) million and $0.1 million, respectively.

For the current quarter, the federal statutory rate differed from the effective tax rate primarily due to state taxes and recurring permanent differences, which increased the effective tax rate by approximately 12% and 18%, respectively, partially offset by the tax impact from the vesting of restricted shares of common stock, which was treated as a discrete item for tax purposes and decreased the effective rate by approximately 26%. The effective tax rate was also affected by the tax impact of a potential federal net operating loss carryback due to the CARES Act; this item increased the effective rate by approximately 3%.

For the prior year quarter, the effective tax rate was primarily attributable to the tax impact from the vesting of restricted shares of common stock, which was treated as a discrete item for tax purposes; this item increased the effective rate by approximately 291%. The federal statutory rate also differed from the effective tax rate due to state taxes and recurring permanent differences, which increased the effective tax rate by approximately 8% and 12%, respectively.

Net (Loss) Income

We had a net loss of $(0.5) million for the current quarter, compared with net loss of $(0.1) million for the prior year quarter.

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

We had non-GAAP net income of approximately $0.8 million, or $0.04 per diluted share ("non-GAAP diluted EPS"), for the current quarter and $1.2 million, or $0.06 per diluted share, for the prior year quarter. Non-GAAP net income is a non-GAAP unaudited term, which we define as net income (loss), exclusive of amortization of trademarks, stock-based compensation, non-cash interest and finance expense from discounted debt related to acquired assets, 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 allowances for doubtful accounts related to debtors that have filed for bankruptcy protection triggered by the impact of COVID-19, 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 $1.4 million for the current quarter, compared with Adjusted EBITDA of $1.8 million for the prior year quarter. Adjusted EBITDA is a non-GAAP unaudited measure, which we define as net income (loss) 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 allowances for doubtful accounts related to debtors that have filed for bankruptcy protection triggered by the impact of COVID-19.

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. The Company has incurred certain costs which it could have eliminated but elected not to do so in light of government assistance received through the Paycheck Protection Program under the CARES Act (the "PPP Benefit"), which represents a cash benefit directly related to the Company's operating expenses incurred. Accordingly, the PPP Benefit is not considered a reconciling item for purposes of the computation of non-GAAP net income and Adjusted EBITDA. Adjusted EBITDA is the measure used to calculate compliance with the EBITDA covenant under the Xcel Term Loan.

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 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 (our most directly comparable financial measure presented in accordance with GAAP) to non-GAAP net income:

($ in thousands)	Three Months Ended September 30, 2020	2019
Net loss attributable to Xcel Brands, Inc. stockholders	$ (434)	$ (95)
Amortization of trademarks	1,107	786
Stock-based compensation	49	295
(Recovery of) costs in connection with potential acquisition	(189)	126
Certain adjustments to allowances for doubtful accounts	385	—
Property and equipment impairment	31	—
Gain on sale of assets	(46)	—
Deferred income tax (benefit) provision	(145)	137
Non-GAAP net income	$ 758	$ 1,249

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 September 30,	
	2020	2019
Diluted loss per share	$ (0.02)	$ (0.01)
Amortization of trademarks	0.06	0.04
Stock-based compensation	—	0.01
(Recovery of) costs in connection with potential acquisition	(0.01)	0.01
Certain adjustments to allowances for doubtful accounts	0.02	—
Property and equipment impairment	—	—
Gain on sale of assets	—	—
Deferred income tax (benefit) provision	(0.01)	0.01
Non-GAAP diluted EPS	$ 0.04	$ 0.06
Non-GAAP weighted average diluted shares	19,291,275	19,559,816

The following table is a reconciliation of net (loss) income (our most directly comparable financial measure presented in accordance with GAAP) to Adjusted EBITDA:

	Three Months Ended September 30,	
($ in thousands)	2020	2019
Net loss attributable to Xcel Brands, Inc. stockholders	$ (434)	$ (95)
Depreciation and amortization	1,437	991
Interest and finance expense	304	330
Income tax (benefit) provision	(145)	137
State and local franchise taxes	41	38
Stock-based compensation	49	295
(Recovery of) costs in connection with potential acquisition	(189)	126
Certain adjustments to allowances for doubtful accounts	385	—
Property and equipment impairment	31	—
Gain on sale of assets	(46)	—
Adjusted EBITDA	$ 1,433	$ 1,822

Both non-GAAP net income and Adjusted EBITDA for the current quarter include an adjustment to net (loss) income for allowances for doubtful accounts related to account debtors that have filed for bankruptcy protection triggered by the impact of COVID-19. In addition, net loss for the current quarter includes $0.2 million of PPP Benefit, which was recognized as a reduction to current quarter expenses for which the program was intended to compensate. As such, this amount is included in net (loss) income in accordance with GAAP. The expense reduction from the PPP is not considered a reconciling item for purposes of the computation of non-GAAP net income and Adjusted EBITDA due to the fact that the PPP Benefit represents a cash benefit and is directly related to the Company's operating expenses incurred. Such treatment is also consistent with the calculation of EBITDA for financial covenant compliance purposes under the Xcel Term Loan.

Nine months ended September 30, 2020 (the "current nine months") compared with the nine months ended September 30, 2019 (the "prior year nine months")

Revenues

Current nine months net revenue decreased approximately $8.4 million to $22.0 million from $30.4 million for the prior year nine months.

Net licensing revenue decreased by approximately $5.7 million in the current nine months to $15.4 million, compared with $21.1 million in the prior year nine months. This decline was primarily driven by a combination of (i) lower customer sales by our licensees as a result of government-ordered retail store closures as well as an overall slowdown in economic activity related to the COVID-19 pandemic, (ii) revenues from one of our existing licensing arrangements changing from guaranteed minimum amounts to sales-based royalties effective April 1, 2019, and (iii) a reduction in guaranteed minimum revenues from another of our existing licensing arrangements upon renewal effective January 1, 2020.

