UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

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)

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

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

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	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 7, 2017, there were 18,456,801 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, 2017 (Unaudited)	December 31, 2016 (Note 1)
Assets		
Current Assets:		
Cash and cash equivalents	$ 8,273	$ 14,127
Accounts receivable, net	9,517	6,969
Prepaid expenses and other current assets	594	807
Total current assets	18,384	21,903
Property and equipment, net	2,441	2,600
Trademarks and other intangibles, net	110,396	111,220
Goodwill	12,371	12,371
Restricted cash	1,509	1,509
Other assets	1,501	1,517
Total non-current assets	128,218	129,217
Total Assets	**$ 146,602**	**$ 151,120**
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, accrued expenses and other current liabilities	$ 839	$ 1,523
Accrued payroll	1,781	2,185
Deferred revenue	73	234
Current portion of long-term debt	4,459	6,427
Current portion of long-term debt, contingent obligations	100	-
Total current liabilities	7,252	10,369
Long-Term Liabilities:		
Long-term debt, less current portion	20,337	25,495
Deferred tax liabilities, net	8,605	6,901
Other long-term liabilities	2,637	2,181
Total long-term liabilities	31,579	34,577
Total Liabilities	38,831	44,946
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $.001 par value, 1,000,000 shares authorized, none issued and outstanding	-	-
Common stock, $.001 par value, 35,000,000 shares authorized at September 30, 2017 and December 31, 2016, and 18,468,801 and 18,644,982 issued and outstanding at September 30, 2017 and December 31, 2016, respectively	18	19
Paid-in capital	98,886	97,354
Retained earnings	8,867	8,801
Total Stockholders' Equity	107,771	106,174
Total Liabilities and Stockholders' Equity	**$ 146,602**	**$ 151,120**

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, 2017	For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30, 2017	For the Nine Months Ended September 30, 2016
Net revenues	$ 7,890	$ 8,320	$ 24,690	$ 25,793
Operating costs and expenses				
Salaries, benefits and employment taxes	4,079	4,054	12,806	12,481
Other design and marketing costs	287	779	1,803	2,439
Other selling, general and administrative expenses	1,188	1,175	3,602	4,540
Stock-based compensation	690	1,089	2,496	3,754
Depreciation and amortization	389	387	1,173	1,172
Total operating costs and expenses	6,633	7,484	21,880	24,386
Operating income	1,257	836	2,810	1,407
Interest and finance expense				
Interest expense - term debt	273	340	905	1,003
Other interest and finance charges	41	122	135	424
Total interest and finance expense	314	462	1,040	1,427
Income (loss) before income taxes	943	374	1,770	(20)
Income tax provision (benefit)	691	256	1,704	(3)
Net income (loss)	$ 252	$ 118	$ 66	$ (17)
Basic net income (loss) per share	$ 0.01	$ 0.01	$ 0.00	$ (0.00)
Diluted net income (loss) per share	$ 0.01	$ 0.01	$ 0.00	$ (0.00)
Basic weighted average common shares outstanding	18,470,977	18,692,775	18,530,963	18,608,034
Diluted weighted average common shares outstanding	18,872,753	19,068,011	18,896,418	18,608,034

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, 2017	2016
Cash flows from operating activities		
Net income (loss)	$ 66	$ (17)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	1,173	1,172
Amortization of deferred finance costs	146	140
Stock-based compensation	2,496	3,754
Amortization of note discount	28	236
Deferred income tax	1,704	(3)
Non-cash property exit charge	-	648
Changes in operating assets and liabilities:		
Accounts receivable	(2,548)	(1,210)
Prepaid expenses and other assets	211	199
Accounts payable, accrued expenses and other current liabilities	(1,237)	1,306
Deferred revenue	(161)	(585)
Other liabilities	456	1,129
Net cash provided by operating activities	2,334	6,769
Cash flows from investing activities		
Cost to acquire intangible assets	(23)	(26)
Purchase of property and equipment	(167)	(1,911)
Net cash used in investing activities	(190)	(1,937)
Cash flows from financing activities		
Proceeds from exercise of stock options	-	20
Shares repurchased including vested restricted stock in exchange for withholding taxes	(814)	(1,210)
Payment of deferred finance costs	(7)	(69)
Payment of long-term debt	(7,177)	(4,625)
Payment of QVC earnout obligation	-	(250)
Net cash used in financing activities	(7,998)	(6,134)
Net decrease in cash, cash equivalent and restricted cash	(5,854)	(1,302)
Cash, cash equivalents, and restricted cash at beginning of period	15,636	17,969
Cash, cash equivalents, and restricted cash at end of period	$ 9,782	$ 16,667
Reconciliation to amounts on consolidated balance sheets:		
Cash and cash equivalents	$ 8,273	$ 15,158
Restricted cash	1,509	1,509
Total cash, cash equivalents, and restricted cash	$ 9,782	$ 16,667
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	$ 151	$ 168
Cash paid during the period for interest	$ 1,175	$ 909

See Notes to Unaudited Condensed Consolidated Financial Statements.

XCEL BRANDS, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2017
(Unaudited)

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

The accompanying condensed consolidated balance sheet as of December 31, 2016 (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 Rule 10-01 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. ("Xcel") and its subsidiaries (the "Company"). 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, 2016, as filed with the SEC on March 24, 2017.

The Company is a media and consumer products company engaged in the design, production, licensing, marketing, 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. Currently, the Company's brand portfolio consists of the Isaac Mizrahi brand (the "Isaac Mizrahi Brand"), the Judith Ripka brand (the "Ripka Brand"), the H by Halston and H Halston brands (collectively, the "H Halston Brands"), the C Wonder brand (the "C Wonder Brand"), and the Highline Collective brand.

The Company licenses its brands to third parties, provides certain design, production, and marketing services, and generates licensing, design, and service fee revenues through contractual arrangements and other agreements with manufacturers and retailers. These activities include licensing its own brands for promotion and distribution through a ubiquitous retail sales strategy, which encompasses distribution through interactive television, the internet, and traditional brick-and-mortar retail channels.

Certain reclassifications have been made to the prior period unaudited condensed consolidated financial statements to conform to the current period presentation, including:

- Presentation of e-commerce gross margin within total net revenues on the condensed consolidated statements of operations. Of the $41,000 of costs previously presented as cost of goods sold for the three months ended September 30, 2016, $10,000 has been reclassified to net revenues, and $31,000 has been reclassified to other selling, general and administrative expenses. Of the $147,000 of costs previously presented as cost of goods sold for the nine months ended September 30, 2016, $46,000 has been reclassified to net revenues, and $101,000 has been reclassified to other selling, general and administrative expenses.
- Presentation of restricted cash on the condensed consolidated statements of cash flows for the nine months ended September 30, 2017, as a result of the early adoption of Accounting Standards Update No. 2016-18 in the fourth quarter of 2016.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Recent Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2017-09, *Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"). ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following conditions are met: (i) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; (ii) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (iii) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. This new accounting guidance is effective for public companies for fiscal years beginning after December 15, 2017 (i.e., calendar years beginning on January 1, 2018), including interim periods within those fiscal years. Early adoption is permitted in any interim or annual period. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. The adoption of ASU 2017-09 is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), requiring revenue to be recognized in an amount that reflects the consideration expected to be received in exchange for goods and services. This new revenue standard may be applied retrospectively to each prior period presented, or retrospectively with the cumulative effect recognized as of the date of adoption. In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date ("ASU 2015-14"), which defers implementation of ASU 2014-09 by one year. Under such deferral, the adoption of ASU 2014-09 becomes effective for us on January 1, 2018, including interim periods within that reporting period. Early adoption is permitted, but not before our original effective date of January 1, 2017. Our evaluation of the impact of the adoption of ASU 2014-09 on our consolidated financial statements is ongoing and our implementation efforts have included the identification of revenue within the scope of the guidance and the evaluation of applicable revenue contracts. Currently, based on our preliminary analyses, we do not expect the adoption of ASU 2014-09 to result in material differences from the Company's current revenue recognition policies; however, our analyses are not final. The Company recognizes revenue continuously over time as it satisfies its continuous obligation of granting access to its licensed intellectual properties. Revenue, depending on the contract, is recognized ratably over each contract year as the performance occurs based on the greater of the guaranteed minimum payments, sales-based payments, or performance based payments, with each contract year treated as separate from the other years.

