

ONE Group Hospitality, Inc.  
Form 10-Q  
August 14, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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 000-52651

THE ONE GROUP HOSPITALITY, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

14-1961545  
(I.R.S. Employer Identification No.)

411 W. 14th Street, 2nd Floor, New York, New York  
(Address of principal executive offices)

10014  
Zip Code

646-624-2400  
(Registrant's telephone number, including area code)

Indicate by check mark whether 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 such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check one):

1

---

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
 (do not check if a smaller reporting company)

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

Number of shares of Common Stock outstanding as of August 14, 2015: 24,972,515.

TABLE OF CONTENTS

	Page
<u>PART I – Financial Information</u>	
<u>Item 1. Financial Statements</u>	<u>3</u>
Consolidated Balance Sheets as of June 30, 2015 (unaudited) and December 31, 2014	<u>3</u>
Consolidated Statements of Operations and Comprehensive Income for the Three and Six Months Ended June 30, 2015 and 2014 (unaudited)	<u>4</u>
Consolidated Statement of Changes in Stockholders’ Equity for the Three and Six Months Ended June 30, 2015 (unaudited)	6
Consolidated Statements of Cash Flows for the Three and Six Months Ended June 30, 2015 and 2014 (unaudited)	7
<u>Notes to Consolidated Financial Statements</u>	8
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	36
<u>Item 4. Controls and Procedures</u>	36
<u>PART II – Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>38</u>
<u>Item 1A. Risk Factors</u>	<u>38</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>38</u>
<u>Item 4. Mine Safety Disclosures</u>	38
<u>Item 5. Other Information</u>	<u>39</u>
<u>Item 6. Exhibits</u>	<u>39</u>
<u>Signatures</u>	<u>41</u>

PART I  
FINANCIAL INFORMATION

Item 1. Financial Statements  
THE ONE GROUP HOSPITALITY, INC.

CONSOLIDATED BALANCE SHEETS

	June 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$2,848,277	\$7,905,004
Accounts receivable, net	5,156,139	4,408,396
Inventory	1,069,141	1,139,305
Other current assets	2,827,355	1,937,392
Due from related parties	1,481,089	1,157,134
Total current assets	13,382,001	16,547,231
Property and equipment, net	22,838,966	18,815,625
Investments	3,004,543	2,802,443
Deferred tax assets	7,364,982	35,418
Other assets	680,619	793,002
Security deposits	2,355,835	2,368,422
Total assets	\$49,626,946	\$41,362,141
Liabilities and Stockholders' Equity		
Current liabilities:		
Cash overdraft	\$236,716	\$85,598
Current portion of long term debt	1,728,333	1,495,000
Accounts payable	2,462,662	3,433,198
Accrued expenses	4,384,487	2,004,704
Due to related parties	—	19,608
Deferred revenue	224,674	127,950
Total current liabilities	9,036,872	7,166,058
Other long-term liabilities	—	67,277
Derivative liability	3,463,000	6,241,000
Long term debt, net of current portion	6,101,715	5,980,000
Deferred rent payable	11,147,032	9,435,109
Total liabilities	29,748,619	28,889,444
Stockholders' equity:		
Common stock, \$0.0001 par value, 75,000,000 shares authorized; 24,972,515 and 24,940,195 shares issued and outstanding at June 30, 2015 (unaudited) and December 31, 2014, respectively		2,494
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding at June 30, 2015 (unaudited) and December 31, 2014, respectively	—	—

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

Additional paid-in capital	31,471,008	30,966,611
Accumulated deficit	(10,705,854 )	(18,005,401 )
Accumulated other comprehensive income	(461,539 )	(230,696 )
Total stockholders' equity	20,306,112	12,733,008
Noncontrolling interest	(427,785 )	(260,311 )
Total stockholders' equity including noncontrolling interest	19,878,327	12,472,697
Total Liabilities and Stockholders' Equity	\$49,626,946	\$41,362,141

See notes to the consolidated financial statements.

3

---

## THE ONE GROUP HOSPITALITY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenues:				
Owned unit net revenues	\$ 12,778,925	\$ 10,124,208	\$ 22,504,226	\$ 18,278,100
Management and incentive fee revenue	2,121,977	2,143,132	4,173,253	4,262,160
Total revenue	14,900,902	12,267,340	26,677,479	22,540,260
Cost and expenses:				
Owned operating expenses:				
Food and beverage costs	3,238,175	2,525,549	5,735,390	4,670,577
Unit operating expenses	8,081,687	5,960,161	15,090,851	11,415,927
General and administrative	2,592,464	2,194,628	5,036,990	4,101,882
Depreciation and amortization	569,637	348,848	989,760	672,654
Management and royalty fees	21,895	74,456	46,649	95,538
Pre-opening expenses	1,690,308	586,825	2,765,021	833,173
Transaction costs	100,334	—	100,334	—
Equity in income of investee companies	(354,261 )	(205,928 )	(523,231 )	(320,336 )
Derivative income	(3,392,000 )	(2,832,711 )	(2,778,000 )	(2,784,711 )
Interest expense, net of interest income	39	39,564	(5,190 )	58,487
Other (income) expense	(275,621 )	(30,891 )	(604,624 )	70,630
Total costs and expenses	12,272,657	8,660,501	25,853,950	18,813,821
Income from continuing operations before provision for income taxes	2,628,245	3,606,839	823,529	3,726,439
Provision (benefit) for income taxes	(5,931,436 )	115,490	(6,541,931 )	350,682
Income from continuing operations	8,559,681	3,491,349	7,365,460	3,375,757
Loss from discontinued operations, net of taxes	(35,434 )	(346,252 )	(38,572 )	(1,271,426 )
Net income	8,524,247	3,145,097	7,326,888	2,104,331
Less: net income (loss) attributable to noncontrolling interest	134,080	131,899	27,341	(187,064 )
Net income attributable to The ONE Group Hospitality, Inc.	\$ 8,390,167	\$ 3,013,198	\$ 7,299,547	\$ 2,291,395
Amounts attributable to The ONE Group Hospitality, Inc.:				
:				
Income from continuing operations	\$ 8,425,601	\$ 3,350,032	\$ 7,338,119	\$ 3,493,079
Loss from discontinued operations, net of taxes	(35,434 )	(336,834 )	(38,572 )	(1,201,684 )
Net income attributable to The ONE Group Hospitality, Inc.	\$ 8,390,167	\$ 3,013,198	\$ 7,299,547	\$ 2,291,395

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

Net income attributable to The ONE Group Hospitality, Inc.	\$8,390,167	\$3,013,198	\$7,299,547	\$2,291,395
Other comprehensive income (loss)				
Currency translation adjustment	(102,023	) 23,690	(230,843	) 44,222
Comprehensive income	\$8,288,144	\$3,036,888	\$7,068,704	\$2,335,617

Basic and diluted income per share:

Continuing operations	\$0.34	\$0.13	\$0.29	\$0.14
Discontinued operations	\$—	\$(0.01)	) \$—	\$(0.05)
Net income per share attributable to The ONE Group Hospitality, Inc.	\$0.34	\$0.12	\$0.29	\$0.09
Shares used in computing basic income per share	24,955,467	24,940,195	24,947,873	24,943,394
Shares used in computing diluted income per share	24,955,467	24,972,150	24,947,873	25,029,957

See notes to the consolidated financial statements.



## THE ONE GROUP HOSPITALITY, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(unaudited)

	Common stock			Accumulated	Accumulated	Total	Noncontrolling	Total
	Shares	Par value	Additional paid-in capital	deficit	other comprehensive (loss) income	stockholders' (loss) income equity	interest	stockholders' equity including noncontrolling interest
Balance at December 31, 2014	24,940,195	\$2,494	\$30,966,611	\$(18,005,401)	\$(230,696)	\$12,733,008	\$(260,311)	\$12,472,697
Stock based compensation expense	32,320	3	504,397			504,400		\$504,400
Member distributions						—	(194,815 )	\$(194,815 )
Loss on foreign currency translation, net					(230,843 )	(230,843 )		\$(230,843 )
Net income				7,299,547		7,299,547	27,341	\$7,326,888
Balance at June 30, 2015	24,972,515	2,497	31,471,008	(10,705,854 )	(461,539 )	20,306,112	(427,785 )	19,878,327

See notes to the consolidated financial statements.

## THE ONE GROUP HOSPITALITY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

	Six months ended June 30,	
	2015	2014
Operating activities:		
Net income	\$7,326,888	\$2,104,331
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	989,760	758,526
Deferred rent payable	1,711,923	187,472
Deferred taxes	(7,329,564)	) 140,333
Equity in income of investee companies	(523,231)	) (320,336)
Derivative income	(2,778,000)	) (2,784,711)
Stock-based compensation	504,400	167,368
Changes in operating assets and liabilities:		
Accounts receivable	(747,743)	) (449,750)
Inventory	70,164	12,501
Prepaid expenses and other current assets	(889,963)	) 139,151
Security deposits	12,587	109,465
Other assets	112,381	(923,884)
Accounts payable	(970,536)	) (605,824)
Accrued expenses	2,379,783	(1,509,169)
Deferred revenue	29,447	51,993
Net cash used in operating activities	(101,704)	) (2,922,534)
Investing activities:		
Purchase of property and equipment	(5,013,099)	) (2,752,083)
Distributions from equity investees	321,131	358,855
Due from related parties	(343,563)	) 177,701
Net cash used in investing activities	(5,035,531)	) (2,215,527)
Financing activities:		
Cash overdraft	151,118	309,954
Proceeds from term loan	600,000	4,027,460
Proceeds from equipment financing agreement	502,548	—
Repayment of term loan	(747,500)	) (3,350,476)
Repayment of notes payable	—	(10,000)
Distributions to members	(194,815)	) (444,304)
Net cash provided by financing activities	311,351	532,634
Effect of exchange rate changes on cash	(230,843)	) 43,693
Net decrease in cash	(5,056,727)	) (4,561,734)
Cash and cash equivalents, beginning of period	7,905,004	11,681,086
Cash and cash equivalents, end of period	\$2,848,277	\$7,119,352

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

Supplemental disclosure of cash flow data:

Interest paid	\$89,203	\$107,806
Income taxes paid	\$301,165	\$278,910

See notes to the consolidated financial statements.

7

---

THE ONE GROUP HOSPITALITY, INC.

Notes to Consolidated Financial Statements  
(unaudited)

Note 1 - Merger:

On October 16, 2013, The ONE Group Hospitality, Inc. (the "Company") closed a merger transaction (the "Merger") with The ONE Group, LLC, a privately held Delaware limited liability company ("ONE Group"), pursuant to an Agreement and Plan of Merger, dated as of October 16, 2013 (the "Merger Agreement"), by and among The ONE Group Hospitality, Inc., formerly known as Committed Capital Acquisition Corporation, CCAC Acquisition Sub, LLC, a Delaware limited liability company and wholly-owned subsidiary of The ONE Group Hospitality, Inc. ("Merger Sub"), ONE Group and Samuel Goldfinger as ONE Group Representative. Pursuant to the Merger Agreement, ONE Group became a wholly-owned subsidiary of The ONE Group Hospitality, Inc. through a merger of Merger Sub with and into ONE Group, and the former members of ONE Group received shares of The ONE Group Hospitality, Inc. that constituted a majority of the outstanding shares of The ONE Group Hospitality, Inc.

The Merger was accounted for as a reverse-merger and recapitalization in accordance with GAAP, whereby the Company was the accounting acquiree and ONE Group was the accounting acquirer. Consequently, the assets and liabilities and the operations that are reflected in the historical financial statements prior to the Merger are those of ONE Group, and the consolidated financial statements after completion of the Merger include the assets and liabilities of the Company and ONE Group, historical operations of ONE Group and operations of the Company from the October 16, 2013 effective date. Membership interests and the corresponding capital amounts of ONE Group pre-Merger have been retroactively restated as shares of common stock reflecting the 8.09 to one exchange ratio in the Merger. All references in this Report to equity securities and all equity-related historical financial measurements, including weighted average shares outstanding, earnings per share, par value of \$0.0001 per share of the Company's common stock ("Common Stock"), additional paid in capital, option exercise prices and warrant exercise prices, have been retroactively restated to reflect the Merger exchange ratio.

On June 5, 2014, the Company changed its corporate name from Committed Capital Acquisition Corporation to The ONE Group Hospitality, Inc.