Net product sales decreased by approximately $2.7 million in the current nine months to $6.6 million, compared with approximately $9.3 million in the prior year nine months. The decline in net product sales was primarily driven by lower sales as a result of government-ordered retail store closures as well as an overall slowdown in economic activity related to the COVID-19 pandemic during the second and third quarters of 2020, partially offset by volume growth in our apparel wholesale business in the first quarter of 2020.

Cost of Goods Sold

Current nine months cost of goods sold was $3.9 million, compared with $6.5 million for the prior year nine months due to lower overall volume of wholesale and e-commerce sales in the current nine months. Gross profit (net revenue less cost of goods sold) decreased approximately $5.8 million to $18.0 million from $23.8 million in the prior year nine months, primarily driven by the aforementioned decline in net licensing revenue.

Gross profit margin from product sales increased from 29% in the prior year nine months to 40% in the current nine months as a result of achieving greater efficiencies in our wholesale business operations. Total gross profit margin was 78% in the prior year nine months and 82% in the current nine months, up slightly due to the aforementioned increase in gross profit margins for product sales, while the proportional mix between licensing revenue and product sales was essentially unchanged.

Operating Costs and Expenses

Operating costs and expenses decreased approximately $2.3 million from $22.4 million in the prior year nine months to $20.1 million in the current nine months. This reduction was primarily due to various cost reduction actions taken by management in response to the COVID-19 pandemic, including temporary reductions of employee compensation and cutting non-essential costs, as well as government assistance received through the Paycheck Protection Program under the CARES Act, for which the Company recognized $1.8 million as a reduction to current nine months expenses. Partially offsetting these reductions was a $1.1 million increase in depreciation and amortization expense, primarily due to the change in estimated life for the Judith Ripka trademarks, and $1.0 million of bad debt expense recognized in the current nine months related to the bankruptcy of several retail customers due to the COVID-19 pandemic.

Other Income

During the current quarter, we recognized a $0.05 million net gain on the sale of certain assets related to the Longaberger brand.

During the prior year nine months, we recognized a $2.9 million gain on the reduction of contingent obligations related to the 2015 acquisition of the C Wonder Brand. As part of that acquisition, the seller was eligible to earn additional consideration based on future royalties related to the C Wonder Brand exceeding certain thresholds, and we recorded a liability for the potential future payment of such consideration. The final earn-out period ended on June 30, 2019, and the seller ultimately did not earn any additional consideration under the terms of the purchase agreement.

Interest and Finance Expense

Interest and finance expense for the current nine months was $0.9 million, compared with $1.2 million for the prior year nine months. This decrease is primarily attributable to the fact that the prior year nine months includes a $0.2 million loss on extinguishment of debt as a result of the February 11, 2019 term loan amendment, with no such comparable extinguishment loss in the current nine months.

Income Tax (Benefit) Provision

The effective income tax rate for the current nine months and the prior year nine months was approximately 10% and 40%, respectively, resulting in an income tax (benefit) provision of $(0.3) million and $1.3 million, respectively.

For the current nine months, the federal statutory rate differed from the effective tax rate primarily due to the tax impact from the vesting of restricted shares of common stock, which was treated as a discrete item for tax purposes and decreased the effect rate by approximately 5%. The effective rate was also attributable to state taxes and recurring permanent differences, which increased the effective tax rate by approximately 6% and decreased the effective tax rate by approximately 3%, respectively.

For the prior year nine months, the federal statutory rate differed from the effective tax rate primarily due to state taxes and recurring permanent differences, which increased the effective tax rate by approximately 9% and 9%, respectively. The effective tax rate was also partly attributable to the tax impact from the vesting of restricted shares of common stock, which was treated as a discrete item for tax purposes; this item increased the effective rate by approximately 4%

Net (Loss) Income

We had a net loss of $(2.6) million for the current nine months, compared with net income of $1.9 million for the prior year nine months.

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

We had non-GAAP net income of approximately $2.1 million, or $0.11 per diluted share ("non-GAAP diluted EPS"), for the current nine months and $3.8 million, or $0.20 per diluted share, for the prior year nine months. We had Adjusted EBITDA of $3.9 million for the current nine months, compared with Adjusted EBITDA of $5.6 million for the prior year nine months.

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

($ in thousands)	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net (loss) income attributable to Xcel Brands, Inc. stockholders	$ (2,539)	$ 1,884
Amortization of trademarks	3,323	2,309
Non-cash interest and finance expense	—	16
Stock-based compensation	780	777
Loss on extinguishment of debt	—	189
(Recovery of) costs in connection with potential acquisition	(210)	231
Certain adjustments to allowances for doubtful accounts	971	—
Property and equipment impairment	113	—
Gain on sale of assets	(46)	—
Gain on reduction of contingent obligation	—	(2,850)
Deferred income tax (benefit) provision	(269)	1,280
Non-GAAP net income	$ 2,123	$ 3,836

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

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Diluted (loss) earnings per share	$ (0.13)	$ 0.10
Amortization of trademarks	0.17	0.12
Non-cash interest and finance expense	—	—
Stock-based compensation	0.04	0.04
Loss on extinguishment of debt	—	0.01
(Recovery of) costs in connection with potential acquisition	(0.01)	0.01
Certain adjustments to allowances for doubtful accounts	0.05	—
Property and equipment impairment	0.01	—
Gain on sale of assets	—	—
Gain on reduction of contingent obligation	—	(0.15)
Deferred income tax (benefit) provision	(0.02)	0.07
Non-GAAP diluted EPS	$ 0.11	$ 0.20
Non-GAAP weighted average diluted shares	19,092,828	18,840,149

The following table is a reconciliation of net (loss) income (our most directly comparable financial measure presented in accordance with GAAP) to Adjusted EBITDA:

($ in thousands)	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net (loss) income attributable to Xcel Brands, Inc. stockholders	$ (2,539)	$ 1,884
Depreciation and amortization	4,069	2,939
Interest and finance expense	897	1,157
Income tax (benefit) provision	(269)	1,280
State and local franchise taxes	124	159
Stock-based compensation	780	777
(Recovery of) costs in connection with potential acquisition	(210)	231
Certain adjustments to allowances for doubtful accounts	971	—
Property and equipment impairment	113	—
Gain on sale of assets	(46)	—
Gain on reduction of contingent obligation	—	(2,850)
Adjusted EBITDA	$ 3,890	$ 5,577

Both non-GAAP net income and Adjusted EBITDA for the current nine months include certain adjustment to net (loss) income including allowances for doubtful accounts for account debtors that have filed for bankruptcy protection triggered by the impact of COVID-19. In addition, net loss for the current nine months includes $1.8 million of government assistance received through the Paycheck Protection Program under the CARES Act, which was recognized as a reduction to current nine months expenses for which the program was intended to compensate. As such, the PPP Benefit is included in net (loss) income in accordance with GAAP. Such treatment is also consistent with the calculation of EBITDA for financial covenant compliance purposes under the Xcel Term Loan.

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 September 30, 2020 and December 31, 2019, our cash and cash equivalents were $4.8 million and $4.6 million, respectively.

Restricted cash at September 30, 2020 and at December 31, 2019 consisted of $1.1 million of cash deposited with BHI as collateral for an irrevocable standby letter of credit associated with the lease of our current corporate office and operating facility.

On April 23, 2020, we received $1.8 million from Bank of America through the PPP. We used the proceeds primarily to pay for payroll costs, and we believe it is probable that the loan will be forgiven under the terms of the PPP.

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 twelve 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 $8.7 million and $9.5 million as of September 30, 2020 and December 31, 2019, respectively. Working capital decreased by approximately $0.8 million during the first nine months of 2020 primarily due to the $0.6 million increase in the current portion of long-term debt.

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

Operating Activities

Net cash provided by operating activities was approximately $2.2 million in the current nine months, compared with approximately $3.0 million in the prior year nine months.

The current nine months cash provided by operating activities was primarily attributable to the combination of the net loss of $(2.6) million plus non-cash expenses of approximately $5.8 million and the net change in operating assets and liabilities of approximately $(0.9) million. The net loss of $(2.6) million includes $1.8 million of government assistance received through the PPP under the CARES Act, which was recognized as a reduction to current nine months expenses for which the program was intended to compensate. Non-cash net expenses were primarily comprised of $4.1 million of depreciation and amortization, $0.8 million of stock-based compensation, $1.1 million of bad debt expense, and a deferred income tax benefit of $(0.3) million. The net change in operating assets and liabilities includes a decrease in accounts receivable of $1.4 million, a decrease in accounts payable, accrued expenses and other current liabilities of $(2.4) million, a decrease in inventory of $0.2 million, a decrease in prepaid expenses and other assets of $0.2 million, and cash paid in excess of rent expense of $(0.3) million. The net change in accounts receivable is attributable to a combination of the timing of collections, increased allowance for doubtful accounts, and lower revenues recognized as a result of the COVID-19 pandemic. The net change in accounts payable, accrued expenses and other current liabilities is due to timing of payments, as well as actions taken by management in response to the COVID-19 pandemic to conserve cash.

The prior year nine months cash provided by operating activities was primarily attributable to the combination of net income of $1.9 million plus non-cash expenses of approximately $2.3 million, partially offset by a net change in operating assets and liabilities of approximately $(1.2) million. Non-cash net expenses primarily consisted of $0.8 million of stock-based compensation, $2.9 million of depreciation and amortization, loss on extinguishment of debt of $0.2 million, deferred income tax provision of $1.3 million, and gain on reduction of contingent obligations of $(2.9) million. The net change from operating assets and liabilities included a decrease in accounts receivable of $1.2 million, an increase in inventory of approximately $(0.1) million, a decrease in accounts payable, accrued expenses and other current liabilities of $(1.7) million, and a decrease in other liabilities of $(0.2) million, all of which are primarily due to timing of collections and payments, and cash paid in excess of rent expense of $(0.3) million.

Investing Activities

Net cash used in investing activities for the current nine months was approximately $0.7 million, compared with approximately $9.7 million in the prior year nine months. Cash used in investing activities for in the current nine months was primarily attributable to capital expenditures, a substantial portion of which relates to the implementation of our ERP system, while cash used in investing activities for the prior year nine months was primarily related to cash consideration paid to acquire the Halston Heritage Brands.

Financing Activities

Net cash (used in) financing activities for the current nine months was approximately $(1.4) million, and was primarily attributable to payments made on long-term debt obligations of $(1.5) million, cash contributions received from the non-controlling interest holder in Longaberger Licensing, LLC of $0.3 million, and $(0.2) million of shares repurchased related to vested restricted stock in exchange for withholding taxes.

Net cash provided by financing activities for the prior year nine months was approximately $3.4 million, primarily attributable to proceeds received from long-term debt of $7.5 million, partially offset by payments made on long-term debt obligations of $(3.0) million, the final payment on the IM Seller Note obligation of $(0.7) million, and payment of $(0.3) million of deferred finance costs.

Other Factors

We continue to seek to expand and diversify the types of licensed products being produced under our brands. We plan to continue to diversify the distribution channels within which licensed 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, 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 have transitioned our department store business from a licensing model to a wholesale model, and continue to work towards expanding our Judith Ripka Fine Jewelry wholesale and e-commerce business. Our strategy is to manage our working capital needs by utilizing back-to-back sales and purchase orders and minimizing inventory risk. This change should, on a long-term basis, increase our revenues as compared to the licensing model. We expect to develop a core licensing business for the Longaberger brand, in addition to a direct-to-consumer 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.

