

REFINITIV

DELTA REPORT

10-Q

XELB - XCEL BRANDS, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

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TOTAL DELTAS 1279

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2023** **March 31, 2024**

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 **550 Seventh Avenue, 11th Floor, New**
York, NY 10018

(Address of Principal Executive Offices)

(347) 727-2474

(Issuer's Telephone Number, Including Area Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
No

As of November 14, 2023 May 1, 2024, there were 19,800,053 23,492,117 shares of common stock, \$0.001 par value per share, of the issuer outstanding.

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XCEL BRANDS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	<u>September 30, 2023</u>		<u>December 31, 2022</u>	
	(Unaudited)		(Note 1)	
Assets				
Current Assets:				
Cash and cash equivalents	\$	2,189	\$	4,608
Accounts receivable, net		4,749		5,110

Inventory	997	2,845
Prepaid expenses and other current assets	447	1,457
Total current assets	8,382	14,020
Non-current Assets:		
Property and equipment, net	779	1,418
Operating lease right-of-use assets	4,702	5,420
Trademarks and other intangibles, net	43,055	47,665
Equity method investment	17,650	19,195
Deferred tax assets, net	1,107	1,107
Other assets	75	110
Total non-current assets	67,368	74,915
Total Assets	\$ 75,750	\$ 88,935
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$ 3,621	\$ 4,438
Deferred revenue	889	88
Accrued payroll	80	416
Current portion of operating lease obligations	1,219	1,376
Current portion of contingent obligations	847	243
Total current liabilities	6,656	6,561
Long-Term Liabilities:		
Long-term portion of operating lease obligations	4,362	5,839
Deferred revenue	3,875	—
Long-term portion of contingent obligations	5,548	6,396
Total long-term liabilities	13,785	12,235
Total Liabilities	20,441	18,796
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, \$.001 par value, 1,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$.001 par value, 50,000,000 shares authorized, and 19,800,053 and 19,624,860 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	20	20
Paid-in capital	103,804	103,592
Accumulated deficit	(47,052)	(32,797)
Total Xcel Brands, Inc. stockholders' equity	56,772	70,815
Noncontrolling interest	(1,463)	(676)
Total Stockholders' Equity	55,309	70,139
Total Liabilities and Stockholders' Equity	\$ 75,750	\$ 88,935
March 31, 2024		
(Unaudited)		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,552	\$ 2,998
Accounts receivable, net of allowances for credit losses of \$75 at March 31, 2024 and December 31, 2023	3,603	3,454

Inventory	445	453
Prepaid expenses and other current assets	471	398
Total current assets	6,071	7,303
Non-current Assets:		
Property and equipment, net	133	634
Operating lease right-of-use assets	2,535	4,453
Trademarks and other intangibles, net	39,986	41,520
Equity method investment in IM Topco, LLC	17,070	17,585
Other assets	969	165
Total non-current assets	60,693	64,357
Total Assets	\$ 66,764	\$ 71,660
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$ 1,918	\$ 2,236
Deferred revenue	889	889
Accrued income taxes payable	372	372
Current portion of operating lease obligations	1,278	1,258
Current portion of long-term debt	1,000	750
Current portion of contingent obligation	723	964
Total current liabilities	6,180	6,469
Long-Term Liabilities:		
Deferred revenue	3,333	3,556
Long-term portion of operating lease obligations	3,694	4,021
Long-term debt, net, less current portion	3,747	3,971
Long-term portion of contingent obligation	5,432	5,432
Other long-term liabilities	506	40
Total long-term liabilities	16,712	17,020
Total Liabilities	22,892	23,489
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.001 par value, 50,000,000 shares authorized, and 23,452,117 and 19,795,053 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	23	20
Paid-in capital	105,904	103,861
Accumulated deficit	(60,143)	(53,849)
Total Xcel Brands, Inc. stockholders' equity	45,784	50,032
Noncontrolling interest	(1,912)	(1,861)
Total Stockholders' Equity	43,872	48,171
Total Liabilities and Stockholders' Equity	\$ 66,764	\$ 71,660

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	For the Three Months Ended		For the Nine Months Ended		For the Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
Revenues						
Net licensing revenue	\$ 2,381	\$ 2,166	\$ 7,031	\$ 13,302	\$ 2,184	\$ 2,222
Net sales	256	2,335	8,437	8,413	—	3,828
Net revenue	2,637	4,501	15,468	21,715	2,184	6,050
Cost of goods sold	225	1,465	6,718	5,715	—	2,693
Gross profit	2,412	3,036	8,750	16,000	2,184	3,357
Direct operating costs and expenses						
Salaries, benefits and employment taxes	2,141	3,301	7,847	13,390	1,933	3,465
Other selling, general and administrative expenses	3,482	3,618	9,918	11,330	2,029	3,493
Total direct operating costs and expenses	5,623	6,919	17,765	24,720	3,962	6,958
Operating loss before other operating costs and expenses (income)	(3,211)	(3,883)	(9,015)	(8,720)	(1,778)	(3,601)
Other operating costs and expenses (income)						
Other operating costs and expenses						
Depreciation and amortization	1,677	1,815	5,260	5,447	1,589	1,797
Gain on sale of majority interest in Isaac Mizrahi brand	—	—	—	(20,608)	—	—
Loss from equity method investment	515	277	1,545	277	—	—
Gain on sale of limited partner ownership interest	—	—	(351)	—	—	—
Gain on settlement of lease liability	—	—	(445)	—	—	—
Asset impairment charges	—	—	—	—	2,295	—
Loss from equity method investments	—	—	—	—	533	515
Operating (loss) income	(5,403)	(5,975)	(15,024)	6,164	(6,195)	(5,913)
Operating loss	—	—	—	—	—	—
Interest and finance (income) expense						
Interest expense - term loan debt	—	—	—	1,187	146	—
Other interest and finance charges (income), net	—	(6)	18	(6)	4	25
Loss on early extinguishment of debt	—	—	—	—	2,324	—

Total interest and finance (income) expense	—	(6)	18	3,505	150	25
(Loss) income before income taxes	(5,403)	(5,969)	(15,042)	2,659		
Loss before income taxes				(6,345)	(5,938)	
Income tax (benefit) provision	—	(1,539)	—	1,639		
Income tax benefit				—	—	
Net (loss) income	(5,403)	(4,430)	(15,042)	1,020		
Net loss				(6,345)	(5,938)	
Net loss attributable to noncontrolling interest	(259)	(388)	(787)	(941)	(51)	(295)
Net (loss) income attributable to Xcel Brands, Inc. stockholders	\$ (5,144)	\$ (4,042)	\$ (14,255)	\$ 1,961		
Net loss attributable to Xcel Brands, Inc. stockholders				\$ (6,294)	\$ (5,643)	
(Loss) earnings per common share attributable to Xcel Brands, Inc. stockholders:						
Basic net (loss) income per share	\$ (0.26)	\$ (0.21)	\$ (0.72)	\$ 0.10		
Diluted net (loss) income per share	\$ (0.26)	\$ (0.21)	\$ (0.72)	\$ 0.10		
Loss per common share attributable to Xcel Brands, Inc. stockholders:						
Basic and diluted net loss per share				\$ (0.31)	\$ (0.29)	
Weighted average number of common shares outstanding:						
Basic weighted average common shares outstanding	19,749,317	19,624,860	19,683,525	19,624,604		
Diluted weighted average common shares outstanding	19,749,317	19,624,860	19,683,525	19,752,339		
Basic and diluted weighted average common shares outstanding				20,374,920	19,633,194	

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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Xcel Brands, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Stockholders' Equity

(in thousands, except share data)

	Xcel Brands, Inc. Stockholders					Xcel Brands, Inc. Stockholders				
	Common Stock					Common Stock				
	Number of		Paid-In	Accumulated	Noncontrolling	Number of		Paid-In	Accumulated	Noncontrolling
	Shares	Amount	Capital	Deficit	Interest	Total				

Balance as of December 31, 2021	19,571,119	\$ 20	\$103,039	\$ (28,779)	\$ 662	\$74,942
Compensation expense related to stock options and restricted stock	—	—	30	—	—	30
Net loss	—	—	—	(3,487)	(252)	(3,739)
Balance as of March 31, 2022	19,571,119	20	103,069	(32,266)	410	71,233
Compensation expense related to stock options and restricted stock	—	—	402	—	—	402
Shares issued to executive related to stock grants for bonus payments	178,727	—	281	—	—	281
Shares repurchased from executive in exchange for withholding taxes	(53,882)	—	(85)	—	—	(85)
Shares issued to consultant in connection with stock grant	20,064	—	33	—	—	33
Shares issued to directors in connection with restricted stock grants	50,000	—	—	—	—	—
Shares issued to consultant in connection with Isaac Mizrahi sale transaction	65,275	—	97	—	—	97
Shares issued to key employee in connection with stock grant	33,557	—	50	—	—	50
Shares repurchased from key employee in exchange for withholding taxes related to vesting of restricted shares	(240,000)	—	(357)	—	—	(357)
Net income (loss)	—	—	—	9,490	(301)	9,189
Balance as of June 30, 2022	19,624,860	20	103,490	(22,776)	109	80,843
Compensation expense related to stock options and restricted stock	—	—	51	—	—	51
Net loss	—	—	—	(4,042)	(388)	(4,430)
Balance as of September 30, 2022	19,624,860	\$ 20	\$103,541	\$ (26,818)	\$ (279)	\$76,464
Balance as of December 31, 2022	19,624,860	\$ 20	\$103,592	\$ (32,797)	\$ (676)	\$70,139
Compensation expense related to stock options and restricted stock	—	—	51	—	—	51
Shares issued to consultant in connection with stock grant	8,334	—	6	—	—	6
Net loss	—	—	—	(5,643)	(295)	(5,938)
Balance as of March 31, 2023	19,633,194	20	103,649	(38,440)	(971)	64,258
					Shares	Amount
					Capital	Deficit
					Interest	

Balance as of December 31, 2023												
Compensation expense related to stock options and restricted stock	—	—	27	—	—	27	—	—	36	—	—	—
Contra-revenue related to warrants held by licensee							—	—	10	—	—	—
Shares issued to consultant in connection with stock grant	58,334	—	39	—	—	39	78,000	—	98	—	—	—
Shares issued on exercise of stock options, net of shares surrendered for cashless exercises	9,128	—	—	—	—	—	—	—	—	—	—	—
Shares issued in connection with public offering and private placement transactions, net of transaction costs							3,579,064	3	1,899	—	—	—
Net loss	—	—	—	(3,468)	(233)	(3,701)	—	—	—	(6,294)	(51)	—
Balance as of June 30, 2023	19,700,656	20	103,715	(41,908)	(1,204)	60,623	23,452,117	\$ 23	\$ 105,904	\$ (60,143)	\$ (1,912)	\$ 4
Balance as of March 31, 2024							23,452,117	\$ 23	\$ 105,904	\$ (60,143)	\$ (1,912)	\$ 4
Compensation expense related to stock options and restricted stock	—	—	36	—	—	36	—	—	—	—	—	—
Contra-revenue related to warrants granted to licensee	—	—	16	—	—	16	—	—	—	—	—	—
Shares issued to directors in connection with restricted stock grants	40,000	—	—	—	—	—	—	—	—	—	—	—
Shares issued to employee in connection with stock grant	7,300	—	10	—	—	10	—	—	—	—	—	—
Shares issued on exercise of stock options, net of shares surrendered for cashless exercises	52,097	—	27	—	—	27	—	—	—	—	—	—
Net loss	—	—	—	(5,144)	(259)	(5,403)	—	—	—	—	—	—
Balance as of September 30, 2023	19,800,053	\$ 20	\$ 103,804	\$ (47,052)	\$ (1,463)	\$ 55,309	23,452,117	\$ 23	\$ 105,904	\$ (60,143)	\$ (1,912)	\$ 4

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	For the Nine Months Ended September 30,		For the Three Months Ended March 31,	
	2023	2022	2024	2023
Cash flows from operating activities				
Net (loss) income	\$ (15,042)	\$ 1,020	\$ (6,345)	\$ (5,938)
Adjustments to reconcile net (loss) income to net cash used in operating activities:				
Net loss			\$ (6,345)	\$ (5,938)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization expense	5,260	5,447	1,589	1,797
Asset impairment charges	100	—	2,295	—
Amortization of deferred finance costs included in interest expense	—	156	26	—
Stock-based compensation and cost of licensee warrants	184	568	144	57
Provision for doubtful accounts	20	173		
Restructuring of certain contractual arrangements	756	—		
Undistributed proportional share of net loss of equity method investee	1,545	277		
Loss on early extinguishment of debt	—	2,324		
Deferred income tax provision	—	363		
Gain on sale of majority interest in Isaac Mizrahi brand	—	(20,608)		
Gain on sale of limited partner ownership interest	(351)	—		
Gain on settlement of lease liability	(445)	—		
Undistributed proportional share of net loss of equity method investees			533	515
Changes in operating assets and liabilities:				
Accounts receivable	(415)	747	(149)	(859)
Inventory	1,848	(509)	8	(254)
Prepaid expenses and other current and non-current assets	920	235	(156)	425
Deferred revenue	4,676	199	(223)	240
Accounts payable, accrued expenses, accrued payroll, accrued income taxes payable, and other current liabilities	(1,395)	(995)		
Accounts payable, accrued expenses, accrued income taxes payable, and other current liabilities			(560)	1,156
Lease-related assets and liabilities	(471)	(202)	(237)	(54)
Other liabilities	—	(224)		
Other long-term liabilities			466	—
Net cash used in operating activities	(2,810)	(11,029)	(2,609)	(2,915)
Cash flows from investing activities				
Net proceeds from sale of majority interest in Isaac Mizrahi brand	—	45,408		
Net proceeds from sale of assets	451	—		
Purchase of property and equipment	(87)	(241)	—	(81)
Net cash provided by investing activities	364	45,167		
Net cash used in investing activities			—	(81)
Cash flows from financing activities				
Proceeds from exercise of stock options	27	—		

Shares repurchased including vested restricted stock in exchange for withholding taxes	—	(442)
Payment of long-term debt	—	(29,000)
Payment of prepayment, breakage and other fees associated with early extinguishment of long-term debt	—	(1,511)
Net cash provided by (used in) financing activities	27	(30,953)
Proceeds from public offering and private placement transactions, net of transaction costs		1,902
Net cash provided by financing activities		1,902
Net (decrease) increase in cash and cash equivalents	(2,419)	3,185
Net decrease in cash, cash equivalents, and restricted cash		(707) (2,996)
Cash and cash equivalents at beginning of period	4,608	5,222
Cash, cash equivalents, and restricted cash at beginning of period		2,998
Cash and cash equivalents at end of period	\$ 2,189	\$ 8,407
Cash, cash equivalents, and restricted cash at end of period		\$ 2,291 \$ 1,612
Supplemental disclosure of non-cash activities:		
Liability for equity-based bonuses and other equity-based payments	\$ —	\$ (283)
Reconciliation to amounts on consolidated balance sheets:		
Cash and cash equivalents		\$ 1,552 \$ 1,612
Restricted cash (reported in other non-current assets)		739 —
Total cash, cash equivalents, and restricted cash		\$ 2,291 \$ 1,612
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ —	\$ 1,032
Cash paid during the period for income taxes	\$ 16	\$ —

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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XCEL BRANDS, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2023 March 31, 2024
(Uaudited)

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

The accompanying condensed consolidated balance sheet as of **December 31, 2022** **December 31, 2023** (which has been derived from audited financial statements) and the unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and pursuant to the instructions to Form 10-Q and Article 8 of Regulation S-X promulgated by the United States Securities and Exchange Commission ("SEC"). Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, pursuant to the rules and regulations of the SEC for interim financial reporting. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position, results of operations, or cash flows.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements were prepared following the same policies and procedures used in the preparation of the audited consolidated financial statements and reflect all adjustments (consisting of normal recurring adjustments) necessary to present fairly the results of operations, financial position, and cash flows of Xcel Brands, Inc. and its subsidiaries (the "Company" or "Xcel"). The results of operations for the interim periods presented herein are not necessarily indicative of the results for the entire fiscal year or for any future interim periods. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**, as filed with the SEC on **April 17, 2023** **April 19, 2024**.