Note 2 - Business and basis of presentation:

Principles of consolidation:

The accompanying consolidated financial statements of The ONE Group Hospitality, Inc. and subsidiaries include the accounts of ONE Group and its subsidiaries, Little West 12th LLC ("Little West 12th"), One-LA, L.P. ("One LA"), Bridge Hospitality, LLC ("Bridge"), STK-LA, LLC ("STK-LA"), WSATOG (Miami), LLC ("WSATOG"), STK Miami Service, LLC ("Miami Services"), STK Miami, LLC ("STK Miami"), Basement Manager, LLC ("Basement Manager"), JEC II, LLC ("JEC II"), One TCI Ltd. ("One TCI"), One Marks, LLC ("One Marks"), MPD Space Events LLC ("MPD"), One 29 Park Management, LLC ("One 29 Park Management"), STK Midtown Holdings, LLC ("Midtown Holdings"), STK Midtown, LLC ("STK Midtown"), STKOUT Midtown, LLC ("STKOUT Midtown"), STK Atlanta, LLC ("STK Atlanta"), STK-Las Vegas, LLC ("STK Vegas"), One Atlantic City, LLC ("One Atlantic City"), Asellina Marks LLC ("Asellina Marks"), Heraea Vegas, LLC ("Heraea"), Xi Shi Las Vegas, LLC ("Xi Shi Las Vegas"), T.O.G. (UK) Limited ("TOG UK"), Hip Hospitality Limited ("Hip Hospitality UK"), T.O.G. (Aldwych) Limited ("TOG Aldwych"), CA Aldwych Limited ("CA Aldwych"), T.O.G. (Milan) S.r.l. ("TOG Milan"), BBCLV, LLC ("BBCLV"), STK DC, LLC ("STK DC"), STK Orlando, LLC ("STK Orlando"), STK Chicago, LLC ("STK Chicago"), TOG Biscayne, LLC ("TOG Biscayne"), STK Westwood, LLC ("STK Westwood"), STK Denver, LLC ("STK Denver"), STK Rebel Austin, LLC ("STK Rebel

Austin"), STK Dallas, LLC ("STK Dallas") and STK Rebel San Diego, LLC ("STK Rebel San Diego"). The entities are collectively referred to herein as the "Company" or "Companies," as appropriate, and are consolidated on the basis of common ownership and control. All significant intercompany balances and transactions have been eliminated in consolidation.

#### Net Income (Loss) Per Common Share

Basic net income (loss) per common share is based upon the weighted-average common shares outstanding during the period. Diluted net income (loss) per common share reflects the potential dilution that would occur if common stock equivalent securities or other contracts to issue common stock were exercised or converted into common stock.

#### Fair value measurements

8

---

The carrying amount of the Company's accounts receivable, accounts payable and accrued expenses approximate fair value because of the short term nature of the financial instruments. The carrying value of the long term debt approximates fair value since the terms of the loan have been recently negotiated.

Nature of business:

The Company is a hospitality company that develops and operates upscale, high-energy restaurants and lounges and provides turn-key food and beverage services for hospitality venues including hotels, casinos and other high-end locations in the United States and England. We opened our first restaurant in January 2004 in New York City and as of August 14, 2015, we owned and operated (under lease agreements) 11 and managed (under management agreements) 15 restaurants and lounges globally, including 9 STKs in major metropolitan cities in the United States and Europe (of which 6 are owned and 3 managed). In addition, we provided food and beverage services in five hotels and casinos, one of which is under a lease agreement and four of which are under separate management agreements. We generate management and incentive fee revenue from those restaurants and lounges that we manage on behalf of our F&B hospitality clients

Unaudited interim financial information:

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all the information and disclosures required by GAAP for complete financial statements. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or for any other interim period or other future year. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation. These unaudited condensed consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes for the fiscal year ended December 31, 2014 included in the Company's Annual Report filed on Form 10-K/A for the year ended December 31, 2014 filed with the Securities and Exchange Commission (the "SEC") on April 1, 2015.

Note 3 – Recent accounting pronouncements:

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" (Topic 606). ASU 2014-09 addresses the reporting of revenue by most entities and will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. This update is effective in fiscal periods beginning after December 15, 2017. Early application is permitted only as of annual reporting periods beginning after December 15, 2016. The impact on our financial statements of adopting ASU 2014-09 is currently being assessed by management.

In August 2014, the FASB issued ASU No. 2014-15 "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern," which provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern. The update is effective for annual periods ending after December 15, 2016, and interim periods thereafter. Early adoption is permitted. The impact on our financial statements of adopting ASU 2014-15 is currently being assessed by management.

In February 2015, the FASB issued ASC 2015-02, "Consolidation (Topic 810) - Amendments to the Consolidation Analysis." This standard modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years beginning after December 15, 2015, and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is permitted. The Company does not expect this standard to have a significant impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest- Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The update simplifies the presentation of debt issuance costs by requiring that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. For public companies, this update is effective for interim and annual periods beginning after December 15, 2015, and is to be applied retrospectively. Early adoption is permitted. The Company does not expect this standard to have a significant impact on its consolidated financial statements and has not yet concluded whether it will adopt ASU 2015-03 prior to the effective date.

Note 4 - Inventory:

Inventory consisted of the following:

9

---

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

	At June 30, 2015	At December 31, 2014
Food	\$216,636	\$134,355
Beverages	852,505	1,004,950
Totals	\$1,069,141	\$1,139,305

Note 5 - Property and equipment, net:

Property and equipment, net consisted of the following:

	At June 30, 2015	At December 31, 2014
Furniture, fixtures and equipment	\$7,986,196	\$7,336,956
Leasehold improvements	24,007,140	20,719,230
Less accumulated depreciation and amortization	13,193,264	13,833,271
	18,800,072	14,222,915
Construction in progress	3,119,493	3,871,670
Restaurant supplies	919,401	721,040
Total	\$22,838,966	\$18,815,625

Depreciation and amortization related to property and equipment included in continuing operations amounted to \$569,637 and \$348,848 in the three months ended June 30, 2015 and 2014, respectively, and \$989,760 and \$672,654 in the six months ended June 30, 2015 and 2014, respectively. Additionally, included in discontinued operations for the six months ended June 30, 2014 was depreciation of \$85,872.

Note 6 – Accrued expenses:

Accrued expenses consisted of the following:

	At June 30, 2015	At December 31, 2014
Sales tax payable	\$1,338,106	\$168,172
Payroll and related	1,096,544	435,259
Utilities	283,500	—
Income taxes payable	1,104,881	494,152
Due to hotels	200,000	200,000
Other	361,456	707,121
Totals	\$4,384,487	\$2,004,704





## Note 7 - Long term debt:

Long term debt consists of the following:

	June 30, 2015	December 31, 2014
Term Loan Agreements	\$7,327,500	\$7,475,000
Equipment Financing Agreement	502,548	—
	7,830,048	7,475,000
Less: Current portion of Long Term Debt	1,728,333	1,495,000
Long Term Debt, net of Current Portion	\$6,101,715	\$5,980,000
Future minimum loan payments:		
2015	\$847,500	
2016	1,795,000	
2017	1,828,333	
2018	1,630,881	
2019	1,628,334	
Thereafter	100,000	
Total	\$7,830,048	

On December 17, 2014, the Company entered into a Term Loan Agreement with BankUnited, N.A. in the amount of \$7,475,000 maturing December 1, 2019 (the "Term Loan Agreement"). The Term Loan Agreement replaced the existing credit agreement which was terminated and the aggregate principal amount of the existing loans outstanding of \$6,395,071 was converted into the Term Loan Agreement. Commencing on January 1, 2015, the Company made the first of sixty (60) consecutive monthly installments of \$124,583 plus interest that will accrue at an annual rate of 5.0%. Our obligations under the Term Loan Agreement are secured by substantially all of our assets. The outstanding balance under the Term Loan Agreement at June 30, 2015 and December 31, 2014 was \$6,727,500 and \$7,475,000, respectively.

On June 2, 2015, the Company entered into a second term loan agreement (the "Second Term Loan Agreement") with BankUnited, N.A., wherein BankUnited, N.A. agreed to make multiple advances to the Company in the aggregate principal amount of up to \$6,000,000. Commencing on April 1, 2016 the Company will pay fifty-four (54) consecutive equal monthly installments, with each such installment to be in the principal amount of \$111,111 or such lesser amount as shall be equal to the quotient of (x) the outstanding principal amount of all advances on March 31, 2016, divided by (y) fifty-four (54); provided, however, that the final principal installment shall be in an amount equal to the aggregate principal amount of all advances outstanding on September 1, 2020, or such earlier date on which all outstanding advances shall become due and payable, whether by acceleration or otherwise. This second term loan bears interest at a rate per annum equal to 5.0%. Our obligations under the Second Term Loan Agreement are secured by substantially all of our assets. The outstanding balance under the Second Term Loan Agreement at June 30, 2015 was \$600,000.

The Term Loan Agreement and the Second Term Loan Agreement contain certain affirmative and negative covenants, including negative covenants that limit or restrict, among other things, liens and encumbrances, indebtedness,

mergers, asset sales, investments, assumptions and guaranties of indebtedness of other persons, change in nature of operations, changes in fiscal year and other matters customarily restricted in such agreements. The financial covenants contained in these agreements require the borrowers to maintain a certain adjusted tangible net worth and a debt service coverage ratio.

The Company was in compliance with all of its financial covenants under the Term Loan Agreement and Second Term Loan Agreement as of June 30, 2015 and the Company believes based on current projections that the Company will continue to comply with such covenants through the remainder of 2015.

On June 5, 2015, the Company entered into a \$1,000,000 Equipment Finance Agreement (the "Agreement") with Sterling National Bank. The Agreement covers certain equipment in our STKs that are under construction in Orlando and Chicago. At June 30, 2015, a deposit of \$502,548 had been made on the equipment with the remainder to be financed once the equipment has been installed. The Agreement calls for sixty (60) monthly payments of \$16,667 plus interest commencing July 1, 2015.

Interest expense recognized related to these agreements amounted to \$21,115 and \$23,456 for the three months ended June 30, 2015 and 2014, respectively, and \$89,203 and \$72,892 for the six months ended June 30, 2015 and 2014, respectively. Capitalized interest amounted to \$21,076 and \$0 for the three months ended June 30, 2015 and 2014, respectively, and \$89,164 and \$0 for the six months ended June 30, 2015 and 2014, respectively.

As of June 30, 2015, the issued letters of credit in the total amount of approximately \$1.5 million for our STK locations in Orlando, Florida, Chicago, Illinois and Westwood, California remain outstanding for security deposits.

Note 8 - Nonconsolidated variable interest entities:

Accounting principles generally accepted in the United States of America provide a framework for identifying variable interest entities (VIEs) and determining when a company should include the assets, liabilities, noncontrolling interests, and results of activities of a VIE in its consolidated financial statements. In general, a VIE is a corporation, partnership, limited-liability corporation, trust, or any other legal structure used to conduct activities or hold assets that (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to direct the activities of the entity that most significantly impact its economic performance, or (3) has a group of equity owners that do not have the obligation to absorb losses of the entity or the right to receive returns of the entity. A VIE should be consolidated if a party with an ownership, contractual, or other financial interest in the VIE that is considered a variable interest (a variable interest holder) has the power to direct the VIE's most significant activities and the obligation to absorb losses or right to receive benefits of the VIE that could be significant to the VIE. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities, and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest. At June 30, 2015 and December 31, 2014, the Company held investments that were evaluated against the criteria for consolidation and determined that it is not the primary beneficiary of the investments because the Company lacks the power to direct the activities of the variable interest entities that most significantly impacts their economic performance. Therefore, consolidation in the Company's financial statements is not required. At June 30, 2015 and December 31, 2014, the Company held the following equity investments:

	At June 30, 2015	At December 31, 2014
Bagatelle NY LA Investors, LLC ("Bagatelle Investors")	\$200,700	\$357,896
Bagatelle Little West 12 th , LLC ( "Bagatelle NY")	2,271,705	1,938,252
Bagatelle La Cienega, LLC ("Bagatelle LA")	—	—
One 29 Park, LLC	532,138	506,295
Totals	\$3,004,543	\$2,802,443

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Equity in income of investee companies	\$ 354,261	\$ 205,928	\$ 523,231	\$ 320,336

Bagatelle Investors is a holding company that has interests in two operating restaurant companies, Bagatelle NY and Bagatelle LA. All three entities were formed in 2011. The Company holds interests in all three entities. The Company holds a 31.24%

ownership over Bagatelle Investors as of June 30, 2015 and December 31, 2014. The Company holds a 5.23% direct ownership over Bagatelle NY and has indirect ownership through Bagatelle Investors as well as one of its subsidiaries of 45.90% for a total effective ownership of 51.13% as of June 30, 2015 and December 31, 2014. The Company holds a 5.23% direct ownership over Bagatelle LA and has indirect ownership through Bagatelle Investors as well as one of its subsidiaries of 38.10% for a total effective ownership of 43.33% as of June 30, 2015 and December 31, 2014. The Company holds a 10% direct ownership over One29 Park as of June 30, 2015 and December 31, 2014. The Company accounts for its investment in One29 Park under the equity method since it has ability to exercise significant influence over the entity.

During the quarter and year ended June 30, 2015 and December 31, 2014, respectively, the Company provided no explicit or implicit financial or other support to these VIEs that were not previously contractually required.

The amounts presented above represent maximum exposure to loss.

Note 9 - Related party transactions:

Due from related parties consists of amounts related to the Company and its related entities which arose from noninterest bearing cash advances and are expected to be repaid within the next twelve months. As of June 30, 2015 and December 31, 2014, these advances aggregated to a total of \$1,481,142 and \$1,157,134, respectively.

The Company incurred approximately \$90,000 and \$113,000 for the three months ended June 30, 2015 and 2014, respectively, and \$183,750 and \$236,000 for the six months ended June 30, 2015 and 2014, respectively, for design services at various restaurants to an entity owned by one of the Company's shareholders. Included in accounts payable and accrued expenses at June 30, 2015 and December 31, 2014 is a balance due to this entity of approximately \$65,900 and \$0, respectively.