However, the impacts of the current COVID-19 pandemic are broad reaching and are having an impact on our licensing and wholesale businesses. The COVID-19 pandemic is impacting our supply chain as most of our 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 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 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 $1.21 million of accounts receivable due at September 30, 2020. As a result, we have recognized an allowance for doubtful accounts of $0.97 million for the nine months ended September 30, 2020, 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 BHI to waive compliance with, or agree to amend, any such covenant to avoid a default. The COVID-19 pandemic is ongoing, and its dynamic nature, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the pandemic, and 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 results for the remainder of 2020. However, as of the date of this filing, we expect our results for 2020 and potentially 2021 to be significantly affected.

Effects of Inflation

We do not believe that the relatively moderate rates of inflation experienced over the past two years in the United States, where we primarily compete, have had a significant effect on revenues or profitability. If there were an adverse change in the rate of inflation by less than 10%, the expected effect on net income and cash flows would be immaterial.

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

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, 2019, filed with the SEC on April 14, 2020, for a discussion of our critical accounting policies. During the three and nine months ended September 30, 2020, 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 September 30, 2020, 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 September 30, 2020 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 significant 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 September 30, 2020 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

In addition to the Risk Factors set forth in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2019, set forth below are certain factors which could affect our financial condition and operating results. 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, 2019 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.

Our failure to meet the continued listing requirements of the Nasdaq Global Market could result in a delisting of our common stock, which could negatively impact the market price and liquidity of our common stock and our ability to access the capital markets.

On August 6, 2020, we, received a letter from the Listing Qualifications Department of The Nasdaq Stock Market ("Nasdaq") notifying us that the minimum bid price per share for our common stock fell below $1.00 for a period of 30 consecutive business days. Therefore, the Company did not meet the minimum bid price requirement set forth in the Nasdaq Listing Rules.

The letter also states that pursuant to Nasdaq Listing Rules 5810(c)(3)(A), we will be provided 180 calendar days to regain compliance with the minimum bid price requirement, or until February 2, 2021.

We can regain compliance if, at any time during the Tolling Period or such 180-day period, the closing bid price of our common stock is at least $1.00 for a minimum period of 10 consecutive business days. If by February 2, 2021, we do not regain compliance with the Nasdaq Listing Rules, we may be eligible for additional time to regain compliance pursuant to Nasdaq Listing Rule 5810(c)(3)(A)(ii). To qualify, we would need to submit a transfer application and a $5,000 application fee. We would also need to provide written notice to Nasdaq of our intention to cure the minimum bid price deficiency during the second compliance period by effecting a reverse stock split, if necessary. As part of its review process, the Nasdaq staff will make a determination of whether it believes we will be able to cure this deficiency. Should the Nasdaq staff conclude that we will not be able to cure the deficiency, or should we determine not to submit a transfer application or make the required representation, Nasdaq will provide notice that our shares of common stock will be subject to delisting.

If we do not regain compliance within the allotted compliance period, including any extensions that may be granted by Nasdaq, Nasdaq will provide notice that our shares of common stock will be subject to delisting from the Nasdaq Global Select Market. At such time, we may appeal the delisting determination to a hearings panel.

We intend to monitor our common stock closing bid price between now and February 2, 2021, and will consider available options to resolve the Company's noncompliance with the minimum bid price requirement, as may be necessary. There can be no assurance that the Company will be able to regain compliance with the minimum bid price requirement or will otherwise be in compliance with other Nasdaq listing criteria.

The COVID-19 pandemic is having a material adverse impact on our business, operating results, and financial condition.

A pandemic or outbreak of disease or similar public health threat, such as the COVID-19 pandemic, or fear of such an event, could have a material adverse impact on our business, operating results, and financial condition. The current COVID-19 pandemic has caused a disruption to our business, beginning in March 2020. The impacts of the current COVID-19 pandemic are broad reaching and are having an impact on our licensing and wholesale businesses. The COVID-19 pandemic is impacting our supply chain as most of our 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 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 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 $1.21 million of accounts receivable due at September 30, 2020. As a result, we have recognized an allowance for doubtful accounts of $0.97 million for the nine months ended September 30, 2020, 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. We expect that the impact the COVID-19 pandemic may have on our operating results could result in our inability to comply with certain debt covenants and require BHI to waive compliance with, or agree to amend, any such covenant to avoid a default. The COVID-19 pandemic is ongoing, and its dynamic nature, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the pandemic, and 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 2020 results. However, as of the date of this filing, we expect our results for 2020 and potentially 2021 to be significantly affected.

We may not be entitled to forgiveness of our recently received Paycheck Protection Program loan, and our application for the Paycheck Protection Program loan could in the future be determined to have been impermissible or could result in damage to our reputation.

We received an unsecured loan in the amount of $1,805,856 (the "PPP Loan") pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The PPP Loan has a two-year term and bears interest at a rate of 1.0% per annum. Monthly principal and interest payments are deferred for six months after the date of disbursement. The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties. The Promissory Note contains events of default and other provisions customary for a loan of this type. The Paycheck Protection Program provides that the PPP Loan may be partially or wholly forgiven if the funds are used for certain qualifying expenses as described in the CARES Act. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and any payments of mortgage interest, rent, and utilities. However, no assurance is provided that forgiveness for any portion of the PPP Loan will be obtained.

In order to apply for the PPP Loan, we were required to certify, among other things, that the current economic uncertainty made the PPP Loan request necessary to support our ongoing operations. We made this certification in good faith after analyzing, among other things, our financial situation and access to alternative forms of capital, and believe that we satisfied all eligibility criteria for the PPP Loan, and that our receipt of the PPP Loan is consistent with the broad objectives of the PPP of the CARES Act. The certification described above did not contain any objective criteria and is subject to interpretation. However, on April 23, 2020, the U.S. Small Business Administration ("SBA") issued guidance stating that it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith. The lack of clarity regarding loan eligibility under the PPP has resulted in significant media coverage and controversy with respect to public companies applying for and receiving loans. If, despite our good-faith belief that we satisfied all eligible requirements for the PPP Loan, we or any company that we may acquire in the future which received a loan under the PPP, are later determined to have violated any of the laws or governmental regulations that apply to us or such acquiree in connection with the PPP Loan or another loan under the PPP, respectively, such as the False Claims Act, or it is otherwise determined that we or such acquiree were ineligible to receive the PPP Loan or such other loan under the PPP, respectively, we or such acquiree may be subject to penalties, including significant civil, criminal and administrative penalties, and could be required to repay the PPP Loan or such other loan under the PPP, respectively, in its entirety. In addition, our receipt of the PPP Loan or any company that we may acquire in the future which received a loan under the PPP may result in adverse publicity and damage to our reputation, and a review or audit by the SBA or other government entity or claims under the False Claims Act could consume significant financial and management resources.