2. Trademarks, Goodwill and Other Intangibles

Trademarks and other intangibles, net consist of the following:

($ in thousands)	Weighted-Average Amortization Period	September 30, 2017 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks (indefinite-lived)	n/a	$ 96,700	$ -	$ 96,700
Trademarks (definite-lived)	15 years	15,463	2,231	13,232
Licensing agreements	4 years	2,000	2,000	-
Non-compete agreement	7 years	562	221	341
Copyrights and other intellectual property	10 years	190	67	123
Total		**$ 114,915**	**$ 4,519**	**$ 110,396**

($ in thousands)	Weighted-Average Amortization Period	December 31, 2016 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks (indefinite-lived)	n/a	$ 96,676	$ -	$ 96,676
Trademarks (definite-lived)	15 years	15,463	1,459	14,004
Licensing agreements	4 years	2,000	2,000	-
Non-compete agreement	7 years	562	160	402
Copyrights and other intellectual property	10 years	190	52	138
Total		**$ 114,891**	**$ 3,671**	**$ 111,220**

Amortization expense for intangible assets was approximately $283,000 and $282,000 for the quarters ended September 30, 2017 (the “Current Quarter”) and September 30, 2016 (the “Prior Year Quarter”), respectively. Amortization expense for intangible assets for the nine months ended September 30, 2017 (“Current Nine Months”) and the nine months ended September 30, 2016 (the “Prior Year Nine Months”) was approximately $848,000 and $847,000, respectively.

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

The Company has $12.371 million of goodwill related to the 2011 acquisition of the Isaac Mizrahi business. There was no change in goodwill during the Current Nine Months.

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, H Halston, and C Wonder branded merchandise. QVC royalty revenue represents a significant portion of the Company’s total revenues. Net revenues from QVC totaled $6.32 million and $6.87 million for the Current Quarter and Prior Year Quarter, respectively, representing approximately 80% and 83% of the Company’s net revenues, respectively. Net revenues from QVC totaled $20.33 million and $21.82 million for the Current Nine Months and the Prior Year Nine Months, respectively, representing approximately 82% and 85% of the Company’s net revenues, respectively. As of September 30, 2017 and December 31, 2016, the Company had receivables from QVC of $6.45 million and $5.89 million, respectively, representing approximately 68% and 85% of the Company’s total receivables, respectively.

On April 28, 2017, the Company and QVC entered into an amendment to terminate the C Wonder QVC Agreement effective May 1, 2017 and commence a sell-off period. During the sell-off period, QVC remains obligated to pay royalties to the Company through January 31, 2018, and QVC retains exclusive rights with respect to C Wonder branded products for interactive television, excluding certain permitted international entities, through May 1, 2018.

4. Debt

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

($ in thousands)	September 30, 2017	December 31, 2016
Xcel Term Loan	$ 19,500	$ 25,250
Unamortized deferred finance costs related to term loan	(387)	(509)
IM Seller Note	2,201	3,627
Ripka Seller Notes	532	504
Contingent obligation - JR Seller	200	200
Contingent obligation - CW Seller	2,850	2,850
Total	24,896	31,922
Current portion (i)	4,559	6,427
Long-term debt	$ 20,337	$ 25,495

(i) The current portion of long-term debt as of September 30, 2017 consists of (a) $3.0 million related to the Xcel Term Loan, (b) $1.46 million related to the IM Seller Note, and (c) $100,000 related to the Ripka Earn-Out.

Xcel Term Loan

On February 26, 2016, Xcel and its wholly owned subsidiaries, IM Brands, LLC, JR Licensing, LLC, H Licensing, LLC, C Wonder Licensing, LLC, Xcel Design Group, LLC, IMNY Retail Management, LLC, and IMNY E-Store, USA, LLC (each a "Guarantor" and collectively, the "Guarantors"), as Guarantors, entered into an Amended and Restated Loan and Security Agreement (the "Loan Agreement") with Bank Hapoalim B.M. ("BHI"), as agent (the "Agent"), and the financial institutions party thereto as lenders (the "Lenders"). The Loan Agreement amended and restated the IM Term Loan, the JR Term Loan, and the H Term Loan. Pursuant to the Loan Agreement, Xcel assumed the obligations of each of IM Brands, LLC, JR Licensing, LLC, and H Licensing, LLC under the respective term loans with BHI in the aggregate principal amount of $27,875,000 (the loan under the Loan Agreement is referred to as the "Xcel Term Loan"). Management assessed and determined that this amendment represented a debt modification and, accordingly, no gain or loss was recorded.

On February 24, 2017, Xcel and BHI amended the terms of the Loan Agreement (the "Amended Loan Agreement"). Under this amendment, principal payments for the year ending December 31, 2017 were increased by a total of $1,000,000, principal payments for the year ending December 31, 2021 were decreased by $1,000,000, and the minimum EBITDA (as defined in the Amended Loan Agreement) requirement for the year ended December 31, 2016 was eliminated. There were no changes to the total principal balance, interest rate, maturity date, or other terms of the Loan Agreement. Management assessed and determined that this amendment represented a debt modification and, accordingly, no gain or loss was recorded.

On June 15, 2017, Xcel and BHI entered into a second amendment to the Amended Loan Agreement. Under this amendment, principal payments for the year ending December 31, 2017 were increased by a total of $750,000, principal payments for the year ending December 31, 2021 were decreased by $750,000, the minimum EBITDA (as defined in the Second Amendment to the Amended Loan Agreement) requirement for the year ending December 31, 2017 was changed from $9,000,000 to $7,000,000, and the minimum EBITDA requirements for the years ending December 31, 2018 and 2019 were changed from $9,000,000 to $8,000,000. There were no changes to the total principal balance, interest rate, maturity date, or other terms of the Loan Agreement. Management assessed and determined that this amendment represented a debt modification and, accordingly, no gain or loss was recorded. The current effective interest rate on the Amended Loan Agreement is equal to approximately 6.05%.