The Company is a media and consumer products company engaged in the design, **production**, **licensing**, marketing, live streaming, **wholesale distribution**, and **direct-to-consumer social commerce** sales of branded apparel, footwear, accessories, fine jewelry, home goods and other consumer products, and the acquisition of dynamic consumer lifestyle brands.

Currently, the Company's brand portfolio consists of the **LOGO by Lori Goldstein brand** (the "Lori Goldstein Brand"), the **Halston brands** (the "Halston Brand"), the **Judith Ripka brands** (the "Ripka Brand"), the **C Wonder brands** (the "C Wonder Brand"), the **LOGO by Lori Goldstein brand** (the "Lori Goldstein Brand"), the **Longaberger brand** (the "Longaberger Brand"), the **Isaac Mizrahi brands** (the "Isaac Mizrahi Brand"), the **TowerHill by Christie Brinkley brand** (the "CB Brand"), and other proprietary brands.

- The **Lori Goldstein Brand**, **Halston Brand**, **Ripka Brand**, **and C Wonder Brand**, and **Lori Goldstein Brand** are wholly owned by the Company.
- The Company manages the Longaberger Brand through its 50% ownership interest in Longaberger Licensing, LLC; the Company consolidates Longaberger Licensing, LLC and recognizes noncontrolling interest for the remaining ownership interest held by a third party.
- The Company **wholly owned and managed** **holds a noncontrolling interest in the Isaac Mizrahi Brand through May 31, 2022**. On May 31, 2022, the Company sold to a third party a majority interest in a newly-created subsidiary that was formed to hold the Isaac Mizrahi Brand trademarks, but retained a noncontrolling interest in the brand through a **its 30% ownership interest in IM Topco, LLC, and continues to contribute to LLC; the operations of the brand through a service agreement** (see Note 11 for additional details). The Company accounts for its interest in IM Topco, LLC using the equity method of accounting.
- The **CB Brand** is a new co-branded collaboration between Xcel and Christie Brinkley, announced in 2023 and planned to launch by the end of May 2024.

The Company **designs**, **produces**, **markets**, **also owns a 30% interest in ORME Live, Inc.** ("ORME"), a short-form video and **distributes products, licenses social commerce marketplace that is planned to launch in 2024**.

The Company primarily generates revenue through the licensing of its brands to third parties, and generates licensing revenues through contractual arrangements with manufacturers and retailers. The Company, **and through** its licensees, **distributes** distributes through an omni-channel **retail and social commerce** sales strategy, which includes **distribution** **the promotion and sale of products under its brands** through interactive television, digital live-stream shopping, **wholesale**, **social commerce**, traditional brick-and-mortar retailers, and e-commerce channels, to be everywhere its customers shop.

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

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XCEL BRANDS, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2023 March 31, 2024
(Unaudited)

Prior to and for a portion of 2023, the Company also engaged in wholesale and direct-to-consumer sales of products under its brands. The Company's former wholesale and direct-to-consumer operations were presented as "Net sales" and "Cost of goods sold" in the condensed consolidated statements of operations, separately from the Company's licensing revenues.

Liquidity and Management's Plans

The Company incurred a net loss attributable to Company stockholders of approximately \$5.1 million and \$14.3 million \$6.3 million during the three and nine months ended September 30, 2023, respectively March 31, 2024 (which included net non-cash expenses of approximately \$2.3 million and \$7.1 million, respectively), \$4.6 million, and had an accumulated deficit of approximately \$47.1 million \$60.1 million as of September 30, 2023 March 31, 2024. Net cash used in operating activities was approximately \$2.8 million \$2.6 million for the nine three months ended September 30, 2023 March 31, 2024. The Company had working capital (current assets less current liabilities, excluding the current portion portions of lease obligations, deferred revenue, and any contingent obligations payable in common stock) of approximately \$2.9 million \$2.1 million as of September 30, 2023 March 31, 2024. The Company's unrestricted cash and cash equivalents were approximately \$2.2 million \$1.6 million as of September 30, 2023 March 31, 2024. The aforementioned factors raise uncertainties about the Company's ability to continue as a going concern.

Management has During the year ended December 31, 2023, management implemented a plan to mitigate an expected shortfall of capital and to support future operations by shifting its business from a wholesale/licensing hybrid model into a "licensing-plus" business "licensing plus" model. In the first quarter of 2023, To affect this transition, the Company began to restructure its business operations by entering entered into various new licensing agreements and joint venture arrangements with best-in-class business partners. The Company entered into a new interactive television licensing agreement with America's Collectibles Network, Inc. d/b/a Jewelry Television ("JTV") for the Ripka Brand, and a separate license with JTV for the Ripka Brand's e-commerce business. For apparel, similar transactions have been executed. In conjunction with the launch of the C Wonder Brand on HSN, the Company licensed the wholesale operations related to the brand to One Jeanswear Group, LLC ("OJG"); this new license with OJG also includes certain other new celebrity brands that the Company plans to develop and launch in 2023 and beyond. In the second quarter of 2023, the Company entered into a new master license agreement for the Halston Brand, covering men's, women's, and children's apparel, fashion accessories, and other product categories, with an industry-leading wholesale apparel company for distribution through department stores, e-commerce, and other retailers (see Note 4). This new master license for the Halston Brand provides for an upfront cash payment and royalties, including certain guaranteed minimum royalties to the Company, includes significant annual minimum net sales requirements, and has a twenty-five-year term (consisting of an initial five-year period, followed by a twenty-year period), subject to the licensee's right to terminate with at least 120 days' notice prior to the end of each five-year period during the term.

The transition of these operating businesses was These restructuring initiatives were substantially completed by the end as of the second quarter of 2023.

June 30, 2023. Management believes that this evolution of the Company's operating model will provide the Company with significant cost savings and allow the Company to reduce and better manage its exposure to operating risks. As of September 30, 2023 December 31, 2023, the Company has had reduced its payroll costs by approximately \$6 million and operating expenses

(excluding non-recurring charges related to the restructuring) by approximately \$7 million \$9 million, on an annualized basis when compared to the corresponding periods in the prior year.

While there is some level of potential risk with respect to Also during the Company's contingent obligation related to IM Topco, LLC, which could negatively impact the Company's future cash flows and liquidity, management has taken steps to address such risk (see Note 12 and Note 13 for additional details).

Further, in October 2023, year ended December 31, 2023, the Company entered into a new term loan agreement in the amount of \$5 million, which provides provided the Company with additional liquidity.

Further, in March 2024, the Company issued new shares of common stock for net proceeds of approximately \$5 million of \$1.9 million, which provided the Company with additional liquidity (see Note 13 for additional details). Also in October 2023, Longaberger Licensing, LLC outsourced the operations and management of the Longaberger Brand's e-commerce business to a third party (see Note 13 for additional details).

liquidity.

Based on these recent the aforementioned events and changes, management expects that existing cash and future operating cash flows will be adequate to meet the Company's operating needs, term debt service obligations, and capital expenditure needs, for at least the twelve months subsequent to the filing date of this Quarterly Report on Form 10-Q; therefore, such conditions and uncertainties with respect to the Company's ability to continue as a going concern as of September 30, 2023 March 31, 2024, have been alleviated.

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XCEL BRANDS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2023

(Unaudited)

Recently Adopted Accounting Pronouncements

The Company adopted the provisions of Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (as amended by ASU No. 2018-19 in November 2018, ASU No. 2019-05 in May 2019, ASU No. 2019-10 and 2019-11 in November 2019, ASU No. 2020-02 in February 2020, and ASU No. 2022-02 in March 2022) effective January 1, 2023. This ASU requires entities to estimate lifetime expected credit losses for financial instruments, including trade and other receivables, which will result in earlier recognition of credit losses. The adoption of this new guidance did not have a significant impact on the Company's results of operations, cash flows, or financial condition.

2. Equity Method Investment Investments in Unconsolidated Affiliates and Variable Interest Entities

Investment in IM Topco, LLC

On May 27, 2022, Xcel (along with IM Topco, LLC ("IM Topco") and IM Brands, LLC ("IMB"), both wholly owned subsidiaries of the Company) and IM WHP, LLC ("WHP"), a subsidiary of WHP Global, a private equity-backed brand management and licensing

company, entered into a membership purchase agreement. Pursuant to this agreement, on May 31, 2022, (i) the Company contributed assets owned by IMB, including the Isaac Mizrahi Brand trademarks and other intellectual property rights relating thereto into IM Topco, and (ii) the Company sold 70% of the membership interests of IM Topco to WHP.

The purchase price paid by WHP 8

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XCEL BRANDS, INC. AND SUBSIDIARIES

Notes to the Company at the closing of the transaction consisted of \$46.2 million in cash. The Company incurred approximately \$0.9 million of expenses directly related to this transaction, including legal fees and agent fees, of which \$0.1 million of the agent fees were paid through the issuance of 65,275 shares of the Company's common stock, which were recognized as a reduction to the gain from the transaction. The Company recognized a net pre-tax gain from the transaction of \$20.6 million, which is classified within "other operating costs and expense (income)" in the condensed consolidated statements of operations for the nine months

ended September 30, 2022. Unaudited Condensed Consolidated Financial Statements

March 31, 2024

(Unaudited)

The Company accounts for its 30% interest in the ongoing operations of IM Topco as other **expense (income)** **operating costs and expenses** under the equity method of accounting. Pursuant to the business venture agreement between the Company and WHP governing the operation of IM Topco, IM Topco's net cash flow (as defined in the agreement) shall be distributed to the members during each fiscal year no less than once per fiscal quarter, as follows:

- (i) first, 100% to WHP, until WHP has received an aggregate amount during such fiscal year equal to \$8,852,000 (subject to adjustment in certain circumstances as set forth in the agreement);
- (ii) second, 100% to Xcel, until Xcel has received an aggregate amount during such fiscal year equal to \$1,316,200 (subject to adjustment in certain circumstances as set forth in the agreement); and
- (iii) thereafter, in proportion to the members' respective percentage interests.

Based on these distribution provisions, the Company recognized an equity method loss of \$0.52 million **and \$1.55 million** related to its investment in IM Topco for each of the **three** three-month periods ended March 31, 2024 and **nine** months ended September 30, 2023, respectively. The Company recognized an equity method loss of \$0.28 million related to its investment for both the three and **nine** months ended September 30, 2022, 2023. For cash flow earnings (i.e., net income before intangible asset amortization expense), management allocated the **2023** amounts based on the preferences outlined above. As such, Xcel recognized no cash-based earnings for **all** **both** of the periods presented. For non-cash amortization expense, management allocated the amounts based on the relative ownership

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XCEL BRANDS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2023

(Unaudited)

of each member (i.e., 70% WHP and 30% Xcel). The equity method loss for each period presented is equal Xcel's share of amortization expense.

Summarized financial information for IM Topco for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 is as follows:

(\$ in thousands)	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022 ⁽¹⁾
Revenues	\$ 3,219	\$ 4,185	\$ 9,819	\$ 5,479
Gross profit	3,219	4,185	9,819	5,479
(Loss) income from continuing operations	(91)	928	(348)	1,118
Net (loss) income	(91)	928	(348)	1,118

(1) Represents financial information for the period commencing May 31, 2022 (the date of the sale of a majority interest in IM Topco) through September 30, 2022.

(\$ in thousands)	For the three months ended	
	March 31,	
	2024	2023
Revenues	\$ 2,752	\$ 3,346
Gross profit	2,752	3,346
Loss from continuing operations	(437)	(143)
Net loss	(437)	(143)

Refer to Note 10, 11, and 12 for other information regarding the Company's ongoing relationship with IM Topco.

Investment in Orme Live, Inc.

In December 2023, the Company contributed \$0.15 million of cash to ORME in exchange for a 30% equity ownership interest in ORME. The carrying value of this investment is included within other assets in the Company's condensed consolidated balance sheets.

The Company accounts for its 30% interest in the operations of ORME as a component of other operating costs and expenses under the equity method of accounting. The Company's proportional share of the operating results of ORME for the three months ended March 31, 2024 was a loss of approximately \$0.02 million.

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XCEL BRANDS, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2024
(Unaudited)

Longaberger Licensing, LLC Variable Interest Entity

Since 2019, Xcel has been party to a limited liability company agreement with a subsidiary of Hilco Global related to Longaberger Licensing, LLC ("LL"). Hilco Global is the sole Class A Member of LL, and Xcel is the sole Class B Member of LL (each individually a "Member"). Each Member holds a 50% equity ownership interest in LL; however, based on an analysis of the contractual terms and rights contained in the LLC agreement and related agreements, the Company has previously determined that under the applicable accounting standards, LL is a variable interest entity and the Company has effective control over LL. Therefore, as the primary beneficiary, the Company has consolidated LL since 2019, and has recognized the assets, liabilities, revenues, and expenses of LL as part of its consolidated financial statements, along with a noncontrolling interest which represents Hilco Global's 50% ownership share in LL.

3. Trademarks and Other Intangibles

Trademarks and other intangibles, net consist of the following:

(\$ in thousands)	Weighted Average				Weighted Average			
	Amortization Period	September 30, 2023		Amortization Period	March 31, 2024		Amortization Period	March 31, 2024
		Gross Carrying	Accumulated Amortization		Gross Carrying	Accumulated Amortization		
Trademarks (finite-lived)	15 years	68,880	25,911	42,969	68,880	28,950	39,930	
Copyrights and other intellectual property	8 years	429	343	86	429	373	56	
Total		\$ 69,309	\$ 26,254	\$ 43,055	\$ 69,309	\$ 29,323	\$ 39,986	

(\$ in thousands)	Weighted Average				Weighted Average			
	Amortization Period	December 31, 2022		Amortization Period	December 31, 2023		Amortization Period	December 31, 2023
		Gross Carrying	Accumulated Amortization		Gross Carrying	Accumulated Amortization		
Trademarks (finite-lived)	15 years	68,880	21,346	47,534	68,880	27,431	41,449	
Copyrights and other intellectual property	8 years	429	298	131	429	358	71	
Total		\$ 69,309	\$ 21,644	\$ 47,665	\$ 69,309	\$ 27,789	\$ 41,520	

Amortization expense for intangible assets was approximately \$1.53 million for both the three-month period ended September 30, 2023 March 31, 2024 (the "current quarter") and approximately \$1.54 million for the three-month period ended September 30, 2022 March 31, 2023 (the "prior year quarter").