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

There were no sales of unregistered or registered securities during the three and nine months ended September 30, 2020.

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:

10.1 Amendment No. 5 to Second Amended and Restated Loan and Security Agreement
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 XBRL Instance Document
101.SCH XBRL Taxonomy Extension Schema Document
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB XBRL Taxonomy Extension Label Linkbase Document
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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: November 13, 2020	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

AMENDMENT NO. 5
to
SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

THIS AMENDMENT NO. 5 TO SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (this "Amendment") is entered into as of September 24, 2020, by and among XCEL BRANDS, INC., a Delaware corporation ("Initial Borrower"), each other signatory hereto that is a Credit Party under the Loan Agreement (as hereinafter defined), BANK HAPOALIM B.M., as a Lender ("BHI"), and BHI as collateral and administrative agent for Lenders (in such capacity "Agent").

BACKGROUND

Initial Borrower, IM Brands, LLC ("IM Brands"), JR Licensing, LLC, H Licensing, LLC, C Wonder Licensing, LLC, Xcel Design Group, LLC, Judith Ripka Fine Jewelry, LLC, H Heritage Licensing, LLC and Xcel-CT MFG, LLC (other than Initial Borrower, collectively, "Guarantors"), Lenders and Agent are parties to a Second Amended and Restated Loan and Security Agreement dated as of February 11, 2019 (as amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement") pursuant to which Lenders made term loans to Initial Borrower secured by a Lien on substantially all of the assets of Initial Borrower. Guarantors have guaranteed the payment and performance of Initial Borrower's obligations to Lenders and Agent under the Loan Agreement which guarantee obligations are secured by a Lien on substantially all of the assets of Guarantors.

Initial Borrower has requested that Lenders amend the Loan Agreement and Lenders and Agent have agreed to amend the Loan Agreement on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the financial accommodations provided to Initial Borrower by Lenders, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. All capitalized terms not otherwise defined herein shall have the meanings given to them in the Loan Agreement.

2. Amendments to Loan Agreement. Subject to the satisfaction of the conditions set forth in Section 4 below, the Loan Agreement is amended as follows:

(a) Section 1.1 is amended by amending the defined terms "EBITDA" and "Fixed Charge Coverage Ratio" to provide as follows:

> "EBITDA" means, for the applicable period, for a Person, an amount equal to (a) Net Income for Initial Borrower and the Included Subsidiaries on a consolidated basis for such period, minus, (b) to the extent included in calculating Net Income for Initial Borrower and the Included Subsidiaries on a consolidated basis, the sum of, without duplication, (i) interest income (whether cash or non- cash) for such period, (ii) income tax credits for such period, (iii) gain from extraordinary or non-recurring items for such period (including, without limitation,

non-cash items related to purchase accounting) and (iv) deferred compensation payments (regardless of when accrued), plus (c) the following to the extent deducted in calculating such Net Income, (i) interest charges for such period, (ii) the provision for all federal, state, local and foreign taxes payable for such period and the amount of payments permitted pursuant to Section 9(h)(ii), (iii) the amount of depreciation and amortization expense for such period, (iv) the transaction fees, costs and expenses incurred in connection with (A) the negotiation and execution of this Agreement and the other Loan Documents and any amendments thereto and (B) Permitted Acquisitions, (v) all other extraordinary or non-recurring non-cash charges (including, without limitation, non-cash items related to purchase accounting), (vi) deferred management salaries (accrued but not paid), (vii) all non-cash compensation (including without limitation, stock or equity compensation) in such period and (viii) the amount of the non-cash bad debt reserve taken during the Fiscal Years ending December 31, 2020 and December 31, 2021 relating to the bankruptcy of Lord & Taylor.

"Fixed Charge Coverage Ratio" means for any period, as respects any Person, the ratio of (a) EBITDA of such Person for such period plus a decrease in cash in the amount of up to $925,000 expended in connection with the Longaberger Acquisition to (b) the Fixed Charges for such period.

(b) Section 3.6 is amended in its entirety to provide as follows:

"3.6 Voluntary Prepayments. Borrowing Representative shall have the right, at any time upon thirty (30) day's prior written notice to Agent to (a) terminate voluntarily Borrowers' right to receive or benefit from, and Revolving Lenders' obligation to make and to incur, Revolving Loans and Letter of Credit Obligations, (b) repay all outstanding Revolving Loans, Letter of Credit Obligations and accrued and unpaid interest thereon or (c) cause Borrowers to prepay all or a portion of the Term Loans or Incremental Term Loans, provided that any prepayment of less than all of the outstanding balance of the Term Loans or Incremental Term Loans shall be applied to the remaining installments of the Term Loans or Incremental Term Loan pro rata in the inverse order of their maturity. If any Term Loan or any Incremental Term Loan is prepaid on or prior to the third anniversary of the Effective Date (including as a result of the occurrence of an Event of Default), Borrowers shall pay to such Lenders the applicable Early Termination Fee. Each Borrower acknowledges and agrees that (i) it would be difficult or impractical to calculate Lenders' actual damages from early repayment of any Term Loan or Incremental Term Loan, (ii) the Early Termination Fee is intended to be fair and reasonable approximations of such damages, and (iii) the Early Termination Fee is not intended to be a penalty. Notwithstanding the foregoing, in the event that Borrowers make the $750,000 Prepayment, such prepayment shall be applied to installment of the Term Loan due and payable on March 31, 2022 and no Early Termination Fee shall be due and payable in connection therewith."