The Company incurred approximately \$118,000 and \$99,000 for the three months ended June 30, 2015 and 2014, and \$163,062 and \$217,000 for the six months ended June 30, 2015 and 2014, respectively, for legal fees to an entity owned by one of the Company's shareholders. Included in accounts payable and accrued expenses at June 30, 2015 and December 31, 2014 is a balance due to this entity of approximately \$109,177 and \$70,000, respectively.

The Company incurred approximately \$1.7 million and \$1.6 million for the three months ended June 30, 2015 and 2014, respectively, and \$3.2 million and \$2.3 for the six months ended June 30, 2015 and 2014, respectively, for construction services to an entity owned by one of the Company's shareholders. Included in accounts payable at June 30, 2015 and December 31, 2014 is a balance due to this entity of \$17,699 and \$11,000, respectively.

Note 10 – Derivative liability:

On October 16, 2013, the Merger provided for up to an additional \$14,100,000 of payments to the former holders of ONE Group membership interests (the "TOG Members") and to a liquidating trust (the "Liquidating Trust") established for the benefit of the TOG Members and the holders of warrants to acquire membership interests of ONE Group (the "TOG Warrant Owners") based on a formula as described in the Merger Agreement and which is contingent upon the exercise of outstanding Company warrants to purchase 5,750,000 shares of Common Stock at an exercise price of \$5.00 per share (the "Parent Warrants"). The Company is required to make any payments on a monthly basis. Additionally, certain ONE Group employees are entitled to receive a contingent sign-on bonus of an aggregate of approximately \$900,000 upon the exercise of the Parent Warrants. Any Parent Warrants that are unexercised will expire on the date that is the earlier of (i) February 27, 2016 or (ii) the forty-fifth (45th) day following the date that the Company's Common Stock closes at or above \$6.25 per share for 20 out of 30 trading days commencing on February

27, 2014.

The Company estimates the fair value of the derivative liability using the Monte Carlo method, which is comprised of the \$14,100,000 in payments and the \$900,000 in contingent sign-on bonus for a total of \$15,000,000. The fair value of the derivative liability was initially measured on October 16, 2013 and is re-measured at the end of every reporting period with the change in value over the period reported in the statements of operations and comprehensive income (loss) as a derivative income. In applying the Monte Carlo method, the Company uses the following key inputs and assumptions; the stock price on the valuation date, the exercise price of the warrants of \$5.00, the trigger price of \$6.25, the expected volatility which is based on an analysis of comparable companies historical stock price volatilities for a period comparable to the term of the warrants, the expected months until effective registration statement, the term based on the period from the valuation date until the two-year period following the expected date of the effective registration, the risk-free rate based on the rate of US treasury securities with the same term and the discount rate based on the aggregate of the expected short-term margin and the risk-free rate.

13

---

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

The following tables summarize the inputs and assumptions used in valuing derivative liabilities:

	June 30, 2015	December 31, 2014	
Fair value of derivative liability (3)	\$3,463,000	\$6,241,000	
Significant assumptions (or ranges):			
Trading market values (1)	\$4.19	\$4.85	
Term (years) (2)	7 months, 29 days	1 year, 58 days	
Expected volatility (1)	37.0	% 26.8	%
Risk-free rate (2)	0.15	% 0.32	%
Discount rate (3)	1.01	% 1.18	%
Effective Exercise price (2)	\$5.00	\$5.00	
Trigger price (2)	\$6.25	\$6.25	
Expected months until effective registration (3)	0	0	

Fair value hierarchy:

- (1) Level 1 inputs are quoted prices in active markets for identical assets and liabilities, or derived therefrom.
- (2) Level 2 inputs are inputs other than quoted prices that are observable.
- (3) Level 3 inputs are unobservable inputs. Inputs for which any parts are level 3 inputs are classified as level 3 in their entirety.

The Company recorded \$3,392,000 and \$2,778,000 of income from the change in the fair value of the derivative liability balance during the three and six months ended June 30, 2015.

Note 11 - Commitments and contingencies:

Operating leases:

The Company is obligated under several operating leases for the restaurants, equipment and office space, expiring in various years through 2031, which provide for minimum annual rentals, escalations, percentage rent, common area expenses or increases in real estate taxes.

Future minimum rental commitments under the leases and minimum future rental income per the sublease in five years subsequent to June 30, 2015 and thereafter are as follows:

Year Ending December 31,	Expense	Income	Net Amount
2015	\$2,910,632	\$(879,538)	) \$2,031,094
2016	8,262,502	(1,279,269)	) 6,983,233
2017	8,183,697	(1,059,545)	) 7,124,152
2018	8,306,805	(1,079,640)	) 7,227,165
2019	8,434,651	(1,116,229)	) 7,318,422
Thereafter	111,094,547	(3,084,946)	) 108,009,601
Total	\$147,192,834	\$(8,499,167)	) \$138,693,667

Rent expense (including percentage rent of \$88,058 and \$119,531 for the three months ended June 30, 2015 and 2014, respectively and \$167,776 and \$227,609 for the six months ended June 30, 2015 and 2014, respectively), included in



continued operations, amounted to \$1,677,646 and \$1,056,646 for the three months ended June 30, 2015 and 2014 and \$2,529,165 and \$2,023,302 for the six months ended June 30, 2015 and 2014, respectively. Rent expense included in continuing operations has been reported in the consolidated statements of operations and comprehensive loss net of rental income of \$205,417 and \$216,726 for the three

months ended June 30, 2015 and 2014, respectively and \$388,498 and \$411,619 for the six months ended June 30, 2015 and 2014, respectively, related to subleases with related and unrelated parties which expire through 2025.

License and management fees:

Pursuant to its amended and restated operating agreement executed in June 2007, Bridge Hospitality, LLC is obligated to pay management fees equal to 2% of revenues to a member for the life of the agreement. Management fees amounted to \$38,875 and \$41,168 for the six months ended June 30, 2015 and 2014, respectively. Included in accounts payable at June 30, 2015 and December 31, 2014 are amounts due for management fees of \$4,608 and \$8,180, respectively.

In January 2010, STK Vegas entered into a management agreement with a third party for a term of 10 years, with two five-year option periods. Under this agreement, STK Vegas shall receive a management fee equal to 5% of gross sales, as defined (“gross sales fee”) plus 20% of net profits prior to the investment breakeven point date and 43% of net profits thereafter (“incentive fee”). In addition, STK Vegas is entitled to receive a development fee equal to \$200,000. The Company has elected to receive a credit against a portion of its obligation (estimated at approximately \$387,000) to fund the build-out in lieu of receiving the \$200,000. Management fees amounted to \$2,574,035 and \$2,544,440 for the six months ended June 30, 2015 and 2014, respectively.

In July 2009, One 29 Park Management entered into an agreement with a third party. Under this agreement, One 29 Park Management shall receive a management fee equal to 5% of gross revenues, as defined, from the restaurant, banquets, room service and rooftop sales and 50% of the base beverage fee, as defined, for the life of the management agreement which expires in 2025. Management fees amounted to \$276,948 and \$299,114 for the three months ended June 30, 2015 and 2014, respectively.

In July 2010, Hip Hospitality UK entered into a management agreement with a third party to manage and operate the food and beverage operations in the Hippodrome Casino in London. Under this agreement, Hip Hospitality UK shall receive a management fee equal to 5.5% of total revenue, as defined, as well as an incentive fee if certain conditions are met, for the life of the management agreement which expires in 2022. Management fees amounted to \$328,417 and \$358,247 for the six months ended June 30, 2015 and 2014, respectively. Included in accounts receivable and other assets at June 30, 2015 and December 31, 2014 are amounts due for management fees and reimbursable expenses of \$279,208 and \$377,320, respectively.

In December 2011, TOG Aldwych entered into a management agreement with a third party to operate a restaurant, bar and lounges in the ME Hotel in London. Under this agreement, TOG Aldwych shall receive a management fee equal to 5% of receipts received from food and beverages operations. In addition, TOG Aldwych is entitled to receive a monthly marketing fee equal to 1.5% of receipts received from food and beverages operations and an additional fee equal to 65% of net operating profits, as defined, for the life of the management agreement which expires in 2032. Management fees amounted to \$594,549 and \$698,887 for the three months ended June 30, 2015 and 2014, respectively. Included in accounts receivable at June 30, 2015 and December 31, 2014 are amounts due for management fees of \$860,543 and \$200,124, respectively.

Note 12 - Discontinued operations:

Management decided to cease operations for the following entities in 2014: Miami Services and Tenjune.

On May 1, 2014, the Company entered into a settlement agreement and mutual general release with the landlord of the Bagatelle in Las Vegas, which closed in 2014. In connection with this release, the Company agreed to make certain payments to the landlord and on May 22, 2014 made a payment for the remaining balance on an operating lease for

certain equipment that was at the location.

On May 30, 2014, the Company entered into a termination, mutual release and settlement agreement with a third party in Las Vegas (“Owners”) for the management agreement for the Heraea property and the lease agreement for the Xi Shi property in Las Vegas. In connection with this release, the Company agreed to make certain payments to the Owners.

The following table shows the components of assets and liabilities that are classified as discontinued operations in the Company's consolidated balance sheets as of June 30, 2015 and December 31, 2014:

15

---

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

	June 30, 2015	December 31, 2014
Other current assets	\$48,343	\$67,676
Due from related parties	808,886	814,227
Assets of discontinued operations - current	857,229	881,903
Property and equipment, net	169,175	169,175
Security deposits	75,000	75,000
Assets of discontinued operations - long term	244,175	244,175
Accounts payable and accrued liabilities	410,133	551,266
Due to related parties	3,608,567	3,654,552
Liabilities of discontinued operations - current	4,018,700	4,205,818
Net assets	\$(2,917,296 )	\$(3,079,740 )

Summarized operating results related to these entities are included in discontinued operations in the accompanying consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2015 and 2014:

	Three months ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	\$—	\$—	\$—	\$102,330
Costs and Expenses	35,434	346,252	38,572	1,373,756
Net loss from discontinued operations, net of taxes	\$(35,434 )	\$(346,252 )	\$(38,572 )	\$(1,271,426 )

Note 13 - Litigation:

The Company is party to claims in lawsuits incidental to its business. In the opinion of management, the ultimate outcome of such matters, individually or in the aggregate, will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Note 14 - Stockholders' equity:

The Company is authorized by its amended and restated certificate of incorporation to issue up to 75,000,000 shares of Common Stock, par value \$0.0001 per share, and 10,000,000 shares of preferred stock, par value \$0.0001 per share. As of June 30, 2015 and December 31, 2014, there were 24,972,515 and 24,940,195, outstanding shares of Common Stock, respectively, and no outstanding shares of preferred stock.

Note 15 - Stock-based compensation:

In October 2013, the board of directors approved the 2013 Employee, Director and Consultant Equity Incentive Plan (the "2013 Plan") pursuant to which the Company may issue options, warrants, restricted stock or other stock-based awards to directors, officers, key employees and other key individuals performing services for the Company. The 2013 Plan has reserved 4,773,992 shares of common stock for issuance. All awards will be approved by the board of directors or a committee of the board of directors to be established for such purpose.

The Company's outstanding stock options have maximum contractual terms of up to ten years, principally vest on a quarterly basis ratably over five years and were granted at exercise prices equal to the market price of the Company's common stock on the date of grant. The Company's outstanding stock options are exercisable into shares of the Company's common stock. The Company measures the cost of employee services received in exchange for an award of equity instruments, including grants of employee stock options and restricted stock awards, based on the fair value

of the award at the date of grant in accordance with the modified prospective method. The Company uses the Black-Scholes model for purposes of determining the fair value of stock options granted and recognizes compensation costs ratably over the requisite service period, net of estimated forfeitures. For restricted stock awards, the grant-date fair value is the quoted market price of the stock.

As of June 30, 2015, all 2,024,078 options granted were excluded from the calculation of dilutive earnings per share as their effect would have been anti-dilutive.

For the three months ended June 30, 2015 and 2014, the Company recognized \$166,000 and \$95,000, respectively, and for the six months ended June 30, 2015 and 2014, the Company recognized \$344,000 and \$167,000 of non-cash stock-based compensation expense related to options, respectively, in general and administrative expense in the consolidated statements of operations.

As of June 30, 2015, there was approximately \$4,008,160 of total unrecognized compensation cost related to unvested share-based compensation grants, which is expected to be amortized over a weighted-average period of 4.6 years.

A summary of the status of stock option awards and changes during the six months ended June 30, 2015 are presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Intrinsic Value
Outstanding at December 31, 2014	2,046,578	\$5.00		
Cancelled, expired, or forfeited	290,000	—		
Outstanding at June 30, 2015	1,756,578	\$5.00	9.71	\$—
Exercisable at June 30, 2015	511,867	\$5.23	9.71	\$—

The weighted-average grant-date fair value of option awards vested and non-vested during the six months ended June 30, 2015 was \$1.87.

On May 18, 2015, the Company granted four board members an unrestricted immediate vesting grant of 8,080 shares each. The closing stock price was \$4.95. The Company recorded compensation expense related to these awards of \$160,000 during the three and six months ended June 30, 2015.