Amortization expense 4. Significant Contracts and Concentrations

Qurate Agreements

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

Net licensing revenue from the Qurate Agreements totaled \$1.61 million and \$1.52 million for intangible assets was the current quarter and prior year quarter, respectively, representing approximately \$4.60 million 59% and 25% of the Company's total net revenue for both the nine-month period ended September 30, 2023 (the "current nine months") current quarter and the nine-month period ended September 30, 2022 (the "prior prior year nine months").

quarter, respectively.

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XCEL BRANDS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2023 March 31, 2024

(Unaudited)

4. Significant Contracts As of March 31, 2024 and Concentrations December 31, 2023, the Company had receivables from Qurate of \$1.3 million and \$1.5 million, respectively, representing approximately 37% and 43% of the Company's total net accounts receivable, respectively.

Halston Master License

On May 15, 2023, the Company, through its wholly owned subsidiaries, H Halston, LLC and H Heritage Licensing, LLC (collectively, the "Licensor"), entered into a master license agreement relating to the Halston Brand (the "Halston Master License") with G-III Apparel Group ("G-III"), an industry-leading wholesale apparel company, for men's and women's apparel, men's and women's fashion accessories, children's apparel and accessories, home, airline amenity and amenity kits, and such other product categories as mutually agreed upon. The Halston Master License provides provided for an upfront cash payment and royalties payable to the Company, including certain guaranteed minimum royalties, includes significant annual minimum net sales requirements, and has a twenty-five-year twenty-five-year term (consisting of an initial five-year five-year period, followed by a twenty-year twenty-year period), subject to the licensee's G-III's right to terminate with at least 120 days' notice prior to the end of each five-year five-year period during the term. The licensee G-III has an option to purchase the Halston Brand for \$5.0 million at the end of the twenty-five twenty-five-year-year term, which right may be accelerated under certain conditions associated with an uncured material breach of the Halston Master License in accordance with the terms of the Halston Master License. The Licensor granted to the licensee G-III a security interest in the Halston trademarks to secure the Licensor's obligations under the Halston Master License, including to honor the obligations under the purchase option.

As a result of the upfront cash payment and guaranteed minimum royalties discussed above, the Company has recognized \$4.67 million \$4.2 million and \$4.4 million of deferred revenue contract liabilities on its condensed consolidated balance sheet sheets as of September 30, 2023 related to this March 31, 2024 and December 31, 2023, respectively. As of December 31, 2023, \$0.9 million of the contract of which \$0.89 million liability balance was classified as a current liability and \$3.78 million approximately \$3.5 million was classified as a long-term liability. As of March 31, 2024, \$0.9 million of the contract liability balance was classified as a current liability and approximately \$3.3 million was classified as a long-term liability.

The balance of the deferred revenue contract liabilities will be recognized ratably as revenue over the next 5.25 4.13 years. Net licensing revenue recognized from the Halston Master License was \$0.65 million and \$0.98 million \$0.6 million for the current

quarter, and current nine months, respectively representing approximately 25% and 6% 30% of the Company's total net revenue for the current quarter.

5. Leases

The Company is party to operating leases for real estate, and for certain equipment with a term of 12 months or less. The Company is currently not a party to any finance leases.

Lease expense (net of sublease income) included in selling, general and administrative expenses on the Company's condensed consolidated statements of operations was approximately \$0.2 million and \$0.4 million for the current quarter and prior year quarter, respectively. Cash paid for amounts included in the measurement of operating lease liabilities was approximately \$0.4 million in both the current nine months, respectively, quarter and prior year quarter.

Additionally, in connection with the Halston Master License, the 1333 Broadway

The Company issued to the licensee a ten-year warrant to purchase up to 1,000,000 shares of the Company's common stock has an operating lease for offices located at an exercise price of \$1.50 per share, 1333 Broadway, 10th floor, New York, New York, which vests based upon certain commencement on March 1, 2016 and expires on October 30, 2027. The average annual royalty targets being satisfied under the license agreement. The fair value of this warrant will be recognized as a reduction of revenue fixed rent over the term of this lease is approximately \$1.3 million per year, and the related license agreement, with an offsetting increase lease requires the Company to stockholders' equity as pay additional paid-in capital. The amount of contra-revenue recorded rents related to this warrant during increases in certain taxes and other costs on the current quarter and current nine months was approximately \$0.02 million. As of September 30, 2023, no portion of this warrant had vested, property.

Qurate Agreements

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

- Net licensing revenue from the Qurate Agreements totaled \$1.61 million and \$1.40 million for the current quarter and prior year quarter, respectively, representing approximately 61% and 31% of the Company's total net revenue for the current quarter and prior year quarter, respectively.
- Net licensing revenue from the Qurate Agreements totaled \$4.90 million and \$10.47 million for the current nine months and prior year nine months, respectively, representing approximately 32% and 48% of the Company's

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total net revenue for the current nine months and prior year nine months, respectively. The prior year nine months included revenues from Qurate Agreement related to the Isaac Mizrahi Brand; such agreement was assigned to IM Topco on May 31, 2022.

- As of September 30, 2023 and December 31, 2022, the Company had receivables from Qurate of \$1.6 million and \$0.9 million, respectively, representing approximately 34% and 17% of the Company's total net accounts receivable, respectively.

On January 26, 2024, the Company (as sublessor) entered into an agreement for the sublease of the offices located at 1333 Broadway to a third-party subtenant through October 30, 2027. The average annual fixed rent over the term of the sublease is approximately \$0.8 million per year. As a result of entering into the sublease, the Company recognized a non-cash impairment charge of approximately \$1.9 million effective February 29, 2024 (which was determined to be the date of a fundamental change to the use of the 1333 Broadway premises) related to the right-of-use asset. Also in connection with entering into the sublease, the Company recognized a non-cash impairment charge of approximately \$0.4 million during the current quarter related to leasehold improvement assets at this location.

As of March 31, 2024, the Company's lease of 1333 Broadway has a remaining lease term of approximately 3.58 years, and the lease liability recorded on the Company's condensed consolidated balance sheet is measured using a discount rate of 6.25%.

550 Seventh Avenue

Effective February 29, 2024, the Company entered into an operating lease for new corporate offices located at 550 Seventh Avenue, 11th floor, New York, New York. This lease commenced in April 2024 and expires in April 2031. The average annual lease cost over the term of this lease is approximately \$0.5 million per year. As of March 31, 2024, no right-of-use asset or lease liability was recorded in the Company's condensed consolidated balance sheet related to this lease, as the lease had not yet commenced.

Future Lease Obligations

As of March 31, 2024, the maturities of lease obligations were as follows:

Year	Amount (in thousands)
2024 (April 1 through December 31)	\$ 1,164
2025	1,552
2026	1,552
2027	1,294
Total lease payments	5,562
Less: Discount	590
Present value of lease liabilities	4,972
Current portion of lease liabilities	1,278
Non-current portion of lease liabilities	\$ 3,694

5. Accounts Receivable 6. Debt

Accounts receivable are presented on the The Company's condensed consolidated balance sheets net carrying amount of allowances for credit losses. Such allowances were approximately \$0.02 million and \$0.00 as of September 30, 2023 and December 31, 2022, respectively.

A rollforward debt was comprised of the allowance for credit losses for the nine months ended September 30, 2023 is as follows:

(\$ in thousands)

Balance at December 31, 2022	\$ —
Credit loss expense (1)	120
Write-offs	(100)
Recoveries	—
Balance at September 30, 2023	\$ <u>20</u>

(1) Credit loss expense was \$0.12 million for both the current quarter and current nine months, and is recorded within "other selling, general and administrative expenses" in the accompanying condensed consolidated statement of operations, following:

Credit loss expense recognized in the prior year quarter and prior year nine months was \$0.08 million and \$0.17 million, respectively.

(\$ in thousands)	March 31,		December 31,	
	2024	2023	2024	2023
Term loan debt	\$ 5,000	\$ 5,000	—	—
Unamortized deferred finance costs related to term loan debt	(253)	(279)	—	—
Total	4,747	4,721	—	—
Current portion of debt	1,000	750	—	—
Long-term debt	\$ 3,747	\$ 3,971	—	—

The allowance for credit losses is determined based upon a variety of judgments and factors. Factors considered in determining the allowance include historical collection, write-off experience, and management's assessment of collectibility from customers, including current conditions, reasonable forecasts, and expectations of future collectibility and collection efforts. Management continuously assesses the collectibility of receivables and adjusts estimates based on actual experience and future expectations based on economic indicators. Management also monitors the aging analysis of receivables to determine if there are changes in the collections of accounts receivable. Receivable balances are written-off against the allowance for credit losses when such balances are deemed to be uncollectible.

Also, as of September 30, 2023 and December 31, 2022, approximately \$0.33 million and \$1.65 million, respectively, of the Company's outstanding receivables were assigned to a third-party agent pursuant to a services agreement entered into during the third quarter of 2022, under which the Company assigned, for purposes of collection only, the right to collect certain specified receivables on the Company's behalf and solely for the Company's benefit. Under such agreement, the Company retains ownership of such assigned receivables, and receives payment from the agent (less certain fees charged by the agent) upon the agent's collection of the receivables from customers. During the current quarter and current nine months, the Company paid approximately \$0.02 million and \$0.09 million in fees to the agent under the aforementioned services agreement; such agent fees were approximately \$0.04 million in the prior year quarter and prior year nine months.

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XCEL BRANDS, INC. AND SUBSIDIARIES
 Notes to Unaudited Condensed Consolidated Financial Statements
 September 30, 2023 March 31, 2024
 (Unaudited)

6. Leases

The Company has an operating lease for its corporate offices and operations facility, as well as certain equipment with On October 19, 2023, H Halston IP, LLC (the "Borrower"), a wholly owned indirect subsidiary of Xcel Brands, Inc., entered into a term loan agreement with Israel Discount Bank of 12 months or less. As New York ("IDB"). Pursuant to this loan agreement, IDB made a term loan to the Company in the aggregate amount of September 30, 2023, \$5.0 million. The proceeds of this term loan were used to pay fees, costs, and expenses incurred in connection with entering into the Company's real estate lease has loan agreement, and may be used for working capital purposes. Such costs incurred in connection with the borrowing included a remaining lease term of approximately 4.08 years, commitment fee paid to IDB, plus various legal and the lease liability is measured using a discount rate of 6.25%.

Lease expense included in selling, general other fees. These fees and administrative expenses costs totaling \$0.3 million have been deferred on the Company's unaudited condensed consolidated statements of operations was approximately \$0.4 million for both the current quarter and prior year quarter, and approximately \$1.2 million for both the current nine months and prior year nine months.

Cash paid for amounts included in the measurement of operating lease liabilities was approximately \$0.4 million in both the current quarter and prior year quarter, approximately \$1.2 million in the current nine months, and approximately \$1.3 million in the prior year nine months.

The Company is currently in discussions with the lessor of the operating lease for the Company's corporate offices and operations facility, regarding a potential amendment to restructure such lease. In addition, this could include a requirement for the Company to fund a security deposit to the lessor of up to \$0.73 million.

Also, the Company was previously a party to an operating lease for its former retail store location, which was closed in 2022. During the nine months ended September 30, 2023, the Company successfully negotiated a settlement with the lessor resulting in the termination of this lease. Under the settlement agreement, the Company paid \$0.18 million to the lessor during the nine months ended September 30, 2023. The Company has recognized a liability of \$0.11 million for the remaining settlement payment (due to be paid to the lessor in the fourth quarter of 2023) as part of "accounts payable, accrued expenses and other current liabilities" on the condensed consolidated balance sheet as a reduction of September 30, 2023 the carrying value of the term loan debt, and are being amortized to interest expense over the term of the debt using the effective interest method.

In connection with this term loan agreement, the Borrower and H Licensing, LLC ("H Licensing"), a wholly owned subsidiary of Xcel, entered into a security agreement (the "Security Agreement") in favor of IDB, and Xcel entered into a Membership Interest Pledge Agreement (the "Pledge Agreement") in favor of IDB. Pursuant to the Security Agreement, the Borrower and H Licensing granted to IDB a security interest in substantially all of their respective assets, other than the trademarks owned by the Borrower and H Licensing, to secure the Borrower's obligations under the October 2023 loan agreement. Pursuant to the Pledge Agreement, Xcel granted to IDB a security interest in its membership interests in H Licensing to secure the Borrower's obligations under the October 2023 loan agreement.

The term loan matures on October 19, 2028. Principal on the term loan is payable in quarterly installments of \$250,000 on each of January 2, April 1, July 1, and October 1 of each year, commencing on April 1, 2024. The Company recognized a gain Borrower has the right to prepay all or any portion of \$0.44 million from this settlement transaction, which is classified within "other operating costs and expenses (income)" in the condensed consolidated statements of operations for the nine months ended September 30, 2023, term loan at any time without penalty.

As of September 30, 2023 March 31, 2024, the maturities of lease obligations aggregate remaining principal payments under the term loan were as follows:

Year	Amount (in thousands)
2023 (October 1 through December 31)	\$ 388
2024	1,552

2025	1,552
2026	1,552
2027	1,294
Total lease payments	6,338
Less: Discount	757
Present value of lease liabilities	5,581
Current portion of lease liabilities	1,219
Non-current portion of lease liabilities	\$ 4,362

(\$ in thousands)	Amount of	
	Principal	Payment
Year Ending December 31,		
2024 (April 1 through December 31)	\$ 750	
2025	1,000	
2026	1,000	
2027	1,000	
2028	1,250	
Total	\$ 5,000	

Interest on the term loan accrues at "Term SOFR" (as defined in the loan agreement as the forward-looking term rate based on secured overnight financing rate as administered by the Federal Reserve Bank of New York for an interest period equal to one month on the day that is two U.S. Government Securities Business Days prior to the first day of each calendar month) plus 4.25% per annum. Interest on the term loan is payable on the first day of each calendar month. In addition, on October 19, 2023, the Borrower also entered into a swap agreement with IDB, pursuant to which IDB will pay the Borrower Term SOFR plus 4.25% per annum on the notional amount of the swap in exchange for the Borrower paying IDB 9.46% per annum on such notional amount. The term and declining notional amount of the swap agreement is aligned with the amortization of the October 2023 term loan principal amount. The fair value of this swap agreement was immaterial as of March 31, 2024 and December 31, 2023.

For the current quarter, the Company incurred interest expense (including both interest paid in cash and the amortization of deferred finance costs) related to term loan debt of approximately \$0.15 million, reflecting an effective interest rate of approximately 11.6%.

The term loan agreement also contains customary covenants, including reporting requirements, trademark preservation, and certain financial covenants including annual guaranteed minimum royalty ratio, annual fixed charge coverage ratio,

7. Debt

and minimum cash balance levels, all as specified and defined in the loan agreement. The Company did not have any debt obligations was in compliance with all applicable covenants under the loan agreement as of September 30, 2023 or December 31, 2022. See Note 13 and for information regarding new debt agreements entered into subsequent to September 30, 2023.