(c) Section 3.7(a) is amended in its entirety to provide as follows:

"(a) If for any Fiscal Quarter, commencing with Fiscal Quarter ending on March 31, 2021, there shall be Excess Cash Flow for such Fiscal Quarter, then Borrowers shall pay to Agent for the benefit of Lenders holding a portion of the Term Loans an amount equal to fifty percent (50%) of such Excess Cash Flow until the aggregate amount paid for all such Fiscal Quarters equals $4,450,000 (the "Deferred Amount"). If for any Fiscal Year commencing with the Fiscal Year in which Borrowers paid to Agent the entire Deferred Amount, there shall be Excess Cash Flow for such Fiscal Year, then Borrowers shall pay to Agent for the benefit of such Lenders an amount equal to ten percent (10%) of Excess Cash Flow at the end of each Fiscal Year (collectively with the Deferred Amount, the "Cash Flow Recapture Requirement"). The Cash Flow Recapture Requirement for any such Fiscal Quarter or Fiscal Year, as applicable, shall be received by Agent no later than the date that is seven (7) days after the delivery of the Financial Statements for such Fiscal Quarter or Fiscal Year, as applicable, required pursuant to Section 8.1 and, in the event that the Cash Flow Recapture Requirement paid to Agent for all Fiscal Quarters commencing with the Fiscal Quarter ending on March 31, 2021 and ending with the Fiscal Quarter ending March 31, 2022 is less than the Deferred Amount, then Borrower shall pay to Agent the shortfall no later than the date that is seven (7) days after the delivery of the Financial Statements for the Fiscal Quarter ending March 31, 2022 required pursuant to Section 8.1. The Cash Flow Recapture requirement shall be applied to the principal amount of the Term Loan B first in the reverse order of maturity, then to the principal amount of Term Loan A in the reverse order of maturity and after the Term Loans have been paid in full, to the outstanding principal balance of the Incremental Term Loans pro rata with any balance going to pay the outstanding principal balance of the Revolving Loan. Borrowers shall not be required to pay an Early Termination Fee on any amount repaid due to the Cash Flow Recapture Requirement. To the extent applicable, amounts prepaid shall be applied first to any Base Rate Loans then outstanding and then to outstanding LIBOR Rate Loans with the shortest Interest Periods remaining. Together with each prepayment of a LIBOR Rate Loan or a Fixed Rate Loan, Borrowers shall pay any amounts due and payable pursuant to Section 3.12."

(d) Exhibit B-1 (Form of Term Loan Note A) is replaced with Exhibit A to this Amendment.

(e) Exhibit B-2 (Form of Term Loan Note B) is replaced with Exhibit B-2 to this Amendment.

(f) Schedule II (Financial Covenants) is replaced with Schedule II attached to this Amendment.

3. Conditions of Effectiveness. This Amendment shall become effective upon (a) Agent's receipt of this Amendment duly executed by each Credit Party and each Lender and (b) Agent's receipt of Amended and Restated Term Loan Note A and Amended and Restated Term Loan Note B in the form attached to this Amendment duly executed by Initial Borrower.

4. Representations and Warranties. Each Credit Party hereby represents and warrants as follows:

(a) This Amendment constitutes the legal, valid and binding obligation of such Credit Party and is enforceable against such Credit Party in accordance with its terms, except to the extent that such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally or limiting the right of specific performance.

(b) Upon the effectiveness of this Amendment, all representations and warranties of such Credit Party contained in the Loan Documents to which it is a party continue to be true and correct in all material respects as of the date hereof, as if repeated as of the date hereof, except for such representations and warranties which, by their terms, are expressly made only as of a previous date.

(c) No Event of Default has occurred and is continuing or would exist after giving effect to this Amendment.

(d) No Credit Party has any defense, counterclaim or offset with respect to any of the Loan Documents.

5. Effect on the Loan Documents.

(a) Except as specifically set forth herein, the Loan Documents shall remain in full force and effect, and are hereby ratified and confirmed by each Credit Party a party thereto.

(b) Except as specifically set forth herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of Agent or any Lender nor constitute a waiver of any provision of any Loan Document.

6. Governing Law. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and shall be governed by and construed in accordance with the laws of the State of New York.

7. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

8. Counterparts; Electronic Transmission. This Amendment may be executed by the parties hereto in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same agreement. Any signature delivered by a party by facsimile or other electronic transmission shall be deemed to be an original signature hereto.

IN WITNESS WHEREOF, this Amendment has been duly executed as of the day and year first written above.

XCEL BRANDS, INC.

By: /s/ James Haran
Chief Financial Officer

IM BRANDS, LLC

By: XCEL BRANDS, INC.,
Its Manager

By: /s/ James Haran
Chief Financial Officer

JR LICENSING, LLC

By: XCEL BRANDS, INC.,
Its Manager

By: /s/ James Haran
Chief Financial Officer

H LICENSING, LLC

By: XCEL BRANDS, INC.,
Its Manager

By: /s/ James Haran
Chief Financial Officer

C WONDER LICENSING, LLC

By: XCEL BRANDS, INC.,

Its Manager

By: /s/ James Haran

Chief Financial Officer

XCEL DESIGN GROUP, LLC
By: XCEL BRANDS, INC.,

Its Manager

By: /s/ James Haran

Chief Financial Officer

JUDITH RIPKA FINE JEWELRY, LLC
By: XCEL BRANDS, INC.,

Its Manager

By: /s/ James Haran

Chief Financial Officer

H HERITAGE LICENSING, LLC
By: XCEL BRANDS, INC.,

Its Manager

By: /s/ James Haran

Chief Financial Officer

XCEL-CT MFG, LLC

By: XCEL BRANDS, INC.,

Its Manager

By: /s/ James Haran

Chief Financial Officer

BANK HAPOALIM B.M., a Lender and as Agent

By: /s/ Lisa Matalon
Name: Lisa Matalon
Title: First Vice President

By: /s/ Marline Alexander
Name: Marline Alexander
Title: Senior Vice President

EXHIBIT B-1

[See Attached]