The Xcel Term Loan matures on January 1, 2021. Principal on the Xcel Term Loan is payable in quarterly installments on each of January 1, April 1, July 1 and October 1. As of September 30, 2017, the aggregate remaining scheduled annual principal payments under the Second Amendment to the Loan Agreement were as follows:

($ in thousands) **Year Ending December 31,**		**Amount of Principal Payment**
2017 (October 1 through December 31)	$	-
2018		4,000
2019		4,000
2020		4,000
2021		7,500
Total	$	19,500

Commencing with the fiscal year ending December 31, 2017, the Company is required to repay a portion of the Xcel Term Loan in an amount equal to 10% of the excess cash flow for the fiscal year; provided that no early termination fee shall be payable with respect to any such payment (the "Excess Cash Flow Principal 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 interest and principal and taxes paid or payable during such period, and (iii) all dividends declared and paid during such period to equity holders of any credit party treated as a disregarded entity for tax purposes. As of September 30, 2017, the estimated Excess Cash Flow Principal Payment provision of the Xcel Term Loan is not expected to result in any additional repayment during the year ending December 31, 2017.

Under the Amendment to the Loan Agreement, the Company has the right to prepay the Xcel Term Loan, provided that any prepayment of less than all of the outstanding balance shall be applied to the remaining amounts due in inverse order of maturity. If the Xcel Term Loan is prepaid on or prior to the third anniversary of the closing date (including as a result of an event of default), the Company shall pay an early termination fee equal to the principal amount outstanding under the Xcel Term Loan on the date of prepayment, multiplied by: (i) two percent (2.00%) if the Xcel Term Loan is prepaid on or after the closing date and on or before the second anniversary of the closing date; or (ii) one percent (1.00%) if the Xcel Term Loan is prepaid after the second anniversary of the closing date and on or before the third anniversary of the closing date.

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

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

- net worth (as defined in the Amended Loan Agreement) of at least $90,000,000 at the end of each fiscal quarter ending on June 30 and December 31 of each fiscal year;
- liquid assets of at least $5,000,000, until such time as the ratio of indebtedness to EBITDA (as defined in the Amended Loan Agreement) is less than 1.00 to 1.00 and, in which event, liquid assets must be at least $3,000,000;
- a fixed charge ratio of at least 1.20 to 1.00 for each fiscal quarter ended June 30 and December 31 for the twelve fiscal month period ending on such date;
- capital expenditures shall not exceed (i) $2,650,000 for the year ended December 31, 2016 and (ii) $700,000 for any fiscal year thereafter; and
- EBITDA (as defined in the Amended Loan Agreement) of not less than $7,000,000 for the fiscal year ending December 31, 2017, not less than $8,000,000 for the fiscal years ending December 31, 2018 and 2019, and not less of $9,000,000 for the following fiscal years.

The Company was in compliance with all applicable covenants as of September 30, 2017.

Interest on the Xcel Term Loan accrues at a fixed rate of 5.1% per annum and is payable on each day on which the scheduled principal payments are required to be made. For the Current Quarter and Prior Year Quarter, the Company incurred interest expense on its senior term loan debt with BHI of approximately $257,000 and $340,000, respectively. For the Current Nine Months and Prior Year Nine Months, the Company incurred interest expense on its senior term loan debt with BHI of approximately $852,000 and $1,003,000, respectively.

IM Seller Note

On September 29, 2011, as part of the consideration for the purchase of the Isaac Mizrahi Business, the Company issued to IM Ready-Made, LLC ("IM Ready") a promissory note in the principal amount of $7,377,000 (as amended, the "IM Seller Note"). The stated interest rate of the IM Seller Note was 0.25% per annum. Management determined that this rate was below the Company's expected borrowing rate, which was then estimated at 9.25% per annum. Therefore, the Company discounted the IM Seller Note by $1,740,000 using a 9.0% imputed annual interest rate, resulting in an initial value of $5,637,000. In addition, on September 29, 2011, the Company prepaid $123,000 of interest on the IM Seller Note. The imputed interest amount was amortized over the term of the IM Seller Note and recorded as other interest and finance expense on the Company's condensed consolidated statements of operations.

On December 24, 2013, the IM Seller Note was amended to (1) revise the maturity date to September 30, 2016, (2) revise the date to which the maturity date may be extended to September 30, 2018, (3) provide the Company with a prepayment right with its common stock, subject to remitting in cash certain required cash payments and a minimum common stock price of $4.50 per share, and (4) require interim scheduled payments.

On September 19, 2016, the IM Seller Note was further amended and restated to (1) revise the maturity date to March 31, 2019, (2) require six semi-annual principal and interest installment payments of $750,000, commencing on September 30, 2016 and ending on March 31, 2019, (3) revise the stated interest rate to 2.236% per annum, (4) allow for optional prepayments at any time at the Company's discretion without premium or penalty, and (5) require that all payments of principal and interest be made in cash. Management assessed and determined that this amendment represented a debt modification and, accordingly, no gain or loss was recorded.

As of September 30, 2017, the aggregate remaining annual principal payments under the IM Seller Note were as follows:

($ in thousands) Year Ending December 31,		Amount of Principal Payment
2017 (October 1 through December 31)	$	-
2018		1,459
2019		742
Total	$	2,201

For the Current Quarter, the Company incurred interest expense of approximately $16,000 under the IM Seller Note. For the Prior Year Quarter, the Company incurred interest expense of approximately $70,000, which consisted solely of amortization of the discount on the IM Seller Note. For the Current Nine Months, the Company incurred interest expense of approximately $53,000 under the IM Seller Note. For the Prior Year Nine Months, the Company incurred interest expense of approximately $210,000 under the IM Seller Note, which consisted solely of amortization of the discount on the IM Seller Note.

Ripka Seller Notes

As of September 30, 2017, the remaining discounted balance, non-interest bearing note relating to the acquisition of the Ripka Brand (the "Ripka Seller Notes") was approximately $532,000. An aggregate $600,000 principal amount of the Ripka Seller Notes is due at maturity (March 31, 2019).

For the Current Quarter and Prior Year Quarter, the Company incurred interest expense of approximately $10,000 and $9,000, respectively, under the Ripka Seller Notes, which consisted solely of amortization of the discount on the Ripka Seller Notes. For the Current Nine Months and the Prior Year Nine Months, the Company incurred interest expense of approximately $28,000 and $26,000, respectively, under the Ripka Seller Notes, which consists solely of amortization of the discount on the Ripka Seller Notes.

Contingent Obligation – JR Seller (Ripka Earn-Out)

In connection with the purchase of the Ripka Brand, the Company agreed to pay the sellers of the Ripka Brand additional consideration of up to $5 million in aggregate (the "Ripka Earn-Out"), payable in cash or shares of the Company's common stock based on the fair market value of the Company's common stock at the time of payment, and with a floor of $7.00 per share, based on the Ripka Brand achieving in excess of $1 million of net royalty income during each of the 12-month periods ending on October 1, 2016, 2017 and 2018, less the sum of all earn-out payments for any prior earn-out period. Net royalty income does not include any revenues generated by interactive television sales or any revenue accelerated as a result of a termination of any license agreement. The Ripka Earn-Out of $3.78 million was recorded based on the difference between the fair value of the acquired assets of the Ripka Brand at the acquisition date and the total consideration paid.