From December 30, 2021 through May 31, 2022, all periods presented in the Company had term loan debt outstanding pursuant to an agreement with First Eagle Alternative Credit Agent, LLC ("FEAC"); this debt was repaid in full and extinguished on May 31, 2022. As a result of this extinguishment, the Company recognized a loss on early extinguishment of debt of approximately \$2.3 million during the prior year quarter and prior year nine months, consisting of approximately \$1.4 million of debt prepayment premium, the immediate write-off of approximately \$0.8 million of unamortized deferred finance costs, and approximately \$0.1 million of other costs.

For the prior year nine months, the Company incurred interest expense (including both interest paid in cash and the amortization of deferred finance costs) related to term loan debt of approximately \$1.19 million, and the effective interest rate related to term loan debt was approximately 9.8%.

8. Stockholders' Equity

Public Offering and Private Placement Transactions

On March 15, 2024, the Company entered into an underwriting agreement with Craig-Hallum Capital Group LLC (the "Representative"), as the representative of the underwriters, relating to a firm commitment underwritten public offering (the "Offering") of 3,284,422 shares of the Company's common stock at a price to the public of \$0.65 per share.

The closing of the Offering occurred on March 19, 2024. The net proceeds to the Company from the sale of the shares, after deducting the underwriting discounts and commissions and other estimated offering expenses payable by the Company, were approximately \$1.7 million.

Upon closing of the Offering, the Company issued the Representative certain warrants to purchase up to 182,952 shares of common stock (the "Representative's Warrants") as compensation, which amount was offset against the proceeds received. The Representative's Warrants will be exercisable at a per share exercise price of \$0.8125. The Representative's Warrants are exercisable, in whole or in part, during the four and one-half-year period commencing 180 days from the commencement of sales of the shares of common stock in the Offering.

In connection with the Offering, on March 14, 2024, the Company entered into subscription agreements with each of Robert W. D'Loren, Chairman and Chief Executive Officer of the Company; an affiliate of Mark DiSanto, a director of the Company; and Seth Burroughs, Executive Vice President of Business Development and Treasury of the Company to purchase 132,589, 132,589, and 29,464 shares, respectively (collectively, the "Private Placement Shares"), at a price of \$0.98 per Private Placement Share. The total number of Private Placement Shares purchased was 294,642. Net proceeds after payment of agent fees to the Representative were approximately \$0.3 million. The purchase of the Private Placement Shares closed concurrently with the Offering.

The aggregate number of shares of common stock issued from the Offering and the Private Placement was 3,579,064 shares and the total net proceeds received was approximately \$1.9 million.

Equity Incentive Plans

A total of 4,000,000 shares of common stock are eligible for issuance under the Company's 2021 Equity Incentive Plan (the "2021 Plan"). The 2021 Plan provides for the grant of any or all of the following types of awards: stock options (incentive or non-qualified), restricted stock, restricted stock units, performance awards, or cash awards. The 2021 Plan is administered by the Company's Board of Directors, or, at the Board's discretion, a committee of the Board.

In addition, stock-based awards (including options, warrants, and restricted stock) previously granted under the Company's 2011 Equity Incentive Plan (the "2011 Plan") remain outstanding and shares of common stock may be issued to satisfy options or

warrants previously granted under the 2011 Plan, although no new awards may be granted under the 2011 Plan.

Stock-based Compensation

The Company accounts for stock-based compensation in accordance with Accounting Standards Codification ("ASC") Topic 718, "Compensation - Stock Compensation," by recognizing the fair value of stock-based such compensation as an operating expense over the service period of the award or term of the corresponding contract, as applicable. Forfeitures are accounted for as a reduction of compensation cost in the period when such forfeitures occur. For stock option awards for which vesting is contingent upon the achievement of certain performance targets, the timing and amount of compensation expense

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recognized is based upon the Company's projections and estimates of the relevant performance metric(s) until the time the performance obligation is satisfied. Expense for such awards is recognized only to the extent that the achievement of the specified performance target(s) has been met or is considered probable.

Total expense recognized for all forms of stock-based compensation was approximately \$0.05 million \$0.13 million and \$0.06 million for both the current quarter and prior year quarter, respectively. For both periods, the majority substantially all of the expense was related to directors and consultants, and was recorded as operating costs within "other selling, general and administrative expenses" in the accompanying condensed consolidated statements of operations.

Total expense recognized in the current nine months and prior year nine months for all forms of stock-based compensation was approximately \$0.17 million and \$0.67 million, respectively. Of the current nine months expense amount, approximately \$0.15 million related to directors and consultants, and approximately \$0.02 million related to employees; all such stock-based compensation expense was recorded within "other selling, general and administrative expenses" in

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the accompanying condensed consolidated statements of operations. Of the prior year nine months expense amount, approximately \$0.41 million related to employees and approximately \$0.26 million related to directors and consultants.

Approximately \$0.57 million of the prior year nine months expense was recorded as operating costs, and approximately \$0.10 million was recorded as part of other operating costs and expenses (income).

Stock Options

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

	Weighted				Weighted			
	Average				Average			
	Weighted		Remaining		Weighted		Remaining	
	Number of Options	Exercise Price	Contractual Life (in Years)	Intrinsic Value	Number of Options	Exercise Price	Contractual Life (in Years)	Intrinsic Value
Outstanding at January 1, 2023	5,614,310	\$ 2.12	4.76	\$ —	5,148,540	\$ 2.03	4.26	\$ —
Outstanding at January 1, 2024								
Granted	100,000	1.51			—	—		
Exercised	(87,750)	0.80			—	—		
Expired/Forfeited	(482,390)	3.17			(259,500)	4.21		
Outstanding at September 30, 2023, and expected to vest	5,144,170	\$ 2.04	4.37	\$ —				
Exercisable at September 30, 2023	1,481,670	\$ 2.83	1.92	\$ —				
Outstanding at March 31, 2024, and expected to vest					4,889,040	\$ 1.91	4.24	\$ —
Exercisable at March 31, 2024					1,139,040	\$ 2.58	1.78	\$ —

On August 23, 2023 the Company granted options to purchase an aggregate of 100,000 shares of common stock to non-management directors. The exercise price of the options is \$1.51 per share, and 50% of the options vest on each of April 1, 2024 and April 1, 2025.

Compensation expense related to stock options for the current quarter and the prior year quarter was approximately \$0.02 million and \$0.03 million, respectively. Compensation expense related to stock options for the current nine months and the prior year nine months was approximately \$0.07 million and \$0.43 million, respectively. Total unrecognized compensation expense related to unvested stock options at **September 30, 2023** **March 31, 2024** was approximately **\$0.11 million** **\$0.05 million** and is expected to be recognized over a weighted average period of approximately **1.23** **0.97** years.

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

	Weighted		Weighted	
	Average		Average	
	Number of Options	Grant Date	Number of Options	Grant Date
Options	Fair Value	Options	Fair Value	
Balance at January 1, 2023	3,697,500	\$ 0.05		
Balance at January 1, 2024			3,750,000	\$ 0.05
Granted	100,000	0.86	—	—
Vested	(135,000)	0.68	—	—
Forfeited or Canceled	—	—	—	—
Balance at September 30, 2023	3,662,500	\$ 0.04		
Balance at March 31, 2024			3,750,000	\$ 0.05

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Warrants

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

		Weighted			
		Average			
		Weighted		Remaining	
		Average	Contractual	Aggregate	
		Number of Warrants	Exercise Price	Life (in Years)	Intrinsic Value
Outstanding and exercisable at January 1, 2023		116,065	\$ 3.15	1.57	\$ —
Granted		1,000,000	1.50		
Exercised		—	—		
Expired/Forfeited		—	—		
Outstanding at September 30, 2023		1,116,065	\$ 1.67	8.71	\$ —
Exercisable at September 30, 2023		116,065	\$ 3.15	0.82	\$ —

See Note 4 for information regarding the warrant to purchase 1,000,000 shares of common stock granted during the current nine months in connection with the Halston Master License. Excluding the contra-revenue recognized with respect to the Halston Master License warrant, there was no compensation expense related to warrants recognized in the current quarter, prior year quarter, current nine months, or prior year nine months.

Stock Awards

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

		Weighted		Weighted	
		Number of Restricted Shares	Average Grant Date Fair Value	Number of Restricted Shares	Average Grant Date Fair Value
				Number of Restricted Shares	
				Average Grant Date Fair Value	
Outstanding at January 1, 2023		333,333	\$ 3.71		
Outstanding at January 1, 2024				333,333	\$ 3.69
Granted		113,968	1.01	78,000	1.25
Vested		(103,968)	1.04	(78,000)	1.25
Expired/Forfeited		—	—	—	—
Outstanding at September 30, 2023		343,333	\$ 3.63		
Outstanding at March 31, 2024				333,333	\$ 3.69

On January 1, 2023 January 12, 2024, the Company issued 8,334 78,000 shares of common stock to a consultant, which shares vested immediately.

On April 17, 2023, the Company issued 8,334 shares of common stock to a consultant, which vested immediately.

On May 15, 2023, the Company issued 50,000 shares of common stock to a consultant, which vested immediately.

On July 20, 2023, the Company issued 7,300 shares of common stock to an employee, which vested immediately.

On August 23, 2023, the Company issued an aggregate of 40,000 shares of common stock to non-management directors, of which 50% shall vest on April 1, 2024, and 50% shall vest on April 1, 2025.

Compensation expense related to stock awards was approximately \$0.03 million \$0.11 million for the current quarter and approximately \$0.02 million \$0.03 million for the prior year quarter. Compensation expense related to stock awards was approximately \$0.10 million for the current nine months and approximately \$0.24 million for the prior year nine months. Total unrecognized compensation expense related to unvested restricted stock grants at September 30, 2023 March 31, 2024 was approximately \$0.08 million

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\$0.04 million and is expected to be recognized over a weighted average period of approximately 1.23 0.96 years.

Restricted Stock Units

There were no restricted stock units outstanding as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, and no restricted stock units have been issued since the inception of the 2021 Plan.

Shares Available Under the Company's Equity Incentive Plans

As of September 30, 2023 At March 31, 2024, there were 3,170,191 3,025,941 shares of common stock available for future award grants under the 2021 Plan.

Shares Reserved for Issuance

As of September 30, 2023 March 31, 2024, there were 8,430,426 8,031,046 shares of common stock reserved for issuance, including 4,838,135 4,511,755 shares reserved pursuant to unexercised warrants and stock options previously granted under the 2011 Plan, 422,100 493,350 shares reserved pursuant to unexercised stock options granted under the 2021 Plan, and 3,170,191 3,025,941 shares available for issuance under the 2021 Plan.

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Warrants

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

			Weighted		Average	
			Number of Warrants	Exercise Price	Weighted	
					Average	Contractual
						Contractual (in Years)
Outstanding and exercisable at January 1, 2024			1,116,065	\$ 1.67	8.46	\$ —
Issued			182,952	0.81		
Exercised			—	—		
Expired/Forfeited			—	—		
Outstanding at March 31, 2024			1,299,017	\$ 1.55	7.75	\$ —
Exercisable at March 31, 2024			116,065	\$ 3.15	0.30	\$ —

Warrants issued during the current quarter were related to the March 19, 2024 Offering (see "Public Offering and Private Placement Transactions" above for details). There was no compensation expense recognized during the current quarter related to these warrants.

In connection with the entrance into the Halston Master License (see Note 4), the Company issued to G-III a ten-year warrant to purchase up to 1,000,000 shares of the Company's common stock at an exercise price of \$1.50 per share, which vests based upon certain annual royalty targets being satisfied under the license agreement. The fair value of this warrant is being recognized as a reduction of revenue over the term of the related license agreement, with an offsetting increase to stockholders' equity as additional paid-in capital. The amount of contra-revenue recorded related to this warrant during the current quarter was approximately \$0.01 million. As of March 31, 2024, no portion of this warrant had vested.

Excluding the contra-revenue recognized with respect to the Halston Master License warrant, there was no compensation expense related to warrants recognized in the current quarter or prior year quarter.

9.8. Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period, period, excluding the effects of any potentially dilutive securities. Diluted EPS gives reflects, in periods in which they have a dilutive effect, to all potentially dilutive the effect of common shares outstanding during issuable upon the period, including exercise of 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.

The following table is a reconciliation of the numerator and denominator of the basic and diluted net (loss) income per share computations for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Numerator:				
Net (loss) income attributable to Xcel Brands, Inc. stockholders (in thousands)	\$ (5,144)	\$ (4,042)	\$ (14,255)	\$ 1,961
Denominator:				
Basic weighted average number of shares outstanding	19,749,317	19,624,860	19,683,525	19,624,604
Add: Effect of warrants	—	—	—	620
Add: Effect of stock options	—	—	—	127,115
Diluted weighted average number of shares outstanding	<u>19,749,317</u>	<u>19,624,860</u>	<u>19,683,525</u>	<u>19,752,339</u>
Basic net (loss) income per share	\$ (0.26)	\$ (0.21)	\$ (0.72)	\$ 0.10
Diluted net (loss) income per share	<u>\$ (0.26)</u>	<u>\$ (0.21)</u>	<u>\$ (0.72)</u>	<u>\$ 0.10</u>

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The following table is a reconciliation of the numerator and denominator of the basic and diluted net loss per share computations for the three months ended March 31, 2024 and 2023:

	Three Months Ended	
	March 31,	
	2024	2023
Numerator:		
Net loss attributable to Xcel Brands, Inc. stockholders (in thousands)	\$ (6,294)	\$ (5,643)
Denominator:		
Basic weighted average number of shares outstanding	20,374,920	19,633,194
Add: Effect of warrants	—	—
Add: Effect of stock options	—	—
Diluted weighted average number of shares outstanding	<u>20,374,920</u>	<u>19,633,194</u>
Basic net loss per share	\$ (0.31)	\$ (0.29)
Diluted net loss per share	<u>\$ (0.31)</u>	<u>\$ (0.29)</u>

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

per share for such periods.

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

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
Stock options	5,144,170	5,761,890	5,144,170	5,514,140	4,889,040	5,368,780
Warrants	1,116,065	116,065	1,116,065	115,000	1,299,017	116,065
Total	6,260,235	5,877,955	6,260,235	5,629,140	6,188,057	5,484,845

10.9. Income Taxes

The estimated annual effective income tax rate for the current quarter and the prior year quarter was approximately 0% and 26%, respectively, for both periods, resulting in an income tax (benefit) provision benefit of \$0 and \$(1.54) million, respectively. The estimated annual effective income tax rate for both periods.

For both the current nine months quarter and the prior year nine months was approximately 0% and 62%, respectively, resulting in an income tax (benefit) provision of \$0 and \$1.64 million, respectively.

For the current quarter, the federal statutory rate differed from the effective tax rate due to the recording of a valuation allowance against the benefit that would have otherwise been recognized, as it was considered not more likely than not that the net operating losses generated during the each period will be utilized in future periods. For the prior year quarter, the federal statutory rate differed from the effective tax rate primarily due

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Notes to recurring permanent differences and state taxes, which increased the effective tax rate by approximately 5%. Unaudited
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For the current nine months, the federal statutory rate differed from the effective tax rate due to the recording of a valuation allowance against the benefit that would have otherwise been recognized, as it was considered not more likely than not that the net operating losses generated during the period will be utilized in future periods. For the prior year nine months, the federal statutory rate differed from the effective tax rate primarily due to recurring permanent differences, state taxes, and the discrete treatment of stock compensation shortfall, which increased the effective tax rate by approximately 41%. March 31, 2024

(Unaudited)

11.10. Related Party Transactions

IM Topco, LLC

The As described in Note 2, the Company holds a noncontrolling interest in IM Topco, which is accounted for under the equity method of accounting.