AMENDED AND RESTATED
TERM LOAN NOTE A

$7,250,000 September 24, 2020

This Amended and Restated Term Loan Note A (this "Note") is executed and delivered under and pursuant to the terms of that certain Second Amended and Restated Loan and Security Agreement dated as of February 11, 2019 (as amended, modified, supplemented or restated from time to time, the "Loan Agreement") by and among BANK HAPOALIM B.M. ("Lender"), XCEL BRANDS, INC. ("Initial Borrower" and together with each Person who hereafter becomes a Borrower, collectively "Borrowers"), and any other Credit Party executing or becoming a party to the Loan Agreement, the financial institutions party thereto as Lenders and BANK HAPOALIM B.M., as agent for Lenders (in such capacity, "Agent"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Loan Agreement.

FOR VALUE RECEIVED, Borrower promises to pay to the order of Lender at the offices of Agent located at 1120 Avenue of the Americas, New York, New York 10036 or at such other place as the holder hereof may from time to time designate to Borrower in writing:

(i) the principal sum of Seven Million Two Hundred Fifty Thousand Dollars ($7,250,000), payable, subject to acceleration upon the occurrence of an Event of Default under the Loan Agreement, or earlier termination of the Loan Agreement pursuant to the terms thereof, in quarterly installments commencing on June 30, 2019 and on each March 31, June 30, September 30 and December 31 thereafter in the amounts set forth below for the corresponding period, with the entire unpaid balance due and payable on the Term Loan Maturity Date:

Period	Amount
June 30, 2019 – December 31, 2019	$1,000,000
June 30, 2020 – December 31, 2020	$750,000
March 31, 2021	$700,000
June 30, 2021	$700,000
September 30, 2021	$600,000

and

(ii) interest on the principal amount of this Note from time to time outstanding, payable at the applicable interest rate set forth in the Loan Agreement commencing on March 31, 2019 and on each March 31, June 30, September 30 and December 31 thereafter and upon payment in full of the principal amount of this Note. Upon and after the occurrence of an Event of Default, and during the continuation thereof, interest shall be payable at the applicable Default Rate. In no event, however, shall interest hereunder exceed the maximum interest rate permitted by law.

This Note is the Term Loan Note A referred to in the Loan Agreement and is secured, inter alia, by the liens granted pursuant to the Loan Agreement and the other Loan Documents, is entitled to the benefits of the Loan Agreement and the other Loan Documents, and is subject to all of the agreements, terms and conditions therein contained.

Payments received by Lender shall be applied against principal and interest as provided for in the Loan Agreement. This Note may be voluntarily prepaid, in whole or in part, on the terms and conditions set forth in the Loan Agreement.

If an Event of Default under Section 12.1(f) of the Loan Agreement shall occur, then this Note shall immediately become due and payable, without notice, together with attorneys' fees if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof. If any other Event of Default shall occur under the Loan Agreement or any of the other Loan Documents which is not cured within any applicable grace period, then this Note may, as provided in the Loan Agreement, be declared to be immediately due and payable, without notice, together with attorneys' fees, if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof.

This Note shall be governed by and construed in accordance with the laws of the State of New York.

To the fullest extent permitted by applicable law, Borrower waives: (a) presentment, demand and protest, and notice of presentment, dishonor, intent to accelerate, acceleration, protest, default, nonpayment, maturity, release, compromise, settlement, extension or renewal of any or all of the Obligations, the Loan Agreement, this Note or any other Loan Documents; (b) all rights to notice and a hearing prior to Agent's taking possession or control of, or to Agent's replevy, attachment or levy upon, the Collateral or any bond or security that might be required by any court prior to allowing Agent to exercise any of its remedies; and (c) the benefit of all valuation, appraisal and exemption laws.

Borrower acknowledges that this Note is executed as part of a commercial transaction and that the proceeds of this Note will not be used for any personal or consumer purpose.

This Note amends and restates and is given in partial substitution for but not in satisfaction of the Amended and Restated Term Loan Note A dated April 13, 2020 executed by Borrower in favor of Lender, in the original principal amount of $7,250,000.

Borrower agrees to pay to Agent all fees and expenses described in the Loan Agreement and the other Loan Documents.

XCEL BRANDS, INC.

By:
Name:
Title:

EXHIBIT B-2

[See Attached]

AMENDED AND RESTATED
TERM LOAN NOTE B

$14,750,000 September 24, 2020

This Amended and Restated Term Loan Note B (this "Note") is executed and delivered under and pursuant to the terms of that certain Second Amended and Restated Loan and Security Agreement dated as of February 11, 2019 (as amended, modified, supplemented or restated from time to time, the "Loan Agreement") by and among BANK HAPOALIM B.M. ("Lender"), XCEL BRANDS, INC. ("Initial Borrower" and together with each Person who hereafter becomes a Borrower, collectively "Borrowers"), and any other Credit Party executing or becoming a party to the Loan Agreement, the financial institutions party thereto as Lenders and BANK HAPOALIM B.M., as agent for Lenders (in such capacity, "Agent"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Loan Agreement.