On December 21, 2016, the Company entered into an agreement with the sellers of the Ripka Brand which amended the terms of the Ripka Earn-Out, such that the maximum amount of earn-out consideration was reduced to $375,000, of which $175,000 was payable in cash upon execution of the amendment, and $100,000 is payable in cash on each of May 15, 2018 and 2019. The payment of the remaining future payments of $200,000 under the earn-out is contingent upon the Ripka Brand achieving at least $6,000,000 of net royalty income from QVC during each of the 12-month periods ending on March 31, 2018 and 2019. The remaining expected value (which approximates fair value) of the Ripka Earn-Out of $0.20 million is recorded as long-term debt in the accompanying condensed consolidated balance sheets as of September 30, 2017, of which $0.10 million is presented in the current portion of long-term debt. As of December 31, 2016, the expected value of the Ripka Earn-Out was $0.20 million, recorded as long-term debt.

Contingent Obligations – CW Seller (C Wonder Earn-Out)

In connection with the purchase of the C Wonder Brand, the Company agreed to pay the seller additional consideration (the "C Wonder Earn-Out"), which would be payable, if at all, in cash or shares of common stock of the Company, at the Company's sole discretion, after June 30, 2019, with a value based on the royalties related directly to the assets the Company acquired pursuant to the purchase agreement. The value of the earn-out shall be calculated as the positive amount, if any, of (i) two times (A) the maximum net royalties as calculated for any single twelve month period commencing on July 1 and ending on June 30 between the closing date and June 30, 2019 (each, a "Royalty Target Year") less (B) $4,000,000, plus (ii) two times the maximum royalty determined based on a percentage of retail and wholesale sales of C Wonder branded products by the Company as calculated for any single Royalty Target Year. The C Wonder Earn-Out of $2.85 million is recorded in the accompanying condensed consolidated balance sheets based on the probability of the C Wonder Brand achieving certain net royalty income targets within the earn-out periods and then calculating the present value of the weighted average payment amount. In accordance with Accounting Standards Codification Topic 480, the C Wonder Earn-Out obligation is classified as a liability in the accompanying condensed consolidated balance sheets because of the variable number of shares payable under the agreement.

As of September 30, 2017 and December 31, 2016, total contingent obligations were $3.05 million.

5. 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 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.

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).

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

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.

On January 1, 2017, the Company granted options to purchase an aggregate of 150,000 shares of common stock to a certain key employee. The exercise price of the options is $5.50 per share, and one-third of the options will vest on each of January 1, 2018, January 1, 2019, and January 1, 2020.

On January 24, 2017, the Company granted options to purchase an aggregate of 500,000 shares of common stock to a certain executive. The exercise price of the options is $5.00 per share, and one-fifth of the options will vest on each of January 1, 2018, January 1, 2019, January 1, 2020, January 1, 2021, and January 1, 2022.

On March 31, 2017, the Company granted options to purchase an aggregate of 150,000 shares of common stock to non-management directors. The exercise price of the options is $2.70 per share, and 50% of the options will vest on each of April 1, 2018 and March 31, 2019.

On May 31, 2017, the Company granted options to purchase an aggregate of 15,000 shares of common stock to a certain key employee. The exercise price of the options is $2.60 per share, and one-third of the options will vest on each of May 31, 2018, May 31, 2019, and May 31, 2020.

On August 30, 2017, the Company granted options to purchase an aggregate of 20,000 shares of common stock to a certain key employee. The exercise price of the options is $3.55 per share, and one-half of the options will vest on each of August 30, 2018, and August 30, 2019.

The fair values of the options granted during the Current Nine Months were estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Expected Volatility	33.69 – 35.20%
Expected Dividend Yield	0%
Expected Life (Term)	3.25 – 5.42years
Risk-Free Interest Rate	1.48 – 2.02%

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, 2017	2,436,000	$ 5.98	4.38	$ -
Granted	835,000	4.60		
Canceled	-	-		
Exercised	-	-		
Expired/Forfeited	(135,666)	5.03		
Outstanding at September 30, 2017, and expected to vest	3,135,334	$ 5.66	4.31	$ -
Exercisable at September 30, 2017	785,503	$ 6.22	3.38	$ -

Compensation expense related to stock options for the Current Quarter and the Prior Year Quarter was approximately $313,000 and $296,000, respectively. Compensation expense related to stock options for the Current Nine Months and the Prior Year Nine Months was approximately $887,000 and $644,000, respectively. Total unrecognized compensation expense related to unvested stock options at September 30, 2017 amounts to approximately $2,210,000 and is expected to be recognized over a weighted average period of 2.30 years.

The following table summarizes the Company's stock option activity for non-vested options for the Current Nine Months:

	Number of Options	Weighted Average Grant Date Fair Value
Balance at January 1, 2017	2,294,667	$ 1.39
Granted	835,000	1.08
Vested	(682,837)	1.49
Forfeited or Canceled	(96,999)	1.40
Balance at September 30, 2017	2,349,831	$ 1.32

Warrants

Warrants 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 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, 2017	1,966,743	$ 6.76	2.81	$ -
Granted	-	-		
Canceled	-	-		
Exercised	-	-		
Expired/Forfeited	(75,000)	(5.50)		
Outstanding and exercisable at September 30, 2017	1,891,743	$ 6.81	2.17	$ -

No compensation expense related to warrants was recognized in the Current Nine Months or Prior Year Nine Months.

Restricted Stock

On January 31, 2017, the Company issued 50,000 shares of restricted stock to a consulting firm whose controlling shareholder is a director of the Company. Of the 50,000 shares of restricted stock granted, 25,000 shares vested immediately and 25,000 shares shall vest on January 31, 2018. On June 18, 2017, the Company issued an additional 28,334 shares of restricted stock to the same consulting firm, of which 14,167 shares vested immediately on the same day and 14,167 shares shall vest on January 31, 2018. See Note 8, Related Party Transactions, for additional information.

On March 31, 2017, the Company issued to non-management directors an aggregate of 48,000 shares of restricted stock. The shares of restricted stock will vest evenly over two years, whereby 50% shall vest on March 31, 2018 and 50% shall vest on March 31, 2019.

Notwithstanding the foregoing, each executive and director grantee may extend the first anniversary of all or a portion of the restricted stock by six months and, thereafter one or more times may further extend such date with respect to all or a portion of the restricted stock until the next following date six months or twelve months hence, by providing written notice of such election to extend such date with respect to all or a portion of the restricted stock prior to such date.

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, 2017	3,171,685	$ 5.12
Granted	126,334	3.18
Canceled	-	-
Vested	(831,931)	4.28
Expired/Forfeited	(1,000)	9.00
Outstanding at September 30, 2017	2,465,088	$ 5.30

Compensation expense related to restricted stock for the Current Quarter and Prior Year Quarter was approximately $377,000 and $793,000, respectively. Compensation expense related to restricted stock for the Current Nine Months and Prior Year Nine Months was approximately $1,609,000 and $3,110,000, respectively. Total unrecognized compensation expense related to unvested restricted stock grants at September 30, 2017 amounts to approximately $964,000 and is expected to be recognized over a weighted average period of 1.46 years.

Shares Available Under the Company's 2011 Equity Incentive Plan

At September 30, 2017, there were 5,604,688 shares of common stock available for issuance under the Plan.

Shares Reserved for Issuance

At September 30, 2017, there were 10,631,765 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.