Note 16 - Segment reporting:

The Company operates in three segments: owned STK units ("STKs"), food and beverage hospitality management agreements ("F&B") and Other concepts ("Other"). We believe STKs, F&B and Other to be our reportable segments as they do not have similar economic or other characteristics to be aggregated into a single reportable segment. Our STKs segment consists of leased restaurant locations and competes in the full service dining industry. Our F&B segment consists of management agreements in which the Company operates the food and beverage services in hotels or casinos and could include an STK, which we refer to as managed STK units. We refer to owned STK units and managed STK units together as "STK units." These management agreements generate management and incentive fees on net revenue at each location. Our Other segment includes owned non-STK leased locations.

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
STKs	\$ 12,757,574	\$ 9,983,179	\$ 22,121,012	\$ 17,432,228
F&B	2,121,977	2,143,132	4,173,253	4,262,160
Other	21,351	141,029	383,214	845,872
	\$ 14,900,902	\$ 12,267,340	\$ 26,677,479	\$ 22,540,260
Segment Profits (loss):				
STKs	\$ 1,466,957	\$ 1,595,044	\$ 1,602,484	\$ 1,924,231
F&B	2,121,977	2,143,132	4,173,253	4,262,160
Other	(7,894 )	43,454	75,501	267,365
Total segment profit	3,581,040	3,781,630	5,851,238	6,453,756
General and administrative	2,592,464	2,194,628	5,036,990	4,101,882
Depreciation and amortization	569,637	348,848	989,760	672,654
Interest expense, net of interest income	39	39,564	(5,190 )	58,487
Other	(2,209,345 )	(2,408,249 )	(993,851 )	(2,105,706 )
Income from continuing operations before provision for income taxes	\$ 2,628,245	\$ 3,606,839	\$ 823,529	\$ 3,726,439

	June 30, 2015	December 31, 2014
Property & equipment, net:		
STKs	\$ 22,361,496	\$ 17,456,993
F&B	244,930	229,771
Other	232,540	1,128,861
Total	\$ 22,838,966	\$ 18,815,625

Note 17 - Geographic information:

The following table contains certain financial information by geographic location for the six months ended June 30, 2015 and 2014:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
United States:				
Revenues - owned units	12,778,925	10,110,297	\$ 22,504,226	\$ 18,264,189
Management, incentive and royalty fee revenue	1,496,474	1,471,336	3,000,548	2,985,969
Foreign:				
Revenues - owned units	—	13,911	\$ —	\$ 13,911

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

Management and development fee revenue	625,503	671,796	1,172,705	1,276,191
--	---------	---------	-----------	-----------

18

---



The following table contains certain financial information by geographic location at June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
United States:		
Net assets	\$15,778,258	\$6,290,470
United Kingdom:		
Net assets	\$4,100,069	\$890,464

Note 18 - Income taxes:

In June 2015, the Company made the decision to release the valuation allowance amounting to \$7.7 million against its deferred tax assets net of deferred tax liabilities. Recent profitable quarters and projected future pretax income are sources of positive evidence that led the Company to conclude that it is more likely than not that it will realize its net deferred tax assets.

The Company recognized an income tax benefit of \$5.9 million for the three months ended June 30, 2015, compared to income tax expense of \$115,490 for the three months ended June 30, 2014. The Company's effective tax rate, exclusive of the discrete tax benefit was 9.5% for the three months ended June 30, 2015 compared to 3.2% for the three months ended June 30, 2014.

The Company recognized income tax benefit of \$6.5 million for the six months ended June 30, 2015, compared to income tax expense of \$350,682 for the six months ended June 30, 2014. The Company's effective tax rate, exclusive of the discrete tax benefit, was approximately (43.8)% for the six months ended June 30, 2015, compared to 9.4% for the six months ended June 30, 2014. The net decrease in the effective tax rate, exclusive of the discrete tax benefit, for the three and six months ended June 30, 2015, compared to the same periods in 2014, was primarily due to the release of the valuation allowance on deferred tax assets amounting to \$1.5 million that impacted the normalized rate during these periods.

Note 19 - Subsequent events:

On July 7, 2015, the Company received a payment of \$121,000 in partial settlement of the property damage portion of the insurance claim relating to water damages sustained at STK Miami. The Company filed a claim for property damages in the estimated amount of \$500,000 and has received approximately \$375,000 to date against this claim. The Company is still negotiating a final settlement with its insurance carrier for the remaining balance of approximately \$125,000.

On July 9, 2015, the Company announced that it entered into an agreement with SBEEG Holdings, LLC ("SBE"), holding company of the SLS, Redbury and Hyde hotel brands, to purchase the Katsuya and Cleo restaurant brands and establish a strategic relationship to seek to open Katsuya, Cleo and other The ONE Group restaurants at new SLS, Redbury and Hyde hotels (the "Acquisition"). Total consideration includes \$75 million in cash and 200,000 warrants at an exercise price of \$5.00 per share. The closing of the Acquisition is subject to certain customary closing conditions.

On July 20, 2015, the Company announced that an STK Rebel will open in the Andaz Hotel in San Diego, California a lifestyle boutique hotel operated by Hyatt and owned by Xenia Hotels & Resorts, Inc. (NYSE:XHR). Located at 600 F Street in San Diego's historic Gaslamp Quarter, the hotel is in the heart of the city's entertainment and nightlife district.

On August 13, 2015, the Company announced that its subsidiary had entered into a management agreement for an STK in Toronto, Canada.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements made or incorporated by reference in this report and our other filings with the Securities and Exchange Commission, in our press releases and in statements made by or with the approval of authorized personnel constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are subject to the safe harbor created thereby. Forward looking statements reflect intent, belief, current expectations, estimates or projections about, among other things, our industry, management's beliefs, and future events and financial trends affecting us. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will" and variations of these or similar expressions are intended to identify forward looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward looking statements. Although we believe the expectations reflected in any forward looking statements are reasonable, such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward looking statements as a result of various factors. These differences can arise as a result of the risks described in the section entitled "Item 1A. Risk Factors" in our Annual Report on Form 10-K/A for the year ended December 31, 2014, filed on April 1, 2015, as well as other factors that may affect our business, results of operations, or financial condition. Forward looking statements in this report speak only as of the date hereof, and forward looking statements in documents incorporated by reference speak only as of the date of those documents. Unless otherwise required by law, we undertake no obligation to publicly update or revise these forward looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, we cannot assure you that the forward looking statements contained in this report will, in fact, transpire.

### Overview

We are a global hospitality company that develops, owns and operates upscale, high-energy restaurants and lounges and provides turn-key food and beverage or "F&B" services for hospitality venues including hotels, casinos and other high-end locations globally. We opened our first restaurant in January 2004 in New York City and as of August 14, 2015, we owned and operated (under lease agreements) 11 and managed (under management agreements) 15 restaurants and lounges globally, including 9 STKs in major metropolitan cities in the United States and Europe (of which six (6) are owned and three (3) managed). In addition, we provided food and beverage services in five hotels and casinos, one of which is under a lease agreement and four of which are under separate management agreements. We generate management and incentive fee revenue from those restaurants and lounges that we manage on behalf of our F&B hospitality clients. The average unit volume, check average and beverage mix for STK restaurants that have been open a full twelve months at June 30, 2015 were \$11.4 million, \$125 and 40%, respectively.

In addition to operating stand-alone restaurants, we also operate turn-key food and beverage services at high-end hotels and casinos, which, in some cases, include upscale restaurants, such as STK. Our diversified portfolio of differentiated, high-energy food and beverage hospitality solutions provides landlords and owners a choice of having one or several of our concepts and/or services in their venues. These locations are typically operated under our management agreements under which we earn a management fee based on revenue and an incentive fee based on profitability of the underlying operations. We typically target food and beverage hospitality opportunities where we believe we can generate initially \$500,000 to \$750,000 of annual pre-tax income. We also own or manage a small number of other standalone restaurants and lounges.

Net income for the six months ended June 30, 2015 and 2014 was \$7.3 million and \$2.1 million, respectively, and included loss from discontinued operations of \$38,572 and \$1.3 million for the six months ended June 30, 2015 and 2014, respectively. Net income for the three months ended June 30, 2015 and 2014 was \$8.5 million and \$3.1 million, respectively, and included loss from discontinued operations of \$35,434 and \$346,252 for the three months ended

June 30, 2015 and 2014, respectively. The loss from discontinued operations reflects our exiting of non-strategic and underperforming units during these periods and includes the closing of the Tenjune concept in February 2014. Included in the three and six month periods ended June 30, 2015 is a one time net reversal of a deferred tax allowance of approximately \$6.2 million. In addition, the six months ended June 30, 2015 and 2014 both included non-cash derivative income of \$2.8 million, respectively, from an adjustment of our derivative liability balance and the three months ended June 30, 2015 and 2014 included non-cash derivative income of \$3.4 million and \$2.8 million, respectively.

On March 13, 2015, after hotel renovations and additional work required due to water damage were completed, we re-opened STK Miami in the new 1 Hotel & Homes (formerly known as The Perry Hotel) building located in Miami Beach, Florida. We filed a claim with our insurance carrier for damages related to business interruption. On June 26, 2015, we reached a settlement of \$1.1 million on this claim and as of June 30, 2015 we recorded a receivable for the final payment of \$700,000. For the six months ended June 30, 2015, we have recorded in other income a \$550,000 gain based on recoveries and \$550,000

that was netted against preopening expenses. We also filed a claim for property damages of approximately \$500,000 of which we have received approximately \$375,000. We are still negotiating the final settlement with our insurance carrier for the remaining balance of approximately \$125,000.

### Recent Developments

On July 9, 2015, we and certain of our subsidiaries entered into a definitive agreement with SEEBG Holdings, LLC ("SEEBG"), the holding company of the SLS, Redbury and Hyde hotel brands, and certain of SEEBG affiliates to purchase the Katsuya and Cleo restaurant brands together with four restaurants currently operated under the Katsuya brand name for aggregate cash consideration of \$75 million plus a ten-year warrant to purchase 200,000 shares of the common stock of the Company for an exercise price of \$5.00 per share (the "Acquisition"). Upon consummation of the transaction, we will also enter into an agreement providing us with the opportunity to open additional The ONE Group restaurants at new SLS, Redbury and Hyde hotels, under which SBE is expected to provide the opportunity for at least 10 additional restaurants at SLS, Redbury or Hyde hotels over the next 5 years.

### Our Growth Strategies and Outlook

Our growth model is comprised of the following four primary drivers:

**Expansion of STK and STK Rebel.** We have identified up to 50 additional major metropolitan markets globally where we could grow our STK brand over time as well as over 100 markets for the STK Rebel. We expect to open as many as two to three STKs and one to two STK Rebels annually in the next three years and to target approximately 25% annual unit growth thereafter provided that we have enough capital, acceptable locations and quality restaurant managers available to support that pace of growth. However, there can be no assurance that we will be able to open new STKs and STK Rebels at the rate we currently expect or that our pipeline of planned offerings will be fully realized.

**Expansion Through New Food & Beverage Hospitality Projects.** We believe we are well positioned to leverage the strength of our brands and the relationships we have developed with global hospitality providers to drive the continued growth of our food and beverage hospitality projects, which traditionally have provided fee income with minimal capital expenditures. We continue to receive significant inbound inquiries regarding new services in new hospitality opportunities globally and to work with existing hospitality clients to identify and develop additional opportunities in their venues. Going forward, we expect to target at least one to two new F&B hospitality projects every 12 months. However, we cannot control the timing and number of acceptable opportunities that will be offered to us for our consideration.

**Expand Our Non-STK Concepts and Services.** We believe our existing restaurant concepts and food and beverage hospitality services have significant room to grow and that our presence, brand recognition and operating performance from our continuing operations provide us with the ability to expand these concepts in the North American and international markets, with near term focus on Europe and in the longer term, Asia and the Middle East.

**Increase Our Operating Efficiency.** In addition to expanding into new cities and hospitality venues, we intend to increase revenue and profits in our existing operations. Our long term growth model targets store sales growth of approximately 2% to 3% annually, as a result of our renewed focus on this aspect of our growth plan. We also expect operating margin improvements as our restaurants and services mature. However, there can be no assurances that any increases in same store sales or operating margins will be achieved. Furthermore, as our footprint continues to increase in scale, we expect to benefit by leveraging system-wide operating efficiencies and best practices.

### Key Performance Indicators

We use the following key performance indicators in evaluating our restaurants and assessing our business:

**Number of Restaurant Openings.** Number of restaurant openings reflects the number of restaurants opened during a particular fiscal period. For each restaurant opening, we incur pre-opening costs, which are defined below. Typically, new restaurants open with an initial start-up period of higher than normalized sales volumes (also referred to in the restaurant industry as the “honeymoon” period), which decrease to a steady level approximately 18 months after opening. However, operating costs during this initial 18 month period are also higher than normal, resulting in restaurant operating margins that are generally lower during the start-up period of operation and increase to a steady level approximately 18 months after opening. Some new restaurants may experience a “honeymoon” period either shorter or longer than 18 months.

**Average Check.** Average check is calculated by dividing total restaurant sales by total entrees sold for a given time period. Our management team uses this indicator to analyze trends in customers' preferences, effectiveness of menu changes and price increases, and per customer expenditures.

**Average Comparable Unit Volume.** Average comparable unit volume consists of the average sales of our comparable restaurants over a certain period of time. This measure is calculated by dividing total comparable restaurant sales in a given period by the total number of comparable restaurants in that period. This indicator assists management in measuring changes in customer traffic, pricing and development of our brand.