FOR VALUE RECEIVED, Borrower promises to pay to the order of Lender at the offices of Agent located at 1120 Avenue of the Americas, New York, New York 10036 or at such other place as the holder hereof may from time to time designate to Borrower in writing:

(i) the principal sum of Fourteen Million Seven Hundred Fifty Thousand Dollars ($14,750,000), payable, subject to acceleration upon the occurrence of an Event of Default under the Loan Agreement, or earlier termination of the Loan Agreement pursuant to the terms thereof, in quarterly installments commencing on June 30, 2021 and on each March 31, June 30, September 30 and December 31 thereafter in the amounts set forth below for the corresponding period, with the entire unpaid balance due and payable on the Term Loan Maturity Date:

Period	Amount
September 30, 2021	$100,000
December 31, 2021	$700,000
March 31, 2022 – December 31,	$1,125,000
March 31, 2023 – December 31,	$1,250,000

and

(ii) interest on the principal amount of this Note from time to time outstanding, payable at the applicable interest rate set forth in the Loan Agreement commencing on March 31, 2019 and on each March 31, June 30, September 30 and December 31 thereafter and upon payment in full of the principal amount of this Note. Upon and after the occurrence of an Event of Default, and during the continuation thereof, interest shall be payable at the applicable Default Rate. In no event, however, shall interest hereunder exceed the maximum interest rate permitted by law.

This Note is the Term Loan Note B referred to in the Loan Agreement and is secured, inter alia, by the liens granted pursuant to the Loan Agreement and the other Loan Documents, is entitled to the benefits of the Loan Agreement and the other Loan Documents, and is subject to all of the agreements, terms and conditions therein contained.

Payments received by Lender shall be applied against principal and interest as provided for in the Loan Agreement. This Note may be voluntarily prepaid, in whole or in part, on the terms and conditions set forth in the Loan Agreement.

If an Event of Default under Section 12.1(f) of the Loan Agreement shall occur, then this Note shall immediately become due and payable, without notice, together with attorneys' fees if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof. If any other Event of Default shall occur under the Loan Agreement or any of the other Loan Documents which is not cured within any applicable grace period, then this Note may, as provided in the Loan Agreement, be declared to be immediately due and payable, without notice, together with attorneys' fees, if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof.

This Note shall be governed by and construed in accordance with the laws of the State of New York.

To the fullest extent permitted by applicable law, Borrower waives: (a) presentment, demand and protest, and notice of presentment, dishonor, intent to accelerate, acceleration, protest, default, nonpayment, maturity, release, compromise, settlement, extension or renewal of any or all of the Obligations, the Loan Agreement, this Note or any other Loan Documents; (b) all rights to notice and a hearing prior to Agent's taking possession or control of, or to Agent's replevy, attachment or levy upon, the Collateral or any bond or security that might be required by any court prior to allowing Agent to exercise any of its remedies; and (c) the benefit of all valuation, appraisal and exemption laws.

Borrower acknowledges that this Note is executed as part of a commercial transaction and that the proceeds of this Note will not be used for any personal or consumer purpose.

This Note amends and restates and is given in partial substitution for but not in satisfaction of the Amended and Restated Term Loan Note B dated April 13, 2020 executed by Borrower in favor of Lender, in the original principal amount of $14,750,000.

Borrower agrees to pay to Agent all fees and expenses described in the Loan Agreement and the other Loan Documents.

XCEL BRANDS, INC.

By:
Name:
Title:

SCHEDULE II

FINANCIAL COVENANTS

1. Minimum Net Worth. Net Worth of Initial Borrower and the Included Subsidiaries on a consolidated basis shall not be less than $90,000,000 at the end of each Fiscal Quarter.

2. Minimum Liquid Assets. Liquid Assets of Initial Borrower and the Included Subsidiaries on a consolidated basis shall not be less than the amount set forth below at all times during the applicable Fiscal Quarter:

Fiscal Quarter End	Minimum Liquid Assets
September 30, 2020 and December 31, 2020	$3,000,000
March 31, 2021, June 30, 2021 and September 30, 2021	$2,500,000
December 31, 2021	$3,000,000
Each Fiscal Quarter after December 31, 2021	$5,000,000

3. Fixed Charge Coverage Ratio. The Fixed Charge Ratio of Initial Borrower and the Included Subsidiaries on a consolidated basis for the twelve Fiscal Month period ending at the end of each Fiscal Quarter set forth below shall not be less than the ratio set forth below for such Fiscal Quarter below:

Fiscal Quarter	Fixed Charge Coverage Ratio
December 31, 2020 and each Fiscal Quarter end thereafter	1.25 to 1.00

4. Capital Expenditures. Capital Expenditures of Initial Borrower and the Included Subsidiaries on a consolidated basis in any Fiscal Year shall not exceed the amount set forth below for such Fiscal Year:

Fiscal Year End	Capital Expenditures
December 31, 2020	$1,600,000
All other times	$700,000

5. Maximum Leverage Ratio. The Leverage Ratio of Initial Borrower and the Included Subsidiaries on a consolidated basis for the twelve Fiscal Month period ending at the end of each Fiscal Quarter shall not exceed the ratio below for such Fiscal Quarter:

Fiscal Quarter	Maximum Leverage Ratio
September 30, 2020	4.00 to 1.00
December 31, 2020	3.50 to 1.00
March 31, 2021	3.15 to 1.00
June 30, 2021	3.00 to 1.00
September 30, 2021	2.75 to 1.00
December 31, 2021	2.50 to
1.00 March 31, 2022 and each Fiscal Quarter	
end thereafter	1.50 to 1.00

6. Minimum EBITDA. The EBITDA of Initial Borrower and the Included Subsidiaries on a consolidated basis for the twelve Fiscal Month period ending at the end of each Fiscal Quarter shall be at least the amount set forth below for such Fiscal Quarter:

Fiscal Quarter End	Minimum EBITDA
September 30, 2020	$5,000,000

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 September 30, 2020 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.

November 13, 2020	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 September 30, 2020 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.

November 13, 2020	By: /s/ James Haran
	Name: James Haran
	Title: Chief Financial Officer and Vice President

EXHIBIT 32.1

**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 September 30, 2020 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.

November 13, 2020	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 September 30, 2020 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.

November 13, 2020	By:	/s/ James Haran
		Name: James Haran
		Title: Chief Financial Officer and Vice President