6. 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,	
	2017	**2016**	**2017**	**2016**
Basic	18,470,977	18,692,775	18,530,963	18,608,034
Effect of exercise of warrants	364,340	369,288	364,247	-
Effect of exercise of stock options	37,436	5,948	1,208	-
Diluted	18,872,753	19,068,011	18,896,418	18,608,034

As a result of the net loss presented for the Prior Year Nine Months, the Company calculated diluted earnings per share using basic weighted-average shares outstanding for that period, as utilizing diluted shares would be anti-dilutive to loss per share.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Stock options and warrants	4,465,584	3,338,000	4,485,584	4,743,743

7. Income Tax

The effective income tax rate for the Current Quarter and the Prior Year Quarter was approximately 73% and 68%, respectively, resulting in an income tax provision of $691,000 and $256,000, respectively.

The effective income tax rate for the Current Nine Months and the Prior Year Nine Months was approximately 96% and 15%, respectively, resulting in an income tax provision (benefit) of $1,704,000 and $(3,000), respectively.

In the Current Quarter and Current Nine Months, the effective tax rate was primarily attributable to recurring permanent differences. Based on the amount of income before income taxes compared to the recurring permanent differences, the effective rate increased by approximately 34% for the Current Quarter and by approximately 33% for the Current Nine Months. The effective tax rate was also impacted by the tax impact from the vesting of restricted shares of common stock. The excess tax deficiencies were treated as a discrete item for tax as required by ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This item increased the effective rate by 5% for the Current Quarter and 30% for the Current Nine Months, respectively.

During the Prior Year Quarter and the Prior Year Nine Months, the respective effective tax rates were attributable to recurring permanent differences. Based on the amount of income/(loss) before income taxes compared to the permanent differences, the effective rate increased by 27% and decreased by 26% for the Prior Year Quarter and the Prior Year Nine Months, respectively.

8. Related Party Transactions

Benjamin Malka

Concurrent with the acquisition of the H Halston Brand on December 22, 2014, the Company and The H Company IP, LLC (“HIP”) entered into a license agreement (the “HIP License Agreement”), which was subsequently amended September 1, 2015. Benjamin Malka, a director of the Company, is a 25% equity holder of HIP’s parent company, House of Halston LLC (“HOH”), and Chief Executive Officer of HOH. The HIP license agreement provides for royalty payments including guaranteed minimum royalties to be paid to the Company during the initial term that expires on December 31, 2019.

On September 1, 2015, the Company entered into a license agreement with Lord and Taylor, LLC (the “L&T License”) and simultaneously amended the HIP License Agreement eliminating HIP’s minimum guaranteed royalty obligations, provided the L&T License is in effect. In addition, the Company entered into a sublicense agreement with HIP (the “HIP Sublicense Agreement”), obligating the Company to pay HIP a fee on an annual basis the greater of (i) 50% of royalties received under the L&T License from H Halston products or (ii) guaranteed minimum royalties. Provided that Lord & Taylor, LLC is paying the Company at least $1,000,000 per quarter under the L&T License, the remaining contractually required guaranteed minimum royalties are equal to $0.75 million, $0.75 million, $1.5 million, and $1.75 million for the twelve months ending January 31, 2018, 2019, 2020, and 2021, respectively.

Cumulative fees paid to HIP by the Company or on the Company’s behalf through September 30, 2017 were $0.19 million.

The Company recorded $0 and $28,000 of HIP fees (as a reduction to net revenue) for the Current Quarter and the Prior Year Quarter, respectively. The Company recorded approximately $9,000 and $91,000 of HIP fees (as a reduction to net revenue) for the Current Nine Months and the Prior Year Nine Months, respectively. In September 2017, the Company had a prepaid balance of $0.2 million to HIP to be applied against future fees due to HIP, which is recorded as a prepaid in current assets as of September 30, 2017.

HOH has also entered into an arrangement with another licensee of the Company to supply Halston-branded apparel for the subsequent sale of such product to end customers. Under the Company’s separate pre-existing licensing agreements in place with the aforementioned other licensee and with HIP as described above, the Company earns royalties on the sales of such Halston-branded products.

Edward Jones, III

During the Current Nine Months and Prior Year Nine Months, Edward Jones, III, a director of the Company, performed consulting services for and received compensation from a certain licensee of the Company. Under the terms of the Company’s agreement with this certain licensee, the licensee may supply the Company’s branded products to the Company’s other licensees. Under the terms of the Company’s separate pre-existing agreements with other licensees, the Company would earn royalties on the sales of such branded products sold to end customers.

On January 31, 2017, the Company entered into a two-year consulting agreement (the “JTI Consulting Agreement”) with Jones Texas, Inc. (“JTI”), whose controlling shareholder is Edward Jones, III, a director of the Company, pursuant to which JTI shall cause Mr. Jones to provide consulting services in connection with the Company’s fast-to-market production platform fashion program and other projects. Pursuant to the JTI Consulting Agreement, the Company issued an aggregate of 50,000 shares of common stock to JTI, of which 25,000 shares vested immediately, and 25,000 shares shall vest on January 31, 2018; however, up to 25,000 shares of common stock are subject to forfeiture if the Company’s business with suppliers of women’s apparel is materially diminished, as defined in the JTI Consulting Agreement. On June 18, 2017, based upon meeting certain performance targets relating to the Company’s fast-to-market production platform business as provided in the January 31, 2017 JTI Consulting Agreement, the Company issued an additional 28,334 shares of common stock to JTI, of which 14,167 shares vested immediately, resulting in the recognition of compensation expense of $79,000, and the remaining 14,167 shares shall vest on January 31, 2018. The Company also paid JTI a cash consulting fee of $75,000 on January 30, 2017 and an additional cash consulting fee of $75,000 on April 28, 2017 relating to other projects. As of September 30, 2017, there was no additional compensation owed to JTI.

9. Facility Exit Costs

In June 2016, the Company relocated its corporate offices and operations from 475 Tenth Avenue in New York City to 1333 Broadway in New York City. In connection with the exit from its former office location, the Company recognized a liability at the exit and cease-use date for the remaining lease obligation associated with 475 Tenth Avenue, based on the remaining contractual lease payments less estimated sublease rentals, discounted to present value using a credit-adjusted risk-free rate. The Company recorded a net non-cash charge of approximately $648,000 associated with the recognition of this liability in the second quarter of 2016.

The remaining balance of the exit cost liability related to the former office space was approximately $633,000 as of September 30, 2017, of which $92,000 was recorded in other current liabilities and $541,000 was recorded in other long-term liabilities in the accompanying unaudited condensed consolidated balance sheets. The balance of this liability will be paid out over a period of approximately 4.5 years, through February 2022.

A summary of the activity related to the exit cost liability for the Current Nine Months is as follows:

($ in thousands)		
Balance as of January 1, 2017	$	783
Cash payments, net		(140)
Adjustment to liability (revision to estimated cash flows)		(25)
Accretion		15
Balance as of September 30, 2017	$	633

10. Subsequent Events

On October 23, 2017, the Company further amended its Amended and Restated Certificate of Incorporation to increase the number of shares of common stock which the Company has authority to increase from 35,000,000 to 50,000,000 and, consequently, to increase the total number of shares of all classes of capital stock which the Company has authority to increase from 36,000,000 to 51,00,000.