Service Agreement

On May 31, 2022, the Company entered into a services agreement with IM Topco, pursuant to which the Company provides certain design and support services (including assistance with the operations of the interactive television business and related talent support) to IM Topco in exchange for payments of \$300,000 per year. For

In November 2023, the three and nine services agreement was amended such that the Company agreed to provide IM Topco with a \$600,000 reduction of future service fees over the next eighteen months, ended September 30, 2023, the beginning on July 1, 2023.

The Company recognized service fee income related to this agreement of \$0 \$37,500 and \$150,000, \$75,000 for the current quarter and prior year quarter, respectively. See Note 13 for discussion related to a reduction of future service fees, effective as of July 1, 2023.

License Agreement

On May 31, 2022, the Company entered into a license agreement with IM Topco, pursuant to which IM Topco granted the Company a license to use certain Isaac Mizrahi trademarks on and in connection with the design, manufacture, distribution, sale, and promotion of women's sportswear products in the United States and Canada during the term of the agreement, in exchange for the payment of royalties in connection therewith. The initial term of this agreement was set to end on

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December 31, 2026, December 31, 2026, and provided guaranteed minimum royalties to IM Topco of \$400,000 per year.

Effective December 16, 2022, the license agreement between IM Topco and Xcel was terminated in favor of a new similar license agreement between IM Topco and an unrelated third party. However, as part of the termination of the May 31, 2022 license agreement, Xcel provided a guarantee to IM Topco for the payment of any difference between (i) the royalties received by IM Topco from the unrelated third party under the new agreement and (ii) the amount of guaranteed royalties that IM Topco would have received from Xcel under the May 31, 2022 agreement. For the three and nine months ended September 30, 2023, prior year quarter, the estimated amount of such shortfall was approximately \$105,000 and \$225,000, respectively, \$60,000, which the Company recognized as royalty expense in the condensed consolidated statements of operations.

In November 2023, the Company, WHP, and IM Topco entered into an amendment of the May 27, 2022 membership purchase agreement, under which Xcel agreed to make additional royalty payments to IM Topco totaling \$450,000 over the next 11 months. As a result of this amendment, the Company recognized a \$450,000 increase to the carrying value basis of its equity method investment in IM Topco and a corresponding increase in current liabilities. No amounts were paid to IM Topco during the current quarter, and as of March 31, 2024, the remaining payments due totaled \$375,000.

Financing Transactions

Public Offering and Private Placement Transactions

In connection with the Offering of 3,284,422 shares of the Company's common stock at a price to the public of \$0.65 per share which was consummated on March 19, 2024 (see Note 7 for additional details), Robert W. D'Loren, Chairman and Chief Executive Officer of the Company; an affiliate of Mark DiSanto, a director of the Company; and Seth Burroughs, Executive Vice President of Business Development and Treasury of the Company, purchased 146,250, 146,250, and

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32,500 shares, respectively, at \$0.65 per share, the same price at which the shares were sold to other purchasers in the Offering.

In connection with the Offering, on March 14, 2024, the Company entered into subscription agreements with each of Mr. D'Loren, Mr. DiSanto, and Mr. Burroughs to purchase 132,589, 132,589, and 29,464 shares, respectively (collectively, the "Private Placement Shares"), at a price of \$0.98 per Private Placement Share. The total number of Private Placement Shares purchased was 294,642. Net proceeds after payment of agent fees to the Representative were approximately \$0.3 million. The purchase of the Private Placement Shares closed concurrently with the Offering.

12.11. Commitments and Contingencies

Contingent Obligation – Isaac Mizrahi Transaction

In connection with the May 31, 2022 transaction related to the sale of a majority interest in the Isaac Mizrahi Brand, the Company agreed with WHP that, in the event that IM Topco receives less than \$13.3 million in aggregate royalties for any four consecutive calendar quarters over a three-year period ending on May 31, 2025, WHP would be entitled to receive from Xcel up to \$16 million, less all amounts of net cash flow distributed to WHP on an accumulated basis, as an adjustment to the purchase price previously paid by WHP. Such amount would be payable by the Company in either cash or equity interests in IM Topco held by the Company. In November 2023, this agreement was amended such that the purchase price adjustment provision was waived until the measurement period ending March 31, 2024. The purchase price adjustment provision was subsequently further amended in April 2024 (see Note 12 for details).

No amount has been recorded in the accompanying condensed consolidated balance sheets related to this contingent obligation.

Contingent Obligation – Lori Goldstein Earn-Out

In connection with the April 1, 2021 purchase of the Lori Goldstein trademarks, the Company agreed to pay the seller additional cash consideration (the "Lori Goldstein Earn-Out") of up to \$12.5 million, based on royalties earned during the six calendar year period commencing in 2021. The Lori Goldstein Earn-Out was initially recorded as a liability of \$6.6 million, based on the difference between the fair value of the acquired assets of the Lori Goldstein brand and the total consideration paid, in accordance with the guidance in ASC Subtopic 805-50.

As of December 31, 2022, based on the performance of the Lori Goldstein brand to date, approximately \$0.2 million of additional consideration was earned by the seller, and this \$0.2 million of additional consideration was paid to the seller during 2023.

Based on the performance of the Lori Goldstein brand through December 31, 2022 December 31, 2023, approximately \$0.2 million \$1.0 million of incremental additional consideration has been was earned by the seller, to date, and this amount was which will be paid to the seller during out in 2024. During the current nine months. At December 31, 2022, \$0.2 million quarter, the Company paid approximately \$0.3 million of the balance was recorded \$1.0 million earned, and as a current liability and \$6.4 million was recorded as a long-term liability. At September 30, 2023 of March 31, 2024, \$0.8 million \$0.7 million of the remaining balance was recorded as a current liability and approximately \$5.6 million \$5.4 million was recorded as a long-term liability.

Contingent Obligation – Isaac Mizrahi Transaction Legal Matters

In connection with From time to time, the May 31, 2022 transaction related Company becomes involved in legal claims and litigation in the ordinary course of business. The Company routinely assesses all its litigation and threatened litigation as to the sale probability of ultimately incurring a majority interest liability, and records its best estimate of the ultimate loss in situations where it assesses the Isaac Mizrahi Brand (see Note 2), the Company agreed with WHP that, in the event that IM Topco receives less than \$13.3 million in aggregate royalties for any four consecutive calendar quarters over a three-year period ending on May 31, 2025, WHP will be entitled to receive from the Company up to \$16 million, less all amounts likelihood of net cash flow distributed to WHP on an accumulated basis, loss as an adjustment to the purchase price previously paid by WHP. Such amount would be payable by the Company in either cash or equity interests in IM Topco held by the Company. Based on IM Topco's earnings from May 31, 2022 through September 30, 2023 and the applicable distribution provisions, WHP earned \$9.1 million in cash flow, which reduces the maximum potential purchase price adjustment to \$6.9 million.

Although IM Topco's aggregate royalties fell below the aforementioned threshold for the four consecutive quarter period ending September 30, 2023, WHP provided a waiver to Xcel relative to such requirement for the period. The waiver also includes the measurement period ending December 31, 2023. The next measurement period shall be the trailing four calendar quarters ending March 31, 2024. IM Topco's aggregate royalties through September 30, 2023 were lower than expected as a result of soft sales in its interactive television business, primarily driven by talent scheduling conflicts as QVC transitions from remote shows to 100% in-studio shows. Management believes this softness in sales is temporary, and steps are underway to restore airtime back to levels that will result in meeting planned sales levels. Accordingly, no amount has been recorded in the accompanying condensed consolidated balance sheets related to this contingent obligation. probable.

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Legal Proceedings

From time to time, With the Company becomes involved exception of the matter described in legal claims and litigation detail below, in the ordinary course of business. In the opinion of management, based on consultations with legal counsel, the disposition of litigation currently pending against the Company is unlikely to have, individually or in the aggregate, a materially adverse effect on the Company's business, financial position, results of operations, or cash flows.

On February 16, 2024, counsel to Lori Goldstein, a brand spokesperson for the Company, advised the Company that the Company was in material breach of the Asset Purchase Agreement dated March 31, 2021 (the "Asset Purchase Agreement") by and among Gold Licensing LLC ("Gold" and, together with Xcel, the "Xcel Parties"), a subsidiary of the Company, and Lori Goldstein and Lori Goldstein, Ltd. ("LG Ltd" and, together with Lori Goldstein, the "LG Parties") for failure to pay \$963,642 earned in 2023 in accordance with the earn-out provisions of the agreement. The Company ~~routinely assesses all its litigation~~ does not dispute the amount of the Lori Goldstein Earn-Out that was achieved in 2023, and ~~threatened litigation as advised~~ Ms. Goldstein that due to the ~~probability of ultimately incurring a liability, and records its best estimate~~ alleged breaches described below, the Company was not willing to pay this amount at such time. The Company subsequently paid approximately \$241,000 of the ~~ultimate loss~~ earn-out payment.

On May 2, 2024, the Xcel Parties made a written demand for arbitration and commenced an arbitration proceeding against the LG Parties for, among other things, alleged breaches of the Asset Purchase Agreement and alleged breaches of Ms. Goldstein's employment agreement with the Company. The Company is seeking compensatory damages and consequential damages. Additionally, on May 2, 2024, the Company terminated the employment agreement and the consulting agreement between the Company and LG Ltd. The parties are negotiating to resolve all outstanding disputes and, if an agreement is reached, it may include, among other things, a disposition of the Lori Goldstein brands and related assets to LG Ltd. By agreement between the Company and Ms. Goldstein, while negotiations continue, Ms. Goldstein is continuing to comply with her material obligations to QVC. There can be no assurance that these disputes will be resolved in ~~situations where~~ a manner favorable to the Company or at all.

As of the filing date of this Quarterly Report on Form 10-Q, there have been no definitive agreements or terms agreed to by the parties, and it ~~assesses the likelihood of loss as probable~~ is not certain when or if an agreement will be executed.

13.12. Subsequent Events

Restructuring of Certain Contractual Arrangements

On October 17, 2023, the Company and one of the licensees managed under the Halston Master License entered into an amendment of their respective licensing agreement. Under this amendment, the payment terms of the \$0.76 million outstanding balance due to the Company were changed such that the receivable (and collection thereof) became contractually contingent upon the licensee's future performance. The licensee is also required to pay interest to the Company on a monthly basis until the outstanding balance is paid in full.

The Company recorded a non-cash charge of \$0.76 million within other selling, general and administrative expenses in the current quarter and current nine months related to the restructuring of this licensing arrangement, in order to write-down the previously-recorded receivable to zero.

IDB Term Loan and Interest Rate Swap

On October 19, 2023, H Halston IP, LLC (the "Borrower"), a wholly owned indirect subsidiary of Xcel Brands, Inc., entered into a Term Loan Agreement (the "Loan Agreement") with Israel Discount Bank of New York ("IDB"). Pursuant to the Loan Agreement, IDB made a term loan in the aggregate amount of \$5.0 million (the "Term Loan"). The proceeds of the Term Loan were used to pay fees, costs, and expenses incurred in connection with entering into the Loan Agreement of approximately \$0.1 million (including a commitment fee paid to IDB in the amount of \$50,000 and legal fees paid to counsel of IDB in the amount of \$82,000), and may be used for working capital purposes.

In connection with the Loan Agreement, the Borrower and H Licensing, LLC ("H Licensing"), a wholly owned subsidiary of Xcel, entered into a Security Agreement (the "Security Agreement") in favor of IDB, and Xcel entered into a Membership Interest Pledge Agreement (the "Pledge Agreement") in favor of IDB. Pursuant to the Security Agreement, the Borrower and H Licensing granted to IDB a security interest in substantially all of their respective assets, other than the trademarks owned by the Borrower and H Licensing, to secure the Borrower's obligations under the Loan Agreement. Pursuant to the Pledge Agreement, Xcel granted to IDB a security interest in its membership interests in H Licensing to secure the Borrower's obligations under the Loan Agreement.

The Term Loan matures on October 19, 2028. Principal on the Term Loan shall be payable in quarterly installments of \$250,000 on each of January 2, April 1, July 1, and October 1 of each year, commencing on April 1, 2024. The Borrower has the right to prepay all or any portion of the Term Loan at any time without penalty.

Interest on the Term Loan accrues at Term SOFR (as defined in the Loan Agreement as the forward-looking term rate based on secured overnight financing rate as administered by the Federal Reserve Bank of New York for an interest period equal to one month on the day that is two U.S. Government Securities Business Days prior to the first day of each calendar month) plus 4.25% per annum. Interest on the Term Loan is payable on the first day of each calendar month.

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XCEL BRANDS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2023

(Unaudited)

The Loan Agreement contains customary covenants, including reporting requirements, trademark preservation, and certain financial covenants including annual guaranteed minimum royalty ratio, annual fixed charge coverage ratio, and minimum cash balance levels, all as specified and defined in the Loan Agreement.

In addition, on October 19, 2023, the Borrower also entered into a swap agreement with IDB, pursuant to which IDB will pay the Borrower Term SOFR plus 4.25% per annum on the notional amount of the swap in exchange for the Borrower paying IDB 9.46% per annum on such notional amount. The term and declining notional amount of the swap agreement is aligned with the amortization of the Term Loan principal amount.

Longaberger Brand E-Commerce Agreement

On October 29, 2023, Longaberger Licensing, LLC ("LL") entered into a master services agreement with a third party, under which LL granted to the counterparty a license to operate and manage the e-commerce operations of LL. This agreement has an initial term ending December 31, 2026, with an option for the counterparty to renew for an additional three years, provided that certain sales thresholds are met. In exchange, the counterparty agreed to pay LL a percentage royalty based on net sales, as well as a percentage share of the "modified contribution margin" (as defined in the agreement) of the e-commerce business operations.

Amendments Related to IM Topco

In November 2023, On April 12, 2024, the Company, WHP, and IM Topco entered into amendments of the May 27, 2022 (and as subsequently amended) membership purchase agreement (see Note 2) and the May 31, 2022 services agreement (see Note 11), related business venture agreement. Under these amendments, the parties agreed to waive the purchase price adjustment provision until the measurement period ending March 31, 2024. In exchange, Xcel shall provide IM Topco with a \$0.6 million reduction of future service fees over the next eighteen months, beginning on July 1, 2023, following:

- The purchase price adjustment provision within the membership purchase agreement was waived until the measurement period ending September 30, 2025.

- If IM Topco royalties are less than \$13.5 million for the twelve-month period ending March 31, 2025 or less than \$18.0 million for the year ending December 31, 2025, Xcel shall transfer equity interests in IM Topco to WHP equal to 12.5% of the total outstanding equity interests of IM Topco, such that Xcel's ownership interest in IM Topco would decrease from 30% to 17.5%, and WHP's ownership interest in IM Topco would increase from 70% to 82.5%. In addition, Xcel shall be obligated to make such transfer to WHP if Xcel fails to make certain payments owed to IM Topco by October 10, 2024 under the second amendment (which totaled \$375,000 as of December 31, 2023 and March 31, 2024). In April 2024, Xcel paid \$100,000 of this amount to WHP.
- On and after January 1, 2026, WHP shall receive 50% of the Net Cash Flow which would otherwise be payable to Xcel, until WHP has received an aggregate amount of additional Net Cash Flow equal to \$1.0 million.