**Comparable Unit Sales.** We consider a unit to be comparable, whether owned or managed, in the first full quarter following the 18th month of operations to remove the impact of new unit openings in comparing the operations of existing units. Changes in comparable unit sales reflect changes in sales for the comparable group of units over a specified period of time. Changes in comparable sales reflect changes in customer count trends as well as changes in average check, which reflects both menu mix shifts and menu pricing. Our comparable unit base consisted of five units for the three and six months ended June 30, 2015 as and June 30, 2014, respectively. We believe that certain of our restaurants operate at or near their effective productive capacities. As a result, we may be unable to grow comparable restaurant sales at those restaurants.

#### Key Financial Terms and Metrics

We evaluate our business using a variety of key financial measures:

##### Segment reporting

The Company operates in three segments: owned STK units ("STKs"), food and beverage hospitality management agreements ("F&B") and Other concepts ("Other"). We believe STKs, F&B and Other to be our reportable segments as they do not have similar economic or other characteristics to be aggregated into a single reportable segment. Our STKs segment consists of leased restaurant locations and competes in the full service dining industry. Our F&B segment consists of management agreements in which the Company operates the food and beverage services in hotels, casinos and other high-end locations globally and could include an STK, which we refer to as managed STK units. We refer to owned STK units and managed STK units together as "STK units." These management agreements generate management and incentive fees on net revenue at each location. Our Other segment includes owned non-STK leased locations.

##### Revenues

**Owned unit net revenue.** Owned unit net revenues, which includes STKs and Other segment brands, consists of food, beverage, and miscellaneous merchandise sales net of any discounts, such as management and employee meals, associated with each sale. As of June 30, 2015, beverage sales comprised 43% of STK and Other food and beverage sales, before giving effect to any discounts, with food comprising the remaining 57%. This indicator assists management in understanding the trends in gross margins of the units.

**Management and incentive fee revenue.** Management and incentive fee revenue includes: (1) management fees received pursuant to management agreements with hospitality clients that are calculated based on a fixed percentage of revenues; and (2) incentive fees based on operating profitability, as defined by each agreement. We evaluate the performance of our managed properties based on sales growth, which drives our management fee, and on improvements in operating profitability margins, which along with sales growth, drives incentive fee growth.

Our primary restaurant brand is STK and we specifically look at comparable revenues from both owned and managed STKs in either a leased or F&B location in order to understand customer count trends and changes in average check as it relates to our primary restaurant brand.

#### Cost and expenses

Food and beverage costs. Food and beverage costs include all unit-level food and beverage costs of STK and Other units. We measure cost of goods as a percentage of owned unit net revenues. Food and beverage costs are generally influenced by the cost of food and beverage items, menu mix and discounting activity. Purchases of beef represent approximately 30% of our current food and beverage costs.

Unit operating expenses. We measure unit operating expenses for STKs and Other units as a percentage of owned unit net revenues. Unit operating expenses include the following:



**Payroll and related expenses.** Payroll and related expenses consists of manager salaries, hourly staff payroll and other payroll-related items, including taxes and fringe benefits. We measure our labor cost efficiency by tracking total labor costs as a percentage of food and beverage revenues.

**Occupancy.** Occupancy comprises all occupancy costs, consisting of both fixed and variable portions of rent, deferred rent expense, which is a non-cash adjustment included in our Adjusted EBITDA calculation as defined below, common area maintenance charges, real estate property taxes, utilities and other related occupancy costs and is measured by tracking occupancy as a percentage of revenues.

**Direct operating expenses.** Direct operating expenses consists of supplies, such as paper, small wares, china, silverware and glassware, cleaning supplies and laundry and linen costs and typically tracks revenues.

**Outside services.** Outside services includes music and entertainment costs, such as the use of live DJ's, promoter costs, security services, outside cleaning services at certain locations and commissions paid to event staff for banquet sales.

**Repairs and maintenance.** Repairs and maintenance consists of facility and computer maintenance contracts as well as general repair work to maintain the facilities. These costs will typically increase as the facility gets older.

**Marketing.** Marketing includes the cost of goods used specifically for complimentary purposes as well as general public relation costs related to the specific unit, but excluding any discounts such as management and employee meals. Marketing costs will typically be higher during the first eighteen months of a unit's operations.

**General and administrative.** General and administrative expenses are comprised of all corporate overhead expenses, including payroll and related benefits, professional fees, such as legal and accounting fees, insurance and travel expenses. Certain general and administrative expenses are allocated specifically to units and are credited and include shared services such as reservations, events and marketing. General and administrative expenses are expected to grow as we grow, including payroll needed to support our growth, legal, accounting and other professional fees incurred as a public company.

**Depreciation and amortization.** Depreciation and amortization consists principally of charges related to the depreciation of fixed assets including leasehold improvements, equipment and furniture and fixtures. As we accelerate our restaurant openings, depreciation and amortization is expected to increase as a result of our increased capital expenditures.

**Management and royalty fees.** In certain of our units, we pay outside third parties a management fee based on a percentage of sales or a fixed fee. Historically, a majority of management fees related to one property, Tenjune, and related to the use of an outside management company to operate this lounge concept. This management agreement was terminated in February 2013. Royalty fees are paid to the 50% owner of the trademark rights to the name "Asellina" and "Cucina Asellina."

**Pre-opening expenses.** Pre-opening expenses consist of costs incurred prior to opening an owned or managed STK unit in either a leased or F&B location which are comprised principally of non-cash deferred rent expense, manager salaries and relocation costs, employee payroll and related training costs for new employees and lease costs incurred prior to opening. We expect these costs to increase as we accelerate our company-owned restaurant openings, which may have a material impact on our operating results in future periods. Pre-opening expenses vary from location to location depending on a number of factors, including the proximity of our existing restaurants; the amount of rent expensed during the construction and in-restaurant training periods; the size and physical layout of each location; the number of management and hourly employees required to operate each restaurant; the relative difficulty of the

restaurant staffing process; the cost of travel and lodging for different metropolitan areas; the timing of the restaurant opening; and the extent of unexpected delays, if any, in obtaining necessary licenses and permits to open the restaurant.

Provision for income taxes. The Company accounts for income taxes in accordance with Financial Accounting Standards Board ("FASB") ASC 740 "Accounting for Income Taxes". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis and net operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Equity in (income) loss of subsidiaries. This represents the income or loss that we record under the equity method for entities that are not consolidated. Included in this amount is our ownership in Bagatelle New York for which we have effective

ownership of approximately 51% representing 5.23% ownership directly by us and 45.90% ownership through two of our subsidiaries.

Adjustments for noncontrolling interest. This represents the allocation of net income or loss attributable to the minority interest in those of our subsidiaries which are not wholly-owned.

EBITDA and Adjusted EBITDA. We define EBITDA as net income before interest expense, provision for income taxes and depreciation and amortization. We define Adjusted EBITDA as net income before interest expense, provision for income taxes, depreciation and amortization, non-cash impairment loss, deferred rent, pre-opening expenses, non-recurring gains and losses, losses from discontinued operations, derivative income (expense) and stock based compensation. EBITDA and Adjusted EBITDA have been presented in this Report and are supplemental measures of financial performance that is not required by, or presented in accordance with, GAAP.

We believe that EBITDA and Adjusted EBITDA are more appropriate measures of operating performance, as they provide a clearer picture of our operating results by eliminating certain non-cash expenses that are not reflective of the underlying business performance. We use these metrics to facilitate a comparison of our operating performance on a consistent basis from period to period and to analyze the factors and trends affecting our business as well as evaluate the performance of our units. Adjusted EBITDA has limitations as an analytical tool and our calculation thereof may not be comparable to that reported by other companies; accordingly, you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Adjusted EBITDA is included in this Report because it is a key metric used by management. Additionally, Adjusted EBITDA is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We use Adjusted EBITDA, alongside other GAAP measures such as net income (loss), to measure profitability, as a key profitability target in our annual and other budgets, and to compare our performance against that of peer companies. We believe that Adjusted EBITDA provides useful information facilitating operating performance comparisons from period to period and company to company.

The following table presents a reconciliation of Net income to EBITDA and Adjusted EBITDA for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income attributable to The ONE Group Hospitality, Inc.	\$8,390,167	\$3,013,198	\$7,299,547	\$2,291,395
Net income (loss) attributable to noncontrolling interest	134,080	131,899	27,341	(187,064 )
Net income	8,524,247	3,145,097	7,326,888	2,104,331
Interest expense, net of interest income	39	39,564	(5,190 )	58,487
Provision (benefit) for income taxes	(5,931,436 )	115,490	(6,541,931 )	350,682
Depreciation and amortization	569,637	348,848	989,760	672,654
<b>EBITDA</b>	<b>3,162,487</b>	<b>3,648,999</b>	<b>1,769,527</b>	<b>3,186,154</b>
Deferred rent (1)	(51,155 )	78,277	160,419	187,160
Pre-opening expenses	1,690,308	586,825	2,765,021	833,173
Transaction costs	100,334	—	100,334	—
Loss from discontinued operations	35,434	346,252	38,572	1,271,426
Derivative income	(3,392,000 )	(2,832,711 )	(2,778,000 )	(2,784,711 )
Stock based compensation	326,400	95,177	504,400	167,368

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

Adjusted EBITDA	1,871,808	1,922,819	2,560,273	2,860,570
Adjusted EBITDA attributable to noncontrolling interest	240,911	270,255	167,657	197,412
Adjusted EBITDA attributable to The ONE Group Hospitality, Inc.	\$1,630,897	\$1,652,564	\$2,392,616	\$2,663,158

(1)Deferred rent is included in unit operating expenses on the statement of income.

24

---

Adjusted Net (Loss) income . We define Adjusted Net (loss) income as Net (loss) income before discontinued operations, non-recurring gains, derivative expense, stock based compensation, non-cash impairment losses, and non-recurring acceleration of depreciation. Adjusted Net (loss) income has been presented in this Report and is a supplemental measure of financial performance that is not required by, or presented in accordance with, GAAP. Adjusted Net (loss) income has limitations as an analytical tool and our calculation thereof may not be comparable to that reported by other companies; accordingly, you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP.

We believe that Adjusted Net (loss) income provides a clearer picture of our operating results by eliminating certain non-cash expenses that are not reflective of the underlying business performance. We use this metric to facilitate a comparison of our operating performance on a consistent basis from period to period and to analyze the factors and trends affecting our business.

The following table presents a reconciliation of Net (loss) income to Adjusted Net (loss) income for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income attributable to The ONE Group Hospitality, Inc.	\$8,390,167	\$3,013,198	\$7,299,547	\$2,291,395
Net income (loss) attributable to noncontrolling interest	134,080	131,899	27,341	(187,064 )
Net income	8,524,247	3,145,097	7,326,888	2,104,331
Transaction costs	100,334	—	100,334	—
Loss from discontinued operations, net of taxes	35,434	346,252	38,572	1,271,426
Derivative (income)	(3,392,000 )	(2,832,711 )	(2,778,000 )	(2,784,711 )
Stock based compensation	326,400	95,177	504,400	167,368
Deferred tax allowance reversal, net	(6,181,642 )	—	(6,181,642 )	
Adjusted net (loss) income	(587,227 )	753,815	(989,448 )	758,414
Adjusted net income (loss) attributable to noncontrolling interest	134,080	47,070	27,341	(130,251 )
Adjusted net (loss) income attributable to The ONE Group Hospitality, Inc.	\$(721,307 )	\$706,745	\$(1,016,789)	\$888,665

#### Results of Operations

The following table sets forth certain statements of income data for the periods indicated:

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Revenues:</b>				
Owned unit net revenues	\$12,778,925	\$10,124,208	\$22,504,226	\$18,278,100
Management and incentive fee revenue (1)	2,121,977	2,143,132	4,173,253	4,262,160
Total revenue	14,900,902	12,267,340	26,677,479	22,540,260
<b>Cost and expenses:</b>				
<b>Owned operating expenses:</b>				
Food and beverage costs	3,238,175	2,525,549	5,735,390	4,670,577
Unit operating expenses	8,081,687	5,960,161	15,090,851	11,415,927
General and administrative	2,592,464	2,194,628	5,036,990	4,101,882
Depreciation and amortization	569,637	348,848	989,760	672,654
Management and royalty fees	21,895	74,456	46,649	95,538
Pre-opening expenses	1,690,308	586,825	2,765,021	833,173
Transaction Costs	100,334	—	100,334	—
Equity in income of investee companies	(354,261 )	(205,928 )	(523,231 )	(320,336 )
Derivative income	(3,392,000 )	(2,832,711 )	(2,778,000 )	(2,784,711 )
Interest expense, net of interest income	39	39,564	(5,190 )	58,487
Other (loss) income	(275,621 )	(30,891 )	(604,624 )	70,630
Total cost and expenses	12,272,657	8,660,501	25,853,950	18,813,821
Income from continuing operations before provision (benefit) for income taxes	2,628,245	3,606,839	823,529	3,726,439
Provision (benefit) for income taxes	(5,931,436 )	115,490	(6,541,931 )	350,682
Income from continuing operations	8,559,681	3,491,349	7,365,460	3,375,757
Loss from discontinued operations, net of taxes	(35,434 )	(346,252 )	(38,572 )	(1,271,426 )
Net income	8,524,247	3,145,097	7,326,888	2,104,331
Less: net income (loss) attributable to noncontrolling interest	134,080	131,899	27,341	(187,064 )
Net income attributable to The ONE Group Hospitality, Inc.	\$8,390,167	\$3,013,198	\$7,299,547	\$2,291,395
<b>Amounts attributable to The ONE Group Hospitality, Inc.:</b>				
:				
Income from continuing operations	\$8,425,601	\$3,350,032	\$7,338,119	\$3,493,079
Loss from discontinued operations, net of taxes	(35,434 )	(336,834 )	(38,572 )	(1,201,684 )
Net income attributable to The ONE Group Hospitality, Inc.	\$8,390,167	\$3,013,198	\$7,299,547	\$2,291,395
	\$8,390,167	\$3,013,198	\$7,299,547	\$2,291,395

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

Net income attributable to The ONE Group Hospitality,  
Inc.