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, 2016. 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, licensing, marketing, 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. Currently, our brand portfolio consists of the Isaac Mizrahi, Judith Ripka, H Halston, C Wonder, and Highline Collective brands. We also managed and designed the Liz Claiborne New York brand (“LCNY brand”) through July 31, 2016.

Our objective is to build a diversified portfolio of lifestyle consumer brands through organic growth and the strategic acquisition of new brands. To achieve growth under our brands, we are focused on two primary licensing and design activities:

- licensing our brands for distribution through interactive television (i.e. QVC, The Shopping Channel); and
- licensing our brands to manufacturers and retailers for promotion and distribution through e-commerce, social commerce, and traditional brick-and-mortar retail channels (wholesale and department store business). Our wholesale and department store business includes our fast-to-market production platform, which is our proprietary production oversight solution for our retail partners.

We believe that Xcel offers a unique value proposition to its licensees and customers for the following reasons:

- our management team, including our officers’ and directors’ historical track records and relationships within the industry;

- our brand management platform, which has a strong focus on design, production oversight, marketing, and social media;
- our operating strategy of licensing brands with significant media presence and driving sales through our ubiquitous-channel retail sales strategy across interactive television, internet, and traditional retail channels; and
- our ability to provide certain retail licensees with vertical production capabilities.

We license our brands to third parties, provide certain design, production, and marketing services, and generate licensing, design, and service fee revenues through contractual arrangements with manufacturers and retailers. This includes licensing our own brands for promotion and distribution through a ubiquitous-channel retail sales strategy, which includes distribution through interactive television, the internet, and traditional brick-and-mortar retail channels. We believe that this 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 distribution channels.

Our vision is intended to reimagine shopping, entertainment, and social as one. By leveraging digital and social media content across all distribution channels, we seek to drive customer (follower) engagement and generate retail sales across our brands. Our strong relationships with leading retailers and interactive television companies enable us to reach consumers in over 360 million homes worldwide.

We believe our "virtual vertical" production platform provides significant competitive advantages compared with traditional wholesale apparel companies that design, manufacture, and distribute products. We remain focused on our core competencies of licensing, production, design, marketing, and brand development, while outsourcing manufacturing and the related inventory ownership to best-in-class partners. We believe that we offer 360 degrees of service for a comprehensive solution for our retail partners that addresses many of the challenges facing the retail industry today. We believe our platform is highly scalable due to our business model's low overhead and working capital requirements, coupled with minimum guaranteed income levels through our multi-year licensing contracts. Additionally, we believe we can quickly integrate additional brands into our platform leveraging our design, production oversight, and marketing capabilities and retail and licensee relationships.

Summary of Operating Results

The three months ended September 30, 2017 (the "Current Quarter") compared with the three months ended September 30, 2016 (the "Prior Year Quarter")

Net Revenues

Current Quarter net revenues decreased approximately $0.43 million to $7.89 million from $8.32 million in the Prior Year Quarter. This decrease was primarily attributable to the combination of (i) lower revenues from our interactive television agreements of approximately $0.36 million primarily driven by the termination and transition of the C Wonder Brand from QVC, (ii) lower revenues of approximately $0.19 million associated with the management and design of the LCNY brand (for which our contract ended in July 2016) and (iii) lower revenues of approximately $0.17 million from wholesale net revenues associated with our jewelry business. These decreases were offset by higher net revenues from our wholesale department store business of approximately $0.29 million, primarily driven by an increase in the number of retail stores our brands are sold in, including the launch at Dillard's this year, and expanding into more product categories for our fast-to-market production platform in our department store business.

Operating Costs and Expenses

Operating costs and expenses decreased $0.85 million to $6.63 million for the Current Quarter from $7.48 million in the Prior Year Quarter. This decrease was primarily attributable to (i) a decrease in other design and marketing costs of approximately $0.49 million primarily attributable to start-up expenses in the Prior Year Quarter for our fast-to-market production platform in our department store business, and (ii) a net decrease in total compensation, including stock-based compensation, of approximately $0.37 million, as the Company shifted from awards of restricted stock to stock options.

Interest and Finance Expense

Interest and finance expense for the Current Quarter decreased by approximately $0.15 million to $0.31 million, compared with $0.46 million in the Prior Year Quarter. This decrease was attributable to: (i) lower interest expense of $0.08 million on our term debt due to a lower principal balance, and (ii) lower interest recognized on the IM Seller Note of $0.07 million (attributable to a reduced imputed rate from 9.0% in the Prior Year Quarter to an interest rate of 2.2%) resulting from the amendment of the IM Seller Note in September 2016.

Income Tax Provision (Benefit)
The effective income tax rate for the Current Quarter was approximately 73% resulting in a $0.69 million income tax provision. During the Current Quarter, the effective tax rate was primarily attributable to recurring permanent differences. Based on the amount of income before income taxes compared to the recurring permanent differences, the effective rate increased by approximately 34%. The effective tax rate was also 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 5%.

The effective income tax rate for the Prior Year Quarter was approximately 68% which resulted in a $0.26 million income tax provision. During the Prior Year Quarter, the effective tax rate was attributable to recurring permanent differences. Based on the amount of income before income taxes compared to the permanent differences, the effective rate increased by 27%.

Net Income
We had net income of $0.25 million for the Current Quarter, compared to net income of $0.12 million for the Prior Year Quarter.

Non-GAAP Net Income, Non-GAAP Diluted EPS, and Adjusted EBITDA
We had non-GAAP net income of $1.64 million, or $0.09 per diluted share ("non-GAAP diluted EPS") for the Current Quarter, compared with non-GAAP net income of $1.54 million, or non-GAAP diluted EPS of $0.08 for the Prior Year Quarter. Non-GAAP net income is a non-GAAP unaudited term, which we define as net income (loss), exclusive of stock-based compensation, non-cash interest expense from discounted debt related to acquired assets, loss on extinguishment of debt, gain on the reduction of contingent obligations, non-recurring facility exit charges, certain discrete tax items related to vesting or exercise of stock-based awards, and net income or loss from discontinued operations. 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 $2.36 million for the Current Quarter, compared with Adjusted EBITDA of $2.34 million for the Prior Year Quarter. Adjusted EBITDA is a non-GAAP unaudited measure, which we define as net income (loss) before stock-based compensation, interest expense and other financing costs, loss on extinguishment of debt, gain on the reduction of contingent obligations, income taxes, other state and local franchise taxes, depreciation and amortization, non-recurring facility exit charges, and net income or loss from discontinued operations.

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 they provide supplemental information to assist investors in evaluating the Company's financial results.

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 (loss) and other GAAP results, and not rely on any single financial measure.