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

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995. The statements that are not historical facts contained in this report are forward-looking statements that involve a number of known and unknown risks, uncertainties and other factors, all of which are difficult or impossible to predict and many of which are beyond our control, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks are detailed in the Risk Factors section of our Form 10-K for the fiscal year ended December 31, 2022 December 31, 2023, as filed with the SEC on April 17, 2023 April 19, 2024. 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, live streaming, wholesale distribution, and direct-to-consumer social commerce sales of branded apparel, footwear, accessories, fine jewelry, home goods and other consumer products, and the acquisition of dynamic consumer lifestyle brands. Xcel was founded in 2011 with a vision to reimagine shopping, entertainment, and social media as one thing. Currently, the Company's brand portfolio consists of the **LOGO** by Lori Goldstein brand (the "Lori Goldstein Brand"), the **Halston** brands (the "Halston Brand"), the **Judith Ripka** brands (the "Ripka Brand"), the **C Wonder** brands (the "C Wonder Brand"), the **Longaberger** brand (the "Longaberger Brand"), the **Isaac Mizrahi** brands (the "Isaac Mizrahi Brand"), and other proprietary brands. following:

- The Lori Goldstein Brand, the Halston Brand, Ripka Brand, and C Wonder Brand, and Lori Goldstein Brand, which are wholly owned by the Company.
- We manage the Longaberger Brand, which we manage through our 50% ownership interest in Longaberger Licensing, LLC, LLC, and the CB Brand, which is a co-owned brand between Xcel and Christie Brinkley; and
- The Company wholly owned and managed the Isaac Mizrahi Brand, through May 31, 2022. On May 31, 2022, in which we sold a majority interest in the brand to a third party, but retained hold a 30% noncontrolling interest in the brand and continue to contribute to the operations of the brand through a service agreement.

We also own a 30% interest in **ORME** Live Inc., a short-form video and social commerce marketplace that launched in the first quarter of 2024.

Xcel continues to pioneer a true omni-channel and social commerce sales strategy which includes the promotion and sale of products under its brands through interactive television, digital live-stream shopping, wholesale, social commerce, traditional brick-and-mortar retailers, and e-commerce channels, to be everywhere its customers shop. Our brands have generated over \$3 billion in retail sales via live streaming in interactive television and digital channels alone, and our brands collectively reach over 5 million social media followers through Facebook, Instagram, and TikTok. All of the followers may not be unique followers, as many followers may follow multiple brands and follow our brands on multiple platforms.

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

- distribution and/or licensing of our brands for sale through interactive television (i.e. (e.g., QVC, HSN, The Shopping Channel, TVSN, CJO, JTV, etc.);
- licensing of our brands to retailers that sell to the end consumer;
- direct-to-consumer distribution of our brands through e-commerce and live streaming;
- licensing our brands to manufacturers and retailers for promotion and distribution through e-commerce, social commerce, and traditional brick-and-mortar retail channels whereby we provide certain design services; channels; and

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- acquiring additional consumer brands and integrating them into our operating platform, and leveraging our operating infrastructure and distribution relationships.

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

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

We utilize state-of-the-art supply chain management technology, trend analytics, and data science to actively monitor fashion trends and read and react to customer demands.

Summary of Operating Results

Three months ended September 30, 2023 March 31, 2024 (the "current quarter") compared with the three months ended September 30, 2022 March 31, 2023 (the "prior year quarter")

Revenues

Current quarter net revenue decreased approximately \$1.9 million \$3.9 million to \$2.6 million \$2.2 million from \$4.5 million \$6.1 million for the prior year quarter.

Net licensing revenue increased approximately \$0.2 million to \$2.4 million from \$2.2 million in the prior year quarter, primarily driven by increases in sales through interactive television, mainly This decline was almost entirely attributable to our C Wonder brand.

Net product sales decreased by approximately \$2.1 million in the current quarter to approximately \$0.3 million, compared with \$2.3 million in the prior year quarter. This decrease was primarily attributable to the exit from our wholesale apparel and fine jewelry sales operations earlier in 2023 as part of the restructuring and transformation of our business operating model, which was substantially completed as of June 30, 2023.

Cost of Goods Sold

Current quarter cost of goods sold was \$0.2 million, compared with \$1.5 million for the prior year quarter.

Gross profit margin from net product sales (net sales less cost of goods sold, divided by net sales) decreased from approximately 37% in the prior year quarter to approximately 12% in the current quarter. The decrease in gross profit margin percentage was the result of reduced wholesale apparel sales attributable to excess chargebacks.

Gross profit (net revenue less cost of goods sold) decreased approximately \$0.6 million to \$2.4 million from \$3.0 million in the prior year quarter, primarily driven by the aforementioned decrease in net product sales to zero, due to the exit from our wholesale apparel and fine jewelry sales operations earlier and outsourcing of our Longaberger business as part of the restructuring and transformation of our business operating model in 2023. Net licensing revenue was approximately \$2.2 million in both the current quarter and prior year quarter, and with a decrease of less than 2% was essentially flat year-over-year.

[Table](#) [Cost of Contents](#) Goods Sold

Current quarter cost of goods sold was zero, compared with \$2.7 million for the prior year quarter. This was driven by the aforementioned exit from our wholesale and direct-to-consumer operations as part of the 2023 business model restructuring.

Direct Operating Costs and Expenses

Direct operating costs and expenses decreased approximately \$1.3 million \$3.0 million from \$6.9 million \$7.0 million in the prior year quarter to \$5.6 million \$4.0 million in the current quarter. This decrease was primarily attributable to lower salaries, benefits and employment costs, driven by reductions in staffing levels in the 2023 related to the restructuring and transformation of our business operating model, which included reductions in staffing levels as well as related reductions in other overhead costs. These decreases were partially offset by \$0.8 million in costs related to the restructuring of certain contractual arrangements in

connection with the shift and evolution in the Company's business operations, and also by a \$0.1 million impairment charge related to certain capitalized software assets.

Other Operating Costs and Expenses (Income)

Depreciation and amortization expense was approximately \$1.8 million \$1.6 million and \$1.7 million \$1.8 million in the current quarter and prior year quarter, respectively.

We account for our interest in the ongoing operations of IM Topco, LLC using the recognized equity method of accounting. We recognized an equity method loss losses related to our investment equity investments in unconsolidated affiliates (IM Topco, LLC and Orme Live Inc.) of \$0.52 million \$0.53 million and \$0.28 million \$0.52 million for the current quarter and prior year quarter, respectively, based on due to the operations of those businesses and the distribution provisions set forth in applicable to each.

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During the current quarter, we recognized asset impairment charges of \$2.3 million related business venture agreement to our exit from and sublease of our offices at 1333 Broadway, of which \$1.9 million related to the operating lease right-of-use asset and \$0.4 million related to leasehold improvements at that location.

Income Taxes

The estimated annual effective income tax rate for the current quarter and the prior year quarter was approximately 0% and 26%, respectively, for both periods, resulting in an income tax (benefit) provision benefit of \$0 and \$1.54 million, respectively, for both periods.

For both the current quarter and the prior year quarter, the federal statutory rate differed from the effective tax rate due to the recording of a valuation allowance against the benefit that would have otherwise been recognized, as it was considered not more likely than not that the net operating losses generated during each period will be utilized in future periods.

For the prior year quarter, the federal statutory rate differed from the effective tax rate primarily due to recurring permanent differences and state taxes, which increased the effective tax rate by approximately 5%

Net Loss Attributable to Xcel Brands, Inc. Stockholders

We had a net loss of \$5.1 million \$6.3 million for the current quarter, compared with a net loss of \$4.0 million \$5.6 million for the prior year quarter, due to the combination of the factors outlined above.

Non-GAAP Net (Loss) Income, Non-GAAP Diluted EPS, and Adjusted EBITDA

We had a non-GAAP net loss of approximately \$3.0 million \$1.8 million, or \$0.15 \$0.09 per diluted share ("non-GAAP diluted EPS"), for the current quarter and a non-GAAP net loss of \$3.3 million \$3.6 million, or \$0.17 \$0.18 per diluted share, for the prior year quarter. Non-GAAP net (loss) income is a non-GAAP unaudited term, which we define as net (loss) income attributable to Xcel Brands, Inc. stockholders, exclusive of amortization of trademarks, our proportional share of trademark amortization of equity method investees, stock-based compensation and cost of licensee warrants, loss on extinguishment of debt, gains on sales of assets and investments, gain on lease termination, asset impairments, impairment charges, and income taxes. Non-GAAP net income and non-GAAP diluted EPS measures do not include the tax effect of the aforementioned adjusting items, due to the nature of these items and the Company's tax strategy.

We had Adjusted EBITDA of approximately **\$(1.4)** **\$(1.6)** million for the current quarter, compared with approximately **\$(2.9)** **\$(3.2)** million for the prior year quarter. Adjusted EBITDA is a non-GAAP unaudited measure, which we define as net (loss) income attributable to Xcel Brands, Inc. stockholders before depreciation and amortization, our proportional share of trademark amortization of equity method investees, interest and finance expenses (including loss on extinguishment of debt, if any), income taxes, other state and local franchise taxes, stock-based compensation and cost of licensee warrants, gains on sales of assets and investments, gain on lease termination, asset **impairments**, **impairment charges**, and costs associated with restructuring of operations.

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Costs associated with restructuring of operations include the current year operating losses generated by certain of our businesses that have been restructured or discontinued (i.e., wholesale apparel and fine jewelry), as well as non-cash charges associated with the restructuring of certain contractual arrangements.

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

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

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these expenses or any other unusual or non-recurring items. When evaluating our performance, you should consider non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA alongside other financial performance measures, including our net

income and other GAAP results, and not rely on any single financial measure.

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

(\$ in thousands)	Three Months Ended		Three Months Ended	
	September 30,		March 31,	
	2023	2022	2024	2023
Net loss attributable to Xcel Brands, Inc. stockholders	\$ (5,144)	\$ (4,042)	\$ (6,294)	\$ (5,643)
Amortization of trademarks	1,520	1,520	1,519	1,520
Proportional share of trademark amortization of equity method investee	515	742	515	515
Stock-based compensation and cost of licensee warrants	62	51	144	57
Income tax benefit	—	(1,539)	—	—
Asset impairment charges	—	—	2,295	—
Non-GAAP net loss	\$ (3,047)	\$ (3,268)	\$ (1,821)	\$ (3,551)

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

	Three Months Ended		Three Months Ended	
	September 30,		March 31,	
	2023	2022	2024	2023
Diluted loss per share	\$ (0.26)	\$ (0.21)	\$ (0.31)	\$ (0.29)
Diluted net loss per share	—	—	—	—
Amortization of trademarks	0.08	0.08	0.07	0.08
Proportional share of trademark amortization of equity method investee	0.03	0.04	0.03	0.03
Stock-based compensation	0.00	0.00	—	—
Income tax benefit	—	(0.08)	—	—
Stock-based compensation and cost of licensee warrants	—	—	0.01	0.00
Asset impairment charges	—	—	0.11	—
Non-GAAP diluted EPS	\$ (0.15)	\$ (0.17)	\$ (0.09)	\$ (0.18)
Non-GAAP weighted average diluted shares	19,749,317	19,624,860	20,374,920	19,633,194

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

Three Months Ended	Three Months Ended
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(\$ in thousands)	September 30,		March 31,	
	2023	2022	2024	2023
Net loss attributable to Xcel Brands, Inc. stockholders	\$ (5,144)	\$ (4,042)	\$ (6,294)	\$ (5,643)
Asset impairment charges			2,295	—
Depreciation and amortization	1,677	1,815	1,589	1,797
Proportional share of trademark amortization of equity method investee	515	742	515	515
Interest and finance (income) expense	—	(6)		
Income tax benefit	—	(1,539)		
Interest and finance expense			150	25
State and local franchise taxes	9	85	12	21
Stock-based compensation and cost of licensee warrants	62	51	144	57
Costs associated with restructuring of operations	1,471	—		
Adjusted EBITDA	<u>\$ (1,410)</u>	<u>\$ (2,894)</u>	<u>\$ (1,589)</u>	<u>\$ (3,228)</u>

Nine months ended September 30, 2023 (the “current nine months”) compared with the nine months ended September 30, 2022 (the “prior year nine months”)

Revenues

Current nine months net revenue decreased approximately \$6.2 million to \$15.5 million from \$21.7 million for the prior year nine months.

Net licensing revenue decreased by approximately \$6.3 million in the current nine months to \$7.0 million, compared with \$13.3 million in the prior year nine months. This decrease in licensing revenue was primarily attributable to the May 31, 2022 sale of a majority interest in the Isaac Mizrahi brand through the sale of a 70% interest in IM Topco, LLC to WHP. Since the closing of such sale, we no longer record Isaac Mizrahi brand licensing revenue as part of our revenues.

Net product sales were essentially flat at \$8.4 million for both the current nine months and the prior year nine months. This was primarily attributable to sale of all of our C Wonder apparel inventory to HSN and the sale of all of our Judith Ripka fine jewelry inventory to JTV, as part of the restructuring and transformation of our business operating model during the first half of 2023, partially offset by the lack of such sales during the third quarter of 2023 due to our exit from wholesale apparel and fine jewelry sales operations.

Cost of Goods Sold

Current nine months cost of goods sold was \$6.7 million, compared with \$5.7 million for the prior year nine months.

Gross profit margin from net product sales (net sales less cost of goods sold, divided by net sales) decreased from approximately 32% in the prior year nine months to approximately 20% in the current nine months. The decrease in gross profit margin percentage was the result of selling all remaining jewelry at an agreed-upon price which was less than historical margins and the sale of the remaining apparel inventory at discounted sales amounts.

Gross profit (net revenue less cost of goods sold) decreased approximately \$7.2 million to \$8.8 million from \$16.0 million in the prior year nine months, primarily driven by the aforementioned decrease in net licensing revenue.

Direct Operating Costs and Expenses

Direct operating costs and expenses decreased approximately \$6.9 million from \$24.7 million in the prior year nine months to \$17.8 million in the current nine months. This decrease was primarily attributable to lower salaries, benefits and employment costs, driven by the combination of (i) the May 31, 2022 sale of a majority interest in the Isaac Mizrahi brand and the transfer of the employees associated with the Isaac Mizrahi brand to the IM Topco, LLC business venture, and (ii) reductions in staffing levels and other costs during 2023 related to the restructuring and transformation of our business.

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operating model. These decreases were partially offset by \$0.8 million in costs related to the restructuring of certain contractual arrangements in connection with the shift and evolution in the Company's business operations, and also by a \$0.1 million impairment charge related to certain capitalized software assets.

Other Operating Costs and Expenses (Income)

Depreciation and amortization expense was approximately \$5.4 million and \$5.3 million in the current nine months and prior year nine months, respectively.