Other comprehensive income (loss)

Currency translation adjustment (102,023 ) 23,690 (230,843 ) 44,222

Comprehensive income \$8,288,144 \$3,036,888 \$7,068,704 \$2,335,617

Such management and incentive fee revenue is based on a percentage of aggregate food and beverage sales at (1) managed units which totaled \$44,158,562 and \$44,772,930 for the six months ended June 30, 2015 and 2014, respectively, and \$23,839,367 and \$23,949,440 for the three months ended June 30, 2015 and 2014, respectively.

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

The following table sets forth certain statements of income data as a percentage of revenues for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,		
	2015	2014	2015	2014	
<b>Revenues:</b>					
Owned unit net revenues	85.8	% 82.5	% 84.4	% 81.1	%
Management and incentive fee revenue	14.2	% 17.5	% 15.6	% 18.9	%
Total revenue	100.0	% 100.0	% 100.0	% 100.0	%
<b>Cost and expenses:</b>					
<b>Owned operating expenses:</b>					
Food and beverage costs (1)	25.3	% 24.9	% 25.5	% 25.6	%
Unit operating expenses (1)	63.2	% 58.9	% 67.1	% 62.5	%
General and administrative	17.4	% 17.9	% 18.9	% 18.2	%
Depreciation and amortization	3.8	% 2.8	% 3.7	% 3.0	%
Management and royalty fees	0.1	% 0.6	% 0.2	% 0.4	%
Pre-opening expenses	11.3	% 4.8	% 10.4	% 3.7	%
Transaction costs	0.7	% —	% 0.4	% 0	%
Equity in (income) loss of investee companies	(2.4)	)% (1.7)	)% (2.0)	)% (1.4)	)%
Derivative income (expense)	(22.8)	)% (23.1)	)% (10.4)	)% (12.4)	)%
Interest expense, net of interest income	—	% 0.3	% —	% 0.3	%
Other income	(1.8)	)% (0.3)	)% (2.3)	)% 0.3	%
Total cost and expenses	82.4	% 70.6	% 96.9	% 83.5	%
Income from continuing operations before provision (benefit) for income taxes	17.6	% 29.4	% 3.1	% 16.5	%
Provision (benefit) for income taxes	(39.8)	)% 0.9	% (24.5)	)% 1.5	%
Income from continuing operations	57.4	% 28.5	% 27.6	% 15.0	%
Income (loss) from discontinued operations, net of taxes	(0.2)	)% (2.8)	)% (0.1)	)% (5.6)	)%
Net Income	57.2	% 25.7	% 27.5	% 9.4	%
Less: net income (loss) attributable to noncontrolling interest	0.9	% 1.1	% 0.1	% (0.8)	)%
Net loss attributable to The ONE Group Hospitality, Inc.	56.3	% 24.6	% 27.4	% 10.2	%
<b>Amounts attributable to The ONE Group Hospitality, Inc.:</b>					
Income from continuing operations	56.5	% 27.3	% 27.5	% 15.5	%
Loss from discontinued operations, net of taxes	(0.2)	)% (2.8)	)% (0.1)	)% (5.6)	)%
Net income attributable to The ONE Group Hospitality, Inc.	56.3	% 24.6	% 27.4	% 10.2	%



Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

Net income attributable to The ONE Group Hospitality, Inc.	56.3	%	24.6	%	27.4	%	10.2	%	
Other comprehensive income (loss)									
Currency translation adjustment	(0.7	)	%	0.2	%	(0.9	)	%	0.2
Comprehensive income	55.6	%	24.8	%	26.5	%	10.4	%	

(1) These expenses are being shown as a percentage of owned unit net revenues.

27

---

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

The following tables show our operating results by segment for the three and six months ended June 30, 2015 and 2014.

	Three Months Ended June 30, 2015				Three Months Ended June 30, 2014			
	STKS	F&B	OTHER	TOTAL	STKS	F&B	OTHER	TOTAL
Revenues:								
Owned unit net revenues	\$12,757,574		\$21,351	\$12,778,925	\$9,983,179		\$141,029	\$10,124,208
Management and incentive fee revenue		\$2,121,977		2,121,977		\$2,143,132		2,143,132
Total revenue	12,757,574	2,121,977	21,351	14,900,902	9,983,179	2,143,132	141,029	12,267,340
Cost and expenses:								
Owned operating expenses:								
Food and beverage costs	3,231,536		6,639	3,238,175	2,487,781		37,768	2,525,549
Unit operating expenses	8,059,081		22,606	8,081,687	5,900,354		59,807	5,960,161
Total cost and expenses	11,290,617	—	29,245	11,319,862	8,388,135	—	97,575	8,485,710
Income (loss) from restaurant and hospitality operations								
	\$1,466,957	\$2,121,977	\$(7,894)	3,581,040	\$1,595,044	\$2,143,132	\$43,454	3,781,630
General and administrative				2,592,464				2,194,628
Transaction costs				100,334				—
Depreciation and amortization				569,637				348,848
Management and royalty fees				21,895				74,456
Pre-opening expenses				1,690,308				586,825
Equity in income (loss) of subsidiaries				(354,261)				(205,928)
Derivative expense				(3,392,000)				(2,832,711)
				39				39,564

Interest expense, net of interest income		
Other (income) expense	(275,621 )	(30,891 )
Total cost and expenses	952,795	174,791
Income from continuing operations before provision for income taxes	\$2,628,245	\$3,606,839

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

	Six months ended June 30, 2015				Six months ended June 30, 2014			
	STKS	F&B	OTHER	TOTAL	STKS	F&B	OTHER	TOTAL
Revenues:								
Owned unit net revenues	\$22,121,012		\$383,214	\$22,504,226	\$17,432,228		\$845,872	\$18,278,100
Management and incentive fee revenue		\$4,173,253		4,173,253		\$4,262,160		\$4,262,160
Total revenue	22,121,012	4,173,253	383,214	26,677,479	17,432,228	4,262,160	845,872	22,540,260
Cost and expenses:								
Owned operating expenses:								
Food and beverage costs	5,642,359		93,031	5,735,390	4,486,366		184,211	4,670,577
Unit operating expenses	14,876,169		214,682	15,090,851	11,021,631		394,296	11,415,927
Total cost and expenses	20,518,528	—	307,713	20,826,241	15,507,997	—	578,507	16,086,504
Income from restaurant and hospitality operations	\$1,602,484	\$4,173,253	\$75,501	5,851,238	\$1,924,231	\$4,262,160	\$267,365	6,453,756
General and administrative				5,036,990				4,101,882
Transaction costs				100,334				—
Depreciation and amortization				989,760				672,654
Management and royalty fees				46,649				95,538
Pre-opening expenses				2,765,021				833,173
Equity in income (loss) of subsidiaries				(523,231 )				(320,336 )
Derivative income				(2,778,000 )				(2,784,711 )
Interest expense, net of interest income				(5,190 )				58,487
				(604,624 )				70,630

Other (income) expense		
Total cost and expenses	5,027,709	2,727,317
Income from continuing operations before provision for income taxes	\$ 823,529	\$ 3,726,439

Three Months Ended June 30, 2015 Compared to the Three Months Ended June 30, 2014

#### Revenues

Owned unit net revenues. Owned unit net revenues for STKs increased \$2.7 million, or 26.2%, from \$10.1 million for the three months ended June 30, 2014 to \$12.8 million for the three months ended June 30, 2015. This increase was primarily due to the reopening of our STK in Miami and the food and beverage services at the W Hotel Westwood in Los Angeles, California, and to a lesser extent an increase in same store sales. Comparable owned STK unit sales increased \$217,000, or 2.7% from \$8.0 million for the three months ended June 30, 2014 to \$8.2 million for the three months ended June 30, 2015.

Owned unit net revenues in our Other segment decreased \$120,000, or 84.9%, from \$141,000 for the three months ended June 30, 2014 to \$21,000 for the three months ended June 30, 2015.

Management and incentive fee revenue. Management and incentive fee revenues decreased \$21,000, or 1.0%, from \$2.1 million during the three months ended June 30, 2014 to \$2.1 million for the three months ended June 30, 2015. The decrease was primarily due to a decline in revenues from our UK operations which included a significant decline in exchange rates compared to the same period in 2014. This was partially offset by an increase in our management and incentive fee revenue for our STK in Las Vegas. For the three months ended June 30, 2015 and June 30, 2014, there was no accrual for incentive fee income from our UK operations.

Revenue generated from these restaurants, lounges, and food and beverage services at hospitality venues impacts both our owned unit net revenues and the amount of management and incentive fees earned. For the three months ended June 30, 2015, comparable unit sales of owned or managed STK increased 3.1% as compared to the three months ended June 30, 2014. This

excludes our STK in London which was closed for several days in April due to a power failure in the section of London in which it is located.

#### Cost and Expenses

**Food and beverage costs.** Food and beverage costs for STKs increased \$744,000, or 29.9%, from \$2.5 million or 24.9% of owned unit net revenues for the three months ended June 30, 2014 to \$3.2 million or 25.3% of owned unit net revenues for the three months ended June 30, 2015. The increase in food and beverage costs related primarily to the STK in Miami and the food and beverage services in Westwood. Food revenues as a percentage of total food and beverage revenues for locations open for the entire period were approximately 57% for the three months ended June 30, 2015 and 2014, respectively. Food cost as a percentage of food revenues are typically higher than beverage cost as a percentage of beverage revenues.

Food and beverage costs in our Other segment decreased \$31,000, or 82.4%, from \$38,000 or 26.8% of other owned unit net revenues for the three months ended June 30, 2014 to \$7,000 or 31.1% of owned unit net revenues for the three months ended June 30, 2015.

**Unit operating expenses.** Unit operating expenses for STKs increased \$2.2 million, or 36.6%, from \$5.9 million or 59.1% of owned unit net revenues for the three months ended June 30, 2014 to \$8.1 million or 63.2% of owned unit net revenues for the three months ended June 30, 2015. The increase in operating expenses was primarily due to the reopening of our STK in Miami and the opening of the food and beverage service at the W Hotel Westwood in Los Angeles, California. Unit operating costs in our Other segment decreased \$37,000, or 62.2%, from \$60,000 at June 30, 2014 to \$23,000 at June 30, 2015.

**General and administrative.** General and administrative costs increased \$398,000 to \$2.6 million, or 18.1%, during the three months ended June 30, 2015 from \$2.2 million for the three months ended June 30, 2014. General and administrative costs as a percentage of total revenues decreased from 18.0% for the three months ended June 30, 2014 to 17.4% for the three months ended June 30, 2015. This increase was due to additional payroll related to the expansion of our corporate infrastructure to help facilitate our long-term growth in the United States and internationally as well as an increase to stock based compensation expense.

**Depreciation and amortization.** Depreciation and amortization expense increased \$221,000, or 63.3%, from \$349,000 in the three months ended June 30, 2014 to \$570,000 for the three months ended June 30, 2015. The increase is primarily due to the reopening of the STK in Miami.

**Management and royalty fees.** Management and royalty fees decreased to \$22,000 for the three months ended June 30, 2014 from \$74,000 in fees for the three months ended June 30, 2015.

**Pre-opening expenses.** Restaurant pre-opening costs increased \$1.1 million, or 188.0%, from \$587,000 or 4.9% of total revenues for the three months ended June 30, 2014 to \$1.7 million or 11.4% of total revenues for the three months ended June 30, 2015. The increase is related to preopening costs associated with the opening of the STK at the W Hotel Westwood in June 2015 as well as the STKs scheduled to open in Orlando and Chicago later in 2015, which include deferred rent expense of approximately \$615,000.

**Equity in income of investee companies.** Equity in income of investee companies increased by \$148,000 from \$206,000 for the three months ended June 30, 2014 to \$354,000 for the three months ended June 30, 2015 primarily related to an increase in income from the ownership interest in the Bagatelle unit in New York City.

Derivative income (expense). Derivative income was \$3.4 million for the three months ended June 30, 2015, compared to income of \$2.8 million for the three months ended June 30, 2014. Derivative expense represents the decrease in the total fair value of the derivative liability that is related to the potential exercise of the publicly traded warrants.

Interest income, net of interest expense. Interest income, net of interest expense was \$0 for the three months ended June 30, 2015, compared to interest expense, net interest income of \$40,000 for the three months ended June 30, 2014.