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

	Three Months Ended September 30,	
($ in thousands)	**2017**	**2016**
Net income	$ 252	$ 118
Non-cash interest and finance expense	9	78
Stock-based compensation	690	1,089
Deferred income tax provision	691	256
Non-GAAP net income	$ 1,642	$ 1,541

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

	Three Months Ended September 30,	
	2017	**2016**
Diluted earnings per share	$ 0.01	$ 0.01
Non-cash interest and finance expense	0.00	0.00
Stock-based compensation	0.04	0.06
Deferred income tax provision	0.04	0.01
Non-GAAP diluted EPS	$ 0.09	$ 0.08
Non-GAAP weighted average diluted shares	18,872,753	19,068,011

The following table is a reconciliation of basic weighted average shares outstanding (presented in accordance with GAAP) to non-GAAP weighted average diluted shares:

	Three Months Ended September 30,	
	2017	**2016**
Basic weighted average shares	18,470,977	18,692,775
Effect of exercising warrants	364,340	369,288
Effect of exercising stock options	37,436	5,948
Non-GAAP weighted average diluted shares	18,872,753	19,068,011

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

	Three Months Ended September 30,	
($ in thousands)	**2017**	**2016**
Net income	$ 252	$ 118
Depreciation and amortization	389	387
Interest and finance expense	314	462
Income tax provision	691	256
State and local franchise taxes	25	26
Stock-based compensation	690	1,089
Adjusted EBITDA	$ 2,361	$ 2,338

The nine months ended September 30, 2017 (the "Current Nine Months") compared with the nine months ended September 30, 2016 (the "Prior Year Nine Months")

Net Revenues
Current Nine Months net revenues decreased approximately $1.10 million to $24.69 million from $25.79 million in the Prior Year Nine Months. This decrease was primarily due to (i) lower revenues of approximately $1.23 million associated with the termination and transition of the C Wonder Brand from QVC and (ii) lower revenues of approximately $1.10 million associated with the management and design of the LCNY brand (for which our contract ended in July 2016). These decreases were partially offset by (i) higher net revenues from our ongoing interactive television business of $0.85 and (ii) higher net revenues from our wholesale department store business of approximately $0.42 million. The increase in our wholesale department store business was primarily driven by an increase in the number of retail stores our brands are sold in, including the launch at Dillard's this year, and expanding into more product categories for our fast-to-market production platform in our department store business.

Operating Costs and Expenses
Operating costs and expenses were $21.88 million for the Current Nine Months, compared with $24.39 million for the Prior Year Nine Months. The decrease of approximately $2.51 million was primarily related to i) a decrease in other selling, general and administrative expenses of approximately $0.94 million, primarily driven by lower rent and rent-related expenses, which in the Prior Year Nine Months were also affected by non-recurring charges incurred in connection with the exit from our former leased office facilities, (ii) a $0.93 million net decrease in total compensation, including stock-based compensation, and (iii) a decrease in other design and marketing costs of approximately $0.64 million primarily attributable to start-up expenses in the Prior Year Nine Months for our fast-to-market production platform in our department store business.

Interest and Finance Expense
Interest and finance expense for the Current Nine Months decreased by approximately $0.39 million to $1.04 million, compared with $1.43 million in the Prior Year Nine Months. This decrease was attributable primarily to: (i) lower interest recognized on the IM Seller Note of $0.21 million (attributable to a reduced imputed rate from 9.0% in the Prior Year Nine Months to an interest rate of 2.2%) resulting from the amendment of the IM Seller Note in September 2016, (ii) lower interest expense of $0.15 million on our term debt due to a lower principal balance, and (iii) lower loan modification fees of $0.05 million compared to the Prior Year Nine Months in connection with the amendments to our term debt.

Income Tax Provision (Benefit)
The effective income tax rate for the Current Nine Months was approximately 96% resulting in a $1.70 million income tax provision. During the Current Nine Months, the effective tax rate was primarily attributable to recurring permanent differences. Based on the amount of income before income taxes compared to the recurring permanent differences, the effective rate increased by approximately 33%. The effective tax rate was also 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 30%.

The effective income tax rate for the Prior Year Nine Months was approximately 15% resulting in a $0.003 million income tax benefit. During the Prior Year Nine Months, the effective tax rate was attributable to recurring permanent differences. Based on the amount of loss before income taxes compared to the permanent differences, the effective rate decreased by 26%.

Net Income (Loss)
The Company had net income of $0.07 million for the Current Nine Months, compared with net loss of $0.02 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 $4.29 million, or $0.22 per diluted share for the Current Nine Months, compared with non-GAAP net income of $4.64 million, or non-GAAP diluted EPS of $0.24 for the Prior Year Nine Months. We had Adjusted EBITDA of $6.56 million for the Current Nine Months, compared with Adjusted EBITDA of $7.08 million for the Prior Year Nine Months.

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

	Nine Months Ended September 30,	
($ in thousands)	**2017**	**2016**
Net income (loss)	$ 66	$ (17)
Non-cash interest and finance expense	28	236
Stock-based compensation	2,496	3,754
Non-recurring facility exit charges	-	670
Deferred income tax provision (benefit)	1,704	(3)
Non-GAAP net income	$ 4,294	$ 4,640

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

	Nine Months Ended September 30,	
	2017	**2016**
Diluted earnings (loss) per share	$ 0.00	$ (0.00)
Non-cash interest and finance expense	0.00	0.01
Stock-based compensation	0.13	0.20
Non-recurring facility exit charges	-	0.03
Deferred income tax provision (benefit)	0.09	(0.00)
Non-GAAP diluted EPS	$ 0.22	$ 0.24
Non-GAAP weighted average diluted shares	18,896,418	19,071,332

The following table is a reconciliation of basic weighted average shares outstanding (presented in accordance with GAAP) to non-GAAP weighted average diluted shares:

	Nine Months Ended September 30,	
	2017	**2016**
Basic weighted average shares	18,530,963	18,608,034
Effect of exercising warrants	364,247	435,298
Effect of exercising stock options	1,208	28,000
Non-GAAP weighted average diluted shares	18,896,418	19,071,332

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

	Nine Months Ended September 30,	
($ in thousands)	**2017**	**2016**
Net income (loss)	$ 66	$ (17)
Depreciation and amortization	1,173	1,172
Interest and finance expense	1,040	1,427
Income tax provision (benefit)	1,704	(3)
State and local franchise taxes	81	75
Stock-based compensation	2,496	3,754
Non-recurring facility exit charges	-	670
Adjusted EBITDA	$ 6,560	$ 7,078

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. At September 30, 2017 and December 31, 2016, our cash and cash equivalents were $8.27 million and $14.13 million, respectively.

Restricted cash at September 30, 2017 and December 31, 2016 consisted of (i) $1.11 million of cash deposited with Bank Hapoalim B.M. ("BHI") as collateral for an irrevocable standby letter of credit associated with the lease of our current corporate office and operating facilities at 1333 Broadway, New York City, and (ii) $0.40 million of cash held as a security deposit for the sublease of our former corporate offices at 475 Tenth Avenue, New York City by us to a third-party subtenant.

We expect that existing cash and operating cash flows will be adequate to meet our operating needs, debt service obligations (including debt service under the Amendment to the Loan Agreement), and capital expenditure needs, for at least the twelve months subsequent to the filing date of this Quarterly Report on Form 10-Q. We front-loaded our 2017 Term Loan principal payments whereby we paid down $5.75 million in the Current Nine Months, with no other payments due during the remainder of this year.

We are dependent on our licensees for substantially all of our revenues, and there is no assurance that the licensees will perform as projected. Our business operating model does not require significant capital expenditures.

Our contingent obligation related to the C Wonder Brand (see Note 4, Debt in the Unaudited Condensed Consolidated Financial Statements) is payable in stock or cash, at the Company's discretion. Payment of this obligation in stock would not affect our liquidity.