In the prior year nine months, we recognized a gain on the sale of a majority interest in the Isaac Mizrahi brand of approximately \$20.6 million, which was comprised of \$46.2 million of cash proceeds plus the recognition of the fair value of our retained interest in the brand of \$19.8 million, less \$0.9 million of fees and expenses directly related to the transaction and the derecognition of the brand trademarks previously recorded on our balance sheet of \$44.5 million.

We account for our interest in the ongoing operations of IM Topco, LLC using the equity method of accounting. We recognized an equity method loss related to our investment of \$1.55 million and \$0.28 million for the current nine months and prior year nine months, respectively, based on the distribution provisions set forth in the related business venture agreement.

Also during the current nine months, we recognized a gain of \$0.35 million related to the sale of a limited partner ownership interest in an unconsolidated affiliate, which was entered into in 2016, and recognized a gain of \$0.44 million related to a lease termination settlement with the landlord of our former retail store location.

Interest and Finance Expense

Interest and finance expense for the current nine months was \$0.0 million, compared with \$3.5 million for the prior year nine months. This decrease was attributable to the May 31, 2022 repayment of all of our outstanding term loan debt, which resulted in a \$2.3 million loss on early extinguishment of debt in the prior year nine months.

Income Taxes

The estimated annual effective income tax rate for the current nine months and the prior year nine months was approximately 0% and 62%, respectively, resulting in an income tax (benefit) provision of \$0 and \$1.64 million, respectively.

For the current nine months, the federal statutory rate differed from the effective tax rate due to the recording of a valuation allowance against the benefit that would have otherwise been recognized, as it was considered not more likely than not that the net operating losses generated during each period will be utilized in future periods.

For the prior year nine months, the federal statutory rate differed from the effective tax rate primarily due to recurring permanent differences, state taxes, and the discrete treatment of stock compensation shortfall, which increased the effective tax rate by approximately 41%.

Net (Loss) Income Attributable to Xcel Brands, Inc. Stockholders

We had a net loss of \$14.3 million for the current nine months, compared with net income of \$2.0 million for the prior year nine months, due to the combination of the factors outlined above.

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Non-GAAP Net (Loss) Income, Non-GAAP Diluted EPS, and Adjusted EBITDA

We had a non-GAAP net loss of approximately \$8.7 million, or \$0.44 per diluted share for the current nine months and a non-GAAP net loss of \$8.8 million, or \$0.45 per diluted share, for the prior year nine months.

We had Adjusted EBITDA of approximately \$(4.6) million for the current nine months, compared with approximately \$(6.6) million for the prior year nine months.

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

(\$ in thousands)	Nine Months Ended	
	2023	2022
Net (loss) income attributable to Xcel Brands, Inc. stockholders	\$ (14,255)	\$ 1,961
Amortization of trademarks	4,565	4,559
Proportional share of trademark amortization of equity method investee	1,545	742
Stock-based compensation and cost of licensee warrants	184	568
Loss on extinguishment of debt	—	2,324
Gains on sales of assets and investments	(351)	(20,608)
Gain on lease termination	(445)	—
Asset impairment	100	—
Income tax provision	—	1,639
Non-GAAP net loss	\$ (8,657)	\$ (8,815)

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

	Nine Months Ended	
	2023	2022
Diluted (loss) earnings per share	\$ (0.72)	\$ 0.10
Amortization of trademarks	0.23	0.23
Proportional share of trademark amortization of equity method investee	0.08	0.04
Stock-based compensation and cost of licensee warrants	0.01	0.03
Loss on extinguishment of debt	—	0.12
Gains on sales of assets and investments	(0.02)	(1.05)
Gain on lease termination	(0.02)	—
Asset impairment	0.00	—
Income tax provision	—	0.08

Non-GAAP diluted EPS	\$ (0.44)	\$ (0.45)
Non-GAAP weighted average diluted shares	19,683,525	19,624,604

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

(\$ in thousands)	Nine Months Ended	
	September 30,	2022
Net (loss) income attributable to Xcel Brands, Inc. stockholders	\$ (14,255)	\$ 1,961
Depreciation and amortization	5,260	5,447
Proportional share of trademark amortization of equity method investee	1,545	742
Interest and finance expense	18	3,505
Income tax provision	—	1,639
State and local franchise taxes	53	121
Stock-based compensation and cost of licensee warrants	184	568
Gains on sales of assets and investments	(351)	(20,608)
Gain on lease termination	(445)	—
Asset impairment	100	—
Costs associated with restructuring of operations	3,319	—
Adjusted EBITDA	\$ (4,572)	\$ (6,625)

Liquidity and Capital Resources

General

As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, our unrestricted cash and cash equivalents were **\$2.2 million** **\$1.6 million** and **\$4.6 million** **\$3.0 million**, respectively. Restricted cash at **March 31, 2024** (included within other assets in the condensed consolidated balance sheet) consisted of **\$0.7 million** of cash deposited with Israel Discount Bank of New York as collateral for a standby letter of credit associated with a real estate lease; there was no restricted cash as of **December 31, 2023**.

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Our principal capital requirements have been to fund working capital needs, acquire new brands, and to a lesser extent, capital expenditures. Notwithstanding our 2020 and 2021 investments in our ERP system and our brick-and-mortar retail store, respectively, our business Our current "licensing plus" operating model is a working capital light business model, and generally does not require material capital expenditures, and as expenditures. As of September 30, 2023 March 31, 2024, we have no significant commitments for future capital expenditures.

Working Capital

Our working capital (current assets less current liabilities, excluding the current portion of operating lease obligations, deferred revenue, and any contingent obligations payable in common stock) was \$2.9 million \$2.1 million and \$8.8 million \$2.9 million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Liquidity and Management's Plans

We incurred a net loss attributable to Company stockholders of approximately \$5.1 million and \$14.3 million \$6.3 million during the three and nine months ended September 30, 2023, respectively March 31, 2024 (which included net non-cash expenses of approximately \$2.3 million and \$7.1 million, respectively), \$4.6 million, and had an accumulated deficit of approximately \$47.1 million \$60.1 million as of September 30, 2023 March 31, 2024. Net cash used in operating activities was approximately \$2.8 million \$2.6 million for the nine three months ended September 30, 2023 March 31, 2024. These factors, along with our current levels of cash and working capital, raise uncertainties about the Company's ability to continue as a going concern.

Management has During the year ended December 31, 2023, management implemented a plan to mitigate an expected shortfall of capital and to support future operations by shifting the its business from a wholesale/licensing hybrid model into a "licensing-plus" business "licensing plus" model. In To affect this transition, the first quarter of 2023, we began to restructure our business operations by entering Company entered into various new licensing agreements and joint venture arrangements with best-in-class business partners. We entered into a new interactive television licensing agreement with America's Collectibles Network, Inc. d/b/a Jewelry Television ("JTV") for the Ripka Brand, and a separate license with JTV for the Ripka Brand's e-commerce business. For apparel, similar transactions These restructuring initiatives were executed. In conjunction with the launch of the C Wonder Brand on HSN, we licensed the wholesale operations related to the brand to One Jeanswear Group, LLC ("OJG"); this new license with OJG also includes other new celebrity brands that we plan to develop and launch in 2023

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and beyond. In the second quarter of 2023, we entered into a new master license agreement for the Halston Brand, covering men's, women's, and children's apparel, fashion accessories, and other product categories, with an industry-leading wholesale apparel company for distribution through department stores, e-commerce, and other retailers. This new master license for the Halston Brand provides for an upfront cash payment and royalties to the Company, including certain guaranteed minimum royalties, includes significant annual minimum net sales requirements, and has a twenty-five-year term (consisting of an initial five-year period, followed by a twenty-year period), subject to the licensee's right to terminate with at least 120 days' notice prior to the end of each five-year period during the term.

The transition of these operating businesses was substantially completed by the end as of the second quarter of 2023. Additionally, during the third quarter of 2023, the Company entered into various settlements and incurred approximately \$1.0 million of expenses to restructure certain contractual arrangements related to its former wholesale operations.

We believe June 30, 2023. Management believes that this evolution of our the Company's operating model will provide the Company with significant cost savings and allow us the Company to reduce and better manage our its exposure to operating risks. As of September 30, 2023 December 31, 2023, the Company has had reduced payroll costs by approximately \$6 million and operating expenses (excluding non-recurring charges related to the restructuring) by approximately \$7 million \$9 million, on an annualized basis when compared to the corresponding periods in the prior year.

While there is some level of potential risk with respect to Also during the Company's contingent obligation related to IM Topco, LLC, which could negatively impact our future cash flows and liquidity, management has taken steps to address such risk.

Further, in October 2023, we year ended December 31, 2023, the Company entered into a new term loan agreement in the amount of \$5 million, which provides us provided the Company with approximately \$5 million of additional liquidity. Also Further, in October 2023, Longaberger Licensing, LLC outsourced March 2024, the operations and management Company issued new shares of common stock for net proceeds of approximately \$1.9 million, which provided the Longaberger Brand's e-commerce business to a third party.

Company with additional liquidity.

Based on these recent the aforementioned events and changes, in our business model, management expects to generate adequate that existing cash and future operating cash flows will be adequate to meet the Company's operating needs, term debt service obligations, and capital expenditure needs, for at least the twelve months subsequent to the filing date of this Quarterly Report on Form 10-Q, and 10-Q; therefore, such conditions and uncertainties with respect to the Company's ability to continue as a going concern as of September 30, 2023 March 31, 2024, have been alleviated.

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

Operating Activities

Net cash used in operating activities was approximately \$2.81 million \$2.61 million in the current nine months, quarter, compared with approximately \$11.03 million \$2.92 million in the prior year nine months, quarter.

The current nine months quarter net cash used in operating activities was primarily attributable to the combination of the net loss of \$(15.04) \$(6.35) million plus non-cash items of approximately \$7.07 million \$4.59 million and the net change in operating assets and liabilities of approximately \$5.16 million. \$(0.85) million. Non-cash items were primarily comprised of \$5.26 million asset impairment charges of approximately \$2.30 million, \$1.59 million of depreciation and amortization, and the \$1.55 million \$0.53 million undistributed proportional share of net loss of equity method investee, and a \$0.76 million charge related to the restructuring of certain contractual arrangements, partially offset by a \$(0.35) gain on the sale of a financial asset and a \$(0.44) gain on the settlement of a lease liability, investees. The net change in operating assets and liabilities was primarily comprised of (i) an increase a

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decrease in deferred revenue of approximately \$4.68 million, which was \$(0.22) million, mainly attributable related to the upfront payment received for the Halston Master License agreement, entered into during the current nine months, (ii) a decrease in inventory of approximately \$1.85 million, driven by the sale of all of our C Wonder apparel inventory to HSN and the sale of all of

our Judith Ripka fine jewelry inventory to JTV, as part of the restructuring and transformation of our business operating model. Partially offsetting these net changes in operating assets and liabilities were decreases in various operating liabilities of approximately \$(1.40) \$0.56 million, and (iii) a decrease in lease-related assets and liabilities of \$(0.24) million.

The prior year nine months quarter net cash used in operating activities was primarily attributable to the combination of the net income loss of \$1.02 million \$(5.94) million plus non-cash items of approximately \$(11.30) million \$2.37 million and the net change in operating assets and liabilities of approximately \$(0.75) million. \$0.65 million. Non-cash items were primarily comprised of a \$(20.61) million net gain on the sale of the assets of the Isaac Mizrahi brand, \$5.45 million \$1.80 million of depreciation and amortization \$0.57 million and the \$0.52 million undistributed proportional share of stock-based

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compensation, a \$2.32 million loss on extinguishment of debt, and \$0.36 million of deferred taxes, an equity method investee. The net change in operating assets and liabilities was primarily comprised of an increase in inventory of \$(0.51) million, decreases increases in various operating liabilities (including deferred revenue) of \$(0.80) million, and changes in lease-related assets and liabilities of \$(0.20) million, approximately \$1.40 million, partially offset by a decrease an increase in accounts receivable of \$0.75 million.. \$(0.86) million.

Investing Activities

Net There was no net cash used in or provided by investing activities for the current nine months was approximately \$0.36 million, primarily driven by \$0.45 million of proceeds received from the sale of a limited partner ownership interest in an unconsolidated affiliate, which was entered into in 2016 quarter.

Net cash provided by used in investing activities for the prior year nine months was quarter consisted of approximately \$45.17 million, and was predominantly attributable to \$45.41 million of net proceeds from the sale of a majority interest in the Isaac Mizrahi brand to WHP, partially offset by approximately \$0.24 million \$0.08 million of capital expenditures, primarily related to software.

Financing Activities

Net cash provided by financing activities for was \$1.90 million, due to the current nine months financing transactions described below.

There was entirely attributable to proceeds from the exercise of employee stock options in the amount of approximately \$0.03 million.

Net no net cash used in or provided by financing activities for in the prior year nine months quarter.

Public Offering and Private Placement Transactions

On March 15, 2024, the Company entered into an underwriting agreement with Craig-Hallum Capital Group LLC (the "Representative"), as the representative of the underwriters, relating to a firm commitment underwritten public offering (the "Offering") of 3,284,422 shares of the Company's common stock at a price to the public of \$0.65 per share.

The closing of the Offering occurred on March 19, 2024. The net proceeds to the Company from the sale of the shares, after deducting the underwriting discounts and commissions and other estimated offering expenses payable by the Company, were

approximately \$1.7 million.

Upon closing of the Offering, the Company issued the Representative certain warrants to purchase up to 182,952 shares of common stock (the "Representative's Warrants") as compensation. The Representative's Warrants will be exercisable at a per share exercise price of \$0.8125. The Representative's Warrants are exercisable, in whole or in part, during the four and one-half-year period commencing 180 days from the commencement of sales of the shares of common stock in the Offering.

In connection with the Offering, on March 14, 2024, the Company entered into subscription agreements with each of Robert W. D'Loren, Chairman and Chief Executive Officer of the Company; an affiliate of Mark DiSanto, a director of the Company; and Seth Burroughs, Executive Vice President of Business Development and Treasury of the Company to purchase 132,589, 132,589, and 29,464 shares, respectively (collectively, the "Private Placement Shares"), at a price of \$0.98 per Private Placement Share. The total number of Private Placement Shares purchased was 294,642. Net proceeds after payment of agent fees to the Representative were approximately \$0.3 million. The purchase of the Private Placement Shares closed concurrently with the Offering.

The aggregate number of shares of common stock issued from the Offering and the Private Placement was 3,579,064 shares and the total net proceeds received was approximately \$30.95 million, which mainly consisted \$1.9 million.

[Table of \\$29.00 million of repayments of term loan debt, and, to a lesser extent, \\$1.51 million of prepayment and other fees associated with the extinguishment of debt, as well as \\$0.44 million of shares repurchased related to withholding taxes on vested restricted stock.](#) [Contents](#)

Contingent Obligation – Isaac Mizrahi Transaction

In connection with the May 31, 2022 transaction related to the sale of a majority interest in the Isaac Mizrahi brand, the Company we agreed with WHP (the buyer) that, in the event that IM Topco, LLC ("IM Topco") receives less than \$13.3 million in aggregate royalties for any four consecutive calendar quarters over a three-year period ending on May 31, 2025, WHP will would be entitled to receive from us up to \$16 million, less all amounts of net cash flow distributed to WHP on an accumulated basis, as an adjustment to the purchase price previously paid by WHP. Such amount would be payable by us in either cash or equity interests in IM Topco, LLC held by us. Based on IM Topco's earnings from May 31, 2022 through September 30, 2023 and

In November 2023, this agreement was amended such that the applicable distribution provisions, WHP earned \$9.1 million in cash flow, which reduces the maximum potential purchase price adjustment to \$6.9 million.