Other (income) expense. Other (income) expense increased by \$245,000 from \$31,000 of other expense, or (0.3)% of total revenues for the three months ended June 30, 2014, to \$276,000.0 of other income, or (1.8)% of total revenues, for the three months ended June 30, 2015. During the three months ended June 30, 2015 we recorded business interruption income of \$350,000 related to water damage at STK Miami incurred in December 2014.

Provision (benefit) for income taxes. Income tax expense decreased by \$6.0 million to a \$5.9 million tax benefit during the three months ended June 30, 2015 from a \$116,000 tax expense during the three months ended June 30, 2014. The tax expense decreased due to the net reversal of the deferred tax asset valuation allowance of \$6.2 million.

Income (loss) from discontinued operations. During the three months ended June 30, 2014, we closed and abandoned one company-owned venue in New York. The operations and related expenses of this location are presented as loss from discontinued operations. No operations were closed during the three months ended June 30, 2015. Loss from discontinued operations decreased by \$311,000 from a loss of \$346,000 during the three months ended June 30, 2014 to a loss of \$35,000 during the three months ended June 30, 2015.

Net loss attributable to noncontrolling interest. Net loss attributable to noncontrolling interest decreased \$2,000 to \$134,000 for the three months ended June 30, 2015 from \$132,000 during the three months ended June 30, 2014.

#### Six Months Ended June 30, 2015 Compared to the Six Months Ended June 30, 2014

##### Revenues

Owned unit net revenues. Owned unit net revenues for STKs increased \$4.7 million, or 26.9%, from \$17.4 million for the six months ended June 30, 2014 to \$22.1 million for the six months ended June 30, 2015. This increase was primarily due to the reopening of our STK in Miami, the opening of our STK in Washington, D.C. and the food and beverage services at the W Hotel Westwood in Los Angeles, California. Comparable owned STK unit sales decreased \$73,000, or 0.5% from \$14.5 million for the six months ended June 30, 2014 to \$14.4 million for the six months ended June 30, 2015. The decrease related to the STKs in New York City and was attributed to the harsh weather conditions that existed throughout most of the first quarter of 2015.

Owned unit net revenues in our Other segment decreased \$463,000, or 54.7%, from \$846,000 for the six months ended June 30, 2014 to \$383,000 for the six months ended June 30, 2015. This decrease is primarily due to a decrease in sales at Cucina Asellina in Atlanta and a decrease in revenue from off-site super bowl related catering events.

Management and incentive fee revenue. Management and incentive fee revenues decreased \$89,000, or 2.1%, from \$4.3 million during the six months ended June 30, 2014 to \$4.2 million for the six months ended June 30, 2015. The decrease was primarily due to a decline in revenues from our UK operations which included a significant decline in exchange rates compared to the same period in 2014. This was partially offset by an increase in our management and incentive fee revenue for our STK in Las Vegas. For the six months ended June 30, 2015 and June 30, 2014, there was no accrual for incentive fee income from our UK operations.

Revenue generated from these restaurants, lounges, and food and beverage services at hospitality venues impacts both our owned unit net revenues and the amount of management and incentive fees earned. For the six months ended June 30, 2015, comparable unit sales of owned or managed STK increased 1.0% as compared to the six months ended June 30, 2014. This excludes our STK in London which was closed for several days in April due to a power failure in the section of London in which it is located.

##### Cost and Expenses

Food and beverage costs. Food and beverage costs for STKs increased \$1.1 million, or 25.8%, from \$4.5 million or 25.7% of owned unit net revenues for the six months ended June 30, 2014 to \$5.6 million or 25.5% of owned unit net revenues for the six months ended June 30, 2015. The increase in food and beverage costs related primarily to the STKs in Washington, D.C., which was not open the entire period in 2014, and the STK in Miami, as well as the food



and beverage services in Westwood, and were partially offset by management's improvements in increasing profit margins through improved operating efficiencies. Food revenues as a percentage of total food and beverage revenues for locations open for the entire period were approximately 58% and 57% for the six months ended June 30, 2015 and 2014, respectively. Food cost as a percentage of food revenues are typically higher than beverage cost as a percentage of beverage revenues.

Food and beverage costs in our Other segment decreased \$91,000, or 49.5%, from \$184,000 or 21.8% of other owned unit net revenues for the six months ended June 30, 2014 to \$93,000 or 24.3% of owned unit net revenues for the six months ended June 30, 2015.

Unit operating expenses. Unit operating expenses for STKs increased \$3.9 million, or 35.0%, from \$11.0 million or 63.2% of owned unit net revenues for the six months ended June 30, 2014 to \$14.9 million or 67.2% of owned unit net revenues for the six months ended June 30, 2015. The increase in operating expenses was primarily due to the reopening of our STK in Miami and the food and beverage services at the W Hotel Westwood in Los Angeles, California. Unit operating costs in our Other segment decreased \$179,000, or 45.4%, from \$394,000 at June 30, 2014 to \$215,000 at June 30, 2015.

General and administrative. General and administrative costs increased \$935,000 to \$5.0 million, or 22.8%, during the six months ended June 30, 2015 from \$4.1 million for the six months ended June 30, 2014. General and administrative costs as a percentage of total revenues increased from 18.2% for the six months ended June 30, 2014 to 18.9% for the six months ended June 30, 2015. This increase was due to additional payroll related to the expansion of our corporate infrastructure to help facilitate our long-term growth in the United States and internationally as well as an increase in stock based compensation expense.

Depreciation and amortization. Depreciation and amortization expense increased \$317,000, or 47.1%, from \$673,000 in the six months ended June 30, 2014 to 990,000 for the six months ended June 30, 2015. The increase is primarily due to the opening of the STK in Washington D.C. and the reopening of the STK in Miami.

Management and royalty fees. Management and royalty fees decreased to \$47,000 for the six months ended June 30, 2014 from \$96,000 in fees for the six months ended June 30, 2015.

Pre-opening expenses. Restaurant pre-opening costs increased \$1.9 million, or 231.9%, from \$833,000 or 3.7% of total revenues for the six months ended June 30, 2014 to \$2.8 million or 10.4% of total revenues for the six months ended June 30, 2015. The increase is related to preopening costs associated with the reopening of STK Miami in March 2015 as well as the STKs scheduled to open in Orlando and Chicago later in 2015, which include deferred rent expense of approximately \$1.2 million this was partially offset by reimbursable expenses under our business interruption policy of \$550,000 related to water damage at STK Miami recorded during the six months ended June 30, 2015.

Equity in income of investee companies. Equity in income of investee companies increased by \$203,000 from \$320,000 for the six months ended June 30, 2014, to \$523,000 for the six months ended June 30, 2015 primarily related to an increase in income from the ownership interest in the Bagatelle unit in New York City.

Derivative income (expense). Derivative income was \$2.8 million for the six months ended June 30, 2015, compared to income of \$2.8 million for the six months ended June 30, 2014. Derivative income represents the decrease in the total fair value of the derivative liability that is related to the potential exercise of the publicly traded warrants.

Interest income, net of interest expense. Interest income, net of interest expense was \$5,000 for the six months ended June 30, 2015, compared to interest expense, net interest income of \$58,000 for the six months ended June 30, 2014.

Other (income) expense. Other expense decreased by \$676,000 from \$71,000 of other expense, or 0.3% of total revenues for the six months ended June 30, 2014 to \$605,000 of other income, or 2.3% of total revenues, for the six months ended June 30, 2015. During the six months ended June 30, 2015 we recorded business interruption income of \$550,000 related to water damage at STK Miami incurred in December 2014.

Provision (benefit) for income taxes. Income tax expense decreased by \$6.9 million to a \$6.5 million tax benefit during the six months ended June 30, 2014 from a \$351,000 tax expense during the six months ended June 30, 2015. The tax expense decreased due to the net reversal of the deferred tax asset valuation allowance of \$6.2 million.

Loss from discontinued operations. During the six months ended June 30, 2014, we closed and abandoned one company-owned venue in New York. The operations and related expenses of this location are presented as loss from discontinued operations. No operations were closed during the six months ended June 30, 2015. Loss from discontinued operations decreased by \$1.2 million from a loss of \$1.3 million during the six months ended June 30, 2014 to a loss of \$39,000 during the six months ended June 30, 2015.

Net loss attributable to noncontrolling interest. Net loss attributable to noncontrolling interest decreased \$214,000, or 114.6%, to a loss of \$27,000 for the six months ended June 30, 2015 from \$187,000 of income during the six months ended June 30, 2014.

#### Potential Fluctuations in Quarterly Results and Seasonality

32

---

Our quarterly operating results may fluctuate significantly as a result of a variety of factors, including the timing of new restaurant openings and related expenses, profitability of new restaurants compared with more mature units, increases or decreases in comparable restaurant sales, general economic conditions, changes in consumer preferences, competitive factors and changes in food costs (especially beef). In the past, we have experienced significant variability in restaurant pre-opening costs from quarter to quarter primarily due to the timing of restaurant openings. We typically incur restaurant pre-opening costs in the five months preceding a new restaurant opening. In addition, our experience to date has been that labor and direct operating and occupancy costs associated with a newly opened restaurant during the first five to nine months of operation are often materially greater than what will be expected after that time, both in aggregate dollars and as a percentage of restaurant sales. Accordingly, the number and timing of new restaurant openings in any quarter has had, and is expected to continue to have, a significant impact on quarterly restaurant pre-opening costs, labor and direct operating and occupancy costs. Our business also is subject to fluctuations due to season and adverse weather. Our results of operations have historically been impacted by seasonality. Our second and fourth quarters have traditionally had higher sales volume than other periods of the year. Severe weather may impact restaurant unit volumes in some of the markets where we operate and may have a greater impact should they occur during our higher volume months, especially the second and fourth quarters. As a result of these and other factors, our financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year.

#### Liquidity and Capital Resources

Our principal liquidity requirements are to meet our lease obligations, our working capital and capital expenditure needs and to pay principal and interest on our outstanding indebtedness. Subject to our operating performance, which, if significantly adversely affected, would adversely affect the availability of funds, we expect to finance our operations for at least the next 12 to 18 months, including costs of opening currently planned new restaurants, through cash received by us in connection with the Merger, as well as cash provided by operations, construction allowances provided by landlords of certain locations and borrowings under our term loan agreement and equipment financing. We cannot be sure that these sources will be sufficient to finance our operations beyond that period, however, and we may seek additional financing in the future, which may or may not be available on terms and conditions satisfactory to us, or at all. As of June 30, 2015, we had cash and cash equivalents of approximately \$2.8 million.

In order to finance the \$75 million purchase price for the Acquisition we will need to seek additional financing, which will be a combination of debt and equity. There can be no assurance that we will be able to obtain such financing on acceptable terms or at all. In addition, if the Acquisition is consummated, we may need to raise additional capital in the future to fund our growth.

#### Cash Flows

The following table summarizes the statement of cash flows for the six months ended June 30, 2015 and June 30, 2014:

	Six Months Ended June,	
	2015	2014
	(in thousands)	
Net cash (used in) provided by:		
Operating activities	\$(102)	\$(2,923)
Investing activities	(5,035)	(2,216)
Financing activities	311	533
Effect of exchange rate changes on cash	(231)	44



of \$6.2 million, a non-cash derivative income of \$2.8 million, and a non-cash stock-based compensation of \$504,000. Net cash outflow of operating assets and liabilities totaled \$4,000 and included increases in accounts receivable of \$748,000, prepaid expenses of \$890,000, and an increase of \$1.4 million in accounts payable and accrued expenses and decreases in inventory of \$70,000 and in other assets and security deposits of \$125,000.

For the six months ended June 30, 2014, cash flows used in operating activities were \$2.9 million, consisting of net income of \$2.1 million, which included a loss from discontinued operations of \$1.3 million and adjustments for depreciation, amortization, deferred rent and other non-cash charges totaling \$1.9 million, including a non-cash derivative income of \$2.8 million and non-cash stock-based compensation of \$167,000. Net cash outflow of operating assets and liabilities totaled \$3.2 million and included increases in accounts receivable of \$449,000, a decrease in prepaid expenses of \$139,000, increases in other assets of \$922,000 and a decrease of \$2.1 million in accounts payable and accrued expenses.

### Investing Activities

Net cash used in investing activities for the six months ended June 30, 2015 was \$5.0 million, consisting primarily of purchases of property and equipment of \$5.0 million, primarily related to the construction of new restaurants and general capital expenditures of existing restaurants during the period and a decrease in due from related parties of \$343,000 and an increase in distributions from equity investees in subsidiaries of \$321,000.

Net cash used in investing activities for the six months ended June 30, 2014 was \$2.2 million, consisting primarily of purchases of property and equipment of \$2.8 million, primarily related to the construction of new restaurants and general capital expenditures of existing restaurants during the period and an increase in due from related parties of \$178,000 and an increase in distributions from equity investees of \$359,000.

### Financing Activities

Net cash provided financing activities for the six months ended June 30, 2015 was \$311,000, consisting of proceeds from our term loan and equipment loan of \$1.1 million and principal payments made on our term loan of \$748,000. This was partially offset by distributions to members of \$195,000.

Net cash provided by financing activities for the six months ended June 30, 2014 was \$533,000, consisting of proceeds from our credit facility of \$4.0 million, offset by principal payments made on our credit facility of \$3.4 million and a repayment of notes payable of \$10,000. This was partially offset by distributions to non-controlling interest members of \$444,000.