Changes in Working Capital

Our working capital (current assets less current liabilities) was $11.13 million and $11.53 million as of September 30, 2017, and December 31, 2016, respectively. 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 $2.33 million in the Current Nine Months, compared with net cash provided by operating activities of approximately $6.77 million in the Prior Year Nine Months.

The Current Nine Months cash provided by operating activities was primarily attributable to the combination of net income of $0.07 million and non-cash expenses of approximately $5.54 million, partially offset by the net change in operating assets and liabilities of approximately $(3.28) million. Non-cash expenses mainly consisted of $2.50 million of stock-based compensation, $1.70 million of deferred income tax provision, $1.17 million of depreciation and amortization, and $0.17 million of amortization of debt discount and deferred finance costs. The net change in operating assets and liabilities includes a net increase in accounts receivable of $2.55 million, a decrease in accounts payable, accrued expenses and other current liabilities of $1.24 million, primarily attributable to bonus payouts and overall timing of payments, and an increase in other liabilities of $0.46 million primarily due to deferred rent related to the lease of our corporate office and operations facility.

The Prior Year Nine Months' cash provided by operating activities was due to the combination of a net loss of $(0.02) million, non-cash expenses of $5.95 million, and the net change in operating assets and liabilities of $0.84 million. Non-cash expenses mainly consisted of $3.75 million of stock-based compensation, $1.17 million of depreciation and amortization, $0.38 million of amortization of debt discount and deferred finance costs, and a non-cash charge of $0.65 million related to the exit from our former leased office facilities. The net change in operating assets and liabilities included an increase in accounts payable, accrued expenses and other current liabilities of $1.31 million, largely due to withholding taxes payable related to shares surrendered for taxes on vested stock awards; and an increase in other liabilities of $1.13 million related to the lease of our new corporate offices and operations facility, and the sublease of our former offices; partially offset by an increase in accounts receivable of $1.21 million, primarily attributable to the increase in revenues.

Investing Activities

Net cash used in investing activities for the Current Nine Months was approximately $0.19 million, compared with approximately $1.94 million in the Prior Year Nine months. Cash used in investing activities for both the Current Nine Months and Prior Year Nine Months was primarily attributable to capital expenditures, which were higher in the Prior Year Nine Months due to the build-out of our current corporate offices and operations facility (which we relocated to in June 2016).

Financing Activities

Net cash used in financing activities for the Current Nine Months was approximately $8.00 million, primarily attributable to payments on our senior term debt obligation of $5.75 million, payment on our IM Seller Note obligation of $1.43 million, and shares repurchased related to vested restricted stock in exchange for withholding taxes of $0.81 million.

Net cash used in financing activities for the Prior Year Nine Months was approximately $6.13 million, primarily attributable to payments on our senior term debt obligations of $3.13 million, payment on our IM Seller Note obligation of $1.50 million, shares repurchased related to vested restricted stock in exchange for withholding taxes of $1.21 million, payment of the QVC Earn-Out obligation of $0.25 million, and payment of deferred finance costs of $0.07 million.

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, H Halston brand, and C Wonder brand have a core business in fashion apparel and accessories. The Ripka brand historically has been focused on fine jewelry, which we believe helps diversify our industry focus while at the same time complements, expands on, and grows our overall business relationship with QVC.

In May 2017, we entered into a mutual agreement with QVC to terminate our interactive television license agreement for the C Wonder brand, under which QVC will remain obligated to pay royalties to us through January 2018, and QVC will retain exclusive rights with respect to C Wonder branded products for interactive television, excluding certain permitted international entities, through May 2018. We are pursuing new distribution channels and licensing partners, and intend to enter into new contractual agreements for the C Wonder brand.

In April 2016, we brought the IMNYC Isaac Mizrahi, H Halston, and Highline Collective brands to Lord & Taylor and Hudson's Bay department stores through our fast-to-market production platform, "virtual vertical". We launched the H Halston brand at Dillard's department stores through our fast-to-market production platform in March 2017, and plan to launch certain products under our IMNYC Isaac brand at Dillard's retail stores in September. We also intend to seek new opportunities, including expansion through interactive television, our "virtual vertical" production platform, additional domestic and international licensing arrangements, and acquiring additional brands.

During this year, we have made great progress in planning and implementing our integrated technology platform which will position us with the most advanced technology-based design and production platform that completely digitizes design, merchandising, and production supply lines. These advancements strategically position us to take advantage of solid growth opportunities ahead as an industry leader supplying solutions for many of today's retail challenges.

Our success, however, will still remain largely dependent on our ability to build and maintain our brands' awareness and contract with and retain key licensees, as well as our licensees' ability to accurately predict upcoming fashion and design trends within their respective customer bases and fulfill the product requirements of their particular retail channels within the global marketplace. Unanticipated changes in consumer fashion preferences and purchasing patterns, slowdowns in the U.S. economy, changes in the prices of supplies, consolidation of retail establishments, and other factors noted in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the SEC could adversely affect our licensees' ability to meet and/or exceed their contractual commitments to us, and thereby adversely affect our future operating results.

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, 2016, filed with the SEC on March 24, 2017, for a discussion of our critical accounting policies. During the Nine months ended September 30, 2017, there were no material changes to these 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, 2017, 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, 2017 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, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

We operate in a highly competitive industry that involves numerous known and unknown risks and uncertainties that could impact our operations. The risks described in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2016 are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our financial condition and/or operating results.

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

There were no sales of unregistered or registered securities during the nine months ended September 30, 2017.

During the three months ended March 31, 2017, pursuant to a consulting agreement, we issued 50,000 shares of common stock to Jones Texas, Inc., of which Edward Jones, III, a director of our Company, is the controlling shareholder. On June 18, 2017, we issued an additional 28,334 shares of common stock to Jones Texas, Inc., pursuant to the same consulting agreement. The issuances were not considered a "public offering" as defined in Section 4(a)(2) of the Securities Act due to the insubstantial number of persons involved, size of the offering, manner of the offering, and number of securities offered. We did not undertake an offering in which we sold a high number of securities to a high number of investors. In addition, Jones Texas, Inc. had the necessary investment intent as required by Section 4(a)(2) because it agreed to receive share certificates bearing a legend stating that such securities are restricted pursuant to Rule 144 of the Securities Act. This restriction ensures that these securities would not be immediately redistributed into the market and therefore not be part of a "public offering." Based on an analysis of the above factors, the issuances of these shares met the requirements to qualify for exemption under Section 4(a)(2) of the Securities Act for these transactions.

The following table provides information with respect to shares of common stock we repurchased during the quarter ended September 30, 2017:

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program
September 1, 2017 to September 30, 2017 (i)	2,200	$ 3.70	-

(i) The shares were exchanged from employees and directors in connection with the income tax withholding obligations on behalf of such employees and directors from the vesting of restricted stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

31.1 Rule 13a-14(a)/15d-14(a) Certification (CEO)
31.2 Rule 13a-14(a)/15d-14(a) Certification (CFO)
32.1 Section 1350 Certification (CEO)
32.2 Section 1350 Certification (CFO)
101.INS 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, 2017

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

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

EXHIBIT 31.1

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

I, Robert W. D’Loren certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 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, 2017	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, 2017 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, 2017	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, 2017 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, 2017	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, 2017 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, 2017	By:	/s/ James Haran
		Name: James Haran
		Title: Chief Financial Officer and Vice President