Although IM Topco's aggregate royalties fell below the aforementioned threshold for the four consecutive quarter period ending September 30, 2023, WHP provided a waiver to us relative to such requirement for the period. The waiver also includes provision was waived until the measurement period ending December 31, 2023. The next measurement period will be the trailing four calendar quarters ending March 31, 2024. IM Topco's aggregate royalties through September 30, 2023 were lower than expected as a result of soft sales in its interactive television business, primarily driven by talent scheduling conflicts as QVC transitions from remote shows to 100% in-studio shows. Management believes this softness in sales is temporary, and steps are underway to restore airtime back to levels that will result in meeting planned sales levels. Accordingly, no No amount has been recorded in the accompanying Company's condensed consolidated balance sheets related to this contingent obligation.

In November 2023, April 2024, the Company, WHP, and IM Topco, LLC entered into amendments of the May 27, 2022 membership purchase an amendment to this agreement, and the May 31, 2022 services agreement. Under these amendments, the parties agreed to waive such that the purchase price adjustment provision within the membership purchase agreement was waived until the measurement period ending March 31, 2024 September 30, 2025. In exchange, we will provide Additionally, the

parties agreed that if IM Topco, LLC royalties are less than \$13.5 million for the twelve-month period ending March 31, 2025 or less than \$18.0 million for the year ending December 31, 2025, Xcel shall transfer equity interests in IM Topco, LLC to WHP, such that Xcel's ownership interest in IM Topco, LLC would decrease from 30% to 17.5%, and WHP's ownership interest in IM Topco, LLC would increase from 70% to 82.5%.

Contingent Obligation – Lori Goldstein Earn-Out

In connection with the April 1, 2021 purchase of the Lori Goldstein trademarks, we agreed to pay the seller additional cash consideration of up to \$12.5 million, based on royalties earned during the six calendar year period commencing in 2021. The Lori Goldstein Earn-Out was initially recorded as a \$0.6 million reduction liability of future service fees over \$6.6 million, based on the next eighteen months, beginning difference between the fair value of the acquired assets of the Lori Goldstein brand and the total consideration paid.

As of December 31, 2022, based on July 1, 2023.

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Table the performance of Contentthe Lori Goldstein brand to date, approximately \$0.2 million of additional consideration was earned by the seller, and thus \$0.2 million of the balance was recorded as a current liability and \$6.4 million was recorded as a long-term liability. The \$0.2 million of additional consideration was paid to the seller during 2023.

Based on the performance of the Lori Goldstein through December 31, 2023, approximately \$1.0 million of incremental additional consideration was earned by the seller, which will be paid out in 2024. During the current quarter, the Company paid approximately \$0.3 million of the \$1.0 million earned, and as of March 31, 2024, \$0.7 million of the remaining balance was recorded as a current liability and \$5.4 million was recorded as a long-term liability.

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 Halston brand, C Wonder brand, Lori Goldstein brand, Halston brand, and C Wonder TowerHill by Christie Brinkley brand have a core business in fashion apparel and accessories. The Ripka brand is a fine jewelry business, and the Longaberger brand focuses on home good products, which we believe helps diversify our industry focus while at the same time complements our business operations and relationships.

While the 2022 sale of a majority interest in the Isaac Mizrahi brand has resulted in a decrease in our revenues, as that brand represented a significant portion of our historical revenues, we are taking actions to replace those revenues in the long-term with new strategic business initiatives, as we concentrate our resources on growing our brands, launching new brands, and entering into new business partnerships. We continue to seek new opportunities, including expansion through interactive television, live streaming, and additional domestic and international licensing arrangements, and acquiring and collaborating with additional brands, including recent launches of our Victor Glemaud and launching the C Wonder by Christian Siriano businesses business on HSN.

In HSN, and the first quarter planned May 2024 launch of the TowerHill by Christie Brinkley brand.

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During 2023, we began to restructure our business operations by shifting our business from a wholesale/licensing hybrid model into a “licensing-plus” business model. These efforts included entering into new structured contractual arrangements with best-in-class business partners in order to more efficiently operate our wholesale and e-commerce businesses and reduce and better manage our exposure to operating risks. These restructuring initiatives, completed as of June 30, 2023, and going forward on a go-forward basis, are expected to provide us with approximately \$13 million \$15 million of cost savings on an annualized basis compared to our previous operating model.

However, Nonetheless, we continue to face a number of headwinds in the current macroeconomic environment. Poor economic and market conditions, including a potential recession, inflation and rising consumer debt levels, may negatively impact market sentiment, decreasing the demand for apparel, footwear, accessories, fine jewelry, home goods, and other consumer products, which would adversely affect our operating income and results of operations. If we are unable to take effective measures in a timely manner to mitigate the impact of inflation and/or a potential recession, our business, financial condition, and results of operations could be adversely affected.

Our long-term success, however, will still remain largely dependent on our ability to build and maintain our brands' awareness and continue to attract wholesale and direct-to-consumer customers, and contract with and retain key licensees and business partners, as well as our and our licensees' ability to accurately predict upcoming fashion and design trends within their respective customer bases and fulfill the product requirements of the particular retail channels within the global marketplace. Unanticipated changes in consumer fashion preferences and purchasing patterns, slowdowns in the U.S. economy, changes in the prices of supplies, consolidation of retail establishments, and other factors noted in Item 1A of our most recent Annual Report on Form 10-K could adversely affect our licensees' ability to meet and/or exceed their contractual commitments to us and thereby adversely affect our future operating results.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

The preparation of our unaudited condensed consolidated financial statements in conformity with GAAP requires management to exercise judgment. We exercise considerable judgment with respect to establishing sound accounting policies and in making estimates and assumptions that affect the reported amounts of our assets and liabilities, our recognition of revenues and expenses, and disclosure of commitments and contingencies at the date of the financial statements. We evaluate our estimates and judgments on an on-going basis. We base our estimates and judgments on a variety of factors, including our historical experience, knowledge of our business and industry, and current and expected economic conditions that are believed to be reasonable under the circumstances, the results of which form the basis for

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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, 2022** **December 31, 2023**, filed with the SEC on **April 17, 2023** **April 19, 2024**, for a discussion of our critical accounting policies and estimates.

Effective January 1, 2023, we adopted the provisions of Accounting Standards Update No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (as amended). Although the adoption of this new guidance did not have a significant impact on the Company's results of operations, cash flows, or financial condition, it represented a change in our accounting policy with respect to the estimation of allowance for uncollectible accounts. Refer to Part I, Item 1, Note 5 of this Quarterly Report on Form 10-Q for additional information. During the three and nine months ended **September 30, 2023** **March 31, 2024**, there were no other material changes to our accounting policies.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

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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, 2023** **March 31, 2024**, 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 **not** effective as of **September 30, 2023** **March 31, 2024**, due to the material weakness described below.

The basis for the conclusion that such **internal control was ineffective included the information required to be disclosed following considerations:**

- The Company was unable to file its Annual Report on Form 10-K within the time specified in SEC rules and forms, due to a failure to obtain audited financial statements of the Company's investment in an equity method investee. Additional procedures were required for the Company's audit, which impacted on the resources required to timely file the Company's Form 10-K.

- During the middle of February 2024, our equity method investee engaged an independent audit accounting firm (separate from Marcum, LLP) to conduct its audit. We agreed to pay for all fees of the audit, and on February 23, 2024, paid a retainer to the audit firm, in accordance with the engagement. The audit firm was the same firm which conducted the audit for the year ended December 31, 2022 for the same equity method investee and delivered timely such audited financial statements for such prior audit. However, the audit firm for the equity method investee has not completed the 2023 audit on a timely basis. It was determined their progress was significantly deficient, and there would not be sufficient time to engage a new audit firm to receive timely, audited financial statements of the equity method investee. The determination was made to terminate this firm's 2023 engagement and have a new firm engaged to provide the 2023 audited financial statements.

Going forward, the Company will arrange for the appointment of a different auditor by the equity method investee and take a more active role in our SEC reports is recorded, processed, summarized, communicating with the auditor of the equity method investee, including assessing progress 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 timing.

B. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

There have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended **September 30, 2023** **March 31, 2024** that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, from time to time, we become the Company becomes involved in legal claims and litigation. In litigation in the ordinary course of business. The Company routinely assesses all its litigation and threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable.

With the exception of the matter described in detail below, in the opinion of management, based on consultations with legal counsel, the disposition of litigation currently pending against us the Company is unlikely to have, individually or in the aggregate, a materially adverse effect on our the Company's business, financial position, or results of operations. operations, or cash flows.

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[Table](#) On February 16, 2024, counsel to Lori Goldstein, a brand spokesperson for the Company, advised the Company that the Company was in material breach of the Asset Purchase Agreement dated March 31, 2021 (the "Asset Purchase Agreement") by and among Gold Licensing LLC ("Gold" and, together with Xcel, the "Xcel Parties"), a subsidiary of the Company, and Lori Goldstein and Lori Goldstein, Ltd. ("LG Ltd" and, together with Lori Goldstein, the "LG Parties") for failure to pay \$963,642

earned in 2023 in accordance with the earn-out provisions of the agreement. The Company does not dispute the amount of the Lori Goldstein earn-out that was achieved in 2023, and advised Ms. Goldstein that due to the alleged breaches described below, the Company was not willing to pay this amount at such time. The Company subsequently paid approximately \$241,000 of the earn-out payment.

On May 2, 2024, the Xcel Parties made a written demand for arbitration and commenced an arbitration proceeding against the LG Parties for, among other things, alleged breaches of the Asset Purchase Agreement and alleged breaches of Ms. Goldstein's employment agreement with the Company. The Company is seeking compensatory damages and consequential damages. Additionally, on May 2, 2024, the Company terminated the employment agreement and the consulting agreement between the Company and LG Ltd. The parties are negotiating to resolve all outstanding disputes and, if an agreement is reached, it may include, among other things, a disposition of the Lori Goldstein brands and related assets to LG Ltd. By agreement between the Company and Ms. Goldstein, while negotiations continue, Ms. Goldstein is continuing to comply with her material obligations to QVC. There can be no assurance that these disputes will be resolved in a manner favorable to the Company or at all.

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, 2022 December 31, 2023 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.

We have identified the following risk as a material change from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

We have recently begun to conduct certain of our operations through a joint venture. Joint ventures could fail to meet our expectations or cease to deliver anticipated benefits. There could also be disagreements with our joint venture partners that could adversely affect our interest in a joint venture.

In May 2022, we sold a majority interest in the Isaac Mizrahi brand through the sale of a 70% interest in IM Topco, LLC to IM WHP, LLC ("WHP"), a subsidiary of WHP Global. We may enter into additional joint ventures in the future. Our operating results are, in part, dependent upon the performance of IM Topco, LLC and, in the future, could also be dependent in part upon the performance of future joint ventures. Joint ventures involve numerous risks, and could fail to meet our initial or ongoing expectations. We provide certain services to IM Topco, LLC and may provide services to future joint ventures, but we do not control the day-to-day operations of IM Topco, LLC and may not control the day-to-day operations of future joint ventures. The anticipated synergies or other benefits of a joint venture may fail to materialize due to changing business conditions or changes in our business priorities or those of our joint venture partners. Our joint venture partners, as well as any future partners, may have interests that are different from our interests, which may result in conflicting views as to the conduct of the business or future direction of the joint venture. In the event that we have a disagreement with a joint venture partner with respect to a particular issue to come before the joint venture, or as to the management or conduct of the business of the joint venture, we may not be able to resolve such disagreement in our favor. Any such disagreement could have a material adverse effect on our interest in the joint venture, the business of the joint venture, or the portion of our growth strategy related to the joint venture.

In connection with the May 2022 Isaac Mizrahi transaction, the Company agreed with WHP that, in the event that IM Topco, LLC receives less than \$13.3 million in aggregate royalties for any four consecutive calendar quarters over a three-year period ending on May 31, 2025, WHP will be entitled to receive from us up to \$16 million, less all amounts of net cash flow distributed to WHP on an accumulated basis, as an adjustment to the purchase price previously paid by WHP. Such amount would be payable by us in either cash or equity interests in IM Topco, LLC held by us. Based on IM Topco, LLC's earnings from May 31, 2022 through September 30, 2023 and the applicable distribution provisions, WHP earned \$9.1 million in cash flow, which reduces the maximum potential purchase price adjustment to \$6.9 million. Although IM Topco, LLC's aggregate royalties were below the

aforementioned threshold for the four consecutive quarter period ending September 30, 2023, WHP provided a waiver to us relative to such requirement for the period. In exchange for the waiver, we agreed to provide IM Topco, LLC with a \$0.6 million reduction in future service fee payments over the next eighteen months. There can be no assurance that IM Topco, LLC's royalties will meet the required threshold level during any future measurement period. If such aggregate royalties are below the threshold and the Company does not receive a waiver, WHP will be entitled to a price adjustment which will result in either a cash payment by us or a reduction in our equity interest in WHP.

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

There were no sales of unregistered or registered securities during the three months ended September 30, 2023.

On August 22, 2023 March 14, 2024, in connection with an individual's cashless exercise of 40,000 stock options, 12,903 shares of common stock were exchanged from that individual in connection with the exercise cost. The 12,903 shares of stock were considered repurchased and retired by the Company during the three months ended September 30, 2023; the price paid for the shares was \$1.55, entered into subscription agreements with each of Robert W. D'Loren, Chairman and the fair value Chief Executive Officer of the Company; an affiliate of Mark DiSanto, a director of the Company; and Seth Burroughs, Executive Vice President of Business Development and Treasury of the Company to purchase 132,589, 132,589, and 29,464 shares, repurchased respectively (collectively, the "Private Placement Shares"), at a price of \$0.98 per Private Placement Share. The total number of Private Placement Shares purchased was \$20,000.

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[Table 294.642. Net proceeds after payment of Contents](#)agent fees to the representative were approximately \$0.3 million. The purchase of the Private Placement Shares closed on March 19, 2024.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

[31.1 Rule 13a-14\(a\)/15d-14\(a\) Certification \(CEO\)](#)

[31.2 Rule 13a-14\(a\)/15d-14\(a\) Certification \(CFO\)](#)

[32.1 Section 1350 Certification \(CEO\) *](#)

[32.2 Section 1350 Certification \(CFO\) *](#)

101.INS Inline XBRL Instance Document

101.SCH Inline XBRL Taxonomy Extension Schema Document

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF Inline XBRL Taxonomy Extension Definitions Linkbase Document

101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document

104 Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Furnished herewith.

SIGNATURES

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

Date: November 20, 2023 May 20, 2024

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

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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, 2023 March 31, 2024 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 May 20, 2023 2024

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, 2023 March 31, 2024 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 **May 20, 2023** 2024

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, 2023** **March 31, 2024** 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 May 20, 2023 2024

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, 2023 March 31, 2024 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 May 20, 2023 2024

By: /s/ James Haran

Name: James Haran

Title: Chief Financial Officer and Vice President

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