### Capital Expenditures and Lease Arrangements

To the extent we open new restaurants, we anticipate capital expenditures in the future will increase from the amounts described in "Investing Activities" above. We typically target an average cash investment of approximately \$3.8 million on average for a 10,000 square-foot STK restaurant, in each case net of landlord contributions and equipment financing and excluding pre-opening costs. In addition, some of our existing units will require some capital improvements in the future to either maintain or improve the facilities. We are also looking at opportunities to add seating or provide enclosures for outdoor space in the next 12 months for some of our units. In addition, our hospitality F&B services projects typically require limited capital investment from us. These capital expenditures will primarily be funded by cash flows from operations and equipment financing, depending upon the timing of expenditures. We typically seek to lease our restaurant locations for primary periods of 10 to 20 years under operating lease arrangements. Our rent structures vary from lease to lease, but generally provide for the payment of both minimum and contingent (percentage) rent based on sales, as well as other expenses related to the leases (for example,

our pro-rata share of common area maintenance, property tax and insurance expenses). Many of our lease arrangements include the opportunity to secure tenant improvement allowances to partially offset the cost of developing and opening the related restaurants. Generally, landlords recover the cost of such allowances from increased minimum rents. However, there can be no assurance that such allowances will be available to us on each project that we select for development.

#### Term Loan Agreement

On December 17, 2014, ONE Group and its affiliates (the “Borrowers”) entered into a term loan agreement with BankUnited, N.A. (the “Term Loan Agreement”) to terminate its existing revolving credit facility (the “2011 Credit Facility”) and refinance the aggregate outstanding principal amount of the existing loans, which had a maturity date of October 31, 2015. In connection therewith, subject to certain terms and conditions, BankUnited, N.A. agreed to make a single term loan (the “Term Loan”) to the Borrowers in the principal amount of approximately \$7.5 million, with a maturity date of December 1, 2019, a portion of

which was used to pay the outstanding indebtedness under the 2011 Credit Facility. Our obligations under the Term Loan Agreement are secured by substantially all of our assets.

As of June 30, 2015, the issued letters of credit in the total amount of approximately \$1.5 million for our STK locations in Orlando, Florida, Chicago, Illinois and Westwood, California remain outstanding. We can also borrow up to \$1.0 million for equipment financing.

The Term Loan is being repaid in sixty (60) consecutive equal monthly installments which commenced on January 1, 2015, with each such installment to be in the principal amount of approximately \$125,000. The Term Loan bears interest at a rate per annum equal to 5.00%.

The Term Loan Agreement contains default provisions customary for loans of this type, including, among others, defaults related to payment failures, failure to comply with covenants, material misrepresentations, defaults under other material indebtedness, the occurrence of a "change in control," bankruptcy and related events, material judgments, a "material adverse change," the invalidity or revocation of any loan document or any lien on the collateral shall no longer be valid or perfected or have the same priority. If an event of default shall occur and be continuing under the Term Loan, the Term Loan may be terminated and the principal amount outstanding under the Term Loan, together with all accrued unpaid interest, may be declared immediately due and payable.

As of June 30, 2015, amounts borrowed under the Term Loan were approximately \$6.7 million.

On June 2, 2015, the Company entered into a second term loan agreement (the "Second Term Loan Agreement") with BankUnited, N.A. wherein BankUnited, N.A. agreed to make multiple advances to the Company in the aggregate principal amount of up to \$6,000,000. Commencing on April 1, 2016 the Company will pay fifty-four (54) consecutive equal monthly installments of \$111,111.11 or such lesser amount as shall be equal to the quotient of (x) the outstanding principal amount of all advances on March 31, 2016, divided by (y) fifty-four (54); provided, however, that the final principal installment shall be in an amount equal to the aggregate principal amount of all advances outstanding on September 1, 2020, or such earlier date on which all outstanding advances shall become due and payable, whether by acceleration or otherwise. This second term loan bears interest at a rate per annum equal to 5.0%. Our obligations under the Second Term Loan Agreement are secured by substantially all of our assets. The outstanding balance under the Term Loan Agreement at June 30, 2015 was \$600,000. The Term Loan Agreement with BankUnited, N.A. remains outstanding.

The Term Loan Agreement and Second Term Loan Agreement contain certain affirmative and negative covenants, including negative covenants that limit or restrict, among other things, liens and encumbrances, indebtedness, mergers, asset sales, investments, assumptions and guaranties of indebtedness of other persons, change in nature of operations, changes in fiscal year and other matters customarily restricted in such agreements. The financial covenants contained in these agreements require the borrowers to maintain a certain adjusted tangible net worth and a debt service coverage ratio.

The Company was in compliance with all of its financial covenants under the Term Loan Agreement and the Second Term Loan Agreement as of June 30, 2015 and the Company believes based on current projections that the Company will continue to comply with such covenants in 2015.

On June 5, 2015 the Company entered into a \$1,000,000 Equipment Finance Agreement (the "Agreement") with Sterling National Bank. The Agreement covers certain equipment in our STKs that are under construction in Orlando and Chicago. The Agreement calls for sixty (60) monthly payments of \$16,667 plus interest commencing July 1, 2015.



At June 30, 2015 amounts borrowed under the Equipment Financing Agreement were approximately \$502,000.

We believe that without taking into account the Acquisition, net cash provided by anticipated operating activities, net proceeds received by us in connection with the Merger and existing available borrowings under our Term Loan Agreement will be sufficient to fund currently anticipated working capital, planned capital expenditures and debt service requirements for the next 12 to 18 months. In order to consummate the Acquisition, we will require additional debt and equity financing. Any equity financing could be substantially dilutive to our stockholders. Except for the Acquisition, we currently do not have any pending agreements or understandings with respect to any acquisition or other strategic opportunities.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

## Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606). ASU 2014-09 addresses the reporting of revenue by most entities and will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. This update is effective in fiscal periods beginning after December 15, 2016. Early application is permitted only as of annual reporting periods beginning after December 15, 2016. The impact on our financial statements of adopting ASU 2014-09 is currently being assessed by management.

In August 2014, the FASB issued ASU No. 2014-15 "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern", which provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern. The update is effective for annual periods ending after December 15, 2016, and interim periods thereafter. Early adoption is permitted. The impact on our financial statements of adopting ASU 2014-15 is currently being assessed by management.

In February 2015, the FASB issued ASC 2015-02, "Consolidation (Topic 810) - Amendments to the Consolidation Analysis." This standard modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years beginning after December 15, 2015, and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is permitted. The Company does not expect this standard to have a significant impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest- Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The update simplifies the presentation of debt issuance costs by requiring that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. For public companies, this update is effective for interim and annual periods beginning after December 15, 2015, and is to be applied retrospectively. Early adoption is permitted. The Company does not expect this standard to have a significant impact on its consolidated financial statements and has not yet concluded whether it will adopt ASU 2015-03 prior to the effective date.

## Contractual Obligations

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

### Item 4. Controls and Procedures.

#### Evaluation of Disclosure Controls and Procedures

Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Form 10Q, have concluded that, based on such evaluation, our disclosure controls and procedures were effective as of June 30, 2015 to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Controls

There were no changes in our internal control over financial reporting, identified in connection with the evaluation of such internal control that occurred, during the second quarter of 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

None.

### Item 1A. Risk Factors.

The Asset Purchase Agreement and Merger Agreements may be terminated in accordance with their terms and the Acquisition may not be completed.

The Asset Purchase Agreement, dated as of July 9, 2015, among the Company, Wasabi Holdings, LLC, a newly formed indirect subsidiary of the Company, SBEEG, SBE Restaurant Group, LLC (“SBERG”), SBE/Katsuya Middle East, LLC, and SBE Licensing, LLC (the “Asset Purchase Agreement”) and the merger agreements pursuant to which subsidiaries of the Company will merge with certain target subsidiaries (collectively, the “Merger Agreements”) contain a number of conditions that must be satisfied or waived to complete the Acquisition. Those conditions include, among others: (i) absence of any order or laws prohibiting completion of the Mergers, (ii) absence of a material adverse effect, each as defined in the Asset Purchase Agreement and the Merger Agreements, (iii) accuracy of each party’s representations and warranties (subject to certain qualifications), (iv) material compliance by the parties with their respective covenants and agreements contained in the Asset Purchase Agreement and the Merger Agreements, (v) execution of an agreement relating to certain intellectual property rights licensed by Katsuya Uechi to SBEEG and assumed by us at the closing, (vi) assignment of certain leases with respect to the Merger Agreements and the release of certain guarantees relating thereto, and (vii) execution of certain related agreements. If the Acquisition is not completed by August 31, 2015 (as may be extended, the “Outside Date”), each of the parties may choose not to proceed with the Acquisition and terminate the Asset Purchase Agreement and/or Merger Agreements. We cannot assure you that all of the conditions to the closing of the Acquisition will be satisfied or, if they are, as to the timing of such satisfaction. In addition, we or the sellers may elect to terminate the Asset Purchase Agreement and/or Merger Agreements in certain other circumstances and the parties can mutually decide to terminate the agreements at any time prior to the completion of the Acquisition.

Termination of the Asset Purchase Agreement and Merger Agreements may negatively affect us.

If the Asset Purchase Agreement and/or Merger Agreements are terminated, we may suffer adverse consequences, including the adverse impact on our business due to the focus of management on the Acquisition and the payment of expenses related thereto, without realizing any of the anticipated benefits of completing the Acquisition, as well as a decline in the market price for our common stock, to the extent that the market price prior to termination reflects a market assumption that the Acquisition will be completed. In addition, the parties may be required to pay to each other, as liquidated damages, \$250,000 in certain circumstances in connection with the termination of the Asset Purchase Agreement or the Merger Agreements.

We will need to raise additional funds in order to consummate the Acquisition, which may include the issuance of additional securities at prices that may result in substantial dilution to our shareholders and debt securities that could restrict our operations.

We will need to raise additional funds in order to consummate the Acquisition. If we raise additional funds through the sale of equity, our existing stockholders will experience dilution which may be substantial. If we issue new debt securities, the debt holders would have rights senior to common stockholders to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our Common Stock. We cannot provide assurance that we will be able to raise additional funds on terms acceptable to us, if at all. If such

financing is not available or is not available on acceptable terms, we may not be able to complete the Acquisition, which may have a material adverse effect on our business plans.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

38

---

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

(a) Exhibits required by Item 601 of Regulation S-K.

39

---

Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

Exhibit	Description
10.1	Second Term Loan Agreement, dated June 2, 2015, by and among The ONE Group, LLC, One 29 Park Management, LLC, STK-Las Vegas, LLC, STK Atlanta, LLC, CA Aldwych Limited, HIP Hospitality Limited, STK Chicago, LLC, STK Denver, LLC, STK-LA, LLC, STK Miami, LLC, STK Miami Service, LLC, STK Midtown Holdings, LLC, STK Midtown, LLC, STK Orlando, LLC, STK Westwood, LLC, T.O.G. (Aldwych) Limited, T.O.G. (UK) Limited, TOG Biscayne, LLC, and WSATOG (Miami) LLC and BankUnited, N.A.
10.2	Second Term Note of The ONE Group, LLC to BankUnited, N.A., dated June 2, 2015, in the principal amount of \$6,000,000.
10.3	Grant of Security Interest (Trademarks), dated June 2, 2015, by and between The ONE Group, LLC and BankUnited, N.A.
10.4	Second Amended and Restated Pledge Agreement, dated June 2, 2015, by and between The ONE Group, LLC and BankUnited, N.A.
10.5	Fifth Amended and Restated Security Agreement, dated June 2, 2015, by and among The ONE Group, LLC, One 29 Park Management, LLC, STK-Las Vegas, LLC, STK Atlanta, LLC, STK Chicago, LLC, STK-LA, LLC, STK Miami, LLC, STK Miami Service, LLC, STK Midtown Holdings, LLC, STK Midtown, LLC, STK Orlando, LLC, TOG Biscayne, LLC, WSATOG (Miami) LLC, STK Westwood, LLC, and STK Denver, LLC, and BankUnited, N.A.
10.6	Second Amended and Restated Pledge Agreement, dated June 2, 2015, by and between The ONE Group Hospitality, Inc. and BankUnited, N.A.
10.7	Guarantee Agreement, dated June 2, 2015, by and between The ONE Group Hospitality, Inc. and BankUnited, N.A.
31.1	Certification of the Company's Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015.
31.2	Certification of the Company's Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015.
32.1	Certification of the Company's Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Company's Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	The following information from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 formatted in XBRL: (i) Balance Sheets as of June 30, 2015 (unaudited) and December 31, 2014; (ii) Statements of Operations for the Three Months Ended June 30, 2015 and 2014 (unaudited); (iii) Statement of Stockholders' Equity (Deficit) for Three Months



Edgar Filing: ONE Group Hospitality, Inc. - Form 10-Q

Ended June 30, 2015 and 2014; (iv) Statements of Cash Flows for the Three Months Ended June 30, 2015 and 2014 (unaudited) and (v) Notes to Financial Statements (unaudited).

SIGNATURES

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

Dated: August 14, 2015

THE ONE GROUP HOSPITALITY, INC.

By: /s/ SAMUEL GOLDFINGER  
Samuel Goldfinger  
Chief Financial